

KANSAS STATE UNIVERSITY FOUNDATION

Manhattan, Kansas

FINANCIAL STATEMENTS

WITH

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2010 and 2009

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas

KANSAS STATE UNIVERSITY FOUNDATION
Manhattan, Kansas
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June 30, 2010 and 2009

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September 1, 2010

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, 2010 and 2009 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, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Varney & Associates, CPAs, LLC

Certified Public Accountants

Independent Auditors' Report

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

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 47,679,367	\$ 26,874,006
Short-term investments and certificates of deposit	2,740,000	1,410,000
Investments	319,575,340	308,528,537
Pledges receivable - Net	18,658,601	17,189,373
Receivables from estates	8,491,912	5,881,463
Loans receivable	2,002,201	1,737,841
Real estate and other depreciable property	32,051,757	30,182,098
Less: Accumulated depreciation	(5,477,654)	(5,126,035)
Net real estate and other depreciable property - Golf course (Note 12)	7,709,381	3,677,082
Cash surrender value of life insurance policies	3,754,990	3,317,520
Other assets and accrued income	2,687,190	2,962,413
	\$ 439,873,085	\$ 396,634,298
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable, deposits and other liabilities	\$ 1,700,768	\$ 2,444,909
Accrued liabilities	1,489,834	1,412,451
Assets held for others	7,466,382	7,822,412
Current obligations - Unitrust and annuity liabilities	2,474,508	2,240,440
Current portion of note - Mortgage and bond payable	416,339	549,847
Total Current Liabilities	\$ 13,547,831	\$ 14,470,059
Other Liabilities		
Unitrust and annuity liabilities - Less: Current obligation	\$ 17,295,736	\$ 16,977,388
Note payable - Nanoscale - Less: Current portion	1,407,843	1,504,127
Note payable - Printing services - Less: Current portion	444,487	497,213
Note payable - Golf Course Bunker - Less: Current portion (Note 12)	364,756	-
Note payable - Golf Course Clubhouse - Less: Current portion (Note 12)	1,647,171	-
Mortgage payable - Golf course - Less: Current portion (Note 12)	-	231,520
Bonds payable - Educational and Agricultural Research Facility		
Rev Bonds - Less: Current portion	340,000	395,000
Total Other Liabilities	\$ 21,499,993	\$ 19,605,248
Total Liabilities	\$ 35,047,824	\$ 34,075,307
Net Assets		
Unrestricted net assets (designated)	\$ 8,980,343	\$ (386,332)
Temporarily restricted net assets	63,604,089	45,257,903
Permanently restricted net assets	332,240,829	317,687,420
Total Net Assets	\$ 404,825,261	\$ 362,558,991
TOTAL LIABILITIES AND NET ASSETS	\$ 439,873,085	\$ 396,634,298

Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
CONSOLIDATED STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 522,117	\$ 53,183,837	\$ 11,711,562	\$ 65,417,516	\$ 57,441,189
Investment income	(9,512,114)	9,342,543	3,698,405	3,528,834	3,605,848
Net realized and unrealized gains (losses) on asset transactions	25,050,739	1,831,019	185,956	27,067,714	(77,653,505)
Other support					
Operational service charges, management fees and other	3,150,236	-	-	3,150,236	3,418,090
Receipts for grants, research, supplies, travel and other					
University departmental activities and funding allotments, etc.	144,980	4,096,905	20,671	4,262,556	2,988,018
Actuarial gain/(loss) on unitrusts and annuities obligations	(365,969)	3,800,640	(954,632)	2,480,039	(2,975,043)
Net assets released from restrictions	(373,539)	482,092	(108,553)	-	-
Satisfaction of program restrictions	54,390,850	(54,390,850)	-	-	-
Total Revenue, Gains and Other Support	\$ 73,007,300	\$ 18,346,186	\$ 14,553,409	\$ 105,906,895	\$ (13,175,403)
EXPENSES AND SUPPORT					
Direct University support					
Scholarships and other student awards	\$ 9,032,818	-	-	\$ 9,032,818	\$ 9,504,150
Academic	6,442,096	-	-	6,442,096	5,837,146
Administrative - Faculty and student support	28,652,750	-	-	28,652,750	26,019,091
Capital improvements	10,985,824	-	-	10,985,824	5,137,097
Subtotal	\$ 54,813,488	\$ -	\$ -	\$ 54,813,488	\$ 46,497,484
Investment - Loan interest expense and write-off	280,880	-	-	280,880	263,173
KSUF administration	3,404,873	-	-	3,404,873	3,945,927
KSUF fundraising	5,141,384	-	-	5,141,384	5,864,469
Total Expenses and Support	\$ 63,640,625	\$ -	\$ -	\$ 63,640,625	\$ 56,571,053
CHANGE IN NET ASSETS					
	\$ 9,366,675	\$ 18,346,186	\$ 14,553,409	\$ 42,266,270	\$ (69,746,456)
NET ASSETS AT BEGINNING OF YEAR	(386,332)	45,257,903	317,687,420	362,558,991	432,305,447
NET ASSETS AT END OF YEAR	\$ 8,980,343	\$ 63,604,089	\$ 332,240,829	\$ 404,825,261	\$ 362,558,991

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, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
REVENUES, GAINS AND OTHER SUPPORT					
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	(15,325,658)	(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)	-	-	-
Total Revenue, Gains and Other Support	<u>\$ 22,422,314</u>	<u>\$ (51,764,662)</u>	<u>\$ 16,607,112</u>	<u>\$ (12,735,236)</u>	<u>\$ 76,576,588</u>
EXPENSES AND SUPPORT					
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
Subtotal	<u>\$ 46,497,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,497,484</u>	<u>\$ 48,304,782</u>
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
Total Expenses and Support	<u>\$ 57,011,220</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,011,220</u>	<u>\$ 61,099,496</u>
CHANGE IN NET ASSETS	<u>\$ (34,588,906)</u>	<u>\$ (51,764,662)</u>	<u>\$ 16,607,112</u>	<u>\$ (69,746,456)</u>	<u>\$ 15,477,092</u>
NET ASSETS AT BEGINNING OF YEAR	34,202,574	97,022,565	301,080,308	432,305,447	411,506,811
ADJUSTMENT TO NET ASSETS					
Cumulative effect of change in accounting principle - Real Estate	-	-	-	-	4,953,105
Prior period adjustments - Depreciation and KSUGCMRF	-	-	-	-	368,439
NET ASSETS AT END OF YEAR	<u>\$ (386,332)</u>	<u>\$ 45,257,903</u>	<u>\$ 317,687,420</u>	<u>\$ 362,558,991</u>	<u>\$ 432,305,447</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,

	2010	2009
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 42,266,270	\$ (69,746,456)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributions for endowment	\$ (6,140,611)	\$ (7,611,096)
Contributions for term endowment	(1,295,183)	(886,424)
Non-cash contributions	(21,660,472)	(19,721,354)
Non-cash expenditures	6,275,844	5,723,092
Net realized and unrealized (gain) loss on asset transactions	(27,067,714)	77,653,505
Depreciation	383,323	366,230
Depreciation golf course	50,763	20,588
Unitrust and annuity liability distributions	2,386,772	2,638,513
(Increase) decrease in pledges receivable	(1,469,228)	1,302,211
(Increase) decrease in receivables from estates	(2,610,449)	(3,581,021)
(Increase) decrease in loans receivable	(264,360)	255,859
(Increase) decrease in cash surrender value of life insurance policies	(437,470)	108,895
(Increase) decrease in other assets and accrued income	275,223	(1,953,471)
Increase (decrease) in accounts payable	(744,141)	804,020
Increase (decrease) in accrued liabilities	77,383	(8,802)
Increase (decrease) in assets held for others	(356,030)	(1,232,895)
Increase (decrease) in unitrust and annuity liabilities	552,416	(3,853,890)
Total Adjustments	\$ (52,043,934)	\$ 50,023,960
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (9,777,664)	\$ (19,722,496)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	\$ 150,288,194	\$ 110,407,294
Proceeds from sale of real estate	551,656	379,963
Purchase of investments	(122,003,810)	(94,812,555)
Purchase of real estate	(524,021)	(3,467,649)
Expenditures for depreciable property	(137,843)	(106,834)
Expenditures for depreciable property - Golf course	(4,083,061)	(1,647,201)
Net Cash Provided by (Used in) Investing Activities	\$ 24,091,115	\$ 10,753,018
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for endowment	\$ 6,140,611	\$ 7,611,096
Contributions for term endowment	1,295,183	886,424
Increase (decrease) in bonds, mortgage, notes payable and line of credit	1,442,888	(559,246)
Life income payments, including unitrust and annuity payments	(2,386,772)	(2,638,513)
Net Cash Provided by Financing Activities	\$ 6,491,910	\$ 5,299,761
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 20,805,361	\$ (3,669,717)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	26,874,006	30,543,723
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 47,679,367	\$ 26,874,006
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing and financing activities		
gifts in kind, securities and properties	\$ 21,660,472	\$ 19,721,354
Cash paid during the year for interest	\$ 280,880	\$ 263,173
Cash paid for income taxes	\$ -	\$ -

Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009

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, 2010 and 2009

Note 1: Significant Accounting Policies (Continued)

Investments - Fair Value Measurements

The Foundation began reporting in accordance with Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, effective July 1, 2008. Under SFAS No. 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 No. 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, 2010 and 2009

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.

FASB Codification

On July 1, 2009, the Financial Accounting Standards Board (FASB) issued FASB SFAS No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which is included in FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles (GAAP)*. This new guidance approved the FASB ASC as the single source of authoritative non-governmental GAAP. The FASB ASC is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the FASB ASC will be considered non-authoritative. The ASC is a restructuring of GAAP designed to simplify access to all authoritative literature by providing a topically organized structure. The adoption of FASB ASC did not impact the Foundation's financial condition or results of operations.

Reclassifications

Certain reclassifications have been made to the 2009 financial statement presentation to correspond to the current year's format.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

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.

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> <u>June 30, 2010</u>	<u>Market Value</u> <u>June 30, 2010</u>	<u>Book Value</u> <u>June 30, 2009</u>	<u>Market Value</u> <u>June 30, 2009</u>
Equity investments	\$ 88,868,370	\$ 95,799,051	\$ 129,224,775	\$ 118,227,828
Corporate and other fixed income	33,877,665	34,411,307	31,949,598	28,865,509
U.S. Govt and gov't agency obligations	7,991,181	8,181,787	3,031,221	3,132,854
Real estate investments	35,111,316	19,557,946	33,409,889	22,655,692
Other securities and investments	16,744,707	14,312,414	5,666,861	5,650,865
Subtotal	<u>\$ 182,593,239</u>	<u>\$ 172,262,505</u>	<u>\$ 203,282,344</u>	<u>\$ 178,532,748</u>
Private Capital:				
Venture capital	\$ 10,857,513	\$ 12,564,420	\$ 9,126,035	\$ 9,789,133
Domestic private equity	27,005,980	26,329,316	25,774,070	22,530,139
International private equity	11,180,645	10,826,894	9,664,468	7,997,073
Private capital distressed debt	13,302,474	15,511,509	12,397,010	9,972,638
Natural resources	26,928,327	26,194,268	25,239,599	22,552,225
Subtotal	<u>\$ 89,274,939</u>	<u>\$ 91,426,407</u>	<u>\$ 82,201,182</u>	<u>\$ 72,841,208</u>
Hedge Funds:				
Absolute return	\$ 23,436,914	\$ 24,438,839	\$ 23,468,001	\$ 21,772,862
Marketable alternatives	28,001,130	31,447,589	34,096,763	35,381,719
Subtotal	<u>\$ 51,438,044</u>	<u>\$ 55,886,428</u>	<u>\$ 57,564,764</u>	<u>\$ 57,154,581</u>
Total	<u>\$ 323,306,222</u>	<u>\$ 319,575,340</u>	<u>\$ 343,048,290</u>	<u>\$ 308,528,537</u>

The Foundation had outstanding commitments in the following areas on June 30, 2010 and 2009:

	<u>Original</u> <u>Commitment</u>	<u>Commitments Remaining as of</u> <u>June 30, 2010</u>	<u>June 30, 2009</u>
Private Capital:			
Venture capital	\$ 36,615,000	\$ 19,639,018	\$ 22,246,706
Domestic private equity	53,425,000	12,893,614	13,319,543
International private equity	27,125,000	15,118,521	16,768,091
Private capital distressed debt	21,200,000	5,327,754	6,725,598
Natural resources	18,000,000	7,552,000	9,293,250
Subtotal	<u>\$ 156,365,000</u>	<u>\$ 60,530,907</u>	<u>\$ 68,353,188</u>

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

Note 2: Investments (Continued)
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 \$99,260,287 and \$136,661,014 at June 30, 2010 and 2009, respectively, at market value, which is approximately 22.5% and 34% 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:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 4,528,604	\$ 3,951,478
Other	584,561	1,610,105
Expenses	<u>(1,584,331)</u>	<u>(1,955,735)</u>
Investment Income	<u>\$ 3,528,834</u>	<u>\$ 3,605,848</u>
Net realized and unrealized gain (losses)	\$ 27,067,714	\$ (77,653,505)
Capital gain distribution	<u>-</u>	<u>-</u>
Net Realized and Unrealized Gains (Losses) on Asset Transactions	<u>\$ 27,067,714</u>	<u>\$ (77,653,505)</u>

Investment revenues are reported net of related investment expenses in the statement of activities. The amount of expenses netted with revenues was \$1,584,331 and \$1,955,735 for the years ended June 30, 2010 and 2009, respectively.

Real estate revenues included within the investment revenues are reported net of related portfolio expenses in the statement of activities beginning FY 2010. The amount of portfolio expenses netted with revenues was \$643,429 for the year ended June 30, 2010.

Information pertaining to investments with gross unrealized losses at June 30, 2010, aggregated by length of time individual investments have been in a continuous loss position, is as follows:

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Impaired investments	\$ 46,522,642	\$ 12,555,396	\$113,387,176	\$ 25,161,885	\$ 159,909,818	\$ 37,717,281

For June 30, 2009, the information is as follows:

Impaired investments	\$ 127,849,385	\$ 21,894,217	\$ 76,490,260	\$ 30,324,516	\$ 204,339,645	\$ 52,218,733
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Based on the Foundation's evaluation of the investment portfolio, and the Foundation's ability and intent to hold investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Foundation does not consider these investments to be other-than-temporarily impaired at June 30, 2010.

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

Note 2: Investments (Continued)
Fair Value Measurements

The Foundation's assets recorded at fair value have been categorized based on a fair value hierarchy in accordance with SFAS No. 157, *Fair Value Measurements*. SFAS No. 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).

The following table presents information about Foundation assets measured at fair value as of June 30, 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2010
Equity investments	\$ 41,513,752	\$ 54,233,637	\$ 51,662	\$ 95,799,051
Corporate and other fixed income	13,328,915	21,082,391	-	34,411,306
U.S. Govt and govt agency obligations	1,622,378	5,349,409	1,210,000	8,181,787
Real estate investments	17,452,168	-	2,105,778	19,557,946
Other securities and investments	-	-	14,312,415	14,312,415
Subtotal	\$ 73,917,213	\$ 80,665,437	\$ 17,679,855	\$ 172,262,505
Private Capital:				
Venture capital	\$ -	\$ -	\$ 12,564,420	\$ 12,564,420
Domestic private equity	-	-	26,329,316	26,329,316
International private equity	-	-	10,826,894	10,826,894
Private capital distressed debt	-	-	15,511,509	15,511,509
Natural resources	2,232,537	14,058,482	9,903,249	26,194,268
Subtotal	\$ 2,232,537	\$ 14,058,482	\$ 75,135,388	\$ 91,426,407
Hedge Funds:				
Absolute return	\$ -	\$ 24,224,057	\$ 214,781	\$ 24,438,838
Marketable alternatives	-	31,004,744	442,846	31,447,590
Subtotal	\$ -	\$ 55,228,801	\$ 657,627	\$ 55,886,428
Total Investments	\$ 76,149,750	\$ 149,952,720	\$ 93,472,870	\$ 319,575,340
Real estate	\$ -	\$ 20,483,253	\$ -	\$ 20,483,253

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

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2010
Endowment pool	\$ 37,244,846	\$ 132,982,851	\$ 77,534,037	\$ 247,761,735
Expendable pool	7,447,933	11,620,460	42,534	19,110,927
Government securities pool	-	5,039,990	-	5,039,990
Specific accounts	77,372	31,900	14,670,302	14,779,574
Trusts	31,379,599	277,519	1,225,997	32,883,115
Total	\$ 76,149,750	\$ 149,952,720	\$ 93,472,870	\$ 319,575,340

Notes to Financial Statements

KANSAS STATE UNIVERSITY FOUNDATION
 Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2010 and 2009

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

The following table sets forth a summary of changes in the fair value of Level 3 investments for the year ended June 30, 2010:

	Level 3 Investments
Balance at June 30, 2009	\$ 75,852,875
Contributions	20,644,932
Distributions	(2,848,923)
Net realized gains/(losses)	(838,361)
Net change in unrealized appreciation/(depreciation)	462,347
Balance at June 30, 2010	<u>\$ 93,472,870</u>

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2010
Equity investments	\$ 41,848,827	\$ 76,323,625	\$ 55,578	\$ 118,227,830
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
Subtotal	<u>\$ 65,738,537</u>	<u>\$ 95,301,671</u>	<u>\$ 17,492,543</u>	<u>\$ 178,532,751</u>
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	-	-	9,972,838	9,972,838
Natural resources	1,533,359	12,947,519	8,071,348	22,552,226
Subtotal	<u>\$ 1,533,359</u>	<u>\$ 12,947,519</u>	<u>\$ 58,360,331</u>	<u>\$ 72,841,209</u>
Hedge Funds:				
Absolute return	\$ -	\$ 21,772,862	\$ -	\$ 21,772,862
Marketable alternatives	-	35,381,719	-	35,381,719
Subtotal	<u>\$ -</u>	<u>\$ 57,154,581</u>	<u>\$ -</u>	<u>\$ 57,154,581</u>
Total Investments	<u>\$ 67,271,896</u>	<u>\$ 165,403,771</u>	<u>\$ 75,852,874</u>	<u>\$ 308,528,541</u>

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2010
Endowment pool	\$ 32,399,736	\$ 153,862,675	\$ 88,889,929	\$ 255,252,340
Expendable pool	4,928,276	11,441,096	-	16,369,372
Specific accounts	122,555	-	5,888,949	6,009,504
Trusts	29,821,325	-	1,075,997	30,897,322
Total	<u>\$ 67,271,892</u>	<u>\$ 165,403,771</u>	<u>\$ 75,852,875</u>	<u>\$ 308,528,538</u>

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 Investments
Balance at June 30, 2008	\$ 71,538,533
Contributions	25,568,078
Distributions	(1,403,764)
Net realized gains/(losses)	823,599
Net change in unrealized appreciation/(depreciation)	(20,671,571)
Balance at June 30, 2009	<u>\$ 75,852,875</u>

KANSAS STATE UNIVERSITY FOUNDATION
Manhattan, Kansas
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010 and 2009

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, 2010 and 2009, the total return of the Endowment Pool was 10.33% and -21.68%, 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. 1.5% of the market value for fiscal year 2010 (1.3% for 2009) 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, 2010 and 2009

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, 2010 and 2009, the Foundation had 1,009 and 1,249 endowment funds with a market value less than historic book value, respectively. The market value of these funds at June 30, 2010 and 2009 totaled \$94,683,847 and \$110,082,676 compared to the total historic book value of \$102,770,212 and \$125,977,942, respectively.

Note 5: Pledges Receivable

Pledges receivable of \$20,585,273 for 2010 and \$21,051,270 for 2009 have been discounted to their present values on the financial statements reported as \$18,658,601 for 2010 and \$17,189,373 for 2009. The Foundation estimates payments of the pledges will be received as follows:

	June 30,	
	2010	2009
Gross pledges receivable	\$ 22,250,020	\$ 21,051,270
Allowance for uncollectible pledges	(1,664,747)	(2,580,782)
Subtotal	\$ 20,585,273	\$ 18,470,488
Present value discount	(1,926,672)	(1,281,115)
Net Pledges Receivable	\$ 18,658,601	\$ 17,189,373

Pledge maturities are as follows:

	June 30,	
	2010	2009
Less than 1 year	\$ 6,821,558	\$ 7,153,854
1 - 5 years	11,291,862	9,646,697
Thereafter	545,181	388,822
Total	\$ 18,658,601	\$ 17,189,373