

KANSAS STATE UNIVERSITY FOUNDATION

Manhattan, Kansas

**FINANCIAL STATEMENTS
WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

Years Ended June 30, 2007 and 2006

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas

KANSAS STATE UNIVERSITY FOUNDATION

Manhattan, Kansas

TABLE OF CONTENTS

June 30, 2007 and 2006

	<u>Page</u>
Report of Certified Public Accountants	1
Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3-4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 15



August 17, 2007

To the Board of Trustees of
Kansas State University Foundation
Manhattan, Kansas

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Kansas State University Foundation (a nonprofit organization) as of June 30, 2007 and 2006 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas State University Foundation as of June 30, 2007 and 2006, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Varney & Associates, CPAs, LLC

Certified Public Accountants

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 June 30,

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 24,982,670	\$ 32,494,121
Short-term investments and certificates of deposit	2,690,000	3,586,032
Equity Investments	168,099,963	133,481,062
Book value - \$118,099,386 at June 30, 2007		
Book value - \$107,438,473 at June 30, 2006		
Corporate and other fixed income	47,331,325	51,920,421
Book value - \$46,195,920 at June 30, 2007		
Book value - \$51,999,183 at June 30, 2006		
U.S. Government and government agency obligations	1,348,291	1,352,295
Book value - \$1,334,193 at June 30, 2007		
Book value - \$1,334,193 at June 30, 2006		
Real estate investments	33,448,863	27,930,245
Book value - \$28,934,694 at June 30, 2007		
Book value - \$26,218,166 at June 30, 2006		
Alternative strategies	134,580,977	103,567,410
Book value - \$115,595,893 at June 30, 2007		
Book value - \$97,773,642 at June 30, 2006		
Other securities and investments	380,242	340,995
Book value - \$277,338 at June 30, 2007		
Book value - \$283,721 at June 30, 2006		
Pledges receivable, net	13,405,563	13,422,606
Receivables from estates	5,630,970	6,750,111
Loans receivable	1,839,336	710,861
Real estate and other depreciable property	18,031,197	19,903,983
Accumulated depreciation	(4,216,461)	(3,853,002)
Net real estate and other depreciable property - Golf Course	1,767,223	1,745,980
Cash surrender value of life insurance policies	3,119,776	2,756,425
Other assets and accrued income	763,683	722,515
	\$ 453,203,618	\$ 396,832,060
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable, deposits and other liabilities	\$ 1,890,309	\$ 720,895
Accrued liabilities	1,376,924	1,211,876
Assets held for others	8,327,441	6,172,878
Current obligations, unitrust and annuity liabilities	2,682,248	2,492,663
Current portion of note, mortgage and bond payable	1,081,710	459,144
Total Current Liabilities	\$ 15,358,632	\$ 11,057,456
Other Liabilities		
Unitrust and annuity liabilities, less current obligation	\$ 22,013,970	\$ 19,927,549
Note Payable - Nanoscale, less current portion	1,669,890	1,753,081
Note Payable - Printing Services, less current portion	-	638,882
Mortgage Payable - Golf Course, less current portion	1,052,568	1,367,205
Line of Credit - Golf Course	1,101,747	1,191,008
Bonds payable - Educational and Agricultural Research Facility Rev Bonds, less current portion	500,000	545,000
Total Other Liabilities	\$ 26,338,175	\$ 25,422,725
TOTAL LIABILITIES	\$ 41,696,807	\$ 36,480,181
Net Assets		
Unrestricted net assets (designated)	\$ 35,489,312	\$ 31,590,034
Temporarily restricted net assets	86,178,444	83,156,464
Permanently restricted net assets	289,839,055	245,605,381
TOTAL NET ASSETS	\$ 411,506,811	\$ 360,351,879
TOTAL LIABILITIES AND NET ASSETS	\$ 453,203,618	\$ 396,832,060

Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
CONSOLIDATED STATEMENT OF ACTIVITIES
 For The Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 1,875,928	\$ 34,819,920	\$ 12,301,368	\$ 48,997,216	\$ 64,460,609
Investment income	976,431	12,605,669	178,528	13,760,628	12,313,561
Net realized and unrealized gains on asset transactions	15,625,314	4,267,076	32,928,387	52,820,777	27,869,173
Other support					
Operational service charges, management fees and other	3,424,257	-	-	3,424,257	3,387,251
Receipts for grants, research, supplies, travel and other					
University departmental activities and funding allotments, etc.	(4,900)	6,449,448	6,720	6,451,268	4,744,822
Actuarial gain/(loss) on unitrusts and annuities obligations	(555,465)	(4,142,864)	(809,729)	(5,508,058)	(1,637,678)
Net assets released from restrictions	(2,672,219)	3,043,819	(371,600)	-	-
Satisfaction of program restrictions	54,021,088	(54,021,088)	-	-	-
Total Revenue, Gains and Other Support	<u>\$ 72,690,434</u>	<u>\$ 3,021,980</u>	<u>\$ 44,233,674</u>	<u>\$ 119,946,088</u>	<u>\$ 111,137,738</u>
EXPENSES AND SUPPORT					
Direct University support					
Scholarships and other student awards	\$ 10,962,142	\$ -	\$ -	\$ 10,962,142	\$ 8,731,925
Academic	6,058,132	-	-	6,058,132	7,390,198
Administrative - Faculty and student support	27,064,155	-	-	27,064,155	22,092,443
Capital improvements	12,657,664	-	-	12,657,664	8,946,080
Subtotal	<u>\$ 56,742,093</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,742,093</u>	<u>\$ 47,160,646</u>
Investment - Portfolio management	2,557,011	-	-	2,557,011	2,345,811
Investment - Loan interest expense and write-off	269,948	-	-	269,948	389,919
KSUF Administration	3,540,688	-	-	3,540,688	3,065,805
KSUF Fundraising	5,681,416	-	-	5,681,416	5,561,781
Total Expenses and Support	<u>\$ 68,791,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,791,156</u>	<u>\$ 58,523,962</u>
CHANGE IN NET ASSETS	\$ 3,899,278	\$ 3,021,980	\$ 44,233,674	\$ 51,154,932	\$ 52,613,776
NET ASSETS AT BEGINNING OF YEAR	31,590,034	83,156,464	245,605,381	360,351,879	307,609,126
ADJUSTMENT TO NET ASSETS (KSUGCMRF Quasi Reorganization)	-	-	-	-	128,977
NET ASSETS AT END OF YEAR	<u>\$ 35,489,312</u>	<u>\$ 86,178,444</u>	<u>\$ 289,839,055</u>	<u>\$ 411,506,811</u>	<u>\$ 360,351,879</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
CONSOLIDATED STATEMENT OF ACTIVITIES
 For The Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006 Total</u>	<u>2005 Total</u>
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 431,724	\$ 42,563,012	\$ 21,465,873	\$ 64,460,609	\$ 42,384,211
Investment income	2,108,145	9,505,210	700,206	12,313,561	6,524,692
Net realized and unrealized gains on asset transactions	11,276,386	1,896,140	14,696,647	27,869,173	26,647,607
Other support					
Operational service charges, management fees and other	3,387,251	-	-	3,387,251	3,164,252
Receipts for grants, research, supplies, travel and other					
University departmental activities and funding allotments, etc.	35,941	4,708,481	400	4,744,822	5,089,902
Actuarial gain/(loss) on unitrusts and annuities obligations	705,708	(1,894,251)	(449,135)	(1,637,678)	(753,205)
Net assets released from restrictions	(2,692,286)	4,722,872	(2,030,586)	-	-
Satisfaction of program restrictions	47,375,512	(47,375,512)	-	-	-
Total Revenue, Gains and Other Support	<u>\$ 62,628,381</u>	<u>\$ 14,125,952</u>	<u>\$ 34,383,405</u>	<u>\$ 111,137,738</u>	<u>\$ 83,057,459</u>
EXPENSES AND SUPPORT					
Direct University support					
Scholarships and other student awards	\$ 8,731,925	\$ -	\$ -	\$ 8,731,925	\$ 6,627,739
Academic	7,390,198	-	-	7,390,198	7,230,057
Administrative - Faculty and student support	22,092,443	-	-	22,092,443	19,198,714
Capital improvements	8,946,080	-	-	8,946,080	5,002,847
Subtotal	<u>\$ 47,160,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,160,646</u>	<u>\$ 38,059,357</u>
Investment - Portfolio management	2,345,811	-	-	2,345,811	2,031,814
Investment - Loan interest expense and write-off	389,919	-	-	389,919	506,935
KSUF Administration	3,065,805	-	-	3,065,805	3,134,027
KSUF Fundraising	5,561,781	-	-	5,561,781	4,502,143
Total Expenses and Support	<u>\$ 58,523,962</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,523,962</u>	<u>\$ 48,234,276</u>
CHANGE IN NET ASSETS	\$ 4,104,419	\$ 14,125,952	\$ 34,383,405	\$ 52,613,776	\$ 34,823,183
NET ASSETS AT BEGINNING OF YEAR	27,485,615	68,901,535	211,221,976	307,609,126	282,023,396
ADJUSTMENT TO NET ASSETS (KSUGCMRF Quasi Reorganization)	-	128,977	-	128,977	(9,237,453)
NET ASSETS AT END OF YEAR	<u>\$ 31,590,034</u>	<u>\$ 83,156,464</u>	<u>\$ 245,605,381</u>	<u>\$ 360,351,879</u>	<u>\$ 307,609,126</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
CONSOLIDATED STATEMENTS OF CASH FLOWS
 For The Years Ended June 30,

	<u>2007</u>	<u>2006</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 51,154,932	\$ 52,613,776
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributions for endowment	\$ (11,479,553)	\$ (6,021,229)
Contributions for term endowment	(1,516,432)	(1,848,730)
Non-cash contributions	(12,945,946)	(23,279,270)
Non-cash expenditures	5,730,028	6,711,988
Non-cash expenditures - Omaha Vet Clinic to KSU	2,816,985	-
Net realized and unrealized (gain) loss on asset transactions	(51,991,625)	(27,869,173)
Depreciation	363,459	332,717
Depreciation Golf Course	(19,280)	195,561
Unitrust and annuity liability distributions	2,689,256	2,739,164
(Increase) decrease in pledges receivable	17,043	(4,622,759)
(Increase) decrease in receivables from estates	1,119,141	(3,795,745)
(Increase) decrease in loans	(1,128,475)	928,306
(Increase) decrease in cash surrender value of life insurance policies	(363,351)	(181,362)
(Increase) decrease in other assets and accrued income	(41,168)	(197,694)
Increase (decrease) in accounts payable	1,169,414	(301,961)
Increase (decrease) in accrued liabilities	165,048	(199,807)
Increase (decrease) in assets held for others	2,154,563	1,431,025
Increase (decrease) in unitrust and annuity liabilities	2,276,006	1,868,017
Total Adjustments	<u>\$ (60,984,887)</u>	<u>\$ (54,110,952)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (9,829,955)</u>	<u>\$ (1,497,176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 373,488,661	\$ 316,606,859
Proceeds from sale of real estate	2,466,531	4,065,884
Purchase of investments	(381,789,756)	(314,664,325)
Purchase of real estate	(1,423,990)	(1,659,706)
KSUGCMRF Quasi Reorganization	-	128,977
Expenditures for depreciable property	(179,303)	(174,091)
Expenditures for depreciable property - Golf Course	(1,963)	(28,089)
Net Cash Provided by (Used in) Investing Activities	<u>\$ (7,439,820)</u>	<u>\$ 4,275,509</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for endowment	\$ 11,479,553	\$ 6,021,229
Contributions for term endowment	1,516,432	1,848,730
Increase (decrease) in bonds, mortgage, notes payable and line of credit	(548,405)	(1,135,698)
Life income payments, including unitrust and annuity payments	(2,689,256)	(2,739,164)
Net Cash Provided by Financing Activities	<u>\$ 9,758,324</u>	<u>\$ 3,995,097</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (7,511,451)</u>	<u>\$ 6,773,430</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>32,494,121</u>	<u>25,720,691</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 24,982,670</u>	<u>\$ 32,494,121</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing and financing activities		
Gifts in kind, securities and properties	<u>\$ 12,945,946</u>	<u>\$ 23,279,270</u>
Cash paid during the year for interest	<u>\$ 269,948</u>	<u>\$ 389,919</u>

Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007 and 2006

Note 1: Significant Accounting Policies

Organization

The purpose of the Foundation is to encourage, receive, and hold in trust any real or personal property given for the use of Kansas State University, its faculty and students; and to invest, disburse, manage and control all such gifts to provide those services to the University which are not or cannot be provided through state appropriations or student fees.

Income Taxes

The Foundation is a non-profit Section 501(c)(3) tax exempt organization. It is not subject to income taxes except on unrelated business income. No unrelated business income tax has been paid in the current year.

Method of Accounting

The financial statements are presented on the accrual basis of accounting.

Subsidiary

The Kansas State University Foundation financial statements include a supporting organization, the Kansas State University Golf Course Management and Research Foundation, formed in 1997. The financial statements have been consolidated in accordance with accounting principles generally accepted in the United States of America. All significant inter-organizational accounts and transactions are eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are reviewed periodically and any changes in such estimates may affect amounts reported in future periods.

Asset Valuation

Assets acquired by purchase are recorded at cost; assets acquired by gift are recorded at fair market value as of the date of gift. Thereafter, assets are valued at market value by utilizing public market pricing where available. Assets that are not publicly traded are held at donated value, cost or most recent appraised value.

Investments

Investments are reported at market value. Investments held in custody by outside money managers are valued by the custodian at market, where possible, or, if public pricing is not available, by the money managers and/or third party administrators based on their individual valuation policies. Investments are classified according to the type of investment held by the funds: equities, including common and preferred stocks; fixed income instruments, including corporate and other bonds; U.S. Government and government agency obligations; real estate; alternative strategies; and other securities, including donated securities, mutual funds and closely held stocks awaiting liquidation.

The alternative strategies include investments such as venture capital, domestic and international private equity, distressed debt investments and natural resources, held in the form of professionally managed limited partnerships operating. Additionally, absolute return and marketable alternatives are utilized to diversify assets, provide portfolio return enhancement and dampen volatility.

Income on pooled investments is distributed to all participating funds in accordance with the policies of the Foundation's Executive Committee.

KANSAS STATE UNIVERSITY FOUNDATION
Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2007 and 2006

Note 1: Significant Accounting Policies (Continued)

Receivables

Pledges receivable are reported at net realizable value. The balance is discounted using a six percent rate to recognize the present value of the future pledges receivable. An allowance for uncollectible pledges is estimated and netted against pledges receivable.

Receivables from estates are recorded at the time the Foundation is notified of the death of a donor and the amount can be reasonably measured.

Receivables are considered past due if they are not received by their due date.

Concentrations of Credit Risk

Management recognizes and accepts the risk for any financial institution deposits that exceed FDIC insurance limits.

Loans Receivable

Loans, including student loans, real estate mortgages and other loans, are recorded at amounts advanced to borrowers less principal repayments received. Uncollectible loans are written-off using the direct write-off method. Interest income is recognized when received.

Fixed Assets

Depreciation is provided on a straight line basis over the estimated useful lives of capitalized assets. Normal repairs and maintenance are expensed.

The Foundation's capitalization policy is to capitalize any fixed asset over \$1,000.

Accrued Liabilities

Accrued liabilities include allowances for compensated absences and other accruals.

Contributions Establishing Charitable Trusts

The Foundation accepts donor contributions to establish trust agreements in exchange for a named beneficiary to receive a fixed dollar annual return or a specific percentage of the fair value of the trust assets for the beneficiary's lifetime or a specific time period. A portion of the donation is considered to be a charitable contribution and the remaining portion represents a liability equal to the present value of future payments. The liability is revalued annually based on actuarially computed present values.

Pension Plan

The Foundation has a defined contribution pension plan for eligible employees.

Restricted Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Upon expiration of the donors' restrictions, temporarily restricted net assets are classified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as restricted contributions and subsequently released for restrictions in the accompanying financial statements.

Permanently restricted net assets are restricted by donors to be maintained by the Foundation in perpetuity.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

Note 1: Significant Accounting Policies (Continued)

Contributions of Services

Contributions of services are recognized in the financial statements if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation.

Cash and Cash Equivalents

The Foundation considers all money market accounts with brokers and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Note 2: Investments

Common Fund

A significant percentage of the externally managed assets are held and managed by Common Fund, a non-profit member organization governed by a member-elected Board of trustees, created to assist endowments, foundations and health organizations gain access to superior asset management firms through commingling of funds. Therefore, the majority of assets held by Common Fund are not internally managed by Common Fund staff. Common Fund allocates the funds to multiple underlying managers within each strategy which are selected and monitored by Common Fund staff.

The Common Fund manages equity, bond, venture capital, real estate, alternative strategies and short term investments for the Foundation totaling an estimated \$186,617,237 and \$159,116,290 at June 30, 2007 and 2006, respectively, at market value, which is approximately 41% and 39% of total assets. The Foundation's investments with the Common Fund are carried in twenty-nine different funds to provide diversification.

Alternative Strategies

Certain assets are held by money managers employing investment strategies collectively referred to as alternative strategies. The managers run proprietary strategies employing securities and instruments such as cash, stocks, partnerships, bonds and derivative instruments including options, futures and swaps in various combinations, sometimes shorting various securities and employing leverage, to construct desired risk/return characteristics that are less correlated to the major asset classes. Alternative strategies are included in the endowment pool to diversify assets, provide portfolio return enhancement and dampen volatility. The following schedule reflects the Foundation holdings in each of the fund types:

Alternative Strategies:	<u>Book Value</u> <u>June 30, 2007</u>	<u>Market Value</u> <u>June 30, 2007</u>	<u>Book Value</u> <u>June 30, 2006</u>	<u>Market Value</u> <u>June 30, 2006</u>
Private Capital:				
Venture capital	\$ 8,683,862	\$ 10,619,406	\$ 6,988,920	\$ 8,032,795
Domestic private equity	17,931,480	18,064,981	16,343,687	14,527,696
International private equity	4,680,152	5,604,357	3,192,164	3,299,034
Private capital distressed debt	2,219,177	2,597,933	1,464,713	1,464,713
Natural Resources	24,915,520	29,654,614	22,267,099	25,829,939
Subtotal	<u>\$ 58,430,191</u>	<u>\$ 66,541,291</u>	<u>\$ 50,256,583</u>	<u>\$ 53,154,177</u>
Hedge Funds:				
Absolute Return	\$ 13,642,022	\$ 16,921,788	\$ 11,809,777	\$ 13,648,413
Marketable Alternatives	43,523,679	51,117,898	35,707,282	36,764,820
Subtotal	<u>\$ 57,165,702</u>	<u>\$ 68,039,686</u>	<u>\$ 47,517,059</u>	<u>\$ 50,413,233</u>
Total	<u>\$ 115,595,893</u>	<u>\$ 134,580,977</u>	<u>\$ 97,773,642</u>	<u>\$ 103,567,410</u>

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

Note 2: Investments (Continued)

Alternative Strategies (Continued):

The Foundation had outstanding commitments in the following areas on June 30, 2007 and 2006:

	<u>Original Commitment</u>	<u>Commitments Remaining as of</u>	
		<u>June 30, 2007</u>	<u>June 30, 2006</u>
Private Capital:			
Venture capital	\$ 21,965,000	\$ 8,546,961	\$ 6,617,474
Domestic private equity	46,925,000	21,625,598	17,044,971
International private equity	21,625,000	17,342,993	9,903,978
Private capital distressed debt	7,200,000	3,224,429	3,354,253
Natural Resources	12,000,000	6,687,000	2,817,000
Subtotal	<u>\$ 109,715,000</u>	<u>\$ 57,426,981</u>	<u>\$ 39,737,676</u>

Note 3: Asset Holdings and Rate of Return

The Foundation has a general policy of investing assets to maximize rates of return, consistent with sound and safe business principles. The Foundation also holds certain assets for the benefit of Kansas State University which do not provide a market rate of return on funds invested. Some examples of these investments and other direct benefits provided to the University include:

University Real Estate Fund (Formerly Perimeter Policy) - Certain real estate holdings adjacent to the University Campus were purchased and are held for current and potential university use.

Smith Scholarship House - The Foundation has provided the building rent-free in order to maintain the House in operation for the benefit of the students.

Holiday Inn (formerly Ramada Inn) and Wildcat BP (formerly University Amoco) - The hotel and service station located adjacent to the University were built on land acquired by the Foundation to meet the needs of public lodging and service facilities close to the University campus.

Faculty and Accommodation Loans - The Foundation provides faculty loans at favorable interest rates to University faculty and staff to enable them to conduct business travel pending reimbursement from the University. Non-interest bearing accommodation loans are made to faculty and staff when salaries are not received on time from the University.

Note 4: Endowment Pool Policies

The Foundation's Executive Committee determines the Endowment Pool's percentage distribution of total return to the participating funds. For the fiscal years ended June 30, 2007 and 2006, the total return of the Endowment Pool was +19.32% and +13.47%, respectively. The distributions approved by the Foundation's Executive Committee are:

1. A distribution to purpose, annually adjusted by inflation but always within a range between 3 and 5 percent of the market value. The fiscal year 2006 payout (4% of market value) was the base year; for fiscal years 2007 and thereafter the payout is based upon the prior year payout increased by the inflation rate. This percentage was made available to the participating funds for spending. This inflation based method is intended to address current University needs as well as preserve purchasing power for future generations.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

Note 4: Endowment Pool Policies (Continued)

2. .25% of the market value will be distributed to the campus units as discretionary funds.
3. 1.4% of the market value for fiscal year 2007 (1.5% for 2006) will be distributed to the Foundation for allocation as determined each year by the Executive Committee.
4. The balance of the total return remains in the principal account of the participating funds.

During fiscal year 2003, the distribution policy was modified in order to comply with state statutes (UMIFA) regarding endowments with a market value less than historic book value. As a result, effective January 1, 2003, for those participating accounts with a market value less than their historic book value, current income (interest, dividends, rents) is distributed based upon the following prioritization:

1. The Foundation allocation is distributed to the extent there is sufficient current income to do so.
2. To the extent current income remains available, a distribution is made for funding the purpose of the participating account, up to that amount that would have been distributed had the account's market value been greater than the historic book value.
3. To the extent current income remains available, a distribution to the campus unit's discretionary fund will be made, up to that amount that would have been distributed had the account's market value been greater than the historic book value.
4. Remaining current income, if any, and the remainder of the approved distribution will be returned to the account as an addition to principal.

At June 30, 2007, the KSU Foundation had no endowment funds with a market value less than historic book value.

Note 5: Pledges Receivable

Pledges receivable of \$14,960,697 for 2007 and \$14,832,044 for 2006 have been discounted to their present values on the financial statements reported as \$13,405,563 for 2007 and \$13,422,606 for 2006. The Foundation estimates payments of the pledges will be received as follows:

	June 30,	
	2007	2006
Gross pledges receivable	\$ 15,863,932	\$ 15,704,880
Allowance for uncollectible pledges	(903,235)	(872,836)
Subtotal	\$ 14,960,697	\$ 14,832,044
Present value discount	(1,555,134)	(1,409,438)
Net Pledges Receivable	\$ 13,405,563	\$ 13,422,606
	June 30,	
	2007	2006
FYE June 30, 2007	\$ 1,900,000	5,700,747
FYE June 30, 2008	2,632,985	1,903,296
FYE June 30, 2009	3,215,078	2,046,143
FYE June 30, 2010	2,217,655	1,321,716
Thereafter	3,439,845	2,450,704
Total	\$ 13,405,563	\$ 13,422,606

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

Note 6: Conditional Promises

Conditional promises are not reported on the financial statements due to the unknown occurrence of a specified future and uncertain event. Donors have notified the Foundation of conditional promises approximating \$152,236,952 for 2007 and \$129,067,364 for 2006 in the form of bequests. Donors have also informed the Foundation of conditional promises in the form of life insurance policies approximating \$32,986,342 for 2007 and \$31,672,738 for 2006. The cash surrender value of these policies, which is a known occurrence and certain event, is reported on the financial statements totaling \$3,119,776 for 2007 and \$2,756,425 for 2006.

Note 7: Loans Receivable

Loans are composed of student, real estate mortgages/contract sales, and other loans for fiscal years ended June 30, 2007 and 2006.

	June 30,	
	2007	2006
Faculty/departmental and other loans *	\$ 1,072,526	\$ 57,774
Real estate mortgages/contract sales loans **	415,544	393,608
Student loans ***	351,266	259,479
Total	\$ 1,839,336	\$ 710,861

* Faculty loan rates are 0% if paid within a specified time, but assessed 14% if not paid timely;

Departmental loan rates are between 6.5% and 7.75%.

** Interest rates ranged from 7.25% to 10% and maturities ranged from 2007 to 2022.

*** Student loan rates range between 5% to 6% with various maturities.

Note 8: Unrestricted Net Assets (Designated)

Unrestricted net assets of the Foundation have been designated. The Executive Committee of the Foundation designated the income from the investments of the Underwriting funds to be used for operation of the Foundation. The Trust Management Committee designated reserve accounts for the Charitable Gift Annuity Pool to assure future obligations of annuity payments. The remaining balance has been designated by the Executive Committee for other purposes.

The unrestricted net assets are composed of the following:

	2007	2006
Underwriting funds and Expendable & Gift Annuity Pool Reserve	\$ 24,810,918	\$ 18,714,088
Net investment in property and equipment, Foundation Center	1,617,681	1,666,214
Real estate utilized by College of Agriculture	128,070	129,862
KSU Underwriting Fund and other funds held for Kansas State	2,533,748	2,962,942
University Real Estate Fund	6,398,895	8,116,928
Total	\$ 35,489,312	\$ 31,590,034

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

Note 9: Pension Plan

The Kansas State University Foundation Board of Trustees has established the Kansas State University Foundation Defined Contribution Retirement Plan. The Plan provides for employer and employee contributions at 8.5% and 5.5%, respectively. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were \$349,758 and \$300,469 for the years ended June 30, 2007 and 2006.

Employees are eligible to participate on a voluntary basis on the Plan entry date following the completion of a 12 month period of service. An eligible employee is required to begin participation in the Plan no later than upon the completion of 2 years of service at the Foundation and the attainment of age 30.

Note 10: Real Estate and Other Depreciable Assets

Major asset categories at June 30 consist of:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Residential and commercial	\$ 14,208,926	\$ 4,216,461	\$ 15,877,355	\$ 3,853,002
Farms	3,822,271	-	4,026,628	-
Total	<u>\$ 18,031,197</u>	<u>\$ 4,216,461</u>	<u>\$ 19,903,983</u>	<u>\$ 3,853,002</u>

Straight-line depreciation is used for all categories over estimated useful lives of three to ten years for vehicles, computers and furnishings; fifteen years for certain building improvements and telephone equipment, and thirty to forty years for buildings.

Depreciation expense for fiscal years ended June 30, 2007 and 2006 was \$363,459 and \$332,717, respectively.

Note 11: Contributions

The Foundation historically publicizes contributions on the cash basis. The adoption of the accrual basis for financial statement purposes requires recognized receivables and liabilities to be reported during the year of occurrence. The following summarizes the effect of recording these accruals for the year ended June 30:

	<u>2007</u>	<u>2006</u>
Contributions - Cash Basis	\$ 51,638,556	\$ 57,700,900
Net changes		
Net increase (decrease) in pledges receivable	(17,043)	4,622,759
Net increase (decrease) in receivable from estates	(1,119,141)	3,795,745
Actuarial value of current year contributions to charitable remainder trusts and annuities	(1,505,156)	(1,658,795)
Contributions - Accrual Basis	<u>\$ 48,997,216</u>	<u>\$ 64,460,609</u>

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

Note 12: Consolidation of Subsidiary

The Kansas State University Golf Course Management and Research Foundation (KSUGCMRF) is a supporting organization of the Foundation formed to build, own and operate a golf course. This not-for-profit corporation was formed in 1997 based on a request from the University to provide a golf course to further the University's mission. The corporation was granted tax-exempt status by the Internal Revenue Service with an accounting period ending December 31. A summary of financial information for KSUGCMRF at June 30 is as follows:

	<u>2007</u>	<u>2006</u>
Assets		
Cash	\$ 845,999	\$ 608,706
Real estate and other depreciable assets (net of depreciation)	1,767,223	1,745,980
Pledges receivable	1,064,979	1,450,401
Pledges receivable, line of credit guarantors	1,101,747	1,191,008
Other assets	216,577	131,232
	<u>\$ 4,996,525</u>	<u>\$ 5,127,327</u>
Liabilities		
Accrued liabilities	629,536	573,862
Mortgage payable	1,367,205	1,663,110
Line of Credit - Golf Course	1,101,747	1,191,008
	<u>\$ 1,898,037</u>	<u>\$ 1,699,347</u>
Total Net Assets		
	<u>\$ 1,898,037</u>	<u>\$ 1,699,347</u>
Sources		
Contributions	\$ 772,078	\$ 1,497,857
Contributions, increase (decrease) in receivables for line of credit	(89,261)	-
Contributions, increase (decrease) in pledges	(385,422)	(1,117,838)
Operations net income (loss)	(104,141)	45,461
Other income	422,796	220,999
Uses	<u>(417,360)</u>	<u>(711,429)</u>
Change in Net Assets	\$ 198,690	\$ (64,950)
Net Assets - Beginning of Year	<u>1,699,347</u>	<u>1,635,320</u>
Adjustments to Net Assets (KSUGCMRF Quasi Reorganization)		
Revaluation of Real Estate and other depreciable assets	\$ -	\$ 128,977
Net Adjustments to Net Assets (KSUGCMRF Quasi Reorganization)	<u>\$ -</u>	<u>\$ 128,977</u>
Net Assets - End of Year	<u>\$ 1,898,037</u>	<u>\$ 1,699,347</u>

Notes to Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

Note 12: Consolidation of Subsidiary (Continued)

The KSUGCMRF defaulted on its debt in June 2005 ultimately resulting in a quasi reorganization. The KSUGCMRF was unable to make payments on the \$7.7 million Educational Facilities Revenue Bonds administered by US Bank and its \$1.8 million line of credit with Columbian Bank & Trust Company. US Bank received the golf course and eventually settled with the KSUGCMRF accepting a \$2 million payment. Columbian Bank released the KSUGCMRF of the \$1.8 million line of credit that was guaranteed by six guarantors. The guarantors are now settling their obligations via contributions to the KSUGCMRF which in turn pays the bank to eliminate the line of credit. In FY06, there were two entries made to retained earnings to properly reflect the current financial position of the Golf Course. An entry was made to remove \$197,497 worth of property tax accrual from the balance sheet as this amount was settled during the debt reorganization. In addition, \$68,520 of depreciation expense was removed from the golf course operations income statement to reflect the revaluing of the assets during the quasi-reorganization. The net of these two entries is \$128,977.

The KSUGCMRF obtained a \$1,950,000 mortgage payable from Kansas State Bank to settle the debt with US Bank. The mortgage payable is secured with the pledges of the KSUGCMRF. The interest rate is 5.85% payable semi-annually with scheduled principal payments beginning December 2005 through the June 2011. The balance as of June 30, 2007 was \$1,367,205.

Maturities as of June 30, 2007 were as follows:

	Mortgage Payable to KS Bank
FYE June 30, 2008	\$ 314,637
FYE June 30, 2009	333,312
FYE June 30, 2010	353,096
FYE June 30, 2011	366,160
Total	\$ 1,367,205

Interest expense paid for fiscal year end June 30,2007 for the Kansas State Bank mortgage was \$94,639.

A quasi reorganization has been approved by the KSUGCMRF Board. The quasi reorganization effectively restates the assets and liabilities of the KSUGCMRF to a more realistic value.

Note 13: Note Payable - Nanoscale

Kansas State University Foundation constructed a research/office facility in the K-State Research Park in Fiscal Year 2002. The cost basis of the building is \$2,041,849. The project was financed with a note payable with an interest rate of 3.75% and due in July 2005. As of June 30, 2007, the note payable was \$1,753,080. The mortgage was refinanced July 2005 with an interest rate of 5.250% and due July 2008. The building is leased on a long-term basis to Nanoscale Materials, Inc., a spin-off research company associated with Kansas State University.

Interest for fiscal year ended June 30, 2007 and 2006 was \$95,438 and \$96,837, respectively.

Maturities as of June 30, 2007 were as follows:

	6/30/2007 Note Payable Nanoscale
FYE June 30, 2008	\$ 83,190
FYE June 30, 2009	1,669,891
Total	\$ 1,753,081

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2007 and 2006

Note 14: Note Payable - Printing Services

Kansas State University Foundation purchased a warehouse/office building in the Manhattan Corporate Technology Park in Fiscal Year 2003. The cost basis of the building is \$865,000. The building was purchased through a bargain sale; the purchase was financed with a note payable with an interest rate of 4.50% and due in January 2008. As of June 30, 2007, the note payable was \$638,882. The building is leased to the Kansas State University until December 31, 2017.

Interest for fiscal year ended June 30, 2007 and 2006 was \$30,283 and \$32,731, respectively.

Maturities as of June 30, 2007 were as follows:

	Note Payable Printing Services
FYE June 30, 2008	\$ 638,882
Total	\$ 638,882

Note 15: Bonds Payable - Educational and Agricultural Research Facility Revenue Bonds

Kansas State University Foundation acquired Educational and Agricultural Research Facility Revenue Bonds totaling \$820,000 for a College of Agriculture construction project in Finney County. Bonds payable for this project as of June 30, 2007 is \$545,000. Interest rates range from 5% to 6.25% with scheduled semi-annual payments beginning in December 2000 through the year 2015. The bonds are issued by Finney County, Kansas.

Interest expense for fiscal years ended June 30, 2007 and 2006 was \$35,860 and \$38,380, respectively.

Maturities as of June 30, 2007 were as follows:

	Note Payable Southwest Ag
FYE June 30, 2008	\$ 45,000
FYE June 30, 2009	50,000
FYE June 30, 2010	55,000
FYE June 30, 2011	55,000
FYE June 30, 2012	60,000
Thereafter	280,000
Total	\$ 545,000