

Kansas State University

Annual Financial Report

Fiscal Year Ended June 30, 2005



Kansas State University Manhattan, Kansas

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Kansas State University
Management's Discussion and Analysis
For the Year Ended June 30, 2005

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. Readers are encouraged to consider this information in conjunction with the 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 Governmental Accounting Standards Board (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 who 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.

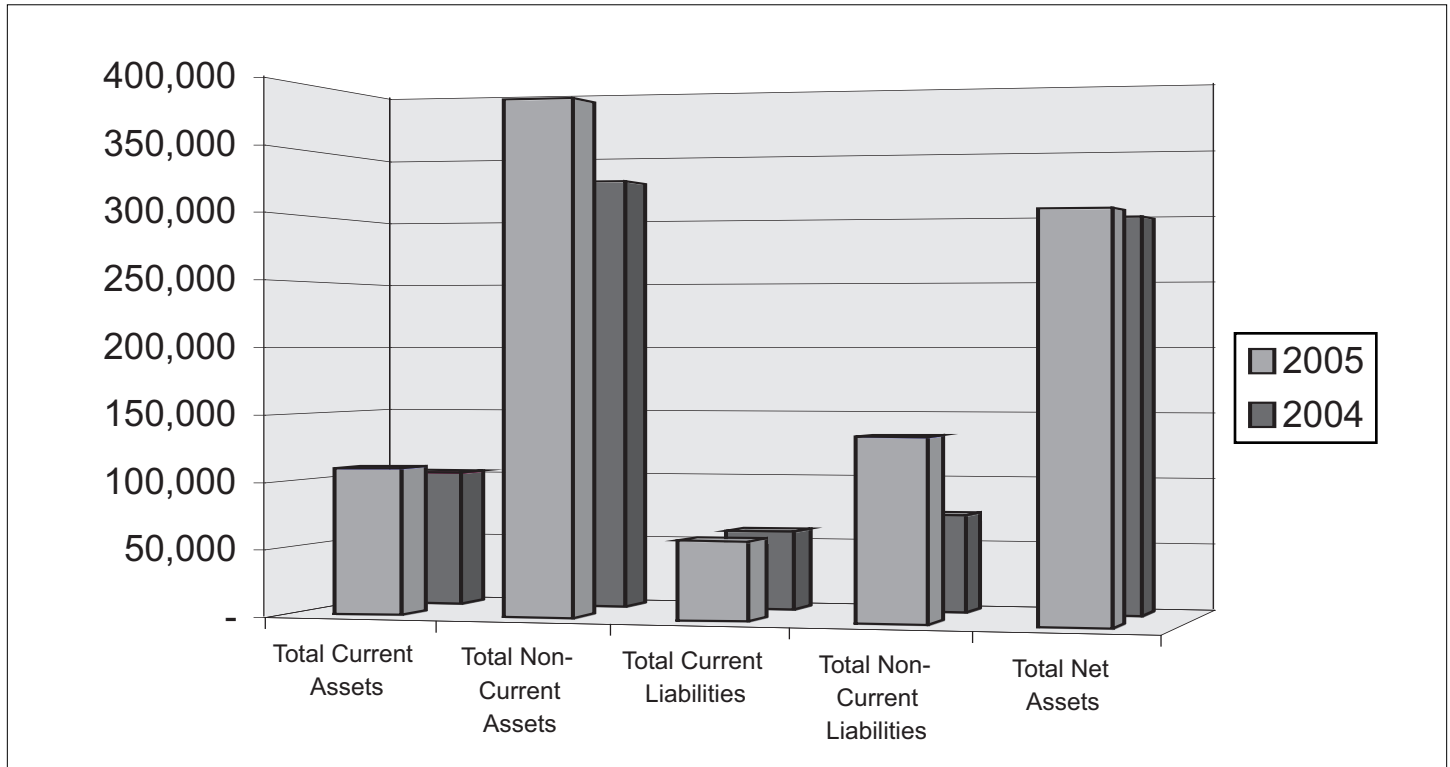
Total assets at June 30, 2005 were \$491 million, an increase of \$62.6 million (14.6%). Capital assets, net of depreciation, comprised 57.5%, or \$282.1 million of the total assets.

Total liabilities were \$192.9 million at June 30, 2005, an increase of \$60.6 million (45.8%), compared to \$132.3 million at June 30, 2004. Long-term liabilities comprised 69.9%, or \$134.8 million of the total liabilities.

Total net assets at June 30, 2005 were \$298.1 million, a \$1.9 million increase over the prior year. The breakout of net assets is shown below:

Capital assets, net of related debt	\$147,906,763
Restricted net assets.....	98,431,175
Unrestricted net assets	51,774,661
Total net assets	\$298,112,599

The composition of current and non-current assets and liabilities and net assets is displayed below for both the 2004 and 2005 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, 2005 increased by 7.7% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$92.8 million in 2005, compared to \$79.7 million in 2004. This increase is a direct result of a tuition increase approved by the Kansas Board of Regents for fiscal year 2005. The goal of the tuition increase, which was the result of collaboration between University Administration and University students, was to provide additional funds to the University to improve or enhance student education while State appropriations decreased significantly. The increase was used for specific expenses including faculty salary increases, instructional and technological upgrades, and additional scholarships.
- Grants and contracts (federal, state and local, and non-governmental) increased \$3.4 million over the previous fiscal year. This category of revenue includes funds received from the federal government for financial aid as well as other sponsored research revenue. In conjunction with this increase in grants and contracts revenue, the revenue from the University's facilities and administrative overhead reimbursement also increased from the prior year.

- Sales and services of educational activities increased \$1.9 million from the previous fiscal year. These revenues are generated by activities that are related incidentally or exist primarily to afford hands on experience related to providing instruction, research, and public service.
- Auxiliary enterprises increased \$3.3 million from the previous fiscal year. Auxiliary enterprises include Housing, Parking, University health services, and a variety of other smaller services.

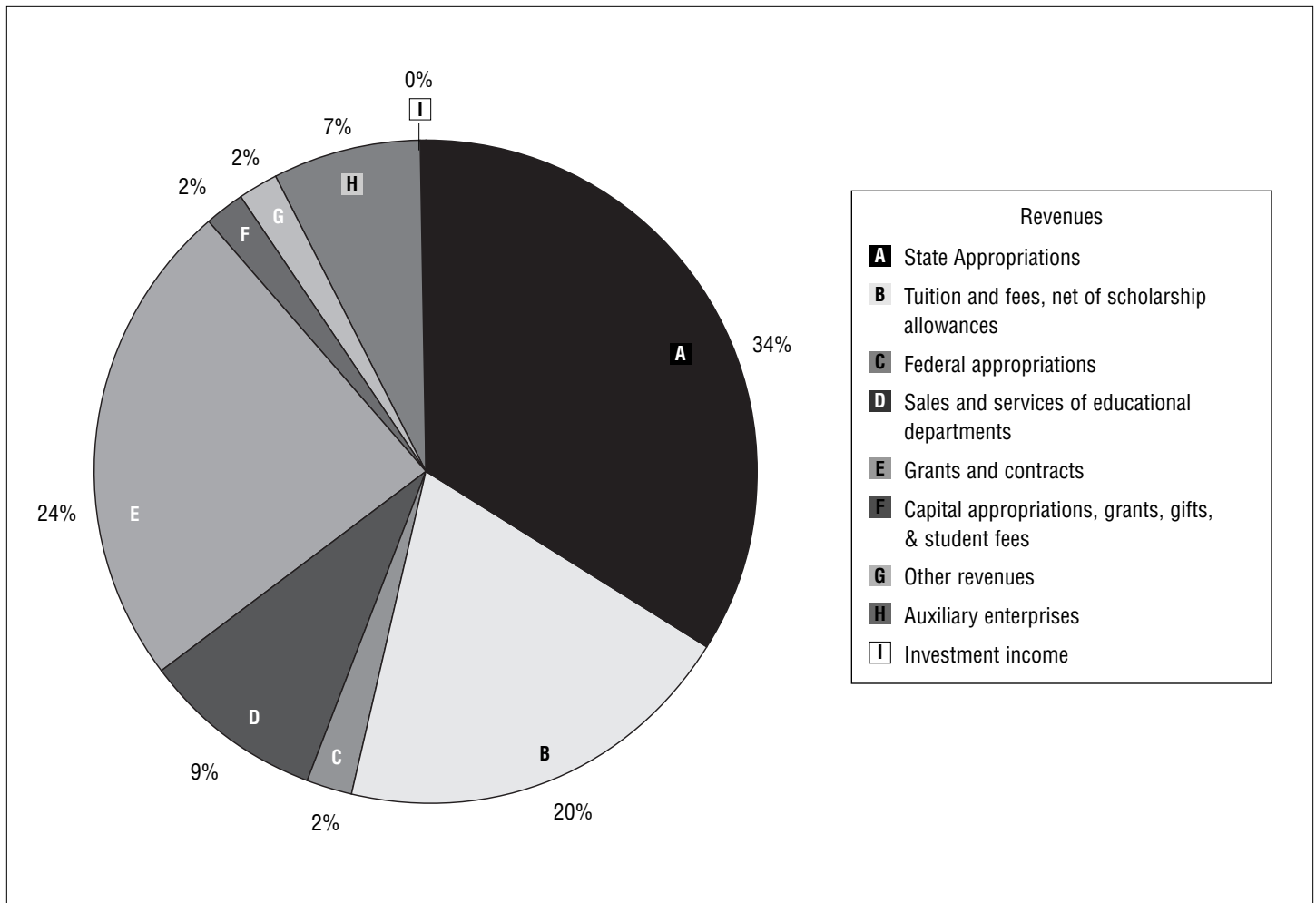
Total non-operating revenues were up 4% from the prior year from \$160.8 million to \$167.3 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from \$157.8 million to \$163.5 million.
- Investment income increased from \$.8 million to \$1.6 million.

Other revenues included the following:

- Capital appropriations and grants and gifts decreased from \$11.5 million to \$5.1 million.

In summary, total revenues increased by \$21.5 million, from \$450.2 million to \$471.7 million, an overall increase of 4.8%. The compositions of these revenues are displayed in the following graph:



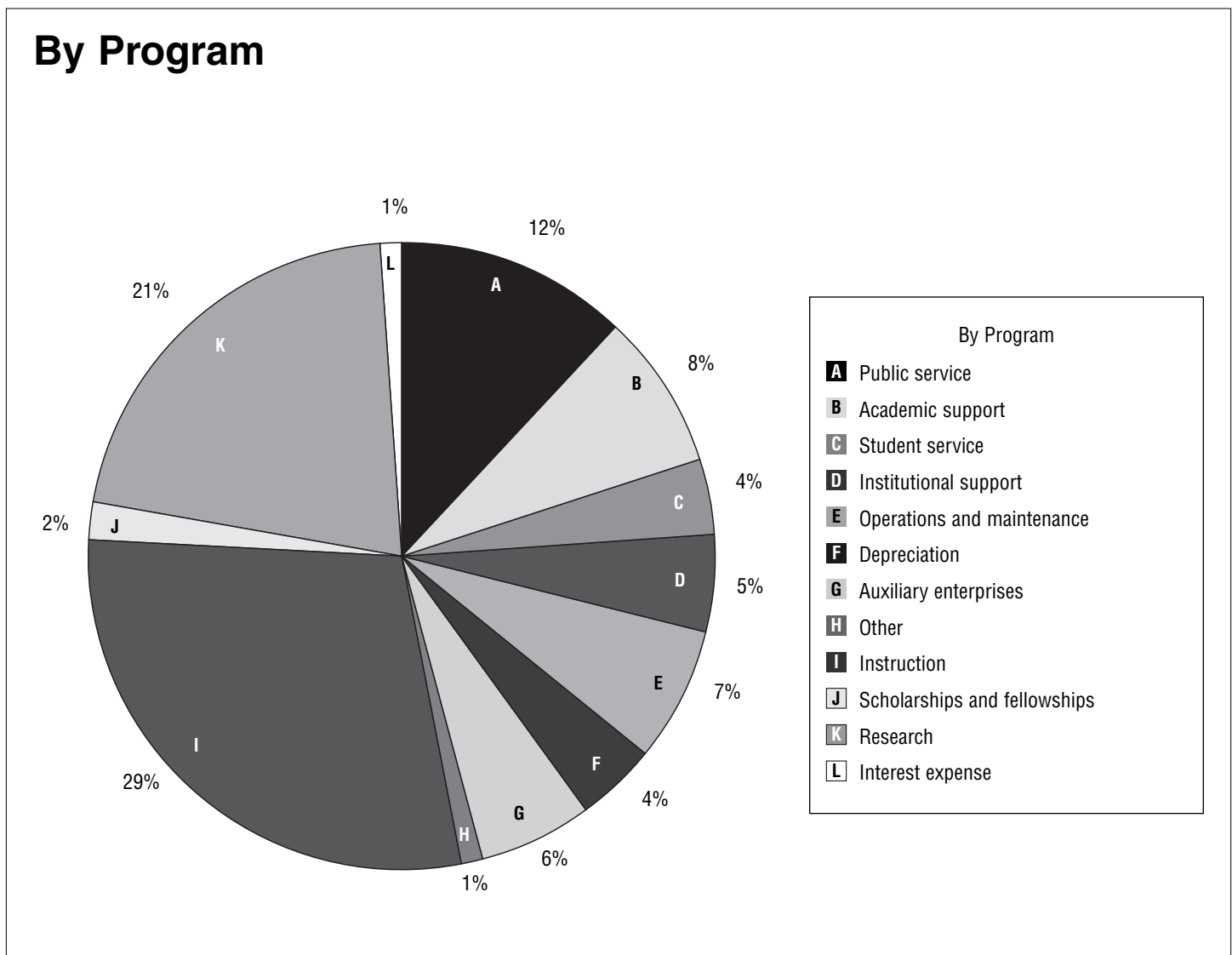
Expenses

Operating expenses were \$464.7 million for the 2005 fiscal year. This was an increase over the prior year of \$14.6 million, or 3.2%. The following is a brief summary of the significant changes:

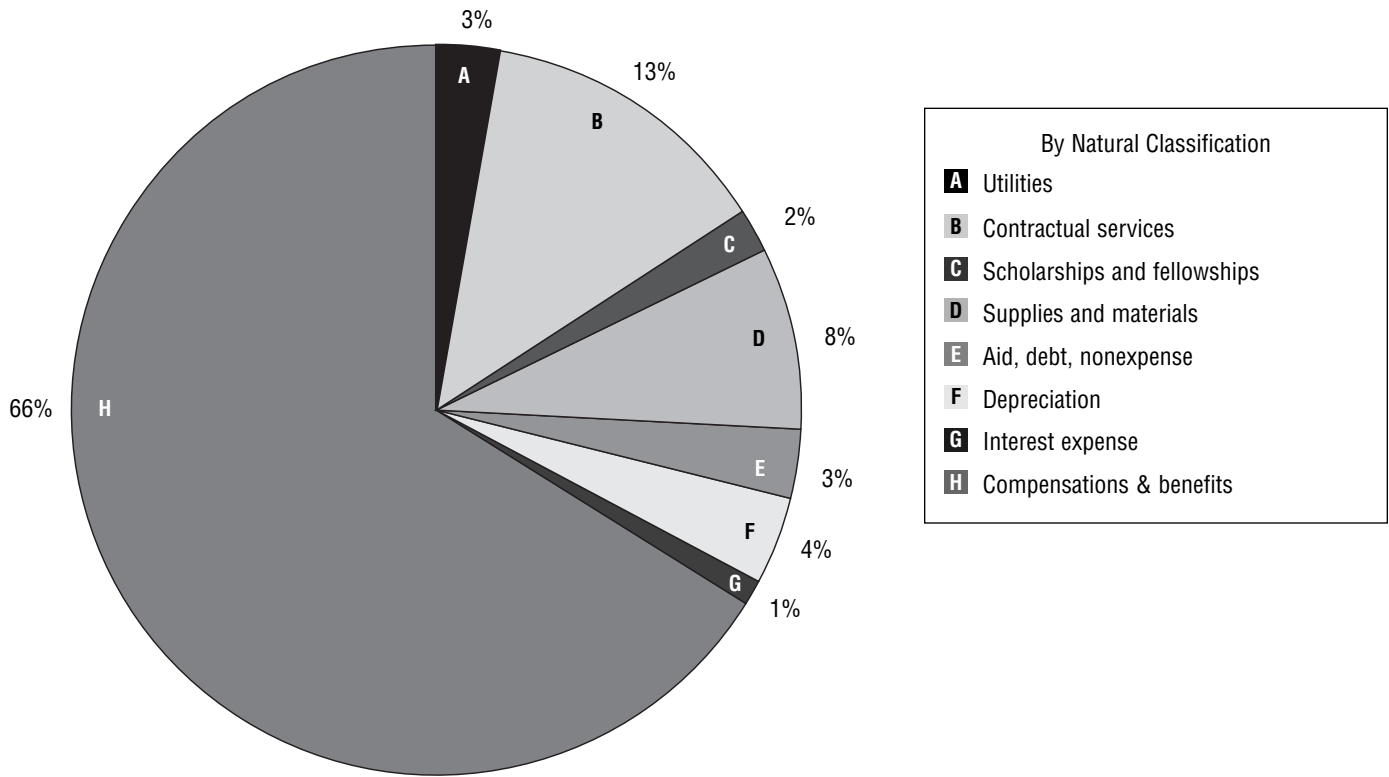
- Expenses related to the University's mission of instruction, research and public service increased \$13.4 million in 2005. This increase is directly related to the University's tuition increase earmarked for faculty salaries and the increase in grant and contract revenue.

Non-operating expenses are represented primarily by interest expense and other additions/deductions. These amounts increased by \$1.8 million from the prior year as a result of the issuance of additional capital debt during the year.

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 2005.

Net Assets

Net assets increased by \$1.9 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 a reduction in the deferred revenue liability, which consists primarily of grant and contract revenue received but not yet earned.

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, 2005	June 30, 2004
Net cash provided (used) by:		
Operating activities	\$ (145,760)	\$ (145,463)
Non-capital financing activities	162,964	158,639
Capital and related financing/appropriations	25,637	2,048
Investing activities	(60,460)	792
Net increase in cash	(17,619)	16,016
Beginning cash and cash equivalent balances	121,284	105,268
Ending cash and cash equivalent balances	\$ 103,665	\$ 121,284

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 and the receipt and disbursement of the federal direct student loan 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 decreased by \$17.6 million during fiscal year 2005. This decline is the net result of an increase in state appropriations and issuance of bonds during the year, offset by the expenditure of existing bond proceeds and cash paid for investment purchases.

CAPITAL ASSETS

The University made significant investments in capital during the 2004-2005 fiscal year. Detailed information regarding capital asset additions, retirements & depreciation is available in Note 3 to the financial statements.

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

- Phase III of the Ackert Hall Addition was completed at a cost of approximately \$2.4 million and was funded by state funds. This addition completed the lower level and first floor of the addition, providing much needed space for the Departments of Biochemistry and Chemistry.
- Renovations to Ford Hall, which is part of the Department of Housing and Dining Services, were completed at a cost of approximately \$2.7 million. The renovation project was funded by Housing Operation revenues. The newly renovated facility consists of a variety of suite arrangements.
- In Spring 2002, Kansas State University engaged Viron Energy Services to conduct an investment grade energy audit of the campus for the purpose of identifying energy conservation projects. The audit identified over 100 energy savings measures, which included new windows, plumbing and lighting retrofits, boiler replacements, and many others. The result is estimated to be an average annual utility and maintenance savings of \$1.7 million, at a cost of approximately \$19.3 million to implement. The University is responsible for repaying the State with the annual utility and maintenance savings.
- Construction of a new men's and women's rowing facility was completed during the Summer 2005 at a cost of approximately \$1 million and was funded through private gifts
- Renovations to the Galachia Institute for Gerontology and Family Studies was completed Fall 2005 providing new clinical and support space, which will enhance and expand the teaching, research and clinical training activities for undergraduate and graduate students. The project had an estimated cost of \$1.6 million and was funded through private gifts.

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

- An addition to the Marianna Kistler Beach Museum of Art is a \$5 million project scheduled to begin Fall 2005. The project will provide galleries to exhibit the permanent collection and additional storage space and will be funded through private gifts.
- The Grain Science Center Biological and Industrial Value-Added Program Complex project which commenced in FY2004, continues with construction of the Grain Science Flour Mill. It is expected to be completed Spring 2006, at an estimated cost of \$6.8 million. A feed mill and a teaching/research/administration building will complete the complex. The project budget for the remaining buildings is approximately \$25 million and will be funded through private gifts.
- Construction continued on the Biosecurity Research Institute. This \$53 million project will enable investigation of infectious diseases and provide for safe handling of biotechnology products. The majority of the funding is being provided through the issuance of revenue bonds, with future repayment of the bonds coming from state appropriations and various university revenue funds.
- The Jardine Terrace Apartments renovation commenced in Spring 2005. This Department of Housing and Dining Services project has an estimated cost of \$102 million and will be funded through a 30-year series of bond agreements with future repayment of the bonds coming from Housing Operation revenues.
- Renovations to Haymaker Hall, which is a part of the Department of Housing and Dining Services, began in Fall 2005. The project is estimated at \$3.7 million, to be funded by Housing Operation revenues. The renovations will convert the old style student rooms to suites of rooms.
- A multi-year renovation and addition to the Vanier Football Complex was started in Fall 2005. The project is estimated at \$5.5 million and funded through private gifts.

DEBT ADMINISTRATION

At June 30, 2005, the University had \$132 million in debt outstanding. Revenue bonds were issued by the Kansas Board of Regents (KBOR) in the amount of \$20,980,000 for the benefit of Kansas State University as continued funding of the Research and Development Facilities projects. Revenue bonds were also issued by KBOR in the amount of \$44,535,000 for the benefit of Kansas State University to finance the first phase of the Housing and Dining Services Jardine Terrace Apartments renovation project. The University paid \$7,698,262 in principal and interest payments related to all outstanding revenue bonds.

Moody's Investors Service currently rates the University "Aa3". 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 revenues exceeded estimates in FY 2005 and revenues for FY 2006 are coming in slightly higher than projected. Future increases in State funding are likely to be moderate. Thirty-five percent of the total resources for the University, during a fiscal year, are provided by the State. Appropriations for fiscal year 2006 are currently set at \$175.5 million, which is an increase of 5.7% from fiscal year 2005.

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.

Overall, the financial position of the University continues to be strong. Enrollment for the academic 2005–2006 year is expected to be relatively consistent with academic 2004–2005 year.

Kansas State University
Statement of Net Assets
For the Year Ended June 30, 2005

	University Funds		Component Units	
	2005	2004	2005	2004
ASSETS				
Cash and cash equivalents	\$ 83,481,051	\$ 80,258,793	\$ 20,462,980	\$ 18,568,123
Accounts receivable, net	18,842,225	16,878,290	3,789,736	2,356,859
Pledges receivable	-	-	528,662	520,335
Investments	-	-	1,881,895	1,411,664
Loans to students, net	3,308,391	1,330,687	347,587	201,394
Inventories	3,098,627	3,003,354	168,542	245,322
Prepaid expenses	173,410	197,498	-	-
Total Current Assets	<u>108,903,704</u>	<u>101,668,622</u>	<u>27,179,402</u>	<u>23,303,697</u>
Noncurrent Assets				
Restricted cash and cash equivalents	20,184,246	41,024,987	13,205,494	11,638,853
Pledges receivable	-	-	86,239	12,265
Investments	65,690,956	4,029,882	2,038,625	2,038,624
Loans to students, net	13,394,391	15,763,755	1,084,729	-
Other assets	742,701	-	5,148,361	968,707
Capital assets, net	<u>282,116,899</u>	<u>265,991,806</u>	<u>-</u>	<u>5,092,899</u>
Total Noncurrent Assets	<u>382,129,193</u>	<u>326,810,430</u>	<u>21,563,448</u>	<u>19,751,348</u>
TOTAL ASSETS	<u>491,032,897</u>	<u>428,479,052</u>	<u>48,742,850</u>	<u>43,055,045</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	24,339,131	22,838,321	7,549,530	5,932,435
Deferred revenue	16,884,087	19,021,764	12,605,165	13,029,733
Loan payable	-	212,521	-	100,000
Revenue bonds payable	2,620,000	2,560,000	853,861	778,054
Accrued compensated absences	11,027,703	11,323,874	885,322	793,477
Other liabilities	1,170,974	1,144,171	1,866,163	644,805
Capital lease payable	1,194,204	1,133,617	5,014	165,417
Deposits held in custody for others	890,959	881,282	509,932	446,277
Total Current Liabilities	<u>58,127,058</u>	<u>59,115,550</u>	<u>24,274,987</u>	<u>21,890,198</u>
Noncurrent Liabilities				
Other liabilities	4,566,541	5,611,016	-	-
Revenue bonds payable	123,115,000	60,220,000	15,252,029	16,142,836
Other loan payable	2,875,000	4,007,989	50,000	250,000
Accrued compensated absences	2,406,385	1,317,127	-	-
Capital lease payable	1,830,314	2,031,233	-	96,123
Total Noncurrent Liabilities	<u>134,793,240</u>	<u>73,187,365</u>	<u>15,302,029</u>	<u>16,488,959</u>
TOTAL LIABILITIES	<u>192,920,298</u>	<u>132,302,915</u>	<u>39,577,016</u>	<u>38,379,157</u>
NET ASSETS				
Invested in capital assets, net of related debt	147,906,763	192,024,920	(10,962,543)*	(12,087,730)*
Restricted for:				
Nonexpendable	2,483,960	2,437,574	7,868,160	7,166,212
Expendable				
Scholarships, research, instruction, public service, & other	(6,832,114)	(6,081,562)	5,308,340	4,007,822
Loans	19,693,415	19,922,275	-	-
Capital projects	70,185,382	33,894,647	28,995	18,542
Debt service	12,900,532	7,911,607	3,461,598	3,653,261
Unrestricted	<u>51,774,661</u>	<u>46,066,676</u>	<u>3,461,284</u>	<u>1,917,781</u>
TOTAL NET ASSETS	<u>\$ 298,112,599</u>	<u>\$ 296,176,137</u>	<u>\$ 9,165,834</u>	<u>\$ 4,675,888</u>

*See accompanying Note 14.

Kansas State University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005

	University Funds		Component Units	
	2005	2004	2005	2004
Operating Revenues:				
Tuition and fees, net of scholarship allowances of \$13,310,584	\$ 92,818,346	\$ 79,726,016	\$ 2,334,171	\$ 2,339,890
Federal appropriations	7,804,518	7,670,522	-	-
Federal grants and contracts	87,843,708	84,027,706	-	-
State and local grants and contracts	8,923,402	8,580,657	-	-
Nongovernmental grants and contracts	20,649,360	21,398,742	9,035,206	10,780,382
Sales and services of educational activities	41,156,597	39,218,732	20,355,842	18,937,990
Auxiliary enterprises				
Housing revenues (revenues are pledged as security for bonds)	23,707,021	21,152,745	-	-
Parking revenues (revenues are pledged as security for bonds)	2,178,307	1,565,797	-	-
Student health revenues	5,691,284	5,423,568	-	-
Other auxiliary revenues	411,589	517,855	-	-
Interest earned on loans to students	269,560	307,349	-	-
Other operating revenues	7,719,781	8,171,305	6,636,879	5,898,616
Contributions	-	-	6,232,878	7,015,469
Total Operating Revenues	299,173,473	277,760,994	44,594,976	44,972,347
Operating Expenses:				
Instruction	139,756,012	128,759,116	-	-
Research	101,137,129	98,761,511	-	-
Public Service	54,975,449	54,915,585	839,179	891,789
Academic Support	37,197,767	30,995,516	-	-
Student Service	19,349,071	17,988,933	2,588,242	2,796,808
Institutional Support	21,319,162	20,249,498	29,118,349	31,159,592
Operations & Maintenance of Plant	32,131,862	37,045,887	-	-
Depreciation	20,933,590	21,559,712	976,534	892,979
Scholarships & Fellowships	9,761,738	10,452,316	5,004,342	4,285,076
Auxiliary Enterprises	26,867,176	28,172,878	-	-
Other Expenses	1,297,761	1,207,613	2,215,753	1,776,935
Total Operating Expenses	464,726,717	450,108,565	40,742,399	41,803,179
Operating Income (Loss)	(165,553,244)	(172,347,571)	3,852,577	3,169,168
Nonoperating Revenues (Expenses)				
State appropriations	163,467,840	157,784,459	1,527,093	1,262,072
Investment income	1,579,686	778,645	1,329,467	1,149,037
Interest expense	(3,319,541)	(2,814,838)	(1,206,231)	(1,158,476)
Gain/Loss on disposal of assets	(469,154)	-	-	-
Student fees for capital projects	2,227,227	2,274,231	-	-
Net Nonoperating Revenues	163,486,058	158,022,497	1,650,329	1,252,633
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	(2,067,186)	(14,325,074)	5,502,906	4,421,801
Capital appropriations				
Capital appropriations	2,556,070	6,063,027	-	-
Capital grants and gifts	2,538,711	5,424,151	-	-
Additions to permanent endowment	115,673	94,620	701,948	1,021,106
Other additions/deductions, net	(1,206,806)	(312,588)	(1,714,908)	(2,701,222)
Increase (Decrease) in Net Assets	1,936,462	(3,055,864)	4,489,946	2,741,685
Net Assets				
Net Assets—Beginning of Year, as previously reported	296,176,137	299,353,105	4,675,888	1,934,703
Prior Period Restatement	-	(121,104)	-	(500)
Net Assets, Beginning of Year, as restated	296,176,137	299,232,001	4,675,888	1,934,203
Net Assets—End of Year	\$ 298,112,599	\$ 296,176,137	\$ 9,165,834	\$ 4,675,888

Kansas State University
Statement of Cash Flows
For the Year Ended June 30, 2005

	University Funds	
	2005	2004
Cash Flows from Operating Activities		
Tuition and fees	\$ 106,755,720	\$ 91,052,157
Endowment income	104,042	94,304
Sales and services of educational activities	39,580,691	39,674,801
Auxiliary enterprise charges		
Housing	23,519,473	21,438,754
Parking	2,077,105	2,099,096
Student Health	5,690,335	5,385,504
Other	387,312	512,227
Grants and contracts	115,155,004	111,301,053
Federal appropriations	7,804,518	7,670,522
Payments to suppliers	(161,274,595)	(159,507,758)
Compensation & benefits	(309,394,860)	(288,906,226)
Loans issued to students and employees	(4,163,647)	(6,032,839)
Collections on loans issued to students and employees	4,681,849	5,505,663
Other receipts (payments)	23,316,796	24,249,983
	Net Cash Flows from Operating Activities	(145,760,257) (145,462,759)
Cash Flows from Noncapital Financing Activities		
State appropriations	163,467,840	157,784,459
Direct lending receipts	91,844,920	82,592,605
Direct lending payments	(92,038,985)	(82,214,613)
Funds held for others	9,677	135,387
Other	(318,605)	341,241
	Net Cash Flows from Noncapital Financing Activities	162,964,847 158,639,079
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	66,035,000	24,375,000
Capital appropriations	2,556,070	4,067,346
Capital Grants and gifts	1,177,570	3,169,509
Student fees for capital projects	2,227,227	2,274,231
Purchases of capital assets	(37,647,597)	(26,301,546)
Principal paid on capital debt and leases	(4,425,510)	(2,452,411)
Interest paid on capital debt and leases	(3,272,752)	(2,771,544)
Other	(1,012,742)	(312,588)
	Net Cash Flows from Capital and Related Financing Activities	25,637,266 2,047,997
Cash Flows from Investing Activities		
Investment income	1,200,736	885,217
Purchase of investments	(61,661,075)	(93,660)
	Net Cash Flows from Investing Activities	(60,460,339) 791,557
Net change in cash and cash equivalents	(17,618,483)	16,015,874
Cash and cash equivalents—beginning of year	121,283,780	105,267,906
Prior Period Restatement	-	-
Cash and cash equivalents—beginning of year	121,283,780	105,267,906
Cash and cash equivalents—end of year	\$ 103,665,297	\$ 121,283,780

Kansas State University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2005

	University Funds	
	2005	2004
Reconciliation		
Operating income (loss)—SRECNA	\$ (165,553,244)	\$ (172,347,571)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	20,933,590	21,559,712
Changes in assets and liabilities:		
Accounts receivable, net	(1,469,311)	2,206,007
Loans to students, net	518,202	(527,176)
Inventories	(95,273)	673,043
Prepaid expenses	24,087	461,912
Accounts payable and accrued liabilities	1,226,282	4,718,571
Deferred revenue	(2,137,677)	(4,192,221)
Accrued compensated absences	793,087	1,984,964
	\$ (145,760,257)	\$ (145,462,759)
Net cash used in operating activities—Cash Flow		

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2005

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 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 Kansas State University Research Foundation (KSURF), The IDEA Center, Inc, The K-State Union Corporation, the Intercollegiate Athletic Council of Kansas State University, Inc., and the Kansas State University Student Financial Assistance Foundation, Inc. Component unit financial activities and balances have been discretely presented

The Kansas State University Foundation accounts are not included in the University's 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 (Continued)

For the Year Ended June 30, 2005

Noncurrent Cash and Investments. Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent in the Statement of Net Assets.

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.

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, and 5 to 40 years for componentized buildings and building improvements.

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

Compensated Absences. Employee vacation and sick 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 a component of compensation and benefit expense in Note 13 Operating Expenses by Natural Classification.

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of revenue bonds and loans payable, capital lease obligations with contractual maturities greater than one year, and other liabilities that are to be paid from funds that are classified as noncurrent assets.

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

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets such amounts are not included as a component of invested in capital assets, net of related debt.

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.

Tax Status. As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code; however, income generated from activities unrelated to the University's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B).

Kansas State University

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2005

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 2004 summer session are reported in the Statement of Revenues, Expenses, and Changes in Net Assets. For the 2005 summer session, revenues received prior to June 30, 2005 are reported as deferred revenues in the Statement of Net Assets while expenses paid prior to June 30, 2005 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.

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—Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents. The carrying amount of the University's deposits with the State Treasurer and other financial institutions at June 30, 2005 were \$103,665,297. 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.

Investments. Kansas State University had the following investments, listed at fair value, as of June 30:

	2005	2004
U. S. Government Securities	\$ —	\$ 14,882
Certificates of Deposits	2,483,757	2,360,000
Guaranteed Investment Contracts	63,207,199	1,655,000
Total Investments	\$ 65,690,956	\$ 4,029,882

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2005

Note 3—Capital Assets

Capital asset activity for the University for the year ended June 30, 2005 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets (not depreciated)				
Land and Improvements	7,397,773	1,895	-	7,399,668
Art Collections	1,919,000	-	-	1,919,000
Construction in Progress	8,783,195	24,972,678	7,175,452	26,580,421
Capital Assets (being depreciated)				
Buildings & Improvements	387,986,578	5,791,648	539,536	393,238,690
Land Improvements	15,713,636	1,304,073	-	17,017,709
Infrastructure	6,585,361	-	17,078	6,568,283
Equipment and Furnishings	123,525,472	13,249,693	4,661,772	132,113,393
Vehicles	21,533,570	296,265	388,138	21,441,697
Total Capital Assets	573,444,585	45,616,252	12,781,976	606,278,861
Accumulated Depreciation				
Buildings & Improvements	193,875,964	9,453,748	529,070	202,800,642
Land Improvements	5,796,277	630,211	-	6,426,488
Infrastructure	3,978,663	178,696	15,437	4,141,922
Equipment and Furnishings	85,025,462	9,262,198	3,325,746	90,961,914
Vehicles	18,776,413	1,408,737	354,154	19,830,996
Total Depreciation	307,452,779	20,933,590	4,224,407	324,161,962
Capital Assets, net	265,991,806	24,682,662	8,557,569	282,116,899

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 (Continued)
For the Year Ended June 30, 2005

Note 4—Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2005, accounts receivable consisted of the following:

	June 30, 2005
Student tuition and fees	\$ 3,023,495
Auxiliary enterprises and other operating activities	3,940,712
Federal, state, and private grants and contracts	12,098,826
Interest	585,631
	\$19,648,664
Less allowance for doubtful accounts	806,439
Net accounts receivable	\$18,842,225

Note 5—Loans Receivable

Student loans made through the Federal Perkins Loan Program and the Health Profession Student Loan Program comprise substantially all of the June 30, 2005 loan balances. 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, 2005, the allowance for uncollectible loans was approximately \$1,197,510.

Note 6—Deferred Revenue

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

Tuition and fees	\$ 3,386,353
Grants and contracts	13,497,734
	\$16,884,087

Note 7—Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 consists of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	\$62,780,000	\$65,515,000	\$ 2,560,000	\$125,735,000	\$2,620,000
Loans payable	4,220,510	520,000	1,865,510	2,875,000	-
Lease obligations	3,164,850	1,817,723	1,958,055	3,024,518	1,194,204
Deposits held in custody for others	881,282	5,997,732	5,988,055	890,959	890,959
Other liabilities	6,755,187	394,152	1,411,824	5,737,515	1,170,974
Total Long-Term Liabilities	\$77,801,829	\$74,244,607	\$13,783,444	\$138,262,992	\$5,876,137

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2005

Note 8—Revenue Bonds Outstanding

Revenue bonds payable consisted of the following at June 30, 2005:

	<u>Principal Outstanding 6/30/05</u>
<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>	\$20,980,000
<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 3.00% to 5.00% payable semi-annually.</p>	\$44,535,000
<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>	\$21,020,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2003C (The Kansas Board of Regents—Kansas State University Research and Development Facilities Projects) issued on February 1, 2003 in the original amount of \$22,485,000. Due in annual installments beginning 10/1/22 with final maturity on 6/30/33. Interest ranging from 4.75% to 5.00% payable semi-annually.</p>	\$22,485,000
<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 4/1/08. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	\$ 700,000
<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 4/1/07. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	\$ 5,220,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2000D (The Kansas Board of Regents—Kansas State University Ackert Hall Addition Project) issued on July 15, 2000 in the original amount of \$1,735,000. Due in annual installments with final maturity on 5/1/15. Interest ranging from 4.60% to 5.60% payable semi-annually.</p>	\$ 1,415,000

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2005

Revenue bonds payable consisted of the following at June 30, 2005:

	<u>Principal Outstanding 6/30/05</u>
<p>Kansas Development Finance Authority Revenue Bonds-Series 1998B (The Kansas Board of Regents—Kansas State University Student Union Renovation and Expansion Project) issued on April 1, 1998 in the original amount of \$9,320,000. Due in annual installments with final maturity on 4/1/18. Interest ranging from 3.90% to 5.00% payable semi-annually.</p>	\$ 7,560,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 1995K (The Kansas Board of Regents—Kansas State University Farrell Library Expansion Project) issued on November 1, 1995 in the original amount of \$3,835,000. Due in annual installments with final maturity on 10/1/15. Interest ranging from 3.75% to 5.40% payable semi-annually.</p>	\$ 2,875,000

Series 2001G-2 Recreation Project, Series 1995K Farrell Library Expansion Project, and Series 1998B Student Union Renovation and Expansion Project are collateralized by a pledge of student fees. Series 2001G-1 Salina Housing Project and Series 2005A Housing System Manhattan Campus are collateralized by a pledge of housing revenues. Series 2000D Ackert Hall Addition Project is collateralized by a pledge of sponsored research overhead revenues. Series 2003C and 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.

In August and December 1985, certain bonds of the University were legally defeased through an advanced refunding by depositing sufficient funds to pay all future debt service in a special escrow trust. Therefore, neither the assets of the trust nor the related bonds payable are included in the Statement of Net Assets. The principal amount of defeased bonds outstanding at June 30, 2005 is \$104,000.

Future debt service requirements for all bonds outstanding at June 30, 2005 are as follows:

Year Ending June 30:	Principal	Interest	Total
2006	\$ 2,620,000	\$ 5,623,043	\$ 8,243,043
2007	4,985,000	5,611,233	10,596,233
2008	4,185,000	5,399,076	9,584,076
2009	4,370,000	5,232,975	9,602,975
2010	4,555,000	5,064,278	9,619,278
2011–2015	22,570,000	22,428,811	44,998,811
2016–2020	22,080,000	17,232,360	39,312,360
2021–2025	20,800,000	11,947,284	32,747,284
2026–2030	19,965,000	7,238,616	27,203,616
2031–2035	19,605,000	2,263,282	21,868,282
Total	\$125,735,000	\$ 88,040,958	\$ 213,775,958

Kansas State University

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2005

Note 9—Loan and Lease Obligations

In December, 1991, Kansas State University and the Pooled Money Investment Board entered into a building construction and equipment loan agreement for Throckmorton Hall in the amount of \$1,757,509.14. The loan required annual principal and interest payments through September 10, 2007 with an interest rate of 5.25% per annum. This loan has been paid in full as of June 30, 2005. In July 2003, they entered into a construction loan agreement for the Biological and Industrial Value Added Program for a maximum amount of \$4,000,000. The loan requires annual interest payments due August 1 of each year in which a principal balance remains outstanding at a rate of 1.548% per annum. The entire principal balance is due August 1, 2007. As of June 30, 2005, \$3,875,000 has been borrowed and a \$1,000,000 principal payment has been made, leaving an outstanding balance of \$2,875,000.

The University is obligated for the purchase of certain equipment funded through the State of Kansas Equipment Lease Purchase Program in the amount of \$3,024,518 as of June 30, 2005. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2006	\$1,194,204
2007	1,236,274
2008	384,841
2009	<u>209,199</u>
	\$3,024,518

Note 10—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, 2005, active KPERS members were required by statute to contribute 4% and the University to contribute 4.87% of the employees' covered payroll. The Kansas Legislature establishes and may amend active plan members' and the University's contribution rates. The University contributed \$2,136,995 during fiscal year 2005 and individual employees contributed \$1,748,863. In addition, payments to KPERS for death and disability coverage for all University employees totaled \$1,180,289.

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), 2) ING Financial Advisers, 3) Lincoln National Life Insurance Company, and 4) Security Benefit Life Insurance 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, 2005 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 \$12,772,939 during fiscal year 2005 and individual employees contributed \$8,130,694.

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2005

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%.

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 11.2%. 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 up to 15%, 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 up to 10%, but without employer contributions. Acceptance of new member participation was terminated effective July 1, 1986

For the year ended June 30, 2005, the University contributed \$883,002 and individual employees contributed \$722,157 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 11—Postemployment Benefits

In addition to pension benefits, the State provides post-employment health care benefits to eligible retired employees. The benefits are provided in accordance with the rules and regulations of the Kansas State Employees Health Care Commission. The Commission is responsible for the determination of the allocation of premium costs between the participants and the State. These allocations are subject to change each contract year. The University funds the benefits on a pay-as-you-go basis.

Note 12—Commitments and Contingencies

At June 30, 2005, the University had outstanding commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$38,000,000.

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.

As a result of legislation, 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. The University is covered by the State's umbrella insurance policies for automobile liability and property insurance. Also, the University is self-insured relative to workers' compensation, medical, and unemployment insurance. These areas include stop-loss provisions that limit the University's exposure.

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.

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2005

Note 13—Operating Expenses by Natural Classification

Year Ended June 30, 2005

	Compensation and Benefits	Contractual Services	Supplies and Materials	Utilities	Scholarships and Fellowships	Aid, Debt and Nonexpense	Depreciation	Total
Instruction	\$ 118,105,105	\$ 12,540,816	\$ 6,681,033	\$ 837	\$	\$ 2,428,221	\$	\$ 139,756,012
Research	66,320,928	14,653,747	13,232,152	284,943		6,645,358		101,137,128
Public Service	41,894,830	7,128,269	4,064,240	68,955		1,819,156		54,975,450
Academic Support	25,060,476	7,489,195	4,289,002			359,094		37,197,767
Student Service	12,787,668	2,901,597	656,156	3,292		3,000,358		19,349,071
Institutional Support	15,568,404	5,008,308	551,281	93		191,076		21,319,162
Operations and Maintenance of Plant	15,581,337	3,713,071	2,070,363	10,694,529		72,562		32,131,862
Scholarships & Fellowships					9,761,738			9,761,738
Auxiliary Enterprises	16,847,515	3,157,770	5,222,529	1,594,698		44,664		26,867,176
Depreciation							20,933,590	20,933,590
Other		1,121,609	176,152					1,297,761
Total Operating Expenses	\$ 312,166,263	\$ 57,714,382	\$ 36,942,908	\$ 12,647,347	\$ 9,761,738	\$ 14,560,489	\$ 20,933,590	\$ 464,726,717

Note 14—Component Units

Buildings and improvements purchased by The Intercollegiate Athletic Council immediately become the property of Kansas State University. This results in a negative amount being reported for Invested in Capital Assets, Net of Related Debt on the Statement of Net Assets.