

Kansas State University

Annual Financial Report
Fiscal Year Ended June 30, 2012



**Kansas State University
Manhattan, Kansas**

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Kansas State University

Management's Discussion and Analysis

For the Year Ended June 30, 2012

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of Kansas State University (University) based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, with the exception of GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. The University has made the decision not to include the Kansas State University Foundation within the University's unaudited financial statements. Readers are encouraged to consider this information in conjunction with the financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

USING THE FINANCIAL STATEMENTS

This report consists of the three financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with GASB Statement 35, *Basic Financial Statements---and Management's Discussion and Analysis---for Public Colleges and Universities*, as amended by GASB Statements 37 and 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the assets, liabilities, and net assets of the University at a point in time (at the end of the fiscal year). The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Under the accrual basis of accounting all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Within the Statement of Net Assets, assets and liabilities are further classified as current or non-current. The current classification distinguishes those assets that are highly liquid and available for immediate and unrestricted use by the University, and those liabilities likely to be settled in the next 12 months.

Net assets are divided into three categories:

1. **Invested in capital assets, net of debt**, indicates the university's equity in property, plant, and equipment owned by the University.
2. **Restricted net assets** are further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
3. **Unrestricted net assets** are available to the University for any lawful purpose of the institution.

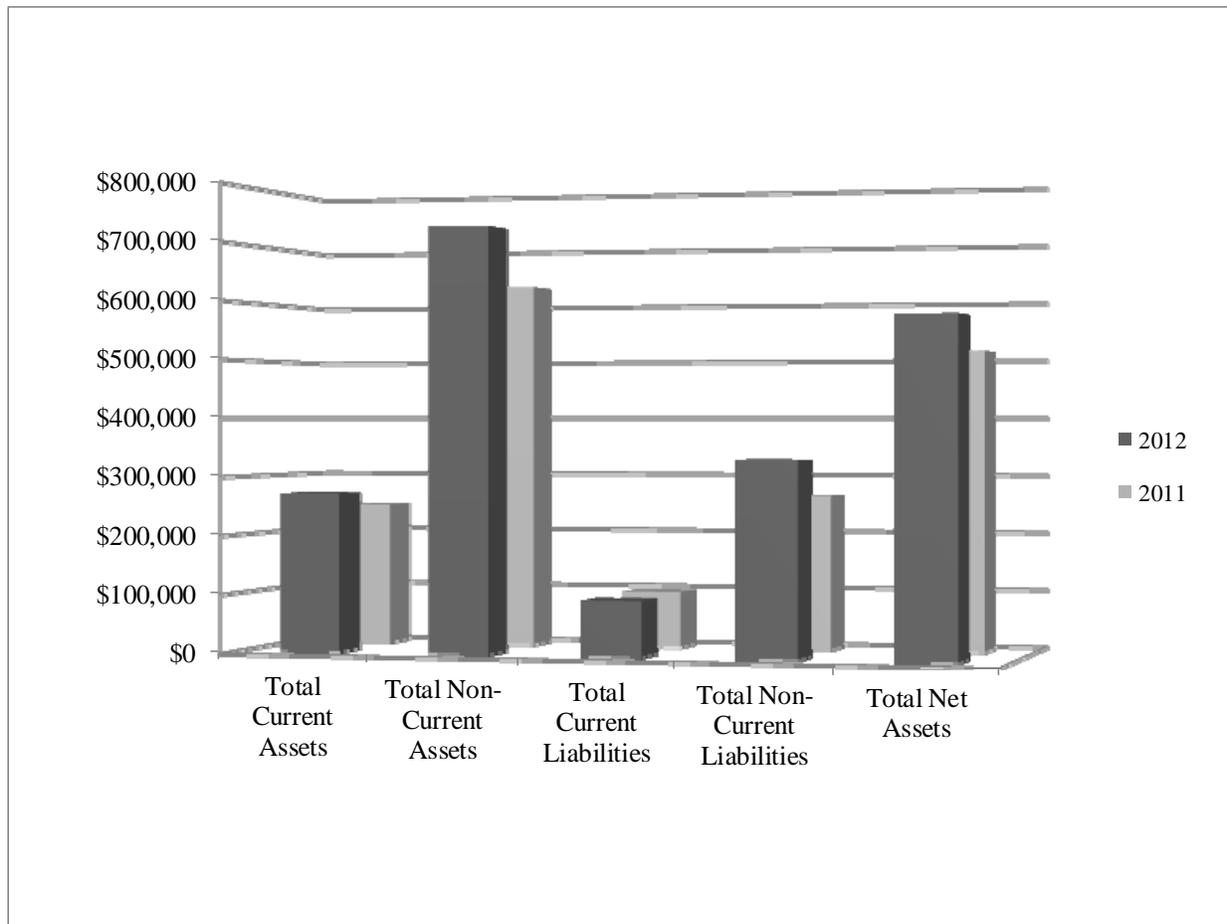
Total assets at June 30, 2012 were \$992.5 million, an increase of \$119.3 million (13.7%). Capital assets, net of depreciation, comprised 56.4%, or \$559.7 million of the total assets.

Total liabilities were \$422.8 million at June 30, 2012, an increase of \$62.7 million (17.4%), compared to \$360.0 million at June 30, 2011. Long-term liabilities comprised 77.9%, or \$329.5 million of the total liabilities.

Total net assets at June 30, 2012 were \$569.7 million, a \$56.6 million increase over the prior year. The breakout of net assets is shown below:

Capital assets, net of related debt.....	\$238,552,938
Restricted net assets	86,620,183
Unrestricted net assets	244,549,845
Total net assets.....	\$569,722,966

The composition of current and non-current assets and liabilities and net assets is displayed below for both the 2011 and 2012 fiscal year ends (in thousands):



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the total revenues earned and expenses incurred by the University for operating, non-operating and other related activities during a period of time. Its purpose is to assess the University's operating results.

Revenues

Operating revenues at the University as of June 30, 2012 increased by 8.6% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$183.3 million in 2012, compared to \$170.1 million in 2011. This increase is a result of enrollment changes and a tuition increase approved by the Kansas Board of Regents for fiscal year 2012.

- Grants and contracts (federal, state and local, and non-governmental) increased \$12.2 million from the previous fiscal year. This category of revenue includes funds received for sponsored research activities and athletic contractual agreements.
- Sales and services increased \$10.3 million from the previous fiscal year.
- Auxiliary enterprises increased \$1.4 million from the previous fiscal year. Auxiliary enterprises include Housing, Parking, University health services, Child Care Center and a variety of other smaller services. The increase is attributable to an increase in housing fees, as well as an expansion in the housing system infrastructure.
- Other operating revenues decreased \$0.2 million and contributions increased \$5.5 million, which are both directly attributed to the K-State Athletics, Inc.

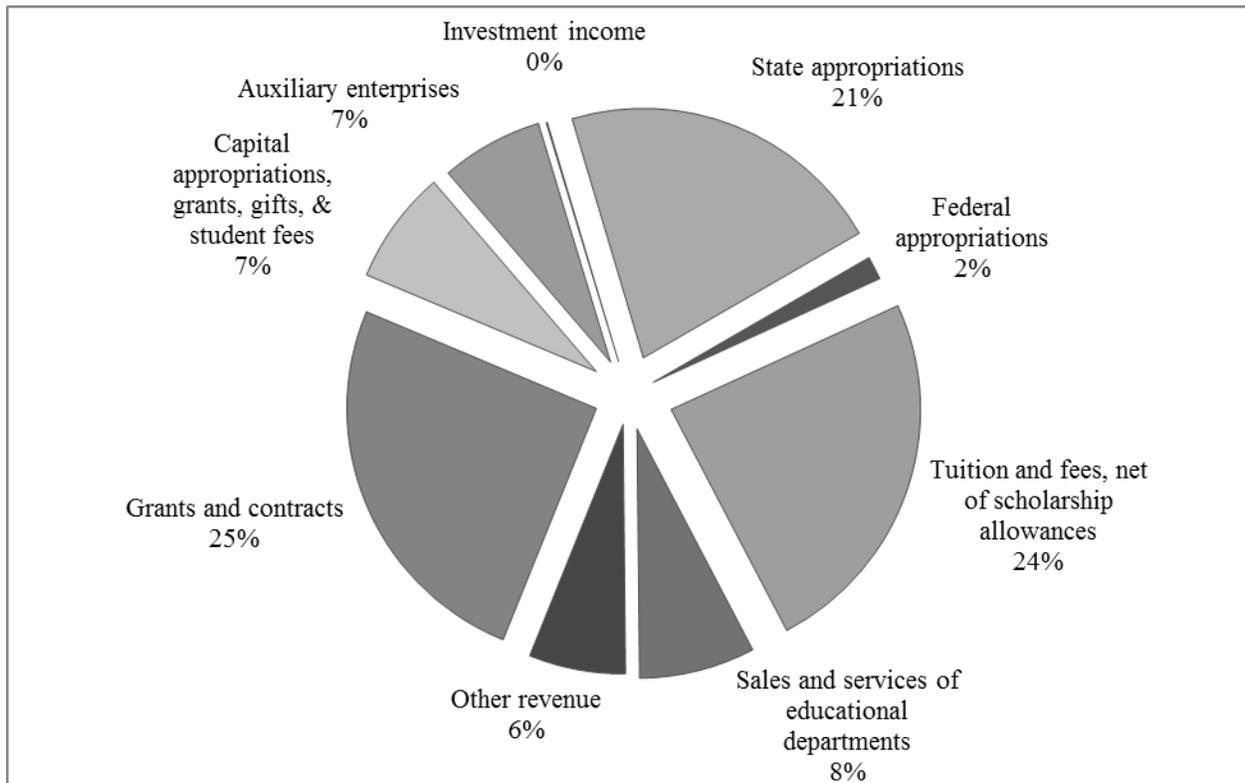
Total non-operating revenues were down 2.5% from the prior year from \$190.4 million to \$185.5 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, decreased from \$164.7 million to \$161.5 million.
- Investment income decreased \$2.2 million, which is reflective of national market conditions.
- Student fees collected for capital projects increased \$0.2 million.
- Non-operating federal grants and contracts increased \$0.4 million, predominately consisting of PELL grant revenue.

Other revenues included the following:

- Capital appropriations decreased from \$7.8 million to \$5.9 million.
- Capital grants and gifts increased from \$20.1 million to \$26.1 million.

In summary, total revenues increased by \$41.7 million, or 5.8%, from \$717.2 million to \$758.9 million. The compositions of these revenues are displayed in the following graph:



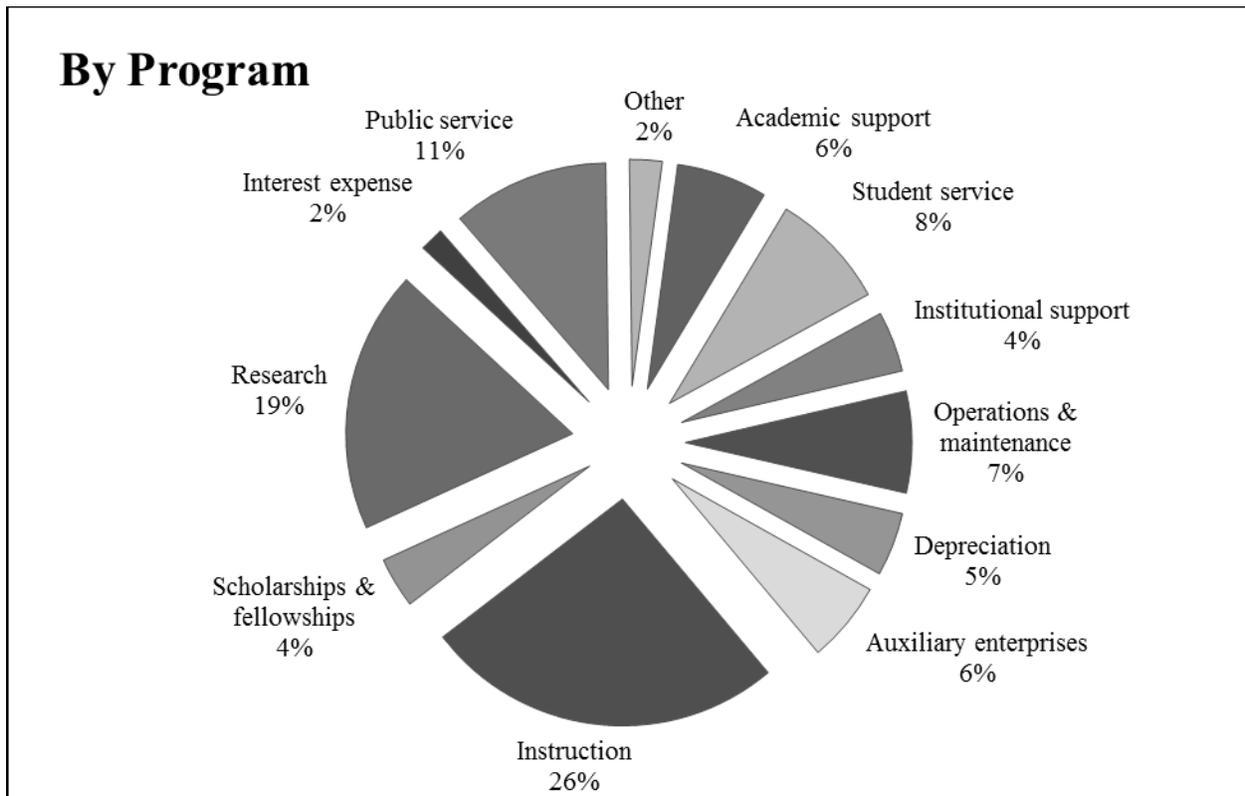
Expenses

Operating expenses were \$685.2 million for the 2012 fiscal year. This was an increase over the prior year of \$42.6 million. The following is a brief summary of the significant changes:

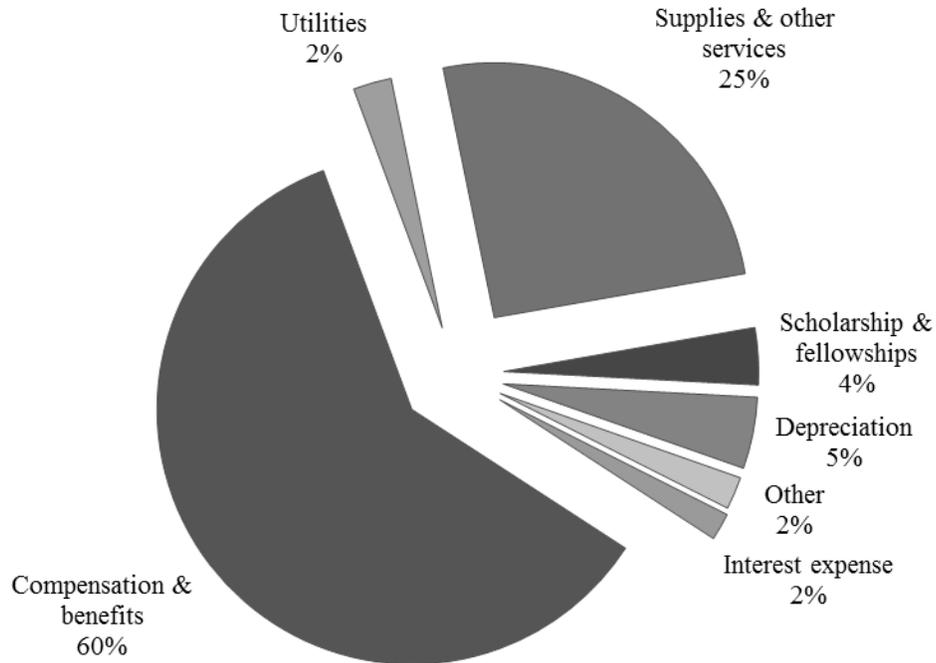
- Expenses related to the University's mission of instruction, research and public service increased \$26.7 million from \$369.2 million to \$395.9 million in 2012.
- Auxiliary service expenses decreased \$0.4 million from \$41.4 million to \$41 million in 2012.
- Expenses related to academic support, student services, and institutional support increased \$12.4 million from \$124.5 million to \$136.9 million in 2012.
- Operations & maintenance of plant expenditures increased \$3.8 million from \$47.7 million to \$51.5 million in 2012. This increase is a result of bond financed energy conservation repair and maintenance expenses.

Non-operating expenses increased \$3.4 million from \$10.6 million to \$14.0 million in 2012 and are represented by interest expense and loss on disposal of assets.

The composition of total expenses, including operating and non-operating are displayed below:



By Natural Classification



Extraordinary Items

The University did not have any special and extraordinary items in 2012.

Net Assets

Net assets increased by \$56.6 million compared to the previous fiscal year, which generally indicates that the financial condition has improved over the year. There were many offsetting variances, but the increase is primarily due to an increase in unrestricted net assets and adding the blended component unit K-State Institute for Commercialization.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments of the University during a period of time. Its purpose is to assess the University's ability to generate future net cash flows and meet its obligations as they come due.

SUMMARY OF THE STATEMENT OF CASH FLOWS (in thousands of dollars):

	June 30, 2012	June 30, 2011
Net cash provided (used) by:		
Operating activities	\$ (116,646)	\$ (106,653)
Non-capital financing activities	180,862	184,622
Capital and related financing/appropriations	(3,225)	(37,515)
Investing activities	(43,726)	(7,788)
Net increase in cash	17,265	32,666
Beginning cash and cash equivalent balances	236,953	215,054
Component Unit Prior Period Adjustment	-	393
Ending cash and cash equivalent balances	\$ 254,218	\$ 248,113

Cash provided by operating activities includes tuition and fee and grant and contract revenues. Cash used for operating activities includes payments to employees and suppliers. Cash provided by non-capital financing/appropriations includes state appropriations, federal grants and contracts, and the receipt and disbursement of the federal direct student loan program and the PELL program. Cash provided for capital and related financing activities represents proceeds from debt, the principal and interest payments towards debt, capital appropriations and grants, and the purchase and construction of capital assets. Cash provided by investing activities includes purchases and sales of investments as well as investment income earnings and losses realized.

The University's overall liquidity increased by \$6.1 million during fiscal year 2012. This increase is the net result of an increase in tuition and fees, sales of educational activities, capital grants and gifts, and bond proceeds and offset by an increase in expenditures to employees and suppliers and purchases of capital assets and an increase in debt service payments.

CAPITAL ASSETS

The University made significant investments in capital during the 2011-2012 fiscal year. Detailed information regarding capital asset additions, retirements & depreciation is available in Note 5 to the financial statements.

The following is a brief summary of the construction projects that were completed during the current fiscal year:

- During FY2012, the university spent approximately \$7.4 million on infrastructure and deferred building maintenance projects. Funding for these undertakings has come from energy savings, federal stimulus funds and state of Kansas deferred maintenance funds.
- Work was completed on the \$21.6 million project to accommodate the construction of the National Bio and Agro-Defense Facility (NBAF).

Additionally, the University was involved in several construction projects that were in physical construction or planning and design phases at year-end:

- The Student Recreation Center Expansion project at the Manhattan Campus continued into FY2012. The \$24 million project involves many enhancements including expanding the cardio/weight room and indoor running track and adding personal training studios and a rock climbing wall.
- The next phase of the Housing and Dining Services Jardine Apartments renovation project commenced in FY2012 with the issuance of \$12 million in revenue bonds. Future repayment of the bonds will come from Housing operation revenue.
- Construction of a 13,180 square foot addition to Justin Hall began in June 2011. The \$5 million addition will include space for student services, student collaborative workspace, administration, and two classrooms that will accommodate approximately 100 students each.
- Groundbreaking for the KSU Athletics, Inc. basketball training facility took place in February 2012. The \$17.6 million project will include men's and women's basketball facilities, practice courts, locker rooms, a weight room, and coaches' offices. The facility is expected to be completed in early fall 2012.
- Groundbreaking for the KSU Athletics, Inc. West Stadium Center and Bill Snyder Family Stadium renovation project took place in April 2012. The \$75 million project will create additional premium seating and update ancillary support areas that include: improved broadcasting space and equipment; concessions; heating, ventilation and air conditioning; Americans with Disabilities Act access; and life safety.
- Construction began in FY2012 on a \$13 million Feed Technology Innovation Center. The project is expected to be completed in early summer 2013.

Several projects are in the planning stages, including a Welcome Center in East Memorial Stadium, a new College of Business Administration building and a new College of Engineering facility.

DEBT ADMINISTRATION

At June 30, 2012, the University had \$318 million in debt outstanding, compared to \$257 million at June 30, 2011. The increase is due to the issuance of \$53.7 million of Athletics Facilities Revenue refunding bonds, \$36 million of Energy Conservation refunding bonds and \$15.6 million of Landfill and Manhattan Housing Jardine bonds. The University paid \$58.2 million in principal and interest payments related to all outstanding debt.

Standard & Poor's Ratings Services currently rates the University "AA-". Moody's Investors Service currently rates the University "Aa2". More detailed information about the University's long-term liabilities is available in Notes 7, 8, and 9 to the financial statements.

ECONOMIC OUTLOOK

The State of Kansas economy has shown signs of growth compared to the same time last year, but recovery will continue to be slow. In order to stimulate new growth, the Governor proposed and the 2012 legislature passed a new state income tax law which will go into effect in tax year 2013. The new law reduces state income tax rates and eliminates state income taxes on small business owners, and in the long run is expected to stimulate new economic activity and generate additional revenue streams that could help offset a portion of the revenue loss associated with its implementation.

State appropriations for fiscal year 2013 are currently set at \$160.7 million, which represents a \$1.1 million decrease from fiscal year 2012. This has been a continuing trend over the last few years, with State support decreasing from 32% in FY 2008 to 21% in FY 2012. The University has amplified the pursuit of extramural funding, increased tuition revenue and new student recruitment efforts, and implemented internal budget reductions to help offset the impact of this trend. Even though general appropriation funding for the University overall has declined, the Governor has targeted specific areas of growth for higher education and these include \$5million each for the KSU College of Veterinary Medicine, for animal research programs, and for animal health research at the Biosecurity Research Institute. Another area of support is \$3.5 million a year over a ten year period for an initiative to increase the number of engineering graduates.

In 2010, the University launched a planning initiative with the visionary goal to be recognized as a Top 50 Public Research University by the year 2025. Key metrics have been identified to benchmark and measure our progress and theme areas with goals, associated action plans, and expected outcomes have been defined. The University continues to actively move forward towards this goal.

Student enrollment for the 2011-2012 academic year was consistent with 2010-2011, with projections for the 2012-2013 academic year remaining strong. Overall, the financial position of the University is favorable and management will continue to monitor state and national economic conditions as part of its financial planning.

The University is not aware of any additional currently known facts, decisions, or conditions that are expected to have significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

Kansas State University
Statement of Net Assets
For the Year Ended June 30, 2012

	University Funds		Component Units	
	2012	2011	2012	2011
<u>ASSETS</u>				
Current Assets				
Cash and cash equivalents	\$ 205,504,213	\$ 189,824,785	\$ 1,316,807	\$ 1,135,376
Accounts receivable, net	39,611,354	36,777,122	197,047	280,632
Pledges receivable, net	5,903,294	-	-	-
Investments	8,030,711	7,004,424	307,970	674,709
Loans to students, net	5,176,778	5,357,001	-	-
Inventories	4,110,007	3,903,544	461,844	435,814
Prepaid expenses	1,439,875	1,501,182	60,372	40,608
Total Current Assets	269,776,232	244,368,058	2,344,040	2,567,139
Noncurrent Assets				
Restricted cash and cash equivalents	48,713,617	58,287,862	271,117	193,721
Pledges receivable, net	11,476,168	11,254,951	-	-
Investments	88,799,404	29,996,307	214,220	235,763
Loans to students, net	11,195,336	11,521,246	-	-
Other assets	2,869,504	522,535	-	-
Capital assets, net	559,655,922	517,208,256	1,645,495	1,591,184
Total Noncurrent Assets	722,709,951	628,791,157	2,130,832	2,020,668
TOTAL ASSETS	992,486,183	873,159,215	4,474,872	4,587,807
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable and accrued liabilities	31,253,506	30,370,676	724,735	816,452
Deferred revenue	34,778,669	40,498,499	1,040,759	1,047,031
Deposits held in custody for others	1,121,267	1,385,205	-	-
Accrued compensated absences	14,230,169	14,319,106	-	-
Capital lease payable	267,137	763,420	-	-
Other loan payable	519,751	454,360	-	-
Revenue bonds payable	10,665,000	7,095,000	-	-
Other liabilities	387,131	461,946	328,235	360,562
Total Current Liabilities	93,222,630	95,348,212	2,093,729	2,224,045
Noncurrent Liabilities				
Accrued compensated absences	3,472,298	2,914,782	-	-
Accrued other postemployment benefits	14,041,000	12,311,489	-	-
Capital lease payable	313,755	451,728	-	-
Other loan payable	4,636,217	5,717,471	30,427	45,000
Revenue bonds payable	302,090,889	242,815,889	-	-
Other liabilities	4,986,428	458,941	-	-
Total Noncurrent Liabilities	329,540,587	264,670,300	30,427	45,000
TOTAL LIABILITIES	422,763,217	360,018,512	2,124,156	2,269,045
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	238,552,938	259,521,776	1,645,495	1,591,184
Restricted for:				
Nonexpendable	15,693,192	15,804,806	-	-
Expendable				
Scholarships, research, instruction, public service, & other	4,819,654	10,301,953	218,970	353,696
Loans	19,992,676	19,753,527	-	-
Capital projects	36,720,900	66,929,428	119,072	78,416
Debt service	9,393,761	14,533,847	-	-
Unrestricted	244,549,845	126,295,366	367,179	295,466
TOTAL NET ASSETS	\$ 569,722,966	\$ 513,140,703	\$ 2,350,716	\$ 2,318,762

Kansas State University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

	University Funds		Component Units	
	2012	2011	2012	2011
Operating Revenues:				
Tuition and fees, net of scholarship allowances of \$32,711,121	\$ 183,329,020	\$ 170,139,030	\$ 1,883,214	\$ 1,904,470
Federal appropriations	11,391,713	11,059,420	-	-
Federal grants and contracts	109,468,634	114,768,663	-	-
State and local grants and contracts	13,150,868	8,320,007	-	-
Nongovernmental grants and contracts	68,836,337	56,136,482	-	-
Sales and services of educational activities	57,137,207	46,840,330	4,144,674	4,392,579
Auxiliary enterprises				
Housing revenues (revenues are pledged as security for bonds)	38,516,710	37,281,844	-	-
Parking revenues (revenues are pledged as security for bonds)	3,568,588	3,590,452	-	-
Student health revenues	6,436,168	6,326,942	-	-
Child care center	1,672,454	1,470,680	-	-
Other auxiliary revenues	60,504	120,601	-	-
Interest earned on loans to students	291,104	304,015	-	-
Other operating revenues	15,743,655	15,911,145	2,075,270	2,008,280
Contributions	31,459,575	25,923,483	30,414	42,853
Total Operating Revenues	<u>541,062,537</u>	<u>498,193,094</u>	<u>8,133,572</u>	<u>8,348,182</u>
Operating Expenses:				
Instruction	183,021,169	172,352,299	-	-
Research	133,147,145	128,588,946	-	-
Public Service	79,729,760	68,242,289	-	-
Academic Support	46,130,529	44,075,596	-	-
Student Service	59,935,472	52,080,058	3,247,157	3,245,986
Institutional Support	30,800,684	28,354,268	1,115,232	1,120,184
Operations & Maintenance of Plant	51,539,648	47,744,707	82,217	125,629
Depreciation	32,277,872	30,235,558	283,680	205,690
Scholarships & Fellowships	25,700,806	26,048,813	-	-
Auxiliary Enterprises	41,053,117	41,430,752	-	-
Other Expenses	1,904,259	3,442,089	3,366,854	3,619,636
Total Operating Expenses	<u>685,240,461</u>	<u>642,595,375</u>	<u>8,095,140</u>	<u>8,317,125</u>
Operating Income (Loss)	<u>(144,177,924)</u>	<u>(144,402,281)</u>	<u>38,432</u>	<u>31,057</u>
Nonoperating Revenues (Expenses)				
State appropriations	161,545,041	164,740,289	-	-
Federal grants and contracts	20,250,960	19,881,545	-	-
Gifts	-	-	-	-
Investment income	406,377	2,654,247	(6,478)	39,594
Interest expense	(12,314,574)	(9,598,428)	-	-
Gain/Loss on disposal of assets	(1,676,363)	(982,645)	-	-
Student fees for capital projects	3,334,967	3,114,876	-	-
Net Nonoperating Revenues	<u>171,546,408</u>	<u>179,809,884</u>	<u>(6,478)</u>	<u>39,594</u>
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	<u>27,368,484</u>	<u>35,407,603</u>	<u>31,954</u>	<u>70,651</u>
Capital appropriations	5,936,316	7,817,425	-	-
Capital grants and gifts	26,058,090	20,149,680	-	-
Additions to permanent endowment	351,355	637,255	-	-
Other additions/deductions, net	(13,058,348)	(2,321,466)	-	-
Increase (Decrease) in Net Assets	<u>46,655,897</u>	<u>61,690,497</u>	<u>31,954</u>	<u>70,651</u>
Net Assets				
Net Assets -- Beginning of Year, as previously reported	513,140,703	447,461,183	2,318,762	6,811,780
Prior Period Restatement	9,926,366	3,989,023	-	(4,563,669)
Net Assets, Beginning of Year, as restated	<u>523,067,069</u>	<u>451,450,206</u>	<u>2,318,762</u>	<u>2,248,111</u>
Net Assets -- End of Year	<u>\$ 569,722,966</u>	<u>\$ 513,140,703</u>	<u>\$ 2,350,716</u>	<u>\$ 2,318,762</u>

Kansas State University
Statement of Cash Flows
For the Year Ended June 30, 2012

	University Funds	
	2012	2011
Cash Flows from Operating Activities		
Tuition and fees	\$ 214,736,835	\$ 204,359,577
Endowment income	100,000	100,000
Sales and services of educational activities	58,205,635	45,201,276
Auxiliary enterprise charges		
Housing	38,175,540	36,451,604
Parking	3,656,543	3,647,010
Student Health	6,443,585	6,356,555
Child Care Center	1,743,834	1,399,300
Other	60,106	1,041,797
Grants and contracts	176,206,490	182,149,953
Federal appropriations	11,391,713	11,059,420
Payments to suppliers	(275,929,908)	(253,881,568)
Compensation & benefits	(424,082,242)	(406,287,073)
Loans issued to students and employees	(2,939,922)	(2,915,656)
Collections on loans issued to students and employees	3,681,187	3,475,388
Other receipts (payments)	71,904,653	61,189,316
	(116,645,951)	(106,653,101)
Net Cash Flows from Operating Activities		
Cash Flows from Noncapital Financing Activities		
State appropriations	161,545,041	164,740,289
Federal/State student aid	19,797,754	19,958,876
Direct lending receipts	125,638,812	124,396,638
Direct lending payments	(125,856,055)	(124,501,148)
Funds held for others	(263,939)	(6,502)
Other	-	33,667
	180,861,613	184,621,820
Net Cash Flows from Noncapital Financing Activities		
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	108,236,965	51,054,821
Capital appropriations	5,936,316	7,817,425
Capital grants and gifts	17,112,578	7,101,015
Student fees for capital projects	3,334,967	3,118,326
Purchases of capital assets	(78,978,547)	(72,622,017)
Principal paid on capital debt and leases	(43,675,427)	(21,867,043)
Interest paid on capital debt and leases	(14,546,561)	(10,847,146)
Other	(645,342)	(1,270,758)
	(3,225,051)	(37,515,377)
Net Cash Flows from Capital and Related Financing Activities		
Cash Flows from Investing Activities		
Investment income	1,480,890	2,206,854
Purchase/Redemption of investments	(45,206,885)	(9,994,536)
	(43,725,995)	(7,787,682)
Net Cash Flows from Investing Activities		
Net change in cash and cash equivalents	17,264,616	32,665,660
Cash and cash equivalents -- beginning of year	236,953,214	215,054,219
Prior Period Restatement	-	392,768
Cash and cash equivalents -- beginning of year	236,953,214	215,446,987
Cash and cash equivalents -- end of year	\$ 254,217,830	\$ 248,112,647

Kansas State University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2012

	University Funds	
	2012	2011
Reconciliation		
Operating income (loss)---SRECNA	\$ (144,177,924)	\$ (144,402,281)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	32,277,872	30,235,558
Changes in assets and liabilities:		
Accounts receivable, net	(9,673,722)	(2,075,648)
Loans to students, net	741,265	559,732
Inventories	(206,463)	1,645,926
Prepaid expenses	159,734	(361,508)
Accounts payable and accrued liabilities	4,057,530	3,449,759
Deferred revenue	(332,081)	5,259,152
Accrued compensated absences	507,838	(963,791)
	<u>\$ (116,645,951)</u>	<u>\$ (106,653,101)</u>
Net cash used in operating activities---Cash Flow		

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2012

Note 1 - Organization and Summary of Significant Accounting Policies

Organization. Kansas State University (University) is a comprehensive, research, federal land grant institution governed by the Kansas Board of Regents and is an agency of the State of Kansas. Accordingly, for financial reporting purposes, the University is included in the financial report of the State of Kansas.

The University is currently classified as a Doctoral/Research University – Extensive under the Carnegie Classification system and is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools. Undergraduate, graduate and post-graduate degrees are available from nine colleges: Agriculture, Architecture, Planning & Design, Arts & Sciences, Business Administration, Education, Engineering, Human Ecology, Veterinary Medicine, and Technology & Aviation.

Other major operating units of the University are the Agricultural Experiment Station and a statewide Cooperative Extension Service. The main campus covers 668 acres in the cities of Manhattan and Salina, Kansas. Additional University sites include 18,000 acres of the Agricultural Experiment Station (AES) located in research centers at Hays, Garden City, Colby, and Parsons and 8,600 acres in the Konza Prairie Research Natural Area, jointly operated by the AES and the Division of Biology.

Financial Reporting Entity. As required by the accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the financial position and financial activities of the University and its component units.

The K-State Union Corporation has been discretely presented.

K-State Olathe Innovation Campus, Inc., Kansas State University Veterinary Clinical Outreach, Inc., K-State Diagnostic and Analytical Services, Inc., Universal K-State, Inc., Kansas State University Research Foundation (KSURF), Kansas State University Institute for Commercialization and K-State Athletics, Inc. have been blended into the University's financial statements.

While the Kansas State University Foundation (Foundation) is a legally separate entity and the University does not appoint a voting majority of the Foundation's governing body, the Foundation is considered a component unit of the University. Kansas State University has made the decision not to include the financial activity and balances of the Foundation within the University's unaudited financial statements.

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents. For the purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Accounts Receivable. Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories. Inventories are stated at cost.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

Prepaid Expenses. Prepaid expenses consist primarily of deferred summer school expenses.

Capital Assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if the related project cost is \$100,000 or greater. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Works of art have been capitalized at cost at the date of acquisition or fair market value at the date of donation. These are considered inexhaustible and are not subject to depreciation.

Depreciation is computed using the straight-line method and half-year convention over the estimated useful lives of the assets, generally 40 years for buildings, 25 years for infrastructure and land improvements, 8 years for equipment, 5 years for vehicles, 3 years for information processing and computer systems, and 5 to 40 years for componentized buildings and building improvements. Note – The estimated useful lives used by the blended component units for equipment and building improvements, ranging from 5 to 10 years, vary slightly from the University's policy. The financial impact of the variation is considered to be immaterial to the financial statements as a whole.

Deferred Revenue. Deferred revenues consist primarily of summer school tuition not earned during the current year, amounts received from grant and contract sponsors that have not yet been earned, and athletic ticket sales.

Compensated Absences. Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded as accrued compensated absences in the Statement of Net Assets, and as an expense in the Statement of Revenues, Expenses and Changes in Net Assets.

Deposits Held in Custody for Others. Deposits held in custody for others consist primarily of student organizations' moneys and amounts due for various study abroad programs.

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of revenue bonds and loans payable, capital lease obligations with contractual maturities greater than one year, estimated amounts for accrued compensated absences, accrued other postemployment benefits, and other liabilities that will not be paid within the next fiscal year.

Net Assets. The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This component represents capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction or improvement of those assets.

Restricted net assets – nonexpendable: Restricted nonexpendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Kansas State University
Notes to Financial Statements
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Tax Status. The University is classified as exempt from federal income tax under Section 115(a) and under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3). Certain revenues generated from activities unrelated to the University's exempt purpose may be subject to federal income tax under Internal Revenue Code Section 511(a)(2)(B).

Classification of Revenues. The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as 1) student tuition and fees, net of scholarship discounts and allowances, 2) sales and services of auxiliary enterprises or educational activities, 3) most Federal, state and local grants and contracts, and 4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, such as state appropriations and investment income.

Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Summer Session. Revenues and expenses for the summer session are reported within the fiscal year in which the summer session is predominately conducted. Accordingly, only revenues and expenses for the 2011 summer session are reported in the Statement of Revenues, Expenses, and Changes in Net Assets. For the 2012 summer session, revenues received prior to June 30, 2012 are reported as deferred revenues in the Statement of Net Assets while expenses paid prior to June 30, 2012 are reported as prepaid expenses. Kansas Board of Regents officials determined this methodology and believe the departure from generally accepted accounting principles will not have a material effect on the University's financial position.

Reclassifications. Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The effects of these reclassifications are discussed in Note 16.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2 – Deposits and Investments

A summary of the University's deposits and investments at June 30 is as follows:

	<u>2012</u>	<u>2011</u>
Cash deposits with State Treasury	\$186,872,531	\$189,985,671
Cash deposits with financial institutions	67,345,299	58,126,976
Certificates of deposits	1,122,401	1,118,091
Short Term Investment	1,042,922	-
Guaranteed investment contracts	4,334,678	4,334,678
Investments at KSU Foundation	85,198,325	37,773,957
Other investments	<u>5,131,789</u>	<u>5,028,956</u>
	\$351,047,945	\$296,368,329

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

A reconciliation of deposits and investments to the Statement of Net Assets as of June 30 is as follows:

	2012	2011
Cash and cash equivalents (current)	\$205,504,213	\$189,824,785
Investments (current)	8,030,711	7,004,424
Restricted cash and cash equivalents (non-current)	48,713,617	58,287,862
Investments (non-current)	88,799,404	41,251,258
	\$351,047,945	\$296,368,329

Deposits

The carrying amount of the University's cash and cash equivalents with the State Treasurer and other financial institutions at June 30, 2012 were \$254,217,830. The University's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in short-term investments with the exception of the bond funds. All bond proceeds are invested in conjunction with specifications stated in the bond resolutions.

State law requires the University to deposit the majority of its cash balances with the State Treasurer, who holds and invests the funds. These investments are managed by the Pooled Money Investment Board, which maintains a published Investment Policy. The exceptions to this are any funds maintained in the University's imprest fund, organizational safekeeping, and any funds held by external entities on behalf of the University.

Cash balances maintained by the State Treasurer are pooled and are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board and are reported at fair value, based on quoted market prices.

The majority of deposit balances not maintained by the State Treasurer are covered by FDIC or collateralized. The University does not have a formal deposit policy regarding custodial credit risk. However, management has evaluated the financial stability of the financial institutions involved and feels the deposit custodial credit risk is minimal.

Investments.

Pooled Money Investment Board (PMIB). The investment policy of the PMIB is governed by State statutes. The primary objectives are to attain safety, liquidity, and yield. Allowable investments for State pooled moneys are as follows:

- Certificates of deposit in Kansas banks, which are fully collateralized
- Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America, or any agency thereof
- Obligations and securities of United States sponsored enterprises that under federal law may be accepted as security for public funds. Moneys available for investment shall not be invested in mortgage-backed securities of such enterprises, which include the Government National Mortgage Association
- Repurchase and reverse purchase agreements with a bank or a primary government securities dealer that reports to the Market Reports Division of the Federal Reserve Bank of New York
- Loans as mandated by the Kansas Legislature limited to not more than the greater of 10 percent or \$140,000,000 of total investments
- Certain Kansas agency and SKILL projects and bonds
- Corporate bonds that have received one of the two highest credit ratings by a nationally recognized investment-rating firm, not to exceed maturities of two years
- High grade commercial paper that does not exceed 270 days to maturity

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Kansas Development Finance Authority (K DFA). For investments related to the University's revenue bonds, state statutes permit cash balances to be invested as permitted by bond documents and bond covenants. K DFA manages the University's revenue bond investments. Allowable investments include:

- U.S. Government obligations
- Obligations of government-sponsored agencies
- Federal funds, unsecured certificates of deposit, time deposits and banker's acceptances
- Deposits – fully insured by FDIC
- Certain State or municipal debt obligations
- Certain pre-refunded municipal obligations
- Commercial paper
- Investments in money market funds
- Repurchase agreements
- Stripped securities
- Investments in the Municipal Investment Pool Fund
- Investment agreements

The Kansas State University Foundation (Foundation). The Foundation is authorized by state statute to act as the investing agent for the state agricultural university fund. Allowable investments include:

- Time deposit, open accounts for periods of not less than 30 days, or certificates of deposit for periods of not less than 90 days, in commercial banks located in Kansas
- United States treasury bills or notes with maturities as the investing agent shall determine
- The permanent endowment fund of the endowment association or foundation.

The Foundation is also the investing agent for the K-State Athletics, Inc. The investment policies of the Foundation are governed by policies and procedures established by their Asset Management Committee, which is a committee of the Board of Directors, in collaboration with staff and consultants. The Foundation staff implements 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. The specific return objectives, risk parameters and spending policies of K-State Athletics, Inc. are adopted to be in compliance with the Foundation's policies and procedures for endowment and investment management.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

PMIB minimizes interest rate risk structuring the investment portfolio so that securities mature to meet cash requirement for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities.

For revenue bond investments managed by K DFA, due to the tax-exempt status of the bonds, it is generally the practice of K DFA and the University to match reserve fund interest rates to the arbitrage yield on the bonds and the term of the investments to the maturity of the bonds. For invested loan funds, K DFA generally invests to maximize the interest rate and set a term of investment based on estimated expenditures, which is generally 3 – 5 years.

The state agricultural university funds are invested in the Foundation's pooled endowment fund and are subject to their investment policy.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

As of June 30, 2012, the University had investments with the following maturities:

Investment Type	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Certificates of Deposit	\$ 1,122,401		\$1,122,401		
Investment Agreements	4,334,678		\$ 461,000		\$ 3,873,678
Short Term Investments	1,042,922	1,042,922			
	\$ 6,500,001	\$ 1,042,922	\$ 1,583,401	\$ -	\$ 3,873,678
Investments not subject to maturity dates:					
KSU Foundation Investment Pool	\$88,190,200				
Unlisted Securities	2,139,914				
Grand Total	\$96,830,115				

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the University. The University investments may have credit risk, since the underlying securities may include securities other than those that take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. government. The investments are unrated and certain investments have an underlying collateral agreement.

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the University's name, and are held by either the counterparty or the counterparty's trust department or agent.

The University does not have a formal investment policy that addresses custodial credit risk. However, the University's custodial credit risk is estimated to be minimal based on the expressed investment policies of PMIB, KDFA and the Foundation.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer that exceeds 5 percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

Note 3 – Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2012, accounts receivable consisted of the following:

	<u>June 30, 2012</u>
Student tuition and fees	\$12,747,046
Auxiliary enterprises and other operating activities	3,903,300
Federal, state, and private grants and contracts	21,571,356
Interest	68,037
Other	<u>7,607,292</u>
	\$45,897,031
Less allowance for doubtful accounts	<u>382,383</u>
Net accounts receivable	\$45,514,648

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

Note 4 – Loans to Students

Student loans made through the Federal Perkins Loan Program and the Health Profession Student Loan Program comprise substantially all of the loans to students at June 30, 2012 and 2011. The Programs provide for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100%, if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2012 and 2011, the allowance for uncollectible loans was estimated to be \$1,094,504 and \$1,155,540, respectively.

Note 5 – Capital Assets

Capital asset activity for the University for the year ended June 30, 2012 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets (not depreciated)				
Land and Improvements	13,594,527	889	-	13,595,416
Art Collections	2,658,782	16,703	-	2,675,485
Construction in Progress	62,404,337	52,500,248	48,714,648	66,189,937
Capital Assets (being depreciated)				
Buildings & Improvements	632,523,461	41,303,208	9,479	673,817,190
Land Improvements	23,151,500	451,680	145,955	23,457,225
Infrastructure	20,884,449	8,593,851	-	29,478,300
Intangibles	7,013,802	3,783,838	103,756	10,693,884
Equipment and Furnishings	171,942,368	13,856,553	5,129,530	180,669,391
Vehicles	20,251,146	2,918,030	1,458,942	21,710,234
Total Capital Assets	954,424,372	123,425,000	55,562,310	1,022,287,062
Accumulated Depreciation				
Buildings & Improvements	276,314,035	16,461,261	-	292,775,296
Land Improvements	12,308,483	807,764	145,955	12,970,292
Infrastructure	5,615,858	952,044	-	6,567,902
Intangibles	5,881,494	556,832	96,685	6,341,641
Equipment and Furnishings	118,897,306	12,234,578	4,707,888	126,423,996
Vehicles	17,652,003	1,265,393	1,365,383	17,552,013
Total Depreciation	436,669,179	32,277,872	6,315,911	462,631,140
Capital Assets, net	517,755,193	91,147,128	49,246,399	559,655,922

The University elected not to capitalize its library book collections. These collections adhere to the University's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep encumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at the time of purchase rather than be capitalized.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

Note 6 – Deferred Revenue

Deferred revenues consist primarily of summer session tuition and fees, advance collections on grants and contracts, and athletic ticket sales. The breakdown of deferred revenues is as follows:

Tuition and fees	\$ 7,612,958
Grants and contracts	17,672,167
Athletic tickets and other	<u>9,493,544</u>
	<u>\$34,778,669</u>

Note 7 – Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2012 consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 17,233,888	\$ 2,321,558	\$ 1,852,979	\$ 17,702,467	\$14,230,169
Accrued other postemployment benefits	12,311,489	1,729,511	-	14,041,000	-
Capital lease payable	1,215,148	183,233	817,489	580,892	267,137
Other loan payable	6,171,831	210,000	1,225,863	5,155,968	519,751
Revenue bonds payable	249,910,889	105,945,000	43,100,000	312,755,889	10,665,000
Other liabilities	<u>842,074</u>	<u>4,914,618</u>	<u>383,133</u>	<u>5,373,559</u>	<u>387,131</u>
Total Noncurrent Liabilities	\$287,685,319	\$115,303,920	\$ 47,379,464	\$355,609,775	\$26,069,188

Note 8 – Revenue Bonds Outstanding

Revenue bonds payable consisted of the following at June 30, 2012:

	Principal Outstanding 6/30/12
Kansas Development Finance Authority Refunding Revenue Bonds-Series 2012H (Kansas State University Project – Energy Conservation) Issued on April 19, 2012 in the original amount of \$12,460,000. Due in annual installments with final maturity on 8/1/32. Interest ranging from 2.0% to 5.0% payable semi-annually.	\$12,460,000
Kansas Development Finance Authority Refunding Revenue Bonds-Series 2012H (Kansas State University Project – Scientific R&D Facilities) issued on April 19, 2012 in the original amount of \$23,510,000. Due in annual installments with final maturity on 8/1/32. Interest ranging from 2.0% to 5.0% payable semi-annually.	\$23,510,000
Kansas Development Finance Authority Revenue Bonds-Series 2012B-1 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2012 in the original amount of \$30,035,000. Due in annual installments with final maturity on 7/1/32. Interest ranging from 3.0% to 5.25% payable annually.	\$30,035,000

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

	Principal Outstanding 6/30/12
Kansas Development Finance Authority Revenue Bonds-Series 2012B-2 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2012 in the original amount of \$23,640,000. Due in annual installments with final maturity on 7/1/25. Interest ranging from 1.088% to 4.233% payable annually.	\$23,640,000
Kansas Development Finance Authority Revenue Bonds-Series 2011G (Kansas State University Project – Landfill) issued on November 3, 2011 in the original amount of \$3,840,000. Due in annual installments with final maturity on 4/1/41. Interest ranging from 0.50% to 4.125% payable semi-annually.	\$ 3,670,000
Kansas Development Finance Authority Revenue Bonds-Series 2011G (Kansas State University Project – Manhattan Housing Jardine) issued on November 3, 2011 in the original amount of \$12,460,000. Due in annual installments with final maturity on 4/1/41. Interest ranging from 0.50% to 4.125% payable semi-annually.	\$11,920,000
Kansas Development Finance Authority Revenue Bonds-Series 2011A-1 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2011 in the original amount of \$21,790,000. Due in annual installments with final maturity on 7/1/31. Interest ranging from 2.0% to 5.25% payable semi-annually.	\$21,225,000
Kansas Development Finance Authority Revenue Bonds-Series 2011A-2 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2011 in the original amount of \$3,210,000. Due in annual installments with final maturity on 7/1/14. Interest ranging from 0.7% to 2.25% payable semi-annually.	\$ 2,485,000
Kansas Development Finance Authority Revenue Bonds-Series 2010U-1 (The Kansas Board of Regents – Kansas State University Qualified Energy Conservation Project) issued on December 1, 2010 in the original amount of \$17,815,000. Due in annual installments with final maturity on 5/1/29. Interest ranging from 1.8% to 5.45% payable semi-annually.	\$17,815,000
Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project – Energy Conservation) issued on December 1, 2010 in the original amount of \$2,345,000. Due in annual installments with final maturity on 5/1/2029. Interest ranging from 2.0% to 4.375% payable semi-annually.	\$ 2,345,000
Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project –Ackert Hall Refunding) issued on December 1, 2010 in the original amount of \$655,000. Due in annual installments with final maturity on 5/1/2015. Interest at 2.0% payable semi-annually.	\$ 410,000
Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project –Union Refunding) issued on December 1, 2010 in the original amount of \$4,365,000. Due in annual installments with final maturity on 5/1/2018. Interest ranging from 2.0% to 3.0% payable semi-annually.	\$ 3,395,000

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For the Year Ended June 30, 2012

	Principal Outstanding 6/30/12
<p>Kansas Development Finance Authority Refunding Revenue Bonds-Series 2010H (The Kansas Board of Regents – Kansas State University Farrell Library Expansion Project) issued on June 29, 2010 in the original amount of \$1,530,000. Due in annual installments beginning 10/1/10 with final maturity on 10/1/15. Interest at 2.0% payable semi-annually.</p>	\$ 1,030,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2010G-1 (The Kansas Board of Regents – Kansas State University Student Recreation Complex Expansion Project) and Taxable Revenue Bonds-Series 2010G-2 (Kansas Board of Regents – Kansas State University Student Recreation Complex Expansion Project) (Build America Bonds – Direct Payment to Issuer) issued on June 29, 2010 in the original amount of \$21,565,000. Due in annual installments beginning 10/1/13 with final maturity on 10/1/39. Interest ranging from 2.0% to 6.6% payable semi-annually.</p>	\$21,565,000
<p>Kansas Development Finance Authority Sales Tax Revenue Bonds-Series 2009L-1 & L-2 (K-State – Olathe Innovation Campus, Inc. Project) issued on September 10, 2009 in the original amount of \$30,500,000. Due in annual installments beginning 9/1/11 with final maturity on 9/1/39. Interest ranging from 1.9% to 6.0% payable semi-annually.</p>	\$29,990,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2009K-1 & K-2 (The Kansas Board of Regents – Kansas State University Child Care Facility Project) issued on July 29, 2009 in the original amount of \$6,140,000. Due in annual installments beginning 11/1/12 with final maturity on 11/1/39. Interest ranging from 2.625% to 5.625% payable semi-annually.</p>	\$ 6,140,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2008D (The Kansas Board of Regents – Kansas State University Student Life Center Project, Salina Campus) issued on June 15, 2008 in the original amount of \$1,600,000. Due in one installment from the Trust Estate 5/1/38. Interest at 5.10% payable semi-annually.</p>	\$ 1,600,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2007H (The Kansas Board of Regents – Kansas State University Parking System) issued on August 1, 2007 in the original amount of \$17,855,000. Due in annual installments beginning 5/1/09 with final maturity on 5/1/37. Interest ranging from 3.60% to 4.50% payable semi-annually.</p>	\$16,435,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2007A (The Kansas Board of Regents – Kansas State University Housing System, Manhattan Campus) issued on February 1, 2007 in the original amount of \$27,750,000. Due in annual installments beginning 10/1/07 with final maturity on 4/1/37. Interest ranging from 3.75% to 4.39% payable semi-annually.</p>	\$25,195,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2005D (The Kansas Board of Regents – Kansas State University Research and Development Facilities Projects) issued on May 1, 2005 in the original amount of \$20,980,000. Due in annual installments beginning 4/1/07 with final maturity on 10/1/21. Interest ranging from 3.90% to 5.15% payable semi-annually.</p>	\$11,865,000

Kansas State University
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For the Year Ended June 30, 2012

	Principal Outstanding 6/30/12
<p>Kansas Development Finance Authority Revenue Bonds-Series 2005A (The Kansas Board of Regents – Kansas State University Housing System, Manhattan Campus) issued on February 1, 2005 in the original amount of \$44,535,000. Due in annual installments beginning 10/1/06 with final maturity on 4/1/35. Interest ranging from 3.0% to 5.0% payable semi-annually.</p>	\$39,090,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2003J-1 (The Kansas Board of Regents – Kansas State University Energy Conservation Projects) issued on August 1, 2003 in the original amount of \$21,020,000. Due in annual installments beginning 8/1/05 with final maturity on 8/1/23. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	\$ 1,960,000
<p>Kansas Development Finance Authority Refunding Revenue Bonds- Series 2001G-1 (The Kansas Board of Regents – Kansas State University Salina Housing Project) issued on June 15, 2001 in the original amount of \$845,000. Due in annual installments with final maturity on 4/1/14. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	\$ 220,000
<p>Kansas Development Finance Authority Refunding Revenue Bonds- Series 2001G-2 (The Kansas Board of Regents – Kansas State University Recreation Project) issued on June 15, 2001 in the original amount of \$6,385,000. Due in annual installments with final maturity on 4/1/13. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	\$ 1,260,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2002E (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2002 in the original amount of \$3,495,889.40. Due in annual installments with final maturity on 7/1/19. Interest ranging from 5.0% to 5.4% payable semi-annually.</p>	\$ 3,495,889
<p>Series 2010U-1 Qualified Energy Project, Series 2010U-2 University Projects, Series 2011G University Projects and Series 2012H University Projects are collateralized by a pledge of the University's unrestricted revenues. Series 2010H Farrell Library Expansion Project, Series 2010G-1 & G-2 Recreation Expansion Project, Series 2008D Student Life Center Project, and Series 2001G-2 Recreation Project are collateralized by a pledge of student fees. Series 2009L K-State Olathe Innovation Project is collateralized by a pledge of sales tax revenue. Series 2009K-1 & K-2 Child Care Facility Project is collateralized by a pledge of user fees. Series 2001G-1 Salina Housing Project, Series 2005A Housing System Manhattan Campus, and Series 2007A Housing System Manhattan Campus are collateralized by a pledge of housing revenues. Series 2005D Research and Development Facilities Projects are collateralized by a pledge of State appropriations and various university revenue funds. Series 2003J-1 Energy Conservation Projects are collateralized by the annual utility and maintenance savings realized by the implementation of the energy improvement projects. Series 2007H Parking System Project is collateralized by a pledge of parking operation revenues. Series 2002E, Series 2011A-1 & A-2 and Series 2012B-1 & B-2 K-State Athletics, Inc. are collateralized by the pledge of revenues of the corporation.</p>	

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

Note 9 – Revenue Bonds Maturity Schedule

Future debt service requirements for all bonds outstanding at June 30, 2012 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,665,000	\$ 12,644,581	\$ 23,309,581
2014	10,205,000	13,042,039	23,247,039
2015	11,210,000	12,684,879	23,894,879
2016	10,512,851	13,194,138	23,706,989
2017	10,657,279	12,767,965	23,425,243
2018-2022	57,885,760	56,154,717	114,040,476
2023-2027	65,600,000	40,515,990	106,115,990
2028-2032	74,615,000	24,315,051	98,930,051
2033-2037	46,145,000	9,015,110	55,160,110
2038-2041	15,260,000	1,308,988	16,568,988
Total	\$312,755,889	\$ 195,643,457	\$508,399,346

In prior years, the University defeased certain revenue bonds payable by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the defeased bonds and the related trust balances are not reflected in the University's financial statements. During the fiscal year ended June 30, 2012, the University refunded \$35,295,000 of revenue bonds.

Note 10 – Loan and Lease Obligations

In December 2002, the University and the KSU Foundation entered into a 15 year capital lease agreement for the KSU Printing Services building in the amount of \$825,000. In January 2008, the lease was increased by \$210,974 to account for improvements made to the property. Annual lease payments of \$91,547 are due July 31, with an outstanding balance at June 30, 2012 of \$199,520.

In July 2005, the University and National City Commercial Capital Corporation entered into a 19 year financing agreement for the purpose of funding steam pipe replacement in the amount of \$873,755. Quarterly principal and interest payments are due starting September 29, 2005 at an interest rate of 1.0475%. The outstanding balance at June 30, 2012 is \$727,359.

In December 2009, the University and Bank of America, N.A. entered into a 17 year financing agreement for the purpose of funding energy conservation measures at the University. Quarterly principal and interest payments are due starting April 15, 2011 at an interest rate of 4.956%. The outstanding balance at June 30, 2012 is \$1,902,909.

In fiscal year 2010, \$2,538,649 of special assessment bonds were issued in Johnson County to pay for the infrastructure of the K-State Olathe Innovation Campus, Inc., with an additional amount issued in fiscal year 2011 of \$427,368. The City of Olathe reevaluated property boundaries used to allocate special assessment bonds, as a result the liability decreased by \$338,105. The tax levy consists of six annual payments of \$136,218 commencing in fiscal year 2011, with a final payment of \$1,634,609. The outstanding balance at June 30, 2012 is \$2,315,699.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

The University is obligated for the purchase of certain equipment funded through issuance of blanket financing agreements in the amount of \$381,372 as of June 30, 2012. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2013	\$ 175,590
2014	112,183
2015	67,703
2016	<u>25,896</u>
	\$ 381,372

Note 11 – Retirement Plans

The University participates in one cost-sharing multiple-employer defined benefit pension plan, one defined contribution pension plan, and one federal pension plan.

Defined Benefit Plan

Classified employees participate in the Kansas Public Employees Retirement System (KPERS). Benefit provisions are established by state statute and provide retirement, disability, and death benefits to benefits eligible employees. KPERS issues a publicly available annual financial report that includes its financial statements and required supplementary information and is available upon request from KPERS.

For the year ended June 30, 2012, active KPERS members were required by statute to contribute 4% and the University to contribute 8.77% of the employees’ covered payroll. The Kansas Legislature establishes and may amend active plan members’ and the University’s contribution rates. The University contributed \$4,421,509 during fiscal year 2012 and individual employees contributed \$2,146,692. In addition, payments to KPERS for death and disability coverage for all University employees totaled \$2,039,696.

Defined Contribution Plan

Eligible unclassified employees are required to participate in the Kansas Board of Regents (Regents) defined contribution retirement plan, which was authorized by K.S.A. 74-4925. The Regents have selected the following companies to provide investment options to participants: 1) Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) and 2) ING Life Insurance and Annuity Company. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. All contributions are fully vested with the first contribution.

For the year ended June 30, 2012 active members were required by statute to contribute 5.5% and the University to contribute 8.5% of the employees’ covered payroll. The Kansas Legislature establishes and may amend active plan members’ and the University’s contribution rates. The University contributed \$17,265,753 during fiscal year 2012 and individual employees contributed \$10,978,250.

Federal Retirement Plan

Some Extension Service employees at Kansas State University hold Federal appointments. Prior to December 31, 1986, Federal appointees were required to participate in the Federal Civil Service Retirement System (CSRS), a defined benefit plan. CSRS employees are subject to the Hospital Insurance portion of FICA, the CSRS employee deduction of 7.0%, and the employer contribution of 7.0%.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

The Federal Employees Retirement System (FERS), also a defined benefit plan, was created beginning January 1, 1987. Employees hired after December 31, 1983 were automatically converted to FERS. Other Federal employees not covered by FERS had a one-time option to transfer to FERS up to December 31, 1987. New FERS employees contribute 0.8% with an employer contribution rate of 11.9%. FERS employees contribute at the full FICA rate. They also participate in a Thrift Savings Plan with an automatic employer contribution of 1%. Employees may also contribute to this plan at variable rates, in which case the employer contributes at a variable rate up to 4%. CSRS employees are also eligible for participation in the Thrift Savings Plan, but without employer contributions. Acceptance of new member participation was terminated effective July 1, 1986

For the year ended June 30, 2012, the University contributed \$538,561 and individual employees contributed \$219,591 to these plans.

Voluntary Tax-Sheltered Annuity Program

Employees may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in a voluntary tax-sheltered annuity program. This voluntary plan permits employees to designate a part of their earnings into tax-sheltered investments and thus defer federal and state income taxes on their contributions and the accumulated earnings under the plan. Participation and the level of employee contributions are voluntary. The employer is not required to make contributions to the plan

Note 12 – Other Postemployment Healthcare Benefits

Description. As a component unit of the State of Kansas, the University participates in the State's health insurance benefit plan. Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependants as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Policy Authority. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by the University, thus resulting in a liability to the University. At the State level, the accounting for the health insurance for retirees is included in the State's Self-Insurance Health fund, with the subsidy provided from the Self-Insurance Health fund.

Funding Policy. The University provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs.

The University does not pay retiree benefits directly; they are paid implicitly over time through employer subsidization of active employee premiums that would be lower if retirees were not part of the experience group.

Kansas State University
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For the Year Ended June 30, 2012

Annual OPEB Cost and Net OPEB Obligation. The University's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the University's annual OPEB cost for the year, the contribution to the plan, and changes in the University's net OPEB obligation.

Amortization of UAAL	\$ 1,580,000
Normal cost (with interest)	<u>1,644,000</u>
Annual required contribution (ARC)	\$ 3,224,000
Interest on net OPEB obligation	459,000
Adjustment to the ARC	<u>(677,000)</u>
Annual OPEB cost	\$ 3,006,000
Net OPEB obligation July 1, 2011	<u>11,917,000</u>
Net OPEB obligation June 30, 2012	<u>\$14,041,000</u>

Schedule of Employer Contributions (for fiscal year ended)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2010	\$3,056,000	\$0	0%	\$ 8,974,000
2011	3,505,000	562,000	16%	11,917,000
2012	3,006,000	882,000	29%	14,041,000

Funded Status and Funding Progress. As of June 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$29,432,000. The University's policy is to fund the benefits on a pay as you go basis that is paid implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$29,432,000. The covered payroll (annual payroll of active employees covered by the plan) was \$318,062,000, and the ratio of the UAAL to the covered payroll was 9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
6/30/2010	\$0	\$27,024,000	\$27,024,000	0%	\$304,214,000	9%
6/30/2011	0	32,997,000	32,997,000	0%	308,087,000	11%
6/30/2012	0	29,432,000	29,432,000	0%	318,062,000	9%

Actuarial Methods and Assumptions. Projections of benefits for reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 13.0 to 17.0 percent in the first sixteen years and an ultimate rate of 13.0 percent after sixteen years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over a 30 year open period in level dollar amounts.

Note 13 – Pollution Remediation

The University has implemented GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and following are the related disclosures:

Site assessments and investigations have been completed at the former Schilling Air Force Base in Salina, Kansas and settlement negotiations are underway with the Federal Government to correct soil and groundwater contamination resulting primarily from the use of the chemical Trichloroethylene (TCE). No liability is recorded in the financial statements because an estimate of the University's portion of the liability, if any, is unknown at this time.

A chemical waste landfill was created with approval of the U.S. Atomic Energy Commission and utilized from the mid-1960's to 1987 as a burying ground for tritium, carbon-14 and other short-lived radioactive elements. The university also disposed of some chemicals at the site from 1979 to 1983. The Kansas Board of Regents approved the plan to clean up the site, which commenced in FY2011 and was substantially completed in FY2012. The project is expected to be completed by the end of FY2013 at a projected cost of approximately \$6 million.

Site assessments and investigations will begin in FY2013 to determine the extent and levels of contamination from diesel and gasoline underground storage tanks which have been removed at the Ashland Bottoms Agronomy farm in Riley County. The cost of installing nine monitoring wells and conduct sampling is expected to cost \$27,055 and will be paid from the State of Kansas Storage Tank Trust fund, less a \$4,000 deductible paid by the university.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2012

Note 14 – Commitments and Contingencies

At June 30, 2012, the University had outstanding commitments on various construction projects and contracts totaling approximately \$22 million.

The University is a defendant in several lawsuits. However, University officials are of the opinion, based on advice of in-house legal counsel, that the ultimate outcome of all litigation will not have a material effect on the future operations or financial position of the University.

University buildings are insured with a \$250,000 deductible and a maximum annual liability of \$200,000,000 per occurrence. Contents of a building are covered at 10% of the value of the building. The University, as an agency of the State of Kansas, is subject to the State of Kansas self-insurance program with regard to comprehensive general liability and personal injury insurance and is covered by the Regent's umbrella insurance policy for automobile liability. The University is not aware of any significant outstanding claims as of June 30, 2012.

In the normal course of operations, the University receives grants, contracts, and other forms of reimbursement from various federal and state agencies. These activities are subject to audit and disallowance by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. University officials believe that the liability, if any, for any reimbursement that may arise as the result of audits, would not have a material effect on the University's financial position.

Note 15 – Operating Expenses by Natural Classification

	Compensation & Benefits	Supplies & Other Services	Utilities	Scholarships & Fellowships	Depreciation	Total
Instruction	\$ 160,406,683	\$ 22,610,826	\$ 3,660		\$	\$ 183,021,169
Research	84,552,527	48,220,380	374,238			133,147,145
Public Service	52,979,176	26,731,761	18,823			79,729,760
Academic Support	29,279,235	16,849,882	1,412			46,130,529
Student Service	36,047,601	23,883,991	3,880			59,935,472
Institutional Support	22,229,580	8,571,104				30,800,684
Operations and Maintenance of Plant	17,918,088	18,911,144	14,710,416			51,539,648
Depreciation					32,277,872	32,277,872
Scholarships and Fellowships				25,700,806		25,700,806
Auxiliary Enterprises	25,214,345	13,647,552	2,191,220			41,053,117
Other		1,904,259				1,904,259
Total Operating Expenses	\$ 428,627,235	\$ 181,330,899	\$ 17,303,649	\$ 25,700,806	\$ 32,277,872	\$ 685,240,461

Note 16 – Addition of Component Unit

For the fiscal year ending June 30, 2012, the Kansas State University Institute for Commercialization was included as a blended component unit. As a result, total net assets increased by \$6,431,793 as of July 1, 2012.

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Kansas State University is committed to nondiscrimination on the basis of race, sex, national origin, disability, religion, age, sexual orientation, or other nonmerit reasons, in admissions, educational programs or activities and employment (including employment of disabled veterans and veterans of the Vietnam Era), as required by applicable laws and regulations. Responsibility for coordination of compliance efforts and receipt of inquiries concerning Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, Section 504 of the Rehabilitation Act of 1973, the Age Discrimination Act of 1975, and the Americans With Disabilities Act of 1990, has been delegated to Clyde Howard, Director of Affirmative Action, Kansas State University, 214 Anderson Hall, Manhattan, KS 66506-0124, (Phone) 785-532-6220; (TTY) 785-532-4807.

