

KANSAS STATE UNIVERSITY FOUNDATION

Manhattan, Kansas

FINANCIAL STATEMENTS

WITH

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

For the Years Ended June 30, 2008 and 2007

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas

KANSAS STATE UNIVERSITY FOUNDATION

Manhattan, Kansas

TABLE OF CONTENTS

June 30, 2008 and 2007

	<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 - 16



September 8, 2008

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 non-profit organization) as of June 30, 2008 and 2007 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, 2008 and 2007, 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.

As discussed in Note 16 to the financial statements, the Kansas State University Foundation adopted a new policy for valuing real estate.

Varney & Associates, CPAs, LLC

Certified Public Accountants

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

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 30,543,723	\$ 24,982,670
Short-term investments and certificates of deposit	2,765,000	2,690,000
Investments	386,713,660	385,189,661
Pledges receivable, net	18,491,584	13,405,563
Receivables from estates	2,300,442	5,630,970
Loans receivable	1,993,700	1,839,336
Real estate and other depreciable property	26,740,520	18,031,197
Accumulated depreciation	(4,802,888)	(4,216,461)
Net real estate and other depreciable property - Golf course	2,050,469	1,767,223
Cash surrender value of life insurance policies	3,426,415	3,119,776
Other assets and accrued income	1,008,942	763,683
TOTAL ASSETS	\$ 471,231,567	\$ 453,203,618
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable, deposits and other liabilities	\$ 1,640,889	\$ 1,890,309
Accrued liabilities	1,421,253	1,376,924
Assets held for others	9,055,307	8,327,441
Current obligations, unitrust and annuity liabilities	2,921,970	2,682,248
Current portion of note, mortgage and bond payable	510,207	1,081,710
Total Current Liabilities	\$ 15,549,626	\$ 15,358,632
Other Liabilities		
Unitrust and annuity liabilities, less current obligation	\$ 20,149,748	\$ 22,013,970
Note payable - Nanoscale, less current portion	1,596,158	1,669,890
Note payable - Printing services, less current portion	546,708	-
Mortgage payable - Golf course, less current portion	633,880	1,052,568
Line of credit - Golf course	708,062	1,101,747
Bonds payable - Educational and Agricultural Research Facility		
Rev Bonds, less current portion	450,000	500,000
Total Other Liabilities	\$ 24,084,556	\$ 26,338,175
TOTAL LIABILITIES	\$ 39,634,182	\$ 41,696,807
Net Assets		
Unrestricted net assets (designated)	\$ 34,317,786	\$ 35,489,312
Temporarily restricted net assets	107,083,926	86,178,444
Permanently restricted net assets	290,195,673	289,839,055
TOTAL NET ASSETS	\$ 431,597,385	\$ 411,506,811
TOTAL LIABILITIES AND NET ASSETS	\$ 471,231,567	\$ 453,203,618

Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
CONSOLIDATED STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 4,877,933	\$ 44,443,523	\$ 11,709,320	\$ 61,030,776	\$ 48,997,216
Investment income	(3,852,680)	14,457,047	309,848	10,914,215	13,760,628
Net realized and unrealized gains (losses) on asset transactions	11,373,995	(1,530,986)	(13,839,862)	(3,996,853)	52,820,777
Other support					
Operational service charges, management fees and other	3,540,968	-	-	3,540,968	3,424,257
Receipts for grants, research, supplies, travel and other					
University departmental activities and funding allotments, etc.	81,340	5,732,585	1,799	5,815,724	6,451,268
Actuarial gain/(loss) on unitrusts and annuities obligations	(375)	(750,687)	22,820	(728,242)	(5,508,058)
Net assets released from restrictions	(2,242,262)	2,166,401	75,861	-	-
Satisfaction of program restrictions	43,783,649	(43,783,649)	-	-	-
Total Revenue, Gains and Other Support	<u>\$ 57,562,568</u>	<u>\$ 20,734,234</u>	<u>\$ (1,720,214)</u>	<u>\$ 76,576,588</u>	<u>\$ 119,946,088</u>
EXPENSES AND SUPPORT					
Direct University support					
Scholarships and other student awards	\$ 8,696,517	\$ -	\$ -	\$ 8,696,517	\$ 10,962,142
Academic	7,106,506	-	-	7,106,506	6,058,132
Administrative - Faculty and student support	29,056,559	-	-	29,056,559	27,064,155
Capital improvements	3,445,200	-	-	3,445,200	12,657,664
Subtotal	<u>\$ 48,304,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,304,782</u>	<u>\$ 56,742,093</u>
Investment - Portfolio management	1,925,792	-	-	1,925,792	2,557,011
Investment - Loan interest expense and write-off	345,689	-	-	345,689	269,948
KSUF administration	3,690,984	-	-	3,690,984	3,540,688
KSUF fundraising	6,832,249	-	-	6,832,249	5,681,416
Total Expenses and Support	<u>\$ 61,099,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,099,496</u>	<u>\$ 68,791,156</u>
CHANGE IN NET ASSETS	\$ (3,536,928)	\$ 20,734,234	\$ (1,720,214)	\$ 15,477,092	\$ 51,154,932
NET ASSETS AT BEGINNING OF YEAR	35,489,312	86,178,444	289,839,055	411,506,811	360,351,879
ADJUSTMENT TO NET ASSETS					
Cumulative effect of change in accounting principal	2,705,025	171,248	2,076,832	4,953,105	-
Prior period adjustment	(339,623)	-	-	(339,623)	-
NET ASSETS AT END OF YEAR	<u>\$ 34,317,786</u>	<u>\$ 107,083,926</u>	<u>\$ 290,195,673</u>	<u>\$ 431,597,385</u>	<u>\$ 411,506,811</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, 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 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30,

	2008	2007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 15,477,092	\$ 51,154,932
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributions for endowment	\$ (8,600,747)	\$ (11,479,553)
Contributions for term endowment	(998,609)	(1,516,432)
Non-cash contributions	(21,218,848)	(12,945,946)
Non-cash expenditures	6,976,994	5,730,028
Non-cash expenditures - Omaha Vet Clinic to KSU	-	2,816,985
Non-cash expenditures - Olathe Land to KSU/KOIC	4,500,000	-
Net realized and unrealized (gain) loss on asset transactions	3,996,853	(51,991,625)
Depreciation	463,054	363,459
Depreciation golf course	20,950	(19,280)
Unitrust and annuity liability distributions	2,848,792	2,689,256
(Increase) decrease in pledges receivable	(5,086,021)	17,043
(Increase) decrease in receivables from estates	3,330,528	1,119,141
(Increase) decrease in loans	(154,364)	(1,128,475)
(Increase) decrease in cash surrender value of life insurance policies	(306,639)	(363,351)
(Increase) decrease in other assets and accrued income	(245,258)	(41,168)
Increase (decrease) in accounts payable	(249,420)	1,169,414
Increase (decrease) in accrued liabilities	44,329	165,048
Increase (decrease) in assets held for others	727,866	2,154,563
Increase (decrease) in unitrust and annuity liabilities	(1,624,500)	2,276,006
Total Adjustments	\$ (15,575,040)	\$ (60,984,887)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (97,948)	\$ (9,829,955)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 97,779,102	\$ 373,488,661
Proceeds from sale of real estate	873,247	2,466,531
Purchase of investments	(95,493,038)	(381,789,756)
Purchase of real estate	(2,752,876)	(1,423,990)
Expenditures for depreciable property	(232,902)	(179,303)
Expenditures for depreciable property - Golf course	(304,196)	(1,963)
Net Cash Provided by (Used in) Investing Activities	\$ (130,663)	\$ (7,439,820)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for endowment	\$ 8,600,747	\$ 11,479,553
Contributions for term endowment	998,609	1,516,432
Increase (decrease) in bonds, mortgage, notes payable and line of credit	(960,900)	(548,405)
Life income payments, including unitrust and annuity payments	(2,848,792)	(2,689,256)
Net Cash Provided by Financing Activities	\$ 5,789,664	\$ 9,758,324
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 5,561,053	\$ (7,511,451)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24,982,670	32,494,121
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 30,543,723	\$ 24,982,670
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing and financing activities		
gifts in kind, securities and properties	\$ 21,218,848	\$ 12,945,946
Cash paid during the year for interest	\$ 345,689	\$ 269,948
Cash paid for income taxes	\$ 12,662	\$ -

Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

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.

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; private capital, including venture capital, domestic and international private equity, distressed debt investments and natural resources; hedge funds, including absolute return and marketable alternatives; and other securities, including donated securities, mutual funds and closely held stocks awaiting liquidation.

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, 2008 and 2007

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 at cost.

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, 2008 and 2007

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 statements of cash flows.

Reclassifications

Certain reclassifications have been made to the 2007 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these classifications.

Note 2: Investments

Investment management is governed by policies and procedures established by the Investment Advisory Committee, a subcommittee of the Executive Committee of the KSU Foundation Board of Trustees, in collaboration with staff and consultants. Staff implements the policies through: 1) The selection of investment strategies; 2) the hiring, monitoring and changing of investment managers; and 3) re-balancing the portfolios. Investment results are monitored by the committee quarterly through manager and portfolio performance and due diligence reporting and annually through outside auditing of the KSU Foundation accounts and procedures.

Private capital and hedge funds are included in the endowment pool to diversify assets, provide portfolio return enhancement and dampen volatility. Hedge funds 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.

Investments, stated at their fair value, consisted of the following at:

	Book Value June 30, 2008	Market Value June 30, 2008	Book Value June 30, 2007	Market Value June 30, 2007
Equity investments	\$ 124,647,183	\$ 150,245,105	\$ 118,099,386	\$ 168,099,963
Corporate and other fixed income	49,813,528	50,377,692	46,195,920	47,331,325
U.S. Govt and govt agency obligations	1,928,098	2,024,289	1,334,193	1,348,291
Real estate investments	29,636,590	29,886,034	28,934,694	33,448,863
Other securities and investments	50,291	34,967	277,338	380,242
Subtotal	\$ 206,075,690	\$ 232,568,087	\$ 194,841,531	\$ 250,608,684
Private Capital:				
Venture capital	\$ 8,294,156	\$ 9,725,861	\$ 8,683,862	\$ 10,619,406
Domestic private equity	23,543,235	25,463,533	17,931,480	18,064,981
International private equity	8,034,410	10,092,886	4,680,152	5,604,357
Private capital distressed debt	6,706,177	6,831,841	2,219,177	2,597,933
Natural resources	22,966,827	35,868,654	24,915,521	29,654,614
Subtotal	\$ 69,544,805	\$ 87,982,775	\$ 58,430,192	\$ 66,541,291
Hedge Funds:				
Absolute return	\$ 18,789,519	\$ 20,590,251	\$ 13,642,022	\$ 16,921,788
Marketable alternatives	39,817,042	45,572,547	43,523,679	51,117,898
Subtotal	\$ 58,606,561	\$ 66,162,798	\$ 57,165,701	\$ 68,039,686
Total	\$ 334,227,056	\$ 386,713,660	\$ 310,437,424	\$ 385,189,661

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2008 and 2007

Note 2: Investments (Continued)

The Foundation had outstanding commitments in the following areas on June 30, 2008 and 2007:

	<u>Original Commitment</u>	<u>Commitments Remaining as of</u>	
		<u>June 30, 2008</u>	<u>June 30, 2007</u>
Private Capital:			
Venture capital	\$ 27,590,000	\$ 14,106,571	\$ 8,546,961
Domestic private equity	50,925,000	16,123,021	21,625,598
International private equity	24,384,040	14,405,557	17,342,993
Private capital distressed debt	18,200,000	12,367,054	3,224,429
Natural resources	12,000,000	4,623,250	6,687,000
Subtotal	<u>\$ 133,099,040</u>	<u>\$ 61,625,453</u>	<u>\$ 57,426,981</u>

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, real estate, commodities, private capital, hedge funds and short term investments for the Foundation totaling an estimated \$199,759,078 and \$186,617,237 at June 30, 2008 and 2007, respectively, at market value, which is approximately 42% and 41% of total assets. The Foundation's investments with the Common Fund are carried in thirty-two different funds to provide diversification.

Investment Return

The following schedule summarizes the investment return in the statement of activities:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 9,656,713	\$ 11,899,593
Other	1,636,430	1,861,035
Expenses	(378,928)	-
Investment Income	<u>\$ 10,914,215</u>	<u>\$ 13,760,628</u>
Net realized and unrealized gain (losses)	\$ (5,406,388)	\$ 51,949,062
Capital gain distribution	1,409,535	871,715
Net Realized and Unrealized Gains (Losses) on Asset Transactions	<u>\$ (3,996,853)</u>	<u>\$ 52,820,777</u>
Investment - Portfolio Management	<u>\$ 1,292,443</u>	<u>\$ 2,262,578</u>

Investment revenues are reported net of related investment expenses in the statement of activities beginning January 2008. Prior to this, investment expenses have been reported as an expense titled investment - portfolio management. The amount of expenses netted with revenues was \$378,928 and \$0 for the years ended June 30, 2008 and 2007, respectively.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2008 and 2007

Note 2: Investments (Continued)
Investment Return (Continued)

Information pertaining to investments with gross unrealized losses at June 30, 2008, aggregated by length of time individual investments have been in a continuous loss position, is as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Impaired investments	\$ 65,458,814	\$ 6,719,921	\$ 56,516,342	\$ 7,792,169	\$ 121,975,156	\$ 14,512,091

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 - Certain real estate holdings vital to the mission of the University 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.

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, 2008 and 2007, the total return of the Endowment Pool was +1.46% and +19.32%, 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 three and five percent of the market value. The fiscal year 2006 payout (4% of market value) was the base year; for fiscal year 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.
2. .25% of the market value will be distributed to the campus units as discretionary funds.
3. 1.3% of the market value for fiscal year 2008 (1.4% for 2007) 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.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2008 and 2007

Note 4: Endowment Pool Policies (Continued)

During fiscal year 2003, the distribution policy was modified in order to comply with state statutes effective at that time 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, 2008, the KSU Foundation had 127 endowment funds with a market value less than historic book value. The market value of these funds totaled \$7,394,053 compared to the total historic book value of \$7,610,323.

Note 5: Pledges Receivable

Pledges receivable of \$21,070,117 for 2008 and \$14,960,697 for 2007 have been discounted to their present values on the financial statements reported as \$18,491,584 for 2008 and \$13,405,563 for 2007. The Foundation estimates payments of the pledges will be received as follows:

	June 30,	
	2008	2007
Gross pledges receivable	\$ 21,070,117	\$ 15,863,932
Allowance for uncollectible pledges	(936,782)	(903,235)
Subtotal	\$ 20,133,335	\$ 14,960,697
Present value discount	(1,641,751)	(1,555,134)
Net Pledges Receivable	\$ 18,491,584	\$ 13,405,563

Pledge maturities are as follows:

	June 30,	
	2008	2007
Less than 1 year	\$ 6,940,905	\$ 4,532,985
1 - 5 years	11,072,862	7,583,606
Thereafter	477,817	1,288,972
Total	\$ 18,491,584	\$ 13,405,563

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 \$178,609,124 for 2008 and \$152,236,952 for 2007 in the form of bequests. Donors have also informed the Foundation of conditional promises in the form of life insurance policies approximating \$32,837,697 for 2008 and \$32,986,342 for 2007. The cash surrender value of these policies, which is a known occurrence and certain event, is reported on the financial statements totaling \$3,426,415 for 2008 and \$3,119,776 for 2007.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2008 and 2007

Note 7: Loans Receivable

Loans are composed of student, real estate mortgages/contract sales, and other loans for fiscal years ended June 30, 2008 and 2007.

	June 30,	
	2008	2007
Faculty/departmental and other loans *	\$ 1,298,127	\$ 1,072,526
Real estate mortgages/contract sales loans **	304,575	415,544
Student loans ***	390,998	351,266
Total	\$ 1,993,700	\$ 1,839,336

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

Departmental loan rates are between 5.6% and 7.75%.

** Interest rates ranged from 5% to 9.5% and maturities ranged from 2008 to 2017.

*** 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:

	2008	2007
Underwriting funds and Expendable and Gift Annuity Pool Reserve	\$ 22,310,020	\$ 24,810,918
Net investment in property and equipment, Foundation Center	3,772,672	1,617,681
Real Estate utilized by College of Agriculture	133,570	128,070
KSU Underwriting Fund and other funds held for Kansas State University Real Estate Fund	1,563,178	2,533,748
	6,538,346	6,398,895
Total	\$ 34,317,786	\$ 35,489,312

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 5.5% and 8.5%, respectively. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were \$398,448 and \$349,758 for the years ended June 30, 2008 and 2007.

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.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2008 and 2007

Notes to Financial Statements

Note 10: Real Estate and Other Depreciable Assets

Major asset categories at June 30 consist of:

	2008			2007	
	Market Value	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Residential and commercial	\$ 19,466,300	\$ 16,575,380	\$ 4,802,888	\$ 14,208,926	\$ 4,216,461
Farms	7,274,220	4,710,591	-	3,822,271	-
Total	\$ 26,740,520	\$ 21,285,971	\$ 4,802,888	\$ 18,031,197	\$ 4,216,461

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, 2008 and 2007 was \$463,054 and \$363,459, 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:

	2008	2007
Contributions - Cash Basis	\$ 60,414,546	\$ 51,638,556
Net changes		
Net increase (decrease) in pledges receivable	5,086,021	(17,043)
Net increase (decrease) in receivable from estates	(3,330,528)	(1,119,141)
Actuarial value of current year contributions to charitable remainder trusts and annuities	(1,139,263)	(1,505,156)
Contributions - Accrual Basis	\$ 61,030,776	\$ 48,997,216

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:

	2008	2007
Assets		
Cash	\$ 2,649,800	\$ 845,999
Real estate and other depreciable assets (net of depreciation)	2,050,469	1,767,223
Pledges receivable	2,052,356	1,064,979
Pledges receivable, line of credit guarantors	708,062	1,101,747
Other assets	250,562	216,577
	\$ 7,711,249	\$ 4,996,525
Liabilities		
Accrued liabilities	655,918	629,536
Mortgage payable	967,192	1,367,205
Line of credit - Golf course	708,062	1,101,747
	\$ 5,380,077	\$ 1,898,037
Total Net Assets	\$ 5,380,077	\$ 1,898,037

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2008 and 2007

Note 12: Consolidation of Subsidiary (Continued)

Sources		
Contributions	\$ 3,134,447	\$ 772,078
Contributions, increase (decrease) in receivables for line of credit	(393,685)	(89,261)
Contributions, increase (decrease) in pledges	987,377	(385,422)
Operations net income (loss)	40,540	(104,141)
Other income	284,237	422,796
Uses	<u>(570,876)</u>	<u>(417,360)</u>
 Change in Net Assets	 \$ 3,482,040	 \$ 198,690
 Net Assets - Beginning of Year	 <u>1,898,037</u>	 <u>1,699,347</u>
 Net Assets - End of Year	 <u><u>\$ 5,380,077</u></u>	 <u><u>\$ 1,898,037</u></u>

Depreciation expense for fiscal year ended June 30, 2008 was \$20,950.

In 2005 the KSUGCMRF obtained a \$1,950,000 mortgage payable from Kansas State 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 June 2011. The balance as of June 30, 2008 was \$967,192. The KSUGCMRF prepaid \$111,570 of principal on this mortgage in FY08.

Maturities as of June 30, 2008 were as follows:

	Mortgage Payable to KS Bank
FYE June 30, 2009	<u>\$ 333,312</u>
FYE June 30, 2010	353,096
FYE June 30, 2011	<u>280,784</u>
Total	<u><u>\$ 967,192</u></u>

Interest expense paid for fiscal year ended June 30, 2008 and 2007 was \$71,557 and \$94,639, respectively.

The KSUGCMRF originally utilized a \$1.8 million line of credit from Columbian Bank. Six guarantors assumed this line of credit in 2005. The guarantors are now settling their obligations via contributions to the KSUGCMRF which in turn pays the bank to eliminate the line of credit. Three guarantors have paid, in full, their respective portion while the other three guarantors continue making payments. The balance as of June 30, 2008 was \$708,062.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2008 and 2007

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 a balance of \$1,676,574 as of June 30, 2008. The note has an interest rate of 5.250% and is due July 2008. The note was refinanced in August, 2008 with an interest rate of 4.25% adjustable every three years and due in July 2022. 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, 2008 and 2007 was \$91,719 and \$95,438, respectively.

Future maturities will be:

	6/30/2008 Note Payable Nanoscale
FYE June 30, 2009	\$ 80,416
FYE June 30, 2010	92,240
FYE June 30, 2011	96,294
Thereafter	1,407,624
Total	\$ 1,676,574

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 6.25% and due in January 2013. As of June 30, 2008, the note payable was \$593,187. The building is leased to the Kansas State University until December 31, 2017.

Interest for fiscal year ended June 30, 2008 and 2007 was \$32,951 and \$30,283, respectively.

Maturities as of June 30, 2008 were as follows:

	Note Payable Printing Services
FYE June 30, 2009	\$ 46,479
FYE June 30, 2010	49,511
FYE June 30, 2011	52,742
FYE June 30, 2012	56,111
FYE June 30, 2013	29,417
Thereafter	358,927
Total	\$ 593,187

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2008 and 2007

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, 2008 is \$500,000. 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, 2008 and 2007 was \$33,318 and \$35,860, respectively.

Maturities as of June 30, 2008 were as follows:

	Note Payable Southwest Ag
FYE June 30, 2009	\$ 50,000
FYE June 30, 2010	55,000
FYE June 30, 2011	55,000
FYE June 30, 2012	60,000
FYE June 30, 2013	60,000
Thereafter	220,000
Total	\$ 500,000

Note 16: Cumulative Effect of Change in Accounting Principle - Real Estate Valuations

The Kansas State University Foundation adopted a new policy for valuing real estate effective May 2008. The new policy states the value of real estate will be determined annually using the county appraiser's estimated value to determine ad valorem taxation for residential or commercial property or using comparable properties sold for agricultural land. This new valuation method replaces the previous practice of valuing real estate held at cost or donated value.

Note 17: Prior Period Adjustment - Depreciation

The Foundation discovered a computational error regarding prior year financial statements. Two buildings, both placed in service during 2002, were not depreciated for financial statement purposes. The effect on the financial statements is shown in accumulated depreciation totaled \$339,623.

Note 18: Unrelated Business Taxable Income

The Foundation incurred unrelated business taxable income from various investment partnerships and debt-financed property resulting in income tax of \$12,662 paid for fiscal year 2007. Estimate payments of \$7,755 have been made for fiscal year 2008. An estimate was necessary because some of the Schedule K-1s from the investment partnerships will not be available until January 2009.