

**KANSAS STATE UNIVERSITY FOUNDATION**

Manhattan, Kansas

**FINANCIAL STATEMENTS**

**WITH**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

For the Years Ended June 30, 2009 and 2008

**VARNEY & ASSOCIATES, CPAs, LLC**  
Manhattan, Kansas

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**TABLE OF CONTENTS**  
June 30, 2009 and 2008

|   | <u>Page</u> |
|---|-------------|
| <b>Independent Auditors' Report</b>           | 1           |
| <b>Financial Statements</b>                   |             |
| Consolidated Statements of Financial Position | 2           |
| Consolidated Statements of Activities         | 3 - 4       |
| Consolidated Statements of Cash Flows         | 5           |
| Notes to Consolidated Financial Statements    | 6 - 19      |



September 14, 2009

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 (the Foundation) (a non-profit organization) as of June 30, 2009 and 2008 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation'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 the Foundation as of June 30, 2009 and 2008, 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 Foundation adopted a new policy for valuing real estate and has adopted FASB Staff Position No. FAS 117-1.

*Varney & Associates, CPAs, LLC*

Certified Public Accountants

*Independent Auditors' Report*

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

|  | <b>2009</b>           | <b>2008</b>           |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                       |
| Cash and cash equivalents                                      | \$ 26,874,006         | \$ 30,543,723         |
| Short-term investments and certificates of deposit             | 1,410,000             | 2,765,000             |
| Investments  | 308,528,537           | 386,713,660           |
| Pledges receivable - Net                                       | 17,189,373            | 18,491,584            |
| Receivables from estates                                       | 5,881,463             | 2,300,442             |
| Loans receivable   | 1,737,841             | 1,993,700             |
| Real estate and other depreciable property                     | 30,182,098            | 26,740,520            |
| Less: Accumulated depreciation                                 | (5,126,035)           | (4,802,888)           |
| Net real estate and other depreciable property - Golf course   | 3,677,082             | 2,050,469             |
| Cash surrender value of life insurance policies                | 3,317,520             | 3,426,415             |
| Other assets and accrued income                                | 2,962,413             | 1,008,942             |
|  | <b>\$ 396,634,298</b> | <b>\$ 471,231,567</b> |
| <b>LIABILITIES AND NET ASSETS</b>                              |                       |                       |
| <b>Current Liabilities</b>                                     |                       |                       |
| Accounts payable, deposits and other liabilities               | \$ 2,444,909          | \$ 1,640,889          |
| Accrued liabilities  | 1,412,451             | 1,421,253             |
| Assets held for others   | 7,822,412             | 9,055,307             |
| Current obligations - Unitrust and annuity liabilities         | 2,240,440             | 2,921,970             |
| Current portion of note - Mortgage and bond payable            | 549,847               | 510,207               |
| <b>Total Current Liabilities</b>                               | <b>\$ 14,470,059</b>  | <b>\$ 15,549,626</b>  |
| <b>Other Liabilities</b>                                       |                       |                       |
| Unitrust and annuity liabilities - Less: Current obligation    | \$ 16,977,388         | \$ 20,149,748         |
| Note payable - Nanoscale - Less: Current portion               | 1,504,127             | 1,596,158             |
| Note payable - Printing services - Less: Current portion       | 497,213               | 546,708               |
| Mortgage payable - Golf course - Less: Current portion         | 231,520               | 633,880               |
| Bonds payable - Educational and Agricultural Research Facility |                       |                       |
| Rev Bonds - Less: Current portion                              | 395,000               | 450,000               |
| <b>Total Other Liabilities</b>                                 | <b>\$ 19,605,248</b>  | <b>\$ 23,376,494</b>  |
| <b>Total Liabilities</b>                                       | <b>\$ 34,075,307</b>  | <b>\$ 38,926,120</b>  |
| <b>Net Assets</b>  |                       |                       |
| Unrestricted net assets (designated)                           | \$ (386,332)          | \$ 34,202,574         |
| Temporarily restricted net assets                              | 45,257,903            | 97,022,565            |
| Permanently restricted net assets                              | 317,687,420           | 301,080,308           |
| <b>Total Net Assets</b>  | <b>\$ 362,558,991</b> | <b>\$ 432,305,447</b> |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                        | <b>\$ 396,634,298</b> | <b>\$ 471,231,567</b> |

Financial Statements

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
 For the Year Ended June 30, 2009

|   | Unrestricted           | Temporarily<br>Restricted | Permanently<br>Restricted | 2009<br>Total          | 2008<br>Total         |
|---|------------------------|---------------------------|---------------------------|------------------------|-----------------------|
| <b>REVENUES, GAINS AND OTHER SUPPORT</b>                          |                        |                           |                           |                        |                       |
| Contributions   | \$ 331,055             | \$ 46,102,532             | \$ 11,007,602             | \$ 57,441,189          | \$ 61,030,776         |
| Investment income   | (10,025,522)           | 9,950,684                 | 4,120,853                 | 4,046,015              | 10,914,215            |
| Net realized and unrealized gains (losses) on asset transactions  | (15,325,659)           | (62,168,061)              | (159,785)                 | (77,653,505)           | (3,996,853)           |
| Other support   |                        |                           |                           |                        |                       |
| Operational service charges, management fees and other            | 3,418,090              | -                         | -                         | 3,418,090              | 3,540,968             |
| Receipts for grants, research, supplies, travel and other         |                        |                           |                           |                        |                       |
| University departmental activities and funding allotments, etc.   | 59,220                 | 2,928,773                 | 25                        | 2,988,018              | 5,815,724             |
| Actuarial gain/(loss) on unitrusts and annuities obligations      | (2,004,094)            | (4,419,798)               | 3,448,849                 | (2,975,043)            | (728,242)             |
| Net assets released from restrictions                             | (663,001)              | 2,473,433                 | (1,810,432)               | -                      | -                     |
| Satisfaction of program restrictions                              | 46,632,225             | (46,632,225)              | -                         | -                      | -                     |
| <b>Total Revenue, Gains and Other Support</b>                     | <b>\$ 22,422,314</b>   | <b>\$ (51,764,662)</b>    | <b>\$ 16,607,112</b>      | <b>\$ (12,735,236)</b> | <b>\$ 76,576,588</b>  |
| <b>EXPENSES AND SUPPORT</b>                                       |                        |                           |                           |                        |                       |
| Direct University support   |                        |                           |                           |                        |                       |
| Scholarships and other student awards                             | \$ 9,504,150           | -                         | -                         | \$ 9,504,150           | \$ 8,696,517          |
| Academic  | 5,837,146              | -                         | -                         | 5,837,146              | 7,106,506             |
| Administrative - Faculty and student support                      | 26,019,091             | -                         | -                         | 26,019,091             | 29,056,559            |
| Capital improvements  | 5,137,097              | -                         | -                         | 5,137,097              | 3,445,200             |
| <b>Subtotal</b>   | <b>\$ 46,497,484</b>   | <b>\$ -</b>               | <b>\$ -</b>               | <b>\$ 46,497,484</b>   | <b>\$ 48,304,782</b>  |
| Investment - Portfolio management                                 | 440,167                | -                         | -                         | 440,167                | 1,925,792             |
| Investment - Loan interest expense and write-off                  | 263,173                | -                         | -                         | 263,173                | 345,689               |
| KSUF administration   | 3,945,927              | -                         | -                         | 3,945,927              | 3,690,984             |
| KSUF fundraising  | 5,864,469              | -                         | -                         | 5,864,469              | 6,832,249             |
| <b>Total Expenses and Support</b>                                 | <b>\$ 57,011,220</b>   | <b>\$ -</b>               | <b>\$ -</b>               | <b>\$ 57,011,220</b>   | <b>\$ 61,099,496</b>  |
| <b>CHANGE IN NET ASSETS</b>                                       | <b>\$ (34,588,906)</b> | <b>\$ (51,764,662)</b>    | <b>\$ 16,607,112</b>      | <b>\$ (69,746,456)</b> | <b>\$ 15,477,092</b>  |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>                            | 34,202,574             | 97,022,565                | 301,080,308               | 432,305,447            | 411,506,811           |
| <b>ADJUSTMENT TO NET ASSETS</b>                                   |                        |                           |                           |                        |                       |
| Cumulative effect of change in accounting principle - Real Estate | -                      | -                         | -                         | -                      | 4,953,105             |
| Prior period adjustments - Depreciation and KSUGCMRF              | -                      | -                         | -                         | -                      | 368,439               |
| <b>NET ASSETS AT END OF YEAR</b>                                  | <b>\$ (386,332)</b>    | <b>\$ 45,257,903</b>      | <b>\$ 317,687,420</b>     | <b>\$ 362,558,991</b>  | <b>\$ 432,305,447</b> |

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, 2008

|   | Unrestricted          | Temporarily Restricted | Permanently Restricted | 2008 Total            | 2007 Total            |
|---|-----------------------|------------------------|------------------------|-----------------------|-----------------------|
| <b>REVENUES, GAINS AND OTHER SUPPORT</b>                                |                       |                        |                        |                       |                       |
| 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   | 3,540,968             | -                      | -                      | 3,540,968             | 3,424,257             |
| Operational service charges, management fees and other                  |                       |                        |                        |                       |                       |
| Receipts for grants, research, supplies, travel and other               | 81,340                | 5,732,585              | 1,799                  | 5,815,724             | 6,451,268             |
| University departmental activities and funding allocations, etc.        | (375)                 | (750,687)              | 22,820                 | (728,242)             | (5,508,058)           |
| Actuarial gain/(loss) on unitrusts and annuities obligations            | (2,242,262)           | 2,166,401              | 75,861                 | -                     | -                     |
| Net assets released from restrictions                                   | 43,783,649            | (43,783,649)           | -                      | -                     | -                     |
| Satisfaction of program restrictions                                    | 57,562,568            | 20,734,234             | (1,720,214)            | 76,576,588            | 119,946,088           |
| <b>Total Revenue, Gains and Other Support</b>                           | <b>\$ 81,340</b>      | <b>\$ 48,304,782</b>   | <b>\$ 8,696,517</b>    | <b>\$ 139,185,912</b> | <b>\$ 109,621,142</b> |
| <b>EXPENSES AND SUPPORT</b>   |                       |                        |                        |                       |                       |
| Direct University support   | 8,696,517             | -                      | -                      | 8,696,517             | 10,962,142            |
| Scholarships and other student awards                                   | 7,106,506             | -                      | -                      | 7,106,506             | 6,058,132             |
| Academic  | 29,056,559            | -                      | -                      | 29,056,559            | 27,064,155            |
| Administrative - Faculty and student support                            | 3,445,200             | -                      | -                      | 3,445,200             | 12,657,664            |
| Capital improvements  | 48,304,782            | -                      | -                      | 48,304,782            | 56,742,093            |
| <b>Subtotal</b>   | <b>\$ 88,609,564</b>  | <b>\$ 1,925,792</b>    | <b>\$ 1,925,792</b>    | <b>\$ 93,461,348</b>  | <b>\$ 133,184,186</b> |
| 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             |
| <b>Total Expenses and Support</b>                                       | <b>\$ 12,794,614</b>  | <b>\$ 1,925,792</b>    | <b>\$ 1,925,792</b>    | <b>\$ 23,178,444</b>  | <b>\$ 26,172,168</b>  |
| <b>CHANGE IN NET ASSETS</b>   | <b>\$ (3,536,928)</b> | <b>\$ 20,734,234</b>   | <b>\$ (1,720,214)</b>  | <b>\$ 15,477,092</b>  | <b>\$ 51,154,932</b>  |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>                                  | <b>35,489,312</b>     | <b>86,178,444</b>      | <b>289,839,055</b>     | <b>411,506,811</b>    | <b>360,351,879</b>    |
| <b>ADJUSTMENT TO NET ASSETS</b>   |                       |                        |                        |                       |                       |
| Cumulative effect of change in accounting principle - Real Estate       | 2,705,025             | 171,248                | 2,076,832              | 4,953,105             | -                     |
| Cumulative effect of change in accounting principle - FSP No. FAS 117-1 | (115,212)             | (10,769,423)           | 10,884,635             | -                     | -                     |
| Prior period adjustments - Depreciation & KSUGCMRF                      | (339,623)             | 708,062                | -                      | 368,439               | -                     |
| <b>NET ASSETS AT END OF YEAR</b>  | <b>\$ 34,202,574</b>  | <b>\$ 97,022,565</b>   | <b>\$ 301,080,308</b>  | <b>\$ 432,305,447</b> | <b>\$ 411,506,811</b> |

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>2009</u>            | <u>2008</u>            |
|--|------------------------|------------------------|
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                            |                        |                        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                        |                        |
| Change in net assets   | \$ (69,746,456)        | \$ 15,477,092          |
| Adjustments to reconcile change in net assets to net cash used by operating activities |                        |                        |
| Contributions for endowment  | \$ (7,611,096)         | \$ (8,600,747)         |
| Contributions for term endowment   | (886,424)              | (998,609)              |
| Non-cash contributions   | (19,721,354)           | (21,218,848)           |
| Non-cash expenditures  | 5,723,092              | 6,976,994              |
| Non-cash expenditures - Olathe Land to KSU/KOIC  | -                      | 4,500,000              |
| Net realized and unrealized (gain) loss on asset transactions                          | 77,653,505             | 3,996,853              |
| Depreciation   | 366,230                | 463,054                |
| Depreciation golf course   | 20,588                 | 20,950                 |
| Unitrust and annuity liability distributions   | 2,638,513              | 2,848,792              |
| (Increase) decrease in pledges receivable  | 1,302,211              | (5,086,021)            |
| (Increase) decrease in receivables from estates  | (3,581,021)            | 3,330,528              |
| (Increase) decrease in loans   | 255,859                | (154,364)              |
| (Increase) decrease in cash surrender value of life insurance policies                 | 108,895                | (306,639)              |
| (Increase) decrease in other assets and accrued income                                 | (1,953,471)            | (245,258)              |
| Increase (decrease) in accounts payable  | 804,020                | (249,420)              |
| Increase (decrease) in accrued liabilities   | (8,802)                | 44,329                 |
| Increase (decrease) in assets held for others  | (1,232,895)            | 727,866                |
| Increase (decrease) in unitrust and annuity liabilities                                | (3,853,890)            | (1,624,500)            |
| <b>Total Adjustments</b>   | <u>\$ 50,023,960</u>   | <u>\$ (15,575,040)</u> |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                             | <u>\$ (19,722,496)</u> | <u>\$ (97,948)</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                        |                        |
| Proceeds from sale of investments  | \$ 110,407,294         | \$ 97,779,102          |
| Proceeds from sale of real estate  | 379,963                | 873,247                |
| Purchase of investments  | (94,812,555)           | (95,493,038)           |
| Purchase of real estate  | (3,467,649)            | (2,752,876)            |
| Expenditures for depreciable property  | (106,834)              | (232,902)              |
| Expenditures for depreciable property - Golf course                                    | (1,647,201)            | (304,196)              |
| <b>Net Cash Provided by (Used in) Investing Activities</b>                             | <u>\$ 10,753,018</u>   | <u>\$ (130,663)</u>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                        |                        |
| Contributions for endowment  | \$ 7,611,096           | \$ 8,600,747           |
| Contributions for term endowment   | 886,424                | 998,609                |
| Increase (decrease) in bonds, mortgage, notes payable and line of credit               | (559,246)              | (960,900)              |
| Life income payments, including unitrust and annuity payments                          | (2,638,513)            | (2,848,792)            |
| <b>Net Cash Provided by Financing Activities</b>                                       | <u>\$ 5,299,761</u>    | <u>\$ 5,789,664</u>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                            | <u>\$ (3,669,717)</u>  | <u>\$ 5,561,053</u>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                  | <u>30,543,723</u>      | <u>24,982,670</u>      |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>  | <u>\$ 26,874,006</u>   | <u>\$ 30,543,723</u>   |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                               |                        |                        |
| Non-cash investing and financing activities  |                        |                        |
| gifts in kind, securities and properties   | \$ 19,721,354          | \$ 21,218,848          |
| Cash paid during the year for interest   | \$ 263,173             | \$ 345,689             |
| Cash paid for income taxes   | \$ -                   | \$ 12,662              |

**Financial Statements**

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2009 and 2008

**Notes To Financial Statements**

**Note 1: Significant Accounting Policies**

**Organization**

The purpose of Kansas State University Foundation (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.

**Supporting Organizations**

The Foundation's financial statements include two supporting organizations, the Kansas State University Golf Course Management and Research Foundation, formed in 1997 and the Foundation for Engineering at Kansas State University, Inc., formed in 2009. 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**  
June 30, 2009 and 2008

**Note 1: Significant Accounting Policies (Continued)**

**Investments - Fair Value Measurements**

The Foundation began reporting in accordance with Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), effective July 1, 2008. Under SFAS 157, fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

SFAS 157 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset based on market data obtained from independent sources. Unobservable inputs reflect the investment manager's assumption about the inputs market participants would use in pricing the asset based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations are based on unadjusted quoted prices in active markets for identical assets. Valuation adjustments are not applied to level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in the active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable.

Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement (including investment managers own assumptions in determining the fair value of investments).

**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. A loan is considered uncollectible when management determines the borrower is failing to meet repayment terms or other reasons. 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.

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009 and 2008

**Note 1: Significant Accounting Policies (Continued)**

**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.

**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 2008 financial statement presentation to correspond to the current year's format.

**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 Foundation's 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 Foundation's accounts and procedures.

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009 and 2008

**Note 2: Investments (Continued)**

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:

|                                      | <u>Book Value</u><br><u>June 30, 2009</u> | <u>Market Value</u><br><u>June 30, 2009</u> | <u>Book Value</u><br><u>June 30, 2008</u> | <u>Market Value</u><br><u>June 30, 2008</u> |
|--------------------------------------|---|---|---|---|
| Equity investments                   | \$ 129,224,775                            | \$ 118,227,828                              | \$ 124,647,183                            | \$ 150,245,105                              |
| Corporate and other fixed income     | 31,949,598                                | 28,865,509                                  | 49,813,528                                | 50,377,692                                  |
| U.S. Govt and gov agency obligations | 3,031,221                                 | 3,132,855                                   | 1,928,098                                 | 2,024,289                                   |
| Real estate investments              | 33,409,889                                | 22,655,693                                  | 29,636,590                                | 29,886,034                                  |
| Other securities and investments     | 5,666,861                                 | 5,650,864                                   | 50,291                                    | 34,967                                      |
| <b>Subtotal</b>                      | <u>\$ 203,282,344</u>                     | <u>\$ 178,532,748</u>                       | <u>\$ 206,075,690</u>                     | <u>\$ 232,568,087</u>                       |
| Private Capital:                     |   |   |   |   |
| Venture capital                      | \$ 9,126,035                              | \$ 9,789,133                                | \$ 8,294,156                              | \$ 9,725,861                                |
| Domestic private equity              | 25,774,070                                | 22,530,139                                  | 23,543,235                                | 25,463,533                                  |
| International private equity         | 9,664,468                                 | 7,997,073                                   | 8,034,410                                 | 10,092,886                                  |
| Private capital distressed debt      | 12,397,010                                | 9,972,638                                   | 6,706,177                                 | 6,831,841                                   |
| Natural resources                    | 25,239,599                                | 22,552,225                                  | 22,966,827                                | 35,868,654                                  |
| <b>Subtotal</b>                      | <u>\$ 82,201,182</u>                      | <u>\$ 72,841,209</u>                        | <u>\$ 69,544,805</u>                      | <u>\$ 87,982,775</u>                        |
| Hedge Funds:                         |   |   |   |   |
| Absolute return                      | \$ 23,468,001                             | \$ 21,772,862                               | \$ 18,789,519                             | \$ 20,590,251                               |
| Marketable alternatives              | 34,096,763                                | 35,381,719                                  | 39,817,042                                | 45,572,547                                  |
| <b>Subtotal</b>                      | <u>\$ 57,564,765</u>                      | <u>\$ 57,154,581</u>                        | <u>\$ 58,606,561</u>                      | <u>\$ 66,162,798</u>                        |
| <b>Total</b>                         | <u>\$ 343,048,291</u>                     | <u>\$ 308,528,537</u>                       | <u>\$ 334,227,056</u>                     | <u>\$ 386,713,660</u>                       |

The Foundation had outstanding commitments in the following areas on June 30, 2009 and 2008:

|                                 | <u>Original</u><br><u>Commitment</u> | <u>Commitments Remaining as of</u> |                      |
|---------------------------------|--------------------------------------|------------------------------------|----------------------|
|                                 |                                      | <u>June 30, 2009</u>               | <u>June 30, 2008</u> |
| Private Capital:                |                                      |                                    |                      |
| Venture capital                 | \$ 36,615,000                        | \$ 22,246,706                      | \$ 14,106,571        |
| Domestic private equity         | 50,925,000                           | 13,319,543                         | 16,123,021           |
| International private equity    | 27,125,000                           | 16,768,091                         | 14,405,557           |
| Private capital distressed debt | 21,200,000                           | 6,725,598                          | 12,367,054           |
| Natural resources               | 18,000,000                           | 9,293,250                          | 4,623,250            |
| <b>Subtotal</b>                 | <u>\$ 153,865,000</u>                | <u>\$ 68,353,188</u>               | <u>\$ 61,625,453</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.

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009 and 2008

**Note 2: Investments (Continued)**  
**Common Fund (Continued)**

The Common Fund manages equity, bond, real estate, commodities, private capital, hedge funds and short term investments for the Foundation totaling an estimated \$136,661,014 and \$199,759,078 at June 30, 2009 and 2008, respectively, at market value, which is approximately 34% and 42% of total assets. The Foundation's investments with the Common Fund are carried in thirty-one different funds to provide diversification.

**Investment Return**

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

|   | <b>2009</b>            | <b>2008</b>           |
|---|------------------------|-----------------------|
| Interest and dividend income  | \$ 3,951,478           | \$ 9,656,713          |
| Other   | 1,610,105              | 1,636,430             |
| Expenses  | (1,515,568)            | (378,928)             |
| <b>Investment Income</b>  | <b>\$ 4,046,015</b>    | <b>\$ 10,914,215</b>  |
| Net realized and unrealized gain (losses)                               | \$ (77,653,505)        | \$ (5,406,388)        |
| Capital gain distribution   | -                      | 1,409,535             |
| <b>Net Realized and Unrealized Gains (Losses) on Asset Transactions</b> | <b>\$ (77,653,505)</b> | <b>\$ (3,996,853)</b> |
| <b>Investment - Portfolio Management</b>                                | <b>\$ 41,708</b>       | <b>\$ 1,292,443</b>   |

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 \$1,515,568 and \$378,928 for the years ended June 30, 2009 and 2008, respectively.

Information pertaining to investments with gross unrealized losses at June 30, 2009, 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 | \$ 127,849,385      | \$ 21,894,217     | \$ 76,490,260        | \$ 30,324,516     | \$ 204,339,645 | \$ 52,218,733     |

**Fair Value Measurement**

The Foundation's assets recorded at fair value have been categorized based on a fair value hierarchy in accordance with Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," ("SFAS 157"). SFAS 157 clarifies the definition of fair value of financial reporting, establishes a framework for measuring fair value and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. Various inputs are used in determining the value of the investments. These inputs are summarized in three broad levels listed below:

Level 1 - Quoted prices in active markets for identical securities.

Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc).

Level 3 - Significant unobservable inputs (including investment managers own assumptions in determining the fair value of investments).

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009 and 2008

**Notes to Financial Statements**

**Note 2: Investments (Continued)**  
**Fair Value Measurement (Continued)**

The following table presents information about Foundation assets measured at fair value as of June 30, 2009:

|  | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance<br>as of<br>June 30, 2009 |
|--|---|---|--|-----------------------------------|
| Equity investments                     | \$ 41,848,624   | \$ 76,323,625                                       | \$ 55,578  | \$ 118,227,827                    |
| Corporate and other fixed income       | 9,887,463   | 18,978,046  | -  | 28,865,509                        |
| U.S. Govt and gov't agency obligations | 2,072,855   | -   | 1,060,000  | 3,132,855                         |
| Real estate investments                | 11,929,592  | -   | 10,726,101   | 22,655,693                        |
| Other securities and investments       | -   | -   | 5,650,864  | 5,650,864                         |
| <b>Subtotal</b>                        | <b>\$ 65,738,534</b>  | <b>\$ 95,301,671</b>                                | <b>\$ 17,492,543</b>                               | <b>\$ 178,532,748</b>             |
| Private Capital:                       |   |   |  |                                   |
| Venture capital                        | \$ -  | \$ -  | \$ 9,789,133                                       | \$ 9,789,133                      |
| Domestic private equity                | -   | -   | 22,530,139   | 22,530,139                        |
| International private equity           | -   | -   | 7,997,073  | 7,997,073                         |
| Private capital distressed debt        | -   | -   | 9,972,638  | 9,972,638                         |
| Natural resources                      | 1,533,359   | 12,947,519  | 8,071,348  | 22,552,226                        |
| <b>Subtotal</b>                        | <b>\$ 1,533,359</b>   | <b>\$ 12,947,519</b>                                | <b>\$ 58,360,331</b>                               | <b>\$ 72,841,209</b>              |
| Hedge Funds:                           |   |   |  |                                   |
| Absolute return                        | \$ -  | \$ 21,772,862                                       | \$ -   | \$ 21,772,862                     |
| Marketable alternatives                | -   | 35,381,718  | -  | 35,381,718                        |
| <b>Subtotal</b>                        | <b>\$ -</b>   | <b>\$ 57,154,580</b>                                | <b>\$ -</b>  | <b>\$ 57,154,580</b>              |
| <b>Total Investments (Page 1)</b>      | <b>\$ 67,271,893</b>  | <b>\$ 165,403,770</b>                               | <b>\$ 75,852,874</b>                               | <b>\$ 308,528,537</b>             |
| Real estate                            | \$ -  | \$ 19,031,702                                       | \$ -   | \$ 19,031,702                     |

The fair value measurement is allocated in the following Foundation administrative accounts:

|                   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance<br>as of<br>June 30, 2009 |
|-------------------|---|---|--|-----------------------------------|
| Endowment pool    | \$ 32,399,737   | \$ 153,962,675                                      | \$ 68,889,928                                      | \$ 255,252,340                    |
| Expendable pool   | 4,928,276   | 11,441,095  | -  | 16,369,371                        |
| Specific accounts | 122,555   | -   | 5,886,949  | 6,009,504                         |
| Trusts            | 29,821,325  | -   | 1,075,997  | 30,897,322                        |
| <b>Total</b>      | <b>\$ 67,271,893</b>  | <b>\$ 165,403,770</b>                               | <b>\$ 75,852,874</b>                               | <b>\$ 308,528,537</b>             |

The following table sets forth a summary of changes in the fair value of Level 3 investments for the year ended June 30, 2009:

|  | Level 3<br>Investments |
|--|------------------------|
| Balance at June 30, 2008                             | \$ 71,536,533          |
| Contributions  | 25,568,078             |
| Distributions  | (1,403,764)            |
| Net realized gains/(losses)                          | 823,599                |
| Net change in unrealized appreciation/(depreciation) | (20,671,572)           |
| Balance at June 30, 2009                             | <b>\$ 75,852,874</b>   |

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009 and 2008

**Note 3: Asset Holdings**

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, 2009 and 2008, the total return of the Endowment Pool was -21.68% and +1.46%, 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 2009 and for 2008 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, 2009 and 2008

**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, 2009, the Foundation had 1249 endowment funds with a market value less than historic book value. The market value of these funds totaled \$110,082,676 compared to the total historic book value of \$125,977,942.

**Note 5: Pledges Receivable**

Pledges receivable of \$21,051,270 and \$21,070,117 for 2008 have been discounted to their present values on the financial statements reported as \$17,189,373 for 2009 and \$18,491,584 for 2008. The Foundation estimates payments of the pledges will be received as follows:

|                                     | <b>June 30,</b>      |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | <b>2009</b>          | <b>2008</b>          |
| Gross pledges receivable            | \$ 21,051,270        | \$ 21,070,117        |
| Allowance for uncollectible pledges | (2,580,782)          | (936,782)            |
| <b>Subtotal</b>                     | <b>\$ 18,470,488</b> | <b>\$ 20,133,335</b> |
| Present value discount              | (1,281,115)          | (1,641,751)          |
| <b>Net Pledges Receivable</b>       | <b>\$ 17,189,373</b> | <b>\$ 18,491,584</b> |

Pledge maturities are as follows:

|                  | <b>June 30,</b>      |                      |
|------------------|----------------------|----------------------|
|                  | <b>2009</b>          | <b>2008</b>          |
| Less than 1 year | \$ 7,153,854         | \$ 6,940,905         |
| 1 - 5 years      | 9,646,697            | 11,072,862           |
| Thereafter       | 388,822              | 477,817              |
| <b>Total</b>     | <b>\$ 17,189,373</b> | <b>\$ 18,491,584</b> |

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009 and 2008

**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 \$195,894,003 for 2009 and \$178,609,124 for 2008 in the form of bequests. Donors have also informed the Foundation of conditional promises in the form of life insurance policies approximating \$33,602,376 for 2009 and \$32,837,697 for 2008. The cash surrender value of these policies, which is a known occurrence and certain event, is reported on the financial statements totaling \$3,317,520 for 2009 and \$3,426,415 for 2008.

**Note 7: Loans Receivable**

|   | June 30,            |                     |
|---|---------------------|---------------------|
|   | 2009                | 2008                |
| Faculty/departmental and other loans *        | \$ 1,116,201        | \$ 1,298,127        |
| Real estate mortgages/contract sales loans ** | 250,453             | 304,575             |
| Student loans ***                             | 371,187             | 390,998             |
| <b>Total</b>                                  | <b>\$ 1,737,841</b> | <b>\$ 1,993,700</b> |

\* 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 2009 to 2017.

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

The Foundation has ceased accruing interest on one loan totaling \$4,258. The amount of interest not recorded on the non-accrual loan was approximately \$405 for the year ended June 30, 2009

**Note 8: Unrestricted Net Assets**

The unrestricted net assets are composed of the following:

|   | 2009                | 2008                 |
|---|---------------------|----------------------|
| Underwriting funds and Expendable and Gift Annuity Pool Reserve                         | \$ 5,201,350        | \$ 22,310,020        |
| Net investment in property and equipment, Foundation Center                             | 6,257,313           | 3,772,672            |
| Real Estate utilized by College of Agriculture  | 132,924             | 133,570              |
| KSU Underwriting Fund and other funds held for Kansas State University Real Estate Fund | 1,147,324           | 1,563,178            |
| 117-1 Reclass Change in Accounting Procedures   | 6,666,822           | 6,538,346            |
|   | (19,792,065)        | (115,212)            |
| <b>Total</b>  | <b>\$ (386,332)</b> | <b>\$ 34,202,574</b> |

**Note 9: Pension Plan**

The Foundation's board of trustees has established the Kansas State University Foundation Defined Contribution Retirement Plan (the 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 \$412,806 and \$398,448 for the years ended June 30, 2009 and 2008.

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 two 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, 2009 and 2008

**Note 10: Real Estate and Other Depreciable Assets**

Major asset categories at June 30 consist of:

|                            | 2009                 |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
|                            | Market               |                      | Accumulated         |
|                            | Value                | Cost                 | Depreciation        |
| Residential and commercial | \$ 22,676,488        | \$ 19,955,320        | \$ 5,126,035        |
| Farms                      | 7,505,610            | 4,573,091            | -                   |
| <b>Total</b>               | <b>\$ 30,182,098</b> | <b>\$ 24,528,411</b> | <b>\$ 5,126,035</b> |
|                            | 2008                 |                      |                     |
|                            | Market               |                      | Accumulated         |
|                            | Value                | Cost                 | Depreciation        |
| Residential and commercial | \$ 19,466,300        | \$ 16,575,380        | \$ 4,802,888        |
| Farms                      | 7,274,220            | 4,710,591            | -                   |
| <b>Total</b>               | <b>\$ 26,740,520</b> | <b>\$ 21,285,971</b> | <b>\$ 4,802,888</b> |

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, 2009 and 2008 was \$366,230 and \$463,054, 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:

|  | 2009                 | 2008                 |
|--|----------------------|----------------------|
| <b>Contributions - Cash Basis</b>  | \$ 56,159,022        | \$ 60,414,546        |
| Net changes  |                      |                      |
| Net increase (decrease) in pledges receivable  | (1,302,211)          | 5,086,021            |
| Net increase (decrease) in receivable from estates   | 3,581,021            | (3,330,528)          |
| Actuarial value of current year contributions to charitable remainder trusts and annuities | (904,715)            | (1,139,263)          |
| Golf Course line of credit contribution eliminated (See Note 18)                           | (91,928)             | -                    |
| <b>Contributions - Accrual Basis</b>   | <b>\$ 57,441,189</b> | <b>\$ 61,030,776</b> |

**Note 12: Consolidation of Supporting Organization - KSUGCMRF**

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:

|  | 2009                | 2008                |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| Cash   | \$ 1,205,949        | \$ 2,649,800        |
| Real estate and other depreciable assets (net of depreciation) | 3,677,082           | 2,050,469           |
| Pledges receivable   | 2,981,637           | 2,052,356           |
| Other assets   | 471,277             | 250,562             |
| <b>Total Assets</b>  | <b>\$ 8,335,945</b> | <b>\$ 7,003,187</b> |
| <b>Liabilities</b>   |                     |                     |
| Accrued liabilities  | 669,995             | 655,918             |
| Mortgage payable   | 584,616             | 967,192             |
| <b>Total Net Assets</b>  | <b>\$ 7,081,334</b> | <b>\$ 5,380,077</b> |

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009 and 2008

**Note 12: Consolidation of Supporting Organization - KSUGCMRF (Continued)**

|   |                            |                            |
|---|----------------------------|----------------------------|
| <b>Sources</b>                                |                            |                            |
| Contributions                                 | \$ 1,287,442               | \$ 2,740,762               |
| Contributions, increase (decrease) in pledges | 929,281                    | 987,377                    |
| Operations net income (loss)                  | (26,254)                   | 40,540                     |
| Other income                                  | 301,761                    | 284,237                    |
| Uses  | <u>(790,973)</u>           | <u>(570,876)</u>           |
| <b>Change in Net Assets</b>                   | <b>\$ 1,701,257</b>        | <b>\$ 3,482,040</b>        |
| <b>Net Assets - Beginning of Year</b>         | <u>5,380,077</u>           | <u>1,898,037</u>           |
| <b>Net Assets - End of Year</b>               | <u><u>\$ 7,081,334</u></u> | <u><u>\$ 5,380,077</u></u> |

Depreciation expense for fiscal year ended June 30, 2009 was \$20,588.

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, 2009 was \$584,616. The KSUGCMRF prepaid \$111,570 of principal on this mortgage in FY08 and \$70,000 in FY09.

Maturities as of June 30, 2009 were as follows:

|                   |  |
|-------------------|--|
|                   | <b>Mortgage Payable<br/>to KS Bank</b> |
| FYE June 30, 2010 | \$ 353,096                             |
| FYE June 30, 2011 | 231,520                                |
| FYE June 30, 2012 | -                                      |
| <b>Total</b>      | <u><u>\$ 584,616</u></u>               |

Interest expense paid for fiscal year ended June 30, 2009 and 2008 was \$58,226 and \$71,557, respectively.

**Note 13: Consolidation of Supporting Organization - FEKSU**

The Foundation for Engineering at Kansas State University, Inc. (FEKSU) is a supporting organization formed for charitable and educational purposes exclusively to support the Kansas State University Foundation benefiting the College of Engineering at Kansas State University. This not-for-profit corporation was formed in 2009 based on a request from donors with the objective of providing resources to attract and retain faculty and students through scholarships and enhanced college resources. The corporation has applied for tax-exempt status with the Internal Revenue Service with an accounting period ending June 30. A summary of financial information for FEKSU at June 30 is as follows:

|                                       |                            |                    |
|---------------------------------------|----------------------------|--------------------|
|                                       | <u>2009</u>                | <u>2008</u>        |
| <b>Assets</b>                         |                            |                    |
| Cash                                  | \$ -                       | \$ -               |
| Closely held stock                    | <u>5,634,867</u>           | <u>-</u>           |
| <b>Total Net Assets</b>               | <u><u>\$ 5,634,867</u></u> | <u><u>\$ -</u></u> |
| <b>Sources</b>                        |                            |                    |
| Contributions                         | \$ 5,364,867               | \$ -               |
| <b>Uses</b>                           |                            |                    |
|                                       | <u>-</u>                   | <u>-</u>           |
| <b>Change in Net Assets</b>           | <b>\$ 5,364,867</b>        | <b>\$ -</b>        |
| <b>Net Assets - Beginning of Year</b> | <u>-</u>                   | <u>-</u>           |
| <b>Net Assets - End of Year</b>       | <u><u>\$ 5,364,867</u></u> | <u><u>\$ -</u></u> |

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009 and 2008

**Note 14: Note Payable - Nanoscale**

The 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 \$1,596,368 as of June 30, 2009. 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, 2009 and 2008 was \$80,513 and \$91,719, respectively.

Future maturities will be:

|                   | <b>6/30/2009<br/>Note Payable<br/>Nanoscale</b> |
|-------------------|---|
| FYE June 30, 2010 | \$ 92,241                                       |
| FYE June 30, 2011 | 96,293  |
| FYE June 30, 2012 | 100,367   |
| FYE June 30, 2013 | 104,938   |
| FYE June 30, 2014 | 109,550   |
| Thereafter        | 1,092,979                                       |
| <b>Total</b>      | <b>\$ 1,596,368</b>                             |

**Note 15: Note Payable - Printing Services**

The 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, 2009, the note payable was \$546,724. The building is leased to the Kansas State University until December 31, 2017.

Interest for fiscal year ended June 30, 2009 and 2008 was \$36,259 and \$32,951, respectively.

Maturities as of June 30, 2009 were as follows:

|                   | <b>Note Payable<br/>Printing Services</b> |
|-------------------|---|
| FYE June 30, 2010 | \$ 49,511                                 |
| FYE June 30, 2011 | 52,742                                    |
| FYE June 30, 2012 | 56,111                                    |
| FYE June 30, 2013 | 388,360                                   |
| Thereafter        | -   |
| <b>Total</b>      | <b>\$ 546,724</b>                         |

**Note 16: Bonds Payable - Educational and Agricultural Research Facility Revenue Bonds**

The 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, 2009 is \$450,000. 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.

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009 and 2008

**Note 16: Bonds Payable - Educational and Agricultural Research Facility Revenue Bonds (Continued)**

Interest expense for fiscal years ended June 30, 2009 and 2008 was \$30,753 and \$33,318, respectively.

Maturities as of June 30, 2009 were as follows:

|                   | <b>Note Payable<br/>Southwest Ag</b> |
|-------------------|--------------------------------------|
| FYE June 30, 2010 | \$ 55,000                            |
| FYE June 30, 2011 | 55,000                               |
| FYE June 30, 2012 | 60,000                               |
| FYE June 30, 2013 | 60,000                               |
| FYE June 30, 2014 | 220,000                              |
| Thereafter        | -                                    |
| <b>Total</b>      | <b>\$ 450,000</b>                    |

**Note 17: Cumulative Effect of Change in Accounting Principle**

Real Estate Valuations - The 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.

FASB Staff Position (FSP) No. FAS 117-1 - The Foundation adopted the FSP which provides guidance on the net asset classification of donor-restricted endowment funds that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act during fiscal year 2009. The amount classified as permanently restricted net asset shall be the amount of the funds that must be retained permanently in accordance with explicit donor stipulations or the organization's governing board. Any gain or loss on the investment of a permanently restricted asset is classified as a temporarily restricted net asset until appropriated for expenditure. In the event a loss exceeds prior gains, the loss is classified as an unrestricted net asset. The 2008 financial statements have been restated to reflect this change and provide comparable financial statements.

**Note 18: Prior Period Adjustment - Depreciation & KSUGCMRF**

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.

KSUGCMRF - The KSU Golf Course Management and Research Foundation (KSUGCMRF) originally utilized a \$1.8 million line of credit from Columbian Bank. Six guarantors assumed this line of credit in 2005. This was originally shown as a pledge receivable from the guarantors offset by the line of credit. Three guarantors have paid, in full, their respective portion in past years while the other three guarantors continued to make payments on the line of credit during fiscal years 2009 and 2008. The payments were originally shown as contributions to the KSUGCMRF which in turn paid the bank to eliminate the line of credit. The pledges receivable and line of credit totaling \$708,062 have been removed from the KSU Foundation's June 30, 2008 balance sheet to better reflect only the obligations of the KSUGCMRF.

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009 and 2008

**Note 19: Unrelated Business Taxable Income**

The Foundation incurred unrelated business taxable income from various investment partnerships and debt-financed property resulting in income tax of \$0 and \$12,662 paid for fiscal year 2008 and 2007, respectively.