

**KANSAS STATE UNIVERSITY FOUNDATION**

Manhattan, Kansas

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

Years Ended June 30, 2004 and 2003

VARNEY & ASSOCIATES, CPAs, LLC  
Manhattan, Kansas

**KANSAS STATE UNIVERSITY FOUNDATION**

Manhattan, Kansas

**TABLE OF CONTENTS**

June 30, 2004 and 2003

	<u>Page</u>
<b>Report of Certified Public Accountants</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 - 16



September 3, 2004

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

### Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Kansas State University Foundation (a nonprofit organization) as of June 30, 2004 and 2003 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas State University Foundation as of June 30, 2004 and 2003, 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.

Certified Public Accountants

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

	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 40,005,259	\$ 30,783,761
Short-term investments and certificates of deposit	3,437,449	2,822,002
Equity Investments	115,552,052	95,662,219
Book value - \$99,110,169 at June 30, 2004		
Book value - \$92,300,054 at June 30, 2003		
Corporate and other fixed income	53,204,801	51,408,685
Book value - \$52,839,862 at June 30, 2004		
Book value - \$49,241,751 at June 30, 2003		
U.S. Government and government agency obligations	1,919,510	2,989,686
Book value - \$1,798,064 at June 30, 2004		
Book value - \$2,635,128 at June 30, 2003		
Real estate investments	11,237,931	10,790,123
Book value - \$11,052,324 at June 30, 2004		
Book value - \$10,330,926 at June 30, 2003		
Alternative strategies	43,017,957	32,937,141
Book value - \$42,625,873 at June 30, 2004		
Book value - \$34,227,456 at June 30, 2003		
Other securities and investments	4,725,619	49,079
Book value - \$4,552,383 at June 30, 2004		
Book value - \$70,199 at June 30, 2003		
Pledges receivable, net	6,699,569	10,445,516
Receivables from estates	1,339,850	2,908,650
Loans receivable	1,689,596	2,037,709
Real estate and other depreciable property	19,396,564	19,344,005
Accumulated depreciation	(3,318,283)	(3,222,402)
Net real estate and other depreciable property - Golf Course	17,049,835	17,455,217
Cash surrender value of life insurance policies	2,126,013	1,769,399
Other assets and accrued income	1,125,831	1,094,597
<b>TOTAL ASSETS</b>	<b>\$ 319,209,553</b>	<b>\$ 279,275,387</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable, deposits and other liabilities	\$ 897,601	\$ 936,211
Accrued liabilities and line of credit	3,090,261	3,521,984
Assets held for others	2,688,967	2,626,605
Current obligations, unitrust and annuity liabilities	2,457,978	1,800,233
<b>Total Current Liabilities</b>	<b>\$ 9,134,807</b>	<b>\$ 8,885,033</b>
<b>Other Liabilities</b>		
Unitrust and annuity liabilities, less current obligation	\$ 16,909,816	\$ 13,912,754
Note Payable - Nanoscale	1,972,277	2,045,747
Note Payable - Printing Services	769,257	808,807
Bonds payable - Golf Course	7,725,000	7,925,000
Bonds payable - Educational and Agricultural Research Facility Rev Bonds	675,000	715,000
<b>Total Other Liabilities</b>	<b>\$ 28,051,350</b>	<b>\$ 25,407,308</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 37,186,157</b>	<b>\$ 34,292,341</b>
<b>Net Assets</b>		
Unrestricted net assets (designated)	\$ 22,967,594	\$ 18,656,507
Temporarily restricted net assets	77,034,223	71,142,899
Permanently restricted net assets	182,021,579	155,183,640
<b>TOTAL NET ASSETS</b>	<b>\$ 282,023,396</b>	<b>\$ 244,983,046</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 319,209,553</b>	<b>\$ 279,275,387</b>

Financial Statements

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
 For The Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2004 Total</u>	<u>2003 Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Contributions	\$ 453,508	\$ 33,618,895	\$ 8,758,641	\$ 42,831,044	\$ 38,079,023
Investment income	(397,315)	4,740,818	1,276,546	5,620,049	5,335,174
Net realized and unrealized gains on asset transactions	9,666,331	2,581,544	17,138,333	29,386,208	948,465
Other support					
Operational service charges, management fees and other	2,688,590	-	-	2,688,590	2,182,830
Receipts for grants, research, supplies, travel and other					
University departmental activities and funding allotments, etc.	101,238	2,404,430	450	2,506,118	2,406,367
Actuarial gain/(loss) on unitrusts and annuities obligations	543,567	(460,665)	1,338,666	1,421,568	4,871,526
Net assets released from restrictions	(304,638)	1,979,335	(1,674,697)	-	-
Satisfaction of program restrictions	38,973,033	(38,973,033)	-	-	-
<b>Total Revenue, Gains and Other Support</b>	<u>\$ 51,724,314</u>	<u>\$ 5,891,324</u>	<u>\$ 26,837,939</u>	<u>\$ 84,453,577</u>	<u>\$ 53,823,385</u>
<b>EXPENSES AND SUPPORT</b>					
Direct University support					
Scholarships and other student awards	\$ 6,928,496	\$ -	\$ -	\$ 6,928,496	\$ 7,735,102
Academic	6,049,465	-	-	6,049,465	4,596,259
Administrative - Faculty and student support	18,133,312	-	-	18,133,312	17,838,362
Capital improvements	7,210,108	-	-	7,210,108	4,468,330
Investment - Portfolio management	1,798,961	-	-	1,798,961	2,015,937
Investment - Loan interest expense and write-off	899,277	-	-	899,277	589,784
KSUF Administration	2,573,686	-	-	2,573,686	2,710,351
KSUF Fundraising	3,819,922	-	-	3,819,922	4,088,042
<b>Total Expenses and Support</b>	<u>\$ 47,413,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,413,227</u>	<u>\$ 44,042,167</u>
<b>CHANGE IN NET ASSETS</b>	\$ 4,311,087	\$ 5,891,324	\$ 26,837,939	\$ 37,040,350	\$ 9,781,218
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>18,656,507</u>	<u>71,142,899</u>	<u>155,183,640</u>	<u>244,983,046</u>	<u>235,201,828</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 22,967,594</u>	<u>\$ 77,034,223</u>	<u>\$ 182,021,579</u>	<u>\$ 282,023,396</u>	<u>\$ 244,983,046</u>

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

---



---

*Financial Statements*

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
 For The Year Ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2003 Total</u>	<u>2002 Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Contributions	\$ 103,720	\$ 27,091,749	\$ 10,883,554	\$ 38,079,023	\$ 32,743,294
Investment income	(3,292,338)	7,125,096	1,502,416	5,335,174	6,939,279
Net realized and unrealized gains on asset transactions	8,988,462	(1,481,728)	(6,558,269)	948,465	(16,539,209)
Other support					
Operational service charges, management fees and other	2,182,200	630	-	2,182,830	1,739,469
University allotment	-	-	-	-	1,279,177
Receipts for grants, research, supplies, travel and other					
University departmental activities and funding allotments, etc.	56,787	1,933,580	416,000	2,406,367	1,829,898
Actuarial gain/(loss) on unitrusts and annuities obligations	415,234	(504,494)	4,960,786	4,871,526	2,386,733
Net assets released from restrictions	(1,155,627)	403,037	752,590	-	-
Satisfaction of program restrictions	35,044,584	(35,037,760)	(6,824)	-	-
<b>Total Revenue, Gains and Other Support</b>	<u>\$ 42,343,022</u>	<u>\$ (469,890)</u>	<u>\$ 11,950,253</u>	<u>\$ 53,823,385</u>	<u>\$ 30,378,641</u>
<b>EXPENSES AND SUPPORT</b>					
Direct University support					
Scholarships and other student awards	\$ 7,735,102	\$ -	\$ -	\$ 7,735,102	\$ 7,568,949
Academic	4,596,259	-	-	4,596,259	6,583,051
Administrative - Faculty and student support	17,838,362	-	-	17,838,362	16,456,692
Capital improvements	4,468,330	-	-	4,468,330	2,407,137
Special projects	-	-	-	-	1,279,177
Investment - Portfolio management	2,015,937	-	-	2,015,937	1,247,835
Investment - Loan interest expense and write-off	589,784	-	-	589,784	537,775
KSUF Administration	2,710,351	-	-	2,710,351	3,050,390
KSUF Fundraising	4,088,042	-	-	4,088,042	3,970,232
<b>Total Expenses and Support</b>	<u>\$ 44,042,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,042,167</u>	<u>\$ 43,101,238</u>
<b>CHANGE IN NET ASSETS (before cumulative effect of reclassification)</b>	\$ (1,699,145)	\$ (469,890)	\$ 11,950,253	\$ 9,781,218	\$ (12,722,597)
Cumulative effect of reclassification of State Ag Fund to liability	-	-	-	-	(2,190,500)
<b>CHANGE IN NET ASSETS (after cumulative effect of reclassification)</b>	\$ (1,699,145)	\$ (469,890)	\$ 11,950,253	\$ 9,781,218	\$ (14,913,097)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>20,355,652</u>	<u>71,612,789</u>	<u>143,233,387</u>	<u>235,201,828</u>	<u>250,114,925</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 18,656,507</u>	<u>\$ 71,142,899</u>	<u>\$ 155,183,640</u>	<u>\$ 244,983,046</u>	<u>\$ 235,201,828</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,

	<b>2004</b>	<b>2003</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 37,040,350	\$ 9,781,218
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributions for endowment	\$ (10,698,502)	\$ (10,983,116)
Contributions for term endowment	(1,072,345)	(1,614,947)
Non-cash contributions	(14,521,772)	(8,841,530)
Non-cash expenditures	5,305,877	4,528,876
Net realized and unrealized loss on asset transactions	(29,386,208)	(948,465)
Depreciation	318,119	361,818
Depreciation Golf Course	408,063	136,595
Unitrust and annuity liability distributions	1,996,845	2,081,115
(Increase) decrease in pledges receivable	3,745,947	1,800,656
(Increase) decrease in receivables from estates	1,568,800	(1,782,050)
(Increase) decrease in loans	348,113	755,417
(Increase) decrease in cash surrender value of life insurance policies	(356,614)	226,357
(Increase) decrease in other assets and accrued income	(31,235)	(332,083)
Increase (decrease) in accounts payable	(38,610)	(1,137,831)
Increase (decrease) in accrued liabilities and line of credit	(431,723)	(361,154)
Increase (decrease) in assets held for others	62,362	82,495
Increase (decrease) in unitrust and annuity liabilities	3,654,806	431,829
<b>Total Adjustments</b>	<b>\$ (39,128,077)</b>	<b>\$ (15,596,018)</b>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ (2,087,727)</b>	<b>\$ (5,814,800)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	\$ 121,100,345	\$ 89,093,508
Proceeds from sale of real estate	3,008,958	3,303,513
Purchase of investments	(119,820,459)	(87,324,324)
Purchase of real estate	(2,303,667)	(4,299,316)
Purchase of fixed assets - Golf Course	(2,681)	(8,103)
Expenditures for depreciable property	(94,253)	(125,377)
<b>Net Cash Used in Investing Activities</b>	<b>\$ 1,888,243</b>	<b>\$ 639,901</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions for endowment	\$ 10,698,502	\$ 10,983,116
Contributions for term endowment	1,072,345	1,614,947
Increase (decrease) in bonds payable	(353,019)	708,554
Life income payments, including unitrust and annuity payments	(1,996,845)	(2,081,115)
<b>Net Cash Provided by Financing Activities</b>	<b>\$ 9,420,983</b>	<b>\$ 11,225,502</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 9,221,499</b>	<b>\$ 6,050,603</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>30,783,761</b>	<b>24,733,158</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 40,005,259</b>	<b>\$ 30,783,761</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Non-cash investing and financing activities		
Gifts in kind, securities and properties	\$ 14,521,772	\$ 8,841,530
Interest expense	\$ 899,277	\$ 589,784

Financial Statements

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2004 and 2003

**Note 1: Significant Accounting Policies**

**Organization**

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

**Income Taxes**

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

**Method of Accounting**

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

**Subsidiary**

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

**Use of Estimates**

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

**Asset Valuation**

Assets acquired by purchase are recorded at cost; assets acquired by gift are recorded at fair market value as of the date of gift.

**Investments**

Investments are reported at market value. Investments with the Common Fund and with other investment managers and in mutual funds are classified according to the types of securities 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; and other securities, including venture capital, real estate, emerging market and private equity funds.

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

**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 uncollectable pledges is estimated and netted against pledges receivable.



**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2004 and 2003

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

**Receivables (Continued)**

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.

**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. Uncollectable loans are written-off using the direct write-off method.

**Fixed Assets**

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

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

**Accrued Liabilities**

Accrued liabilities include allowances for compensated absences and other accruals.

**Contributions Establishing Charitable Trusts**

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

**Pension Plan**

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

**Restricted Assets**

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

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

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2004 and 2003

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

**Contributions of Services**

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

**Cash and Cash Equivalents**

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

**Note 2: The Common Fund**

The Common Fund held bond, equity, venture capital, real estate and short term investments of the Foundation totaling an estimated \$125,122,304 and \$103,566,672 at June 30, 2004 and 2003, respectively, at market value, which is approximately 39.0% and 37.0% of total assets. The Foundation's investments with the Common Fund are carried in twenty-three different types of funds to provide diversification. The following schedule reflects the Foundation holdings in each of the Common Fund fund types:

Fund Description	Book Value	Market Value	Book Value	Market Value
	June 30, 2004	June 30, 2004	June 30, 2003	June 30, 2003
Emerging Markets	\$ 8,477,147	\$ 9,564,493	\$ 10,528,049	\$ 9,122,182
International Equity - LH	9,968,018	12,683,644	10,728,347	10,939,731
Multi-Strategy Bond	7,694,731	7,820,140	23,076,015	24,994,890
Absolute Return Fund	5,001,120	5,719,107	4,726,541	5,174,585
Short-Term Investments	32,120,859	32,120,859	27,032,857	27,032,857
Endow. Realty Investors II	2,302,386	2,302,386	4,621,286	4,621,260
Realty Investors	4,992,421	4,992,421	4,617,467	4,617,467
Global Hedged Partners, LLC	2,706,889	2,706,889	1,062,382	1,062,382
Endow. Energy Partners III	504,856	504,856	668,542	668,542
Endow. Private Equity Partners II	900,977	900,978	1,054,292	1,054,292
Endow. Private Equity Partners IV	1,731,929	1,731,939	1,109,631	1,109,631
Endow. Private Equity Partners V	236,117	236,117	-	-
Endow. Private Equity Partners VI	68,034	68,034	83,267	83,267
Endow. Inter. Private Equity Partn. III	503,658	503,660	347,452	347,452
Endow. Venture Partners I	87,497	87,500	91,891	91,891
Endow. Venture Partners III	741,658	741,657	776,071	776,071
Endow. Venture Partners IV	501,149	501,145	455,790	455,790
Endow. Venture Partners V	706,313	706,314	455,418	455,418
Endow. Venture Partners VI	-	-	18,338	18,338
Distressed Debt Partners, LP	1,086,151	1,086,150	1,236,364	1,236,364
Distressed Debt Partners, II	470,443	470,441	400,000	400,000
International Partners IV, LP	175,371	175,371	88,361	88,361
High Quality Bond Fund	22,849,020	22,514,284	4,160,000	4,160,000
Value Opportunities Fund	-	-	4,068,530	5,055,901
Equity Opportunity Fund	12,753,882	14,886,733	-	-
CIF All Cap Equity Fund	2,100,000	2,097,186	-	-
<b>Total</b>	<u>\$ 118,680,626</u>	<u>\$ 125,122,304</u>	<u>\$ 101,406,891</u>	<u>\$ 103,566,672</u>

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2004 and 2003

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

The Common Fund is an independent professional investment manager and advisor for the Foundation. It is a nonprofit corporation organized to provide investment management services exclusively for educational institutions. The Common Fund is governed by a Board of Trustees elected by its member colleges, universities, and independent schools.

The Foundation had outstanding commitments on June 30, 2004 and 2003 with the following funds:

	Original Commitment	Commitments Remaining as of	
		June 30, 2004	June 30, 2003
Common Fund Endowment Energy Partners III	\$ 1,000,000	\$ 102,000	\$ 112,000
Common Fund Endowment Private Equity Partners II	2,500,000	192,781	192,781
Common Fund Private Equity Partners IV	2,000,000	250	610,000
Additional commitment - Common Private Equity Ptnrs I	1,500,000	1,500,000	1,500,000
Common Fund International Private Equity Partners III	1,000,000	507,086	609,586
Common Fund Endowment Venture Partners III	1,930,000	19,300	38,600
Common Fund Endowment Venture Partners IV	1,500,000	217,500	292,500
Common Fund Venture Partners V	1,760,000	863,200	1,061,200
Common Fund Int'l Partners IV, LP	2,000,000	1,780,000	1,880,000
Common Fund Capital Private Equity Partners V	3,000,000	2,782,500	2,895,000
Common Fund Capital Venture Partners VI	800,000	640,750	772,750
Common Fund Distressed Debt II	1,000,000	600,000	600,000

**Note 3: Asset Holdings and Rate of Return**

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

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

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

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

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

**Special Projects** - The Foundation expends monies to provide benefits to Kansas State University. These special projects include:

KSU Foundation Scholarship program  
 Student recruitment programs

University welfare and development  
 Alumni/Development Computer System

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2004 and 2003

**Notes to Financial Statements**

**Note 4: Pooled Investment Policies**

The Foundation's Executive Committee determines the percentage distribution of total return to the participating funds in the Pooled Endowment Fund. For the fiscal years ended June 30, 2004 and 2003, the total return of the Pooled Endowment Fund from all assets was +18% and +0.63%, respectively. The distributions approved by the Foundation's Executive Committee are:

1. 3.75% of the market value will be distributed to the income account of the participating funds for spending and .25% of the market value will be distributed to the campus units as discretionary funds.
2. 1.65% of the market value for fiscal year 2004 (1.75% for 2003) will be distributed to the Foundation for allocation as determined each year by the Executive Committee. The Library distribution of approximately .25% of the market value was discontinued effective December 31, 2002.
3. The balance of the total return is reinvested in the principal account of the participating funds.

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

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

At June 30, 2004, the KSU Foundation had 509 endowment funds with a market value less than historic book value. The market for these funds totaled \$36,690,910 compared to the total historic book value of \$40,324,120.

**Note 5: Pledges Receivable**

Pledges receivable of \$7,748,269 for 2004 and \$12,598,806 for 2003 have been discounted to their present values on the financial statements reported as \$6,699,569 for 2004 and \$10,445,516 for 2003. The Foundation estimates payments of the pledges will be received as follows:

	<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>
Gross pledges receivable	\$ 9,341,918	\$ 12,598,806
Allowance for uncollectible pledges	(1,593,649)	(1,473,600)
<b>Subtotal</b>	<b>\$ 7,748,269</b>	<b>\$ 11,125,206</b>
Present value discount	(1,048,700)	(679,690)
<b>Net Pledges Receivable</b>	<b>\$ 6,699,569</b>	<b>\$ 10,445,516</b>

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2004 and 2003

**Note 5: Pledges Receivable (Continued)**

	June 30,	
	2004	2003
Past Due	\$ -	\$ 3,519,119
FYE June 30, 2004	738,814	1,878,654
FYE June 30, 2005	1,837,357	1,710,816
FYE June 30, 2006	1,674,276	724,629
FYE June 30, 2007	1,001,259	455,033
Thereafter	2,496,563	2,836,955
<b>Total</b>	<b>\$ 7,748,269</b>	<b>\$ 11,125,206</b>

**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 \$91,805,762 for 2004 and \$86,931,667 for 2003 in the form of bequests. Donors have also informed the Foundation of conditional promises in the form of life insurance policies approximating \$31,512,659 for 2004 and \$29,320,243 for 2003. The cash surrender value of these policies, which is a known occurrence and certain event, is reported on the financial statements totaling \$2,126,013 for 2004 and \$1,769,399 for 2003.

**Note 7: Loans Receivable**

Loans are composed of student, real estate mortgages/contract sales, and other loans for fiscal years ended June 30, 2004 and 2003.

	June 30,	
	2004	2003
Faculty/departmental and other loans *	\$ 839,636	\$ 1,059,466
Real estate mortgages/contract sales loans **	592,118	659,276
Student loans	257,842	318,967
<b>Total</b>	<b>\$ 1,689,596</b>	<b>\$ 2,037,709</b>

\* Faculty loans are at 14% if not paid timely, departmental loans are between 8% and 8.75%

\*\* Interest rates ranged from 7% to 12% and maturities ranged from 2003 to 2013

**Note 8: Unrestricted Net Assets (Designated)**

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

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2004 and 2003

**Note 8: Unrestricted Net Assets (Designated) (Continued)**

The unrestricted net assets are composed of the following:

	<b>2004</b>	<b>2003</b>
Underwriting funds and Charitable Gift Annuity Pool Reserve	\$ 13,659,563	\$ 9,452,452
Net investment in property and equipment, Foundation Center	1,745,627	1,877,055
Real estate utilized by College of Agriculture	129,862	130,626
KSU Underwriting Fund and other funds held for Kansas State	2,648,137	2,364,121
University Real Estate Fund (formerly Perimeter Policy)*	4,784,405	4,832,253
<b>Total</b>	<b>\$ 22,967,594</b>	<b>\$ 18,656,507</b>

\*Previously, the University Real Estate Fund was an investment of the Pooled Endowment Fund.

**Note 9: Pension Plan**

The Kansas State University Foundation Board of Trustees has established the Kansas State University Foundation Defined Contribution Retirement Plan. The Plan provides for employer and employee contributions at 8.5% and 5.5%, respectively. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were \$246,421 and \$271,036 for the years ended June 30, 2004 and 2003.

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

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

Major asset categories at June 30 consist of:

	<b>2004</b>		<b>2003</b>	
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>
Residential and commercial	\$ 13,399,852	\$ 3,318,283	\$ 13,412,509	\$ 3,222,402
Farms	5,996,712	-	5,931,496	-
<b>Total</b>	<b>\$ 19,396,564</b>	<b>\$ 3,318,283</b>	<b>\$ 19,344,005</b>	<b>\$ 3,222,402</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, 2004 and 2003 was \$318,119 and \$361,818, respectively.

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2004 and 2003

**Notes to Financial Statements**

**Note 11: Contributions**

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

	<u>2004</u>	<u>2003</u>
<b>Contributions - Cash Basis</b>	\$ 54,202,163	\$ 44,785,799
Net changes		
Net increase (decrease) in pledges receivable	(3,745,947)	(1,800,656)
Net increase (decrease) in receivable from estates	(1,568,800)	1,782,050
Net (increase) decrease in unitrust and annuity liabilities and future obligations	(6,056,372)	(6,688,170)
<b>Contributions - Accrual Basis</b>	<u>\$ 42,831,044</u>	<u>\$ 38,079,023</u>

**Note 12: Consolidation of Subsidiary**

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

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Cash	\$ 328,360	\$ 1,052,800
Real estate and other depreciable assets	17,049,835	17,455,217
Pledges receivable	1,780,467	1,987,592
Other assets	421,006	464,631
	<u>\$ 19,579,668</u>	<u>\$ 20,960,240</u>
<b>Liabilities</b>		
Other liabilities	2,600,606	2,852,263
Bonds payable	7,725,000	7,925,000
	<u>7,725,000</u>	<u>7,925,000</u>
<b>Total Net Assets</b>	<u>\$ 9,254,062</u>	<u>\$ 10,182,977</u>
<b>Sources</b>		
Contributions	\$ 622,389	\$ 1,651,015
Contributions, increase (decrease) in pledges	(207,125)	(281,911)
Operations net income (loss)	(593,793)	(312,351)
Other income	173,360	72,877
<b>Uses</b>	<u>(923,746)</u>	<u>(844,215)</u>
<b>Change in Net Assets</b>	\$ (928,915)	\$ 285,415
<b>Net Assets - Beginning of Year</b>	<u>10,182,977</u>	<u>9,897,562</u>
<b>Net Assets - End of Year</b>	<u>\$ 9,254,062</u>	<u>\$ 10,182,977</u>

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2004 and 2003

**Note 12: Consolidation of Subsidiary (Continued)**

Additional gift-in-kind verbal pledges totaling \$10,255 as of June 30, 2004 are not shown on the financial statements.

The KSUGCMRF has acquired Educational Facilities Revenue Bonds payable totaling \$7,725,000. Interest rates range from 4.6% to 5.55% payable semi-annually with scheduled principal payments beginning during the year 2004 through the year 2023. The bonds are issued by Riley County, Kansas. The KSUGCMRF has also acquired a line of credit with US Bank included above as Other Liabilities. The line of credit balance is \$1,878,762 with a variable interest rate of the 30 day LIBOR rate plus 2%.

Interest for fiscal years ended June 30, 2004 and 2003 was \$493,729 and \$514,175, respectively.

Maturities as of June 30, 2004 were as follows:

	<b>Bonds Payable Golf Course</b>
FYE June 30, 2005	\$ 210,000
FYE June 30, 2006	225,000
FYE June 30, 2007	235,000
FYE June 30, 2008	255,000
FYE June 30, 2009	270,000
Thereafter	6,530,000
<b>Total</b>	<u><u>\$ 7,725,000</u></u>

**Note 13: Note Payable - Nanoscale**

Kansas State University Foundation constructed a research/office facility in the K-State Research Park in Fiscal Year 2002. The cost basis of the building is \$2,041,849. The project was financed with a note payable with an interest rate of 3.75% and due in July 2005. As of June 30, 2004, the note payable was \$1,972,277. 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, 2004 and 2003 was \$76,723 and \$72,419, respectively.

Maturities as of June 30, 2004 were as follows:

	<b>Note Payable Nanoscale</b>
FYE June 30, 2005	\$ 77,575
FYE June 30, 2006	1,894,702
FYE June 30, 2007	-
FYE June 30, 2008	-
FYE June 30, 2009	-
Thereafter	-
<b>Total</b>	<u><u>\$ 1,972,277</u></u>



**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2004 and 2003

**Note 14: Note Payable - Printing Services**

Kansas State University Foundation purchased a warehouse/office building in the Manhattan Corporate Technology Park in Fiscal Year 2003. The cost basis of the building is \$865,000. The building was purchased through a bargain sale; the purchase was financed with a note payable with an interest rate of 4.50% and due in January 2008. As of June 30, 2004, the note payable was \$769,257. The building is leased to the Kansas State University until January of 2008.

Interest for fiscal year ended June 30, 2004 and 2003 was \$36,183 and \$16,992, respectively.

Maturities as of June 30, 2004 were as follows:

	<b>Note Payable Printing Services</b>
FYE June 30, 2005	\$ 41,920
FYE June 30, 2006	43,846
FYE June 30, 2007	45,860
FYE June 30, 2008	637,631
FYE June 30, 2009	-
Thereafter	-
<b>Total</b>	<b>\$ 769,257</b>

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

Kansas State University Foundation acquired Educational and Agricultural Research Facility Revenue Bonds totaling \$820,000 for a College of Agriculture construction project in Finney County. Bonds payable for this project as of June 30, 2004 is \$675,000. Interest rates range from 5% to 6.25% with scheduled semi-annual payments beginning in December 2000 through the year 2015. The bonds are issued by Finney County, Kansas.

Interest expense for fiscal years ended June 30, 2004 and 2003 was \$63,752 and \$44,595, respectively.

Maturities as of June 30, 2004 were as follows:

	<b>Note Payable Southwest Ag</b>
FYE June 30, 2005	\$ 40,000
FYE June 30, 2006	45,000
FYE June 30, 2007	45,000
FYE June 30, 2008	45,000
FYE June 30, 2009	50,000
Thereafter	450,000
<b>Total</b>	<b>\$ 675,000</b>

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2004 and 2003

**Note 16: Reclassification - Recent Pronouncements**

Recent accounting pronouncements provide guidance on classifications of donor funds. The pronouncements focus on financially inter-related organizations. Management has reviewed its relationships with these organizations and determined that they are inter-related except for the State Agriculture Fund.

It was determined the State Agriculture Fund held by the KSU Foundation for Kansas State University should be treated as an Asset Held For Others rather than a Temporarily Restricted Asset. KSU has an agreement with the State of Kansas allowing the State Ag Funds to be invested by the KSU Foundation. The State Ag Fund balance is reflected as an asset in the Kansas State University financial statements and, upon request, the fund assets could be liquidated and transferred to KSU.

The State Agriculture Fund balance included in Temporarily Restricted Net Assets as of June 30, 2001 was \$2,190,500. This amount is reflected in the Statement of Activities for the year ended June 30, 2002 as an adjustment to the Change in Net Assets - Beginning of Year. The State Agriculture Fund balance as of June 30, 2002 was correctly included with the Assets Held For Others in the Consolidated Statement of Financial Position.

Short-term investments have been reclassified for fiscal year ending June 30, 2003 as a cash equivalent because it has a maturity of three months or less. These short-term investments are held by the KSU Foundation to meet the temporarily restricted assets available to the University.

**Note 17: University Allotment - Revenue, Gains, and Other Support**

The Kansas State University Foundation historically provided an allotment to Kansas State University for university-wide scholarships and other projects. For fiscal year 2003, the allotment was discontinued and replaced by funding from unrestricted contributions and earnings from endowments designated for university-wide purposes.