

# Kansas State University

Annual Financial Report  
Fiscal Year Ended June 30, 2008





# Kansas State University Manhattan, Kansas

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# Kansas State University

## Management's Discussion and Analysis

### For the Year Ended June 30, 2008

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.

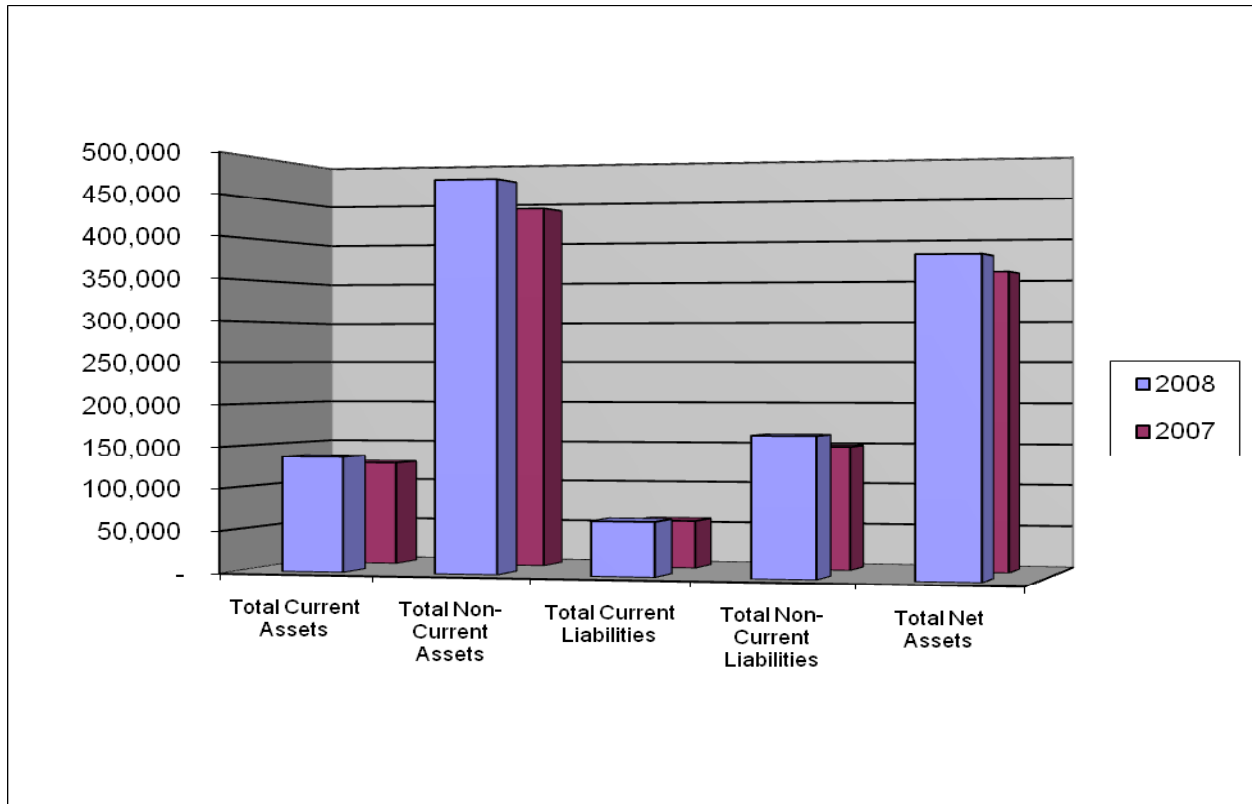
Total assets at June 30, 2008 were \$603.3 million, an increase of \$39.6 million (7%). Capital assets, net of depreciation, comprised 67.3%, or \$406 million of the total assets.

Total liabilities were \$230.1 million at June 30, 2008, an increase of \$24.3 million (11.8%), compared to \$205.8 million at June 30, 2007. Long-term liabilities comprised 72%, or \$165.7 million of the total liabilities.

Total net assets at June 30, 2008 were \$373.2 million, a \$15.3 million increase over the prior year. The breakout of net assets is shown below:

|  |                      |
|--|----------------------|
| Capital assets, net of related debt..... | \$240,382,812        |
| Restricted net assets .....              | 62,063,109           |
| Unrestricted net assets .....            | 70,793,101           |
| <b>Total net assets.....</b>             | <b>\$373,239,022</b> |

The composition of current and non-current assets and liabilities and net assets is displayed below for both the 2007 and 2008 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, 2008 increased by 5.7% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$142.2 million in 2008, compared to \$131.9 million in 2007. This increase is a result of a tuition increase approved by the Kansas Board of Regents for fiscal year 2008. 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 \$5.9 million from 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.
- Sales and services of educational activities increased \$600 thousand 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 \$2.5 million from the previous fiscal year. Auxiliary enterprises include Housing, Parking, University health services, and a variety of other smaller services.

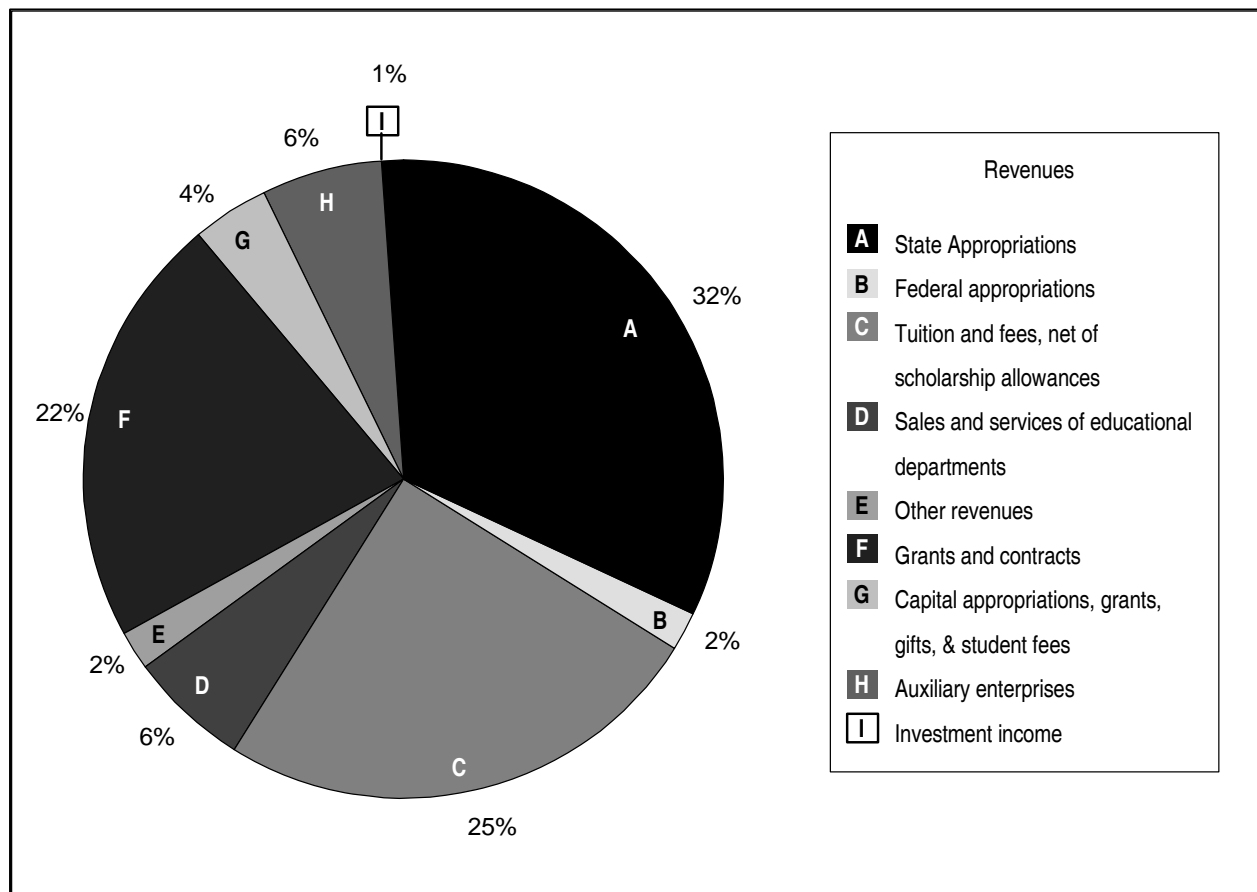
Total non-operating revenues were up 4.4% from the prior year from \$180.5 million to \$188.5 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from \$177.2 million to \$181.8 million.
- Investment income increased \$4.2 million, due to a legislative change in which interest earnings on certain funds were returned to the university
- Student fees collected for capital projects remained constant.

Other revenues included the following:

- Capital grants and gifts decreased from \$26.8 million to \$6.5 million. The previous fiscal year was an exceptional year for donations of land and buildings, with 2008 showing more conventional activity.

In summary, total revenues increased by \$20.5 million, from \$546.8 million to \$567.3 million, an overall increase of 3.7%. The compositions of these revenues are displayed in the following graph:



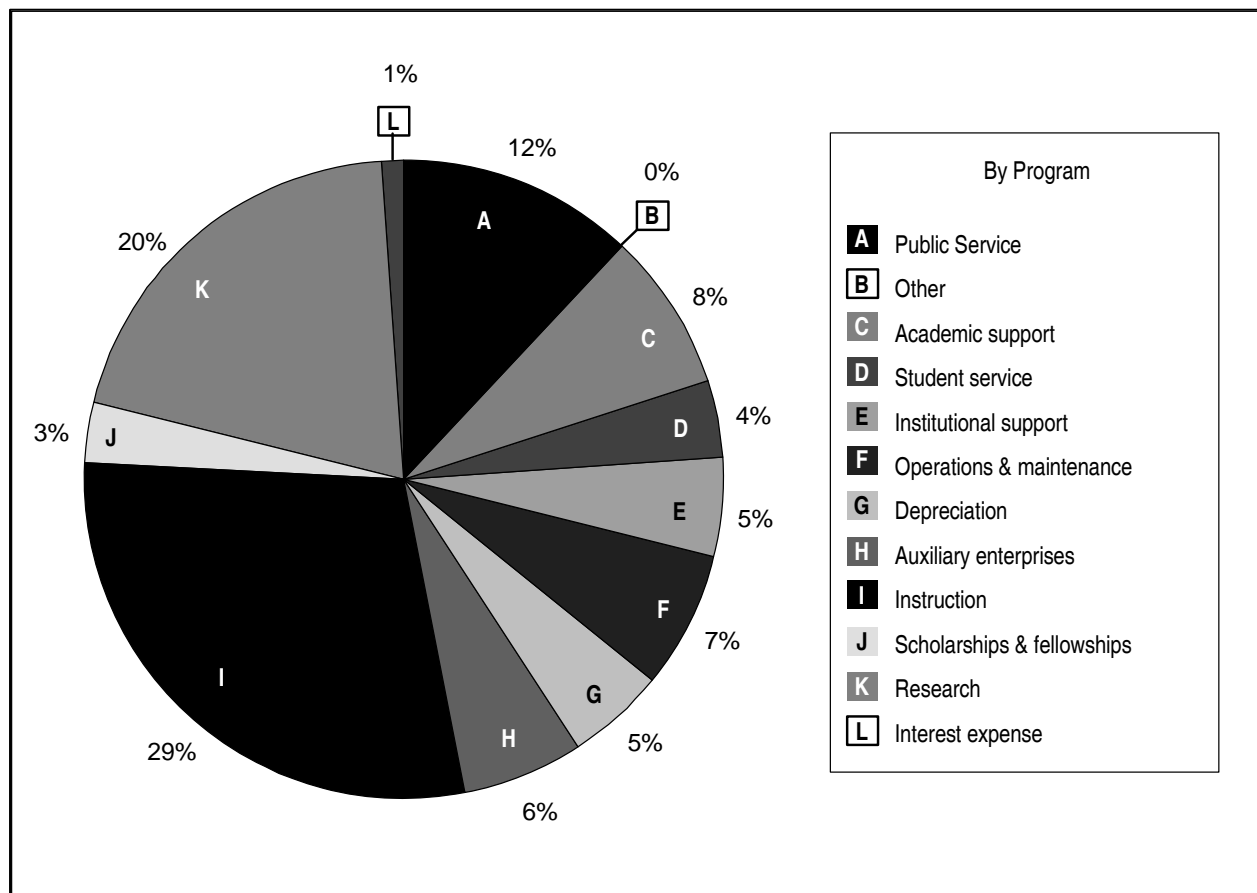
## Expenses

Operating expenses were \$544.6 million for the 2008 fiscal year. This was an increase over the prior year of \$38.9 million, or 7.7%. The following is a brief summary of the significant changes:

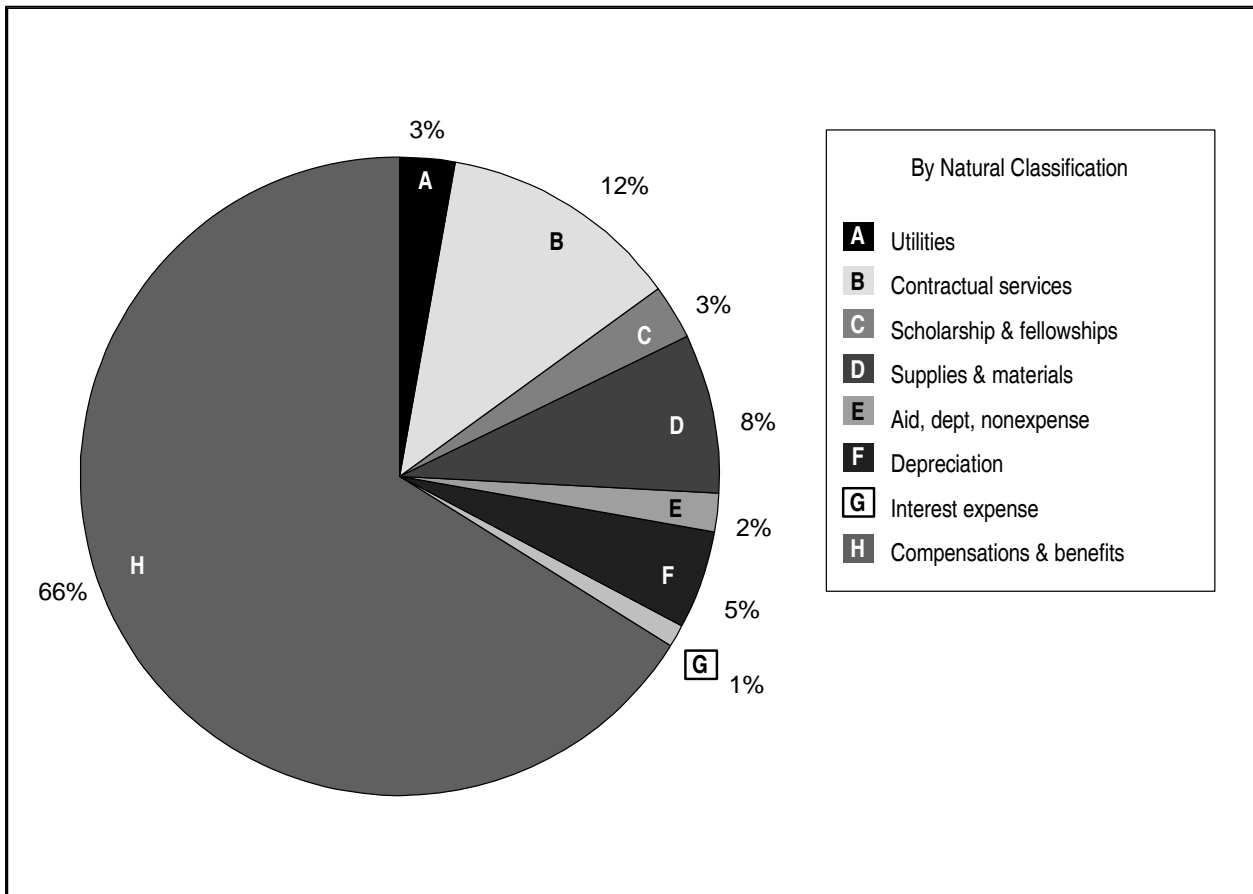
- Expenses related to the University's mission of instruction, research and public service increased \$22.1 million in 2008. This increase is directly related to the University's tuition increase earmarked for faculty salaries.
- Scholarships and fellowships expenses increased from \$12.6 million in 2007 to \$14.4 million in 2008.

Non-operating expenses are represented primarily by interest expense, which increased from \$1.7 million in 2007 to \$6.7 million in 2008.

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







### Extraordinary Items

The University did not have any special and extraordinary items in 2008.

### Net Assets

Net assets increased by \$15.3 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 capital assets, net of depreciation.

## **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, 2008     | June 30, 2007     |
|---|-------------------|-------------------|
| Net cash provided (used) by:                    |                   |                   |
| Operating activities                            | \$ (157,937)      | \$ (145,860)      |
| Non-capital financing activities                | 182,181           | 177,103           |
| Capital and related financing/appropriations    | (11,982)          | (40,542)          |
| Investing activities                            | 24,252            | 16,320            |
| Net increase in cash                            | 36,514            | 7,021             |
| Beginning cash and cash equivalent balances     | 100,808           | 93,713            |
| Component Unit Prior Period Adjustment          | (25)              | 74                |
| <b>Ending cash and cash equivalent balances</b> | <b>\$ 137,297</b> | <b>\$ 100,808</b> |

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 increased by \$36.5 million during fiscal year 2008. This increase is the net result of an increase in state appropriations, tuition and fees, and interest income during the year, offset by expenditures to employees and suppliers.

## CAPITAL ASSETS

The University made significant investments in capital during the 2007-2008 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:

- Four buildings of the Jardine Terrace Apartments renovation were completed as well as significant infrastructure and landscaping at a cost of \$18 million in FY2008. This Department of Housing and Dining Services project has an estimated total 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.
- Construction and renovation projects affecting a variety of buildings were completed during the year at an estimated cost of \$4.9 million.

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

- Construction of a Student Life Center at the Salina campus was started the Summer 2008. The \$6.4 million project will be conducted in two phases and will be located adjacent to the College Center. It will have a union atmosphere with meeting facilities, including a high technology auditorium, and a recreational facility to replace the aging south gym, student union, bookstore and cafeteria.
- Construction of a 1,400 space Parking Garage started the Summer 2007. The \$17.5 million project on the south side of the Student Union is to increase availability of parking places for the entire university community as well as visitors.

- The Board of Regents formally approved a five-year building maintenance project plan for each of the state universities effective for FY 2008, to preserve and strengthen higher education infrastructure. The first year of funding was approximately \$13 million, with the second year estimated at \$9.1 million. The economic climate may reduce this significantly.
- Several projects are in the planning stages, including a \$6 million Child Care Center, a \$10.5 million Leadership Studies building, and a \$24 million Student Recreation Center Enhancement project at the Manhattan Campus.

## **DEBT ADMINISTRATION**

At June 30, 2008, the University had \$163.6 million in debt outstanding, compared to \$149.9 million at June 30, 2007. The increase is due to the issuance of Parking System Revenue Bonds of \$17,855,000 and Salina Student Life Center Revenue Bonds of \$1,600,000. The University paid \$13,413,043 in principal and interest payments related to all outstanding debt.

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 slowed in FY 2008 and revenues for FY 2009 are projected to be only 1.5 percent more than actual receipts for FY 2008. The Kansas economy is expected to experience a downward trend in FY 2009, in response to the national financial crisis revolving around the housing, credit, automobile and stock markets.

Historically, approximately one-third of the total resources for the University, during a fiscal year, are provided by the State. Appropriations for fiscal year 2009 are currently set at \$189.6 million, which is an increase of 1.5% from fiscal year 2008. However, the State has asked the University to prepare for a 3% budget reduction for FY 2009 and an additional 4% reduction for FY 2010.

The University will be looking carefully at priorities and exploring creative and innovative strategies to continue to provide high-quality teaching, research and extension education. Enrollment for the academic 2008-2009 year is expected to be relatively consistent with academic 2007-2008 year.

**Kansas State University**  
**Statement of Net Assets**  
For the Year Ended June 30, 2008

|  | University Funds      |                       | Component Units      |                      |
|--|-----------------------|-----------------------|----------------------|----------------------|
|  | 2008                  | 2007                  | 2008                 | 2007                 |
| <b><u>ASSETS</u></b>   |                       |                       |                      |                      |
| <b>Current Assets</b>  |                       |                       |                      |                      |
| Cash and cash equivalents                                    | \$ 95,858,445         | \$ 89,164,050         | \$ 20,245,332        | \$ 18,818,598        |
| Accounts receivable, net                                     | 28,742,975            | 23,969,042            | 5,371,854            | 7,210,274            |
| Pledges receivable   | -                     | -                     | 95,934               | 62,000               |
| Investments  | 2,884,646             | 2,706,148             | 4,585,948            | 4,154,942            |
| Loans to students, net                                       | 4,287,933             | 3,573,175             | 487,008              | -                    |
| Inventories  | 4,386,149             | 4,377,402             | 199,390              | 405,260              |
| Prepaid expenses   | 1,094,397             | 964,163               | -                    | 316,110              |
| Total Current Assets   | <u>137,254,545</u>    | <u>124,753,980</u>    | <u>30,985,466</u>    | <u>30,967,184</u>    |
| <b>Noncurrent Assets</b>                                     |                       |                       |                      |                      |
| Restricted cash and cash equivalents                         | 41,438,296            | 11,643,795            | 19,374,079           | 18,075,005           |
| Pledges receivable   | -                     | -                     | 628,993              | 584,867              |
| Investments  | 5,528,678             | 23,732,725            | 3,615,158            | 2,038,625            |
| Loans to students, net                                       | 13,105,591            | 13,935,570            | -                    | -                    |
| Other assets   | 2,724                 | -                     | 113,683              | 1,556,140            |
| Capital assets, net  | 406,021,252           | 389,726,502           | 7,755,234            | 7,893,816            |
| Total Noncurrent Assets                                      | <u>466,096,541</u>    | <u>439,038,592</u>    | <u>31,487,147</u>    | <u>30,148,453</u>    |
| TOTAL ASSETS   | <u>603,351,086</u>    | <u>563,792,572</u>    | <u>62,472,613</u>    | <u>61,115,637</u>    |
| <b><u>LIABILITIES</u></b>                                    |                       |                       |                      |                      |
| <b>Current Liabilities</b>                                   |                       |                       |                      |                      |
| Accounts payable and accrued liabilities                     | 19,026,739            | 15,987,734            | 7,222,176            | 6,220,380            |
| Deferred revenue   | 23,646,220            | 20,164,241            | 15,884,329           | 16,713,765           |
| Revenue bonds payable  | 5,215,000             | 4,570,000             | 321,700              | 945,000              |
| Other loan payable   | 255,241               | 1,590,467             | 995,000              | 376,700              |
| Accrued compensated absences                                 | 13,994,565            | 12,642,244            | 786,157              | 696,727              |
| Other liabilities  | 743,391               | 756,187               | 512,913              | 1,859,806            |
| Capital lease payable  | 579,056               | 611,511               | -                    | -                    |
| Deposits held in custody for others                          | 971,076               | 745,134               | 644,145              | 323,409              |
| Total Current Liabilities                                    | <u>64,431,288</u>     | <u>57,067,518</u>     | <u>26,366,420</u>    | <u>27,135,787</u>    |
| <b>Noncurrent Liabilities</b>                                |                       |                       |                      |                      |
| Other liabilities  | 2,672,886             | 3,416,279             | -                    | -                    |
| Revenue bonds payable  | 155,550,000           | 141,310,000           | 12,410,889           | 13,405,889           |
| Other loan payable   | 619,945               | 875,186               | 301,600              | 623,300              |
| Accrued compensated absences                                 | 1,916,005             | 2,151,737             | -                    | -                    |
| Net OPEB liability   | 3,502,749             | -                     | -                    | -                    |
| Capital lease payable  | 1,419,191             | 1,006,955             | -                    | -                    |
| Total Noncurrent Liabilities                                 | <u>165,680,776</u>    | <u>148,760,157</u>    | <u>12,712,489</u>    | <u>14,029,189</u>    |
| TOTAL LIABILITIES  | <u>230,112,064</u>    | <u>205,827,675</u>    | <u>39,078,909</u>    | <u>41,164,976</u>    |
| <b><u>NET ASSETS</u></b>                                     |                       |                       |                      |                      |
| Invested in capital assets, net of related debt              | 240,382,812           | 236,666,335           | (5,655,981) *        | (5,802,040) *        |
| Restricted for:  |                       |                       |                      |                      |
| Nonexpendable  | 2,952,156             | 2,768,858             | 15,051,642           | 14,717,945           |
| Expendable   |                       |                       |                      |                      |
| Scholarships, research, instruction, public service, & other | (7,382,387)           | (6,554,588)           | 7,822,939            | 3,320,590            |
| Loans  | 19,625,104            | 19,633,793            | 87,472               | -                    |
| Capital projects   | 35,799,922            | 24,193,902            | 33,733               | 42,264               |
| Debt service   | 11,068,314            | 10,902,136            | -                    | -                    |
| Unrestricted   | <u>70,793,101</u>     | <u>70,354,461</u>     | <u>6,053,899</u>     | <u>7,671,902</u>     |
| TOTAL NET ASSETS   | <u>\$ 373,239,022</u> | <u>\$ 357,964,897</u> | <u>\$ 23,393,704</u> | <u>\$ 19,950,661</u> |

\*See accompanying Note 15.

**Kansas State University**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2008**

|   | University Funds      |                       | Component Units      |                      |
|---|-----------------------|-----------------------|----------------------|----------------------|
|   | 2008                  | 2007                  | 2008                 | 2007                 |
| <b>Operating Revenues:</b>                                      |                       |                       |                      |                      |
| Tuition and fees, net of scholarship allowances of \$16,888,658 | \$ 142,158,199        | \$ 131,851,672        | \$ 2,392,136         | \$ 2,309,855         |
| Federal appropriations  | 9,605,161             | 9,029,957             | -                    | -                    |
| Federal grants and contracts                                    | 88,544,493            | 88,283,728            | -                    | -                    |
| State and local grants and contracts                            | 5,126,023             | 4,425,871             | -                    | -                    |
| Nongovernmental grants and contracts                            | 28,172,118            | 23,254,791            | 12,360,387           | 12,082,496           |
| Sales and services of educational activities                    | 33,041,870            | 32,369,243            | 25,021,833           | 23,616,642           |
| Auxiliary enterprises   |                       |                       |                      |                      |
| Housing revenues (revenues are pledged as security for bonds)   | 27,115,988            | 24,961,654            | -                    | -                    |
| Parking revenues (revenues are pledged as security for bonds)   | 2,644,470             | 2,454,489             | -                    | -                    |
| Student health revenues   | 5,951,271             | 5,877,933             | -                    | -                    |
| Other auxiliary revenues  | 84,238                | 90,302                | -                    | -                    |
| Interest earned on loans to students                            | 279,905               | 268,722               | -                    | -                    |
| Other operating revenues  | 12,388,320            | 12,180,640            | 7,992,526            | 8,109,212            |
| Contributions   | 145,928               | -                     | 8,705,568            | 8,486,759            |
|   | <u>355,257,984</u>    | <u>335,049,002</u>    | <u>56,472,450</u>    | <u>54,604,964</u>    |
| Total Operating Revenues  |                       |                       |                      |                      |
| <b>Operating Expenses:</b>                                      |                       |                       |                      |                      |
| Instruction   | 161,823,430           | 152,967,028           | -                    | -                    |
| Research  | 113,129,964           | 106,887,529           | -                    | -                    |
| Public Service  | 66,799,206            | 59,768,867            | 1,169,206            | 989,523              |
| Academic Support  | 44,091,363            | 42,050,814            | -                    | -                    |
| Student Service   | 21,539,154            | 19,568,368            | 37,432,097           | 35,376,069           |
| Institutional Support   | 27,220,408            | 25,397,982            | 2,901,651            | 2,828,201            |
| Operations & Maintenance of Plant                               | 36,974,442            | 32,908,772            | -                    | -                    |
| Depreciation  | 25,663,184            | 23,267,084            | 1,588,444            | 1,420,485            |
| Scholarships & Fellowships                                      | 14,359,376            | 12,660,501            | 6,053,649            | 5,460,999            |
| Auxiliary Enterprises   | 32,267,816            | 29,405,385            | -                    | -                    |
| Other Expenses  | 786,996               | 808,512               | 4,072,130            | 3,848,171            |
|   | <u>544,655,339</u>    | <u>505,690,842</u>    | <u>53,217,177</u>    | <u>49,923,448</u>    |
| Total Operating Expenses  |                       |                       |                      |                      |
| Operating Income (Loss)   | <u>(189,397,355)</u>  | <u>(170,641,840)</u>  | <u>3,255,273</u>     | <u>4,681,516</u>     |
| <b>Nonoperating Revenues (Expenses)</b>                         |                       |                       |                      |                      |
| State appropriations  | 181,767,203           | 177,174,300           | 1,662,455            | 1,536,908            |
| Gifts   | -                     | 849,158               | -                    | -                    |
| Investment income   | 5,151,896             | 962,925               | 2,632,459            | 2,779,836            |
| Interest expense  | (6,746,780)           | (1,727,073)           | (1,376,582)          | (1,379,226)          |
| Gain/Loss on disposal of assets                                 | (589,842)             | (688,574)             | -                    | -                    |
| Student fees for capital projects                               | 2,181,006             | 2,206,588             | -                    | -                    |
|   | <u>181,763,483</u>    | <u>178,777,324</u>    | <u>2,918,332</u>     | <u>2,937,518</u>     |
| Net Nonoperating Revenues                                       |                       |                       |                      |                      |
| Income (Loss) Before Other Revenues, Expenses, Gains and Losses | <u>(7,633,872)</u>    | <u>8,135,484</u>      | <u>6,173,605</u>     | <u>7,619,034</u>     |
| Capital appropriations  | 16,704,648            | 4,392,000             | -                    | -                    |
| Capital grants and gifts  | 6,522,010             | 26,808,611            | -                    | -                    |
| Additions to permanent endowment                                | 129,092               | 102,830               | 938,622              | 2,133,371            |
| Other additions/deductions, net                                 | (423,148)             | (806,255)             | (3,669,184)          | (5,401,809)          |
|   | <u>15,298,730</u>     | <u>38,632,670</u>     | <u>3,443,043</u>     | <u>4,350,596</u>     |
| Increase (Decrease) in Net Assets                               |                       |                       |                      |                      |
| <b>Net Assets</b>   |                       |                       |                      |                      |
| Net Assets -- Beginning of Year, as previously reported         | 357,964,897           | 319,258,487           | 19,950,661           | 15,600,065           |
| Prior Period Restatement  | (24,605)              | 73,740                | -                    | -                    |
| Net Assets, Beginning of Year, as restated                      | <u>357,940,292</u>    | <u>319,332,227</u>    | <u>19,950,661</u>    | <u>15,600,065</u>    |
| Net Assets -- End of Year                                       | <u>\$ 373,239,022</u> | <u>\$ 357,964,897</u> | <u>\$ 23,393,704</u> | <u>\$ 19,950,661</u> |

**Kansas State University**  
**Statement of Cash Flows**  
For the Year Ended June 30, 2008

|   | University Funds      |                       |
|---|-----------------------|-----------------------|
|   | 2008                  | 2007                  |
| <b>Cash Flows from Operating Activities</b>                     |                       |                       |
| Tuition and fees  | \$ 156,217,817        | \$ 144,973,076        |
| Endowment income  | 137,496               | 79,560                |
| Sales and services of educational activities                    | 36,770,182            | 34,180,435            |
| Auxiliary enterprise charges                                    |                       |                       |
| Housing   | 28,229,814            | 24,686,239            |
| Parking   | 2,629,654             | 2,365,072             |
| Student Health  | 5,966,239             | 5,855,162             |
| Other   | 84,361                | 88,087                |
| Grants and contracts  | 125,738,281           | 117,330,062           |
| Federal appropriations  | 9,605,161             | 9,029,957             |
| Payments to suppliers   | (192,091,585)         | (173,925,399)         |
| Compensation & benefits   | (362,076,624)         | (338,343,248)         |
| Loans issued to students and employees                          | (3,227,279)           | (4,784,344)           |
| Collections on loans issued to students and employees           | 3,346,540             | 4,204,784             |
| Other receipts (payments)                                       | 30,733,119            | 28,400,727            |
|   | <u>(157,936,824)</u>  | <u>(145,859,830)</u>  |
| Net Cash Flows from Operating Activities                        |                       |                       |
| <b>Cash Flows from Noncapital Financing Activities</b>          |                       |                       |
| State appropriations  | 181,767,203           | 177,174,300           |
| Direct lending receipts   | 93,396,101            | 95,004,815            |
| Direct lending payments   | (93,207,893)          | (95,270,332)          |
| Funds held for others   | 225,942               | (85,195)              |
| Other   | -                     | 279,377               |
|   | <u>182,181,353</u>    | <u>177,102,965</u>    |
| Net Cash Flows from Noncapital Financing Activities             |                       |                       |
| <b>Cash Flows from Capital and Related Financing Activities</b> |                       |                       |
| Proceeds from capital debt                                      | 19,455,000            | 27,750,000            |
| Capital appropriations  | 16,704,648            | 4,392,000             |
| Capital Grants and gifts  | 126,049               | 1,097,434             |
| Student fees for capital projects                               | 2,181,006             | 2,206,588             |
| Purchases of capital assets                                     | (36,085,242)          | (63,734,939)          |
| Principal paid on capital debt and leases                       | (6,160,467)           | (5,985,000)           |
| Interest paid on capital debt and leases                        | (7,252,576)           | (5,674,941)           |
| Other   | (950,896)             | (593,341)             |
|   | <u>(11,982,478)</u>   | <u>(40,542,199)</u>   |
| Net Cash Flows from Capital and Related Financing Activities    |                       |                       |
| <b>Cash Flows from Investing Activities</b>                     |                       |                       |
| Investment income   | 6,161,309             | 2,268,879             |
| Purchase/Redemption of investments                              | 18,090,141            | 14,051,370            |
|   | <u>24,251,450</u>     | <u>16,320,249</u>     |
| Net Cash Flows from Investing Activities                        |                       |                       |
| Net change in cash and cash equivalents                         | 36,513,501            | 7,021,185             |
| Cash and cash equivalents -- beginning of year                  | 100,807,845           | 93,712,920            |
| Prior Period Restatement  | (24,605)              | 73,740                |
| Cash and cash equivalents -- beginning of year                  | <u>100,783,240</u>    | <u>93,786,660</u>     |
| Cash and cash equivalents -- end of year                        | <u>\$ 137,296,741</u> | <u>\$ 100,807,845</u> |

**Kansas State University**  
**Statement of Cash Flows (Continued)**  
For the Year Ended June 30, 2008

|   | University Funds        |                         |
|---|-------------------------|-------------------------|
|   | 2008                    | 2007                    |
| <b>Reconciliation</b>   |                         |                         |
| Operating income (loss)---SRECNA  | \$ (189,397,355)        | \$ (170,641,840)        |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |                         |                         |
| Depreciation expense  | 25,663,487              | 23,267,084              |
| Changes in assets and liabilities:  |                         |                         |
| Accounts receivable, net  | (5,149,593)             | (1,539,248)             |
| Loans to students, net  | 119,261                 | (579,560)               |
| Inventories   | (8,748)                 | (1,154,469)             |
| Prepaid expenses  | (133,262)               | (64,935)                |
| Accounts payable and accrued liabilities  | 685,390                 | 48,106                  |
| Deferred revenue  | 3,483,110               | 3,739,642               |
| Accrued compensated absences  | 6,800,886               | 1,065,390               |
| Net cash used in operating activities---Cash Flow   | <u>\$ (157,936,824)</u> | <u>\$ (145,859,830)</u> |

# Kansas State University

Notes to Financial Statements  
For the Year Ended June 30, 2008

## 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. have 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., and K-State Comprehensive Assessment Tools, Inc. have been blended.

In preparing the financial statements, all significant transactions and balances between the University and the blended component units have been eliminated.

The Kansas State University Foundation is 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, 2008

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, 5 years for vehicles, 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 14 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, 2008

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 2007 summer session are reported in the Statement of Revenues, Expenses, and Changes in Net Assets. For the 2008 summer session, revenues received prior to June 30, 2008 are reported as deferred revenues in the Statement of Net Assets while expenses paid prior to June 30, 2008 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 – Deposits and Investments

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

|   | 2008                 | 2007                 |
|---|----------------------|----------------------|
| Cash deposits with State Treasury         | \$133,032,468        | \$ 97,933,718        |
| Cash deposits with financial institutions | 4,264,273            | 2,535,077            |
| Mutual funds                              | -                    | 339,050              |
| Certificates of deposits                  | 2,884,646            | 2,706,148            |
| Repurchase agreements                     | 932,000              | 932,000              |
| Guaranteed investment contracts           | 4,596,678            | 22,800,725           |
|   | <u>\$145,710,065</u> | <u>\$127,246,718</u> |

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

|  | 2008                 | 2007                 |
|--|----------------------|----------------------|
| Cash and cash equivalents (current)                | \$ 95,858,445        | \$ 89,164,050        |
| Investments (current)                              | 2,884,646            | 2,706,148            |
| Restricted cash and cash equivalents (non-current) | 41,438,296           | 11,643,795           |
| Investments (non-current)                          | 5,528,678            | 23,732,725           |
|  | <u>\$145,710,065</u> | <u>\$127,246,718</u> |

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2008

Deposits.

The carrying amount of the University's cash and cash equivalents with the State Treasurer and other financial institutions at June 30, 2008 were \$137,296,741. 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 investments 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:

- Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America, or any agency thereof
- 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 lesser 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

Kansas Development Finance Authority (KDFA). 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. KDFA 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
- Guaranteed investment contracts

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2008

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
- Insured savings and loan associations to the extent of the insurance provided by the F.S.L.I.C.

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 certificates of deposit at a fixed rate and are non-negotiable instruments. Therefore they are not exposed to interest rate risk.

As of June 30, 2008 the University had the following investments:

| Investment Type                 | Fair Value          | Less Than 1 Year   | 1 - 5 Years       | 6 - 10 Years       | More Than 10 Years  |
|---------------------------------|---------------------|--------------------|-------------------|--------------------|---------------------|
| Certificates of Deposit         | \$ 2,884,646        | \$2,884,646        |                   |                    |                     |
| Repurchase Agreements           | 932,000             |                    |                   | \$ 932,000         |                     |
| Guaranteed Investment Contracts | 4,596,678           |                    | \$ 638,500        | 84,500             | \$ 3,873,678        |
| <b>Total</b>                    | <b>\$ 8,413,324</b> | <b>\$2,884,646</b> | <b>\$ 638,500</b> | <b>\$1,016,500</b> | <b>\$ 3,873,678</b> |

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, K DFA 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.

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2008

**Note 3 – Capital Assets**

Capital asset activity for the University for the year ended June 30, 2008 is summarized as follows:

|   | Beginning Balance | Additions  | Retirements | Ending Balance |
|---|-------------------|------------|-------------|----------------|
| <b>Capital Assets (not depreciated)</b>   |                   |            |             |                |
| Land and Improvements                     | 8,980,331         | 4,527,778  | -           | 13,508,109     |
| Art Collections                           | 2,246,958         | 5,824      | -           | 2,252,782      |
| Construction in Progress                  | 9,098,660         | 23,074,919 | 22,993,328  | 9,180,251      |
|   |                   |            |             |                |
| <b>Capital Assets (being depreciated)</b> |                   |            |             |                |
| Buildings & Improvements                  | 534,611,067       | 17,125,410 | 59,417      | 551,677,060    |
| Land Improvements                         | 19,460,563        | 1,485,993  | 5,476       | 20,941,080     |
| Infrastructure                            | 8,362,841         | 5,868,215  | -           | 14,231,056     |
| Equipment and Furnishings                 | 142,562,320       | 11,415,755 | 5,094,322   | 148,883,753    |
| Vehicles                                  | 21,717,992        | 2,037,211  | 873,644     | 22,881,559     |
|   |                   |            |             |                |
| Total Capital Assets                      | 747,040,732       | 65,541,105 | 29,026,187  | 783,555,650    |
| <b>Accumulated Depreciation</b>           |                   |            |             |                |
| Buildings & Improvements                  | 222,144,180       | 13,737,859 | 59,417      | 235,822,622    |
| Land Improvements                         | 9,257,203         | 725,840    | 1,314       | 9,981,729      |
| Infrastructure                            | 4,566,838         | 354,606    | -           | 4,921,444      |
| Equipment and Furnishings                 | 101,948,923       | 9,871,064  | 4,539,061   | 107,280,926    |
| Vehicles                                  | 19,397,086        | 973,815    | 843,224     | 19,527,677     |
|   |                   |            |             |                |
| Total Depreciation                        | 357,314,230       | 25,663,184 | 5,443,016   | 377,534,398    |
|   |                   |            |             |                |
| Capital Assets, net                       | 389,726,502       | 39,877,921 | 23,583,171  | 406,021,252    |

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, 2008

**Note 4 – Accounts Receivable**

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2008, accounts receivable consisted of the following:

|  | <u>June 30, 2008</u> |
|--|----------------------|
| Student tuition and fees                             | \$ 9,542,549         |
| Auxiliary enterprises and other operating activities | 2,725,976            |
| Federal, state, and private grants and contracts     | 18,905,925           |
| Interest   | <u>151,701</u>       |
|  | \$31,326,151         |
| Less allowance for doubtful accounts                 | <u>2,583,176</u>     |
| Net accounts receivable                              | \$28,742,975         |

**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, 2008 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, 2008, the allowance for uncollectible loans was approximately \$1,300,000.

**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     | \$ 3,685,813        |
| Grants and contracts | <u>19,960,407</u>   |
|                      | <u>\$23,646,220</u> |

**Note 7 – Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2008 consists of the following:

|                                     | Beginning<br>Balance | Additions    | Deductions     | Ending<br>Balance | Current<br>Portion |
|-------------------------------------|----------------------|--------------|----------------|-------------------|--------------------|
| Revenue bonds payable               | \$145,880,000        | \$19,455,000 | \$ 4,570,000   | \$160,765,000     | \$5,215,000        |
| Loans payable                       | 2,465,653            |              | 1,590,467      | 875,186           | 255,241            |
| Lease obligations                   | 1,618,466            | 1,229,943    | 850,162        | 1,998,247         | 579,056            |
| Deposits held in custody for others | 745,134              | 5,336,334    | 5,110,392      | 971,076           | 971,076            |
| Other liabilities                   | <u>4,172,466</u>     |              | <u>756,189</u> | <u>3,416,277</u>  | <u>743,391</u>     |
| Total Long-Term Liabilities         | \$154,881,719        | \$26,021,277 | \$12,877,210   | \$168,025,786     | \$7,763,764        |

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2008

**Note 8 – Revenue Bonds Outstanding**

Revenue bonds payable consisted of the following at June 30, 2008:

|   | Principal<br>Outstanding<br>6/30/08 |
|---|-------------------------------------|
|   |                                     |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2008D<br/>(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<br/>(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>                                   | \$17,855,000                        |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2007A<br/>(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>              | \$27,365,000                        |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2005D<br/>(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>       | \$17,295,000                        |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2005A<br/>(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>              | \$42,830,000                        |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2003J-1<br/>(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>                   | \$18,075,000                        |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2003C<br/>(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 10/1/32. 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 4/1/14. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>  | \$ 480,000                          |

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2008

Revenue bonds payable consisted of the following at June 30, 2008:

|   | Principal<br>Outstanding<br>6/30/08 |
|---|-------------------------------------|
| 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.                 | \$ 3,430,000                        |
| 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.                   | \$ 1,040,000                        |
| 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. | \$ 6,100,000                        |
| 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.          | \$ 2,210,000                        |

Series 2008D Student Life Center Project, 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 2000D Ackert Hall Addition Project is collateralized by a pledge of sponsored research overhead revenues. 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 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. 2007H Parking System Project is collateralized by a pledge of parking operation revenues.

Future debt service requirements for all bonds outstanding at June 30, 2008 are as follows:

| Year Ending June 30: | Principal     | Interest       | Total          |
|----------------------|---------------|----------------|----------------|
| 2009                 | \$ 5,215,000  | \$ 7,217,099   | \$ 12,432,099  |
| 2010                 | 5,435,000     | 7,028,409      | 12,463,409     |
| 2011                 | 5,680,000     | 6,813,580      | 12,493,580     |
| 2012                 | 5,205,000     | 6,591,734      | 11,796,734     |
| 2013                 | 6,090,000     | 6,364,186      | 12,454,186     |
| 2014-2018            | 28,025,000    | 28,021,998     | 56,046,998     |
| 2019-2023            | 28,275,000    | 21,566,376     | 49,841,376     |
| 2024-2028            | 26,955,000    | 14,980,528     | 41,935,528     |
| 2029-2033            | 33,170,000    | 8,253,397      | 41,423,397     |
| 2034-2038            | 16,715,000    | 1,885,730      | 18,600,730     |
| Total                | \$160,765,000 | \$ 108,723,037 | \$ 269,488,037 |



**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2008

**Note 9 – Loan and Lease Obligations**

In July 2003, Kansas State University and the Pooled Money Investment Board 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 was due August 1, 2007. As of June 30, 2008, the loan had been paid in full.

In June 2000, the University and the KSU Foundation entered into a 15 year financing agreement for the purchase of the Educational and Agricultural Research Facility located in Finney Co. in the amount of \$820,000. Annual payments are due June 1 with semi-annual interest payments due June 1 and December 1 at an interest rate ranging from 5.00% to 6.25%. The outstanding balance at June 30, 2008 is \$500,000.

In October 1997, the University and the KSU Foundation entered into a 10 year agreement for the purchase of the Harbin Residence Hall in the amount of \$2,000,820. Annual payments are due December 1, with an outstanding balance at June 30, 2008 of \$375,186.

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, 2008 of \$565,707.

The University is obligated for the purchase of certain equipment funded through the State of Kansas Equipment Lease Purchase Program in the amount of \$1,432,540 as of June 30, 2008. Payments to liquidate these obligations are scheduled as follows:

| Year Ending June 30: | Total         |
|----------------------|---------------|
| 2009                 | \$ 487,509    |
| 2010                 | 487,509       |
| 2011                 | 235,851       |
| 2012                 | 194,989       |
| 2013                 | <u>26,682</u> |
|                      | \$1,432,540   |

**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, 2008, active KPERs members were required by statute to contribute 4% and the University to contribute 6.37% of the employees' covered payroll. The Kansas Legislature establishes and may amend active plan members' and the University's contribution rates. The University contributed \$2,963,814 during fiscal year 2008 and individual employees contributed \$1,855,384. In addition, payments to KPERs for death and disability coverage for all University employees totaled \$2,431,720.

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2008

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, 2008 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 \$15,335,676 during fiscal year 2008 and individual employees contributed \$9,776,690.

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, 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, 2008, the University contributed \$880,259 and individual employees contributed \$717,220 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.

**Kansas State University**  
Notes to Financial Statements (Continued)  
**For the Year Ended June 30, 2008**

**Note 12 – Other Postemployment Healthcare Benefits**

Description. 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 State, thus resulting in a liability to the State. 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 State 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 appropriates funds annually for the costs associated with this retirement benefit and provides funding for the expenditure on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB (Other Post Employment Benefits) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 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.

|                                    |               |
|------------------------------------|---------------|
| Normal cost (with interest)        | \$2,013,261   |
| Amortization of UAAL               | 1,434,269     |
| Interest on amortized liability    | <u>55,219</u> |
| Annual required contribution (ARC) | \$3,502,749   |
| Contributions made                 | <u>—</u>      |
| Increase in net OPEB obligation    | \$3,502,749   |
| Net OPEB obligation July 1, 2007   | <u>—</u>      |
| Net OPEB obligation June 30, 2008  | \$3,502,749   |

**Schedule of Employer Contributions (for fiscal year ended)**

| Fiscal<br>Year | Annual<br>OPEB<br>Cost | Net<br>Employer<br>Contributions | Percentage<br>Contributed | End of<br>Year<br>Net OPEB<br>Obligation |
|----------------|------------------------|----------------------------------|---------------------------|--|
| 2008           | \$3,502,749            | \$0                              | 0%                        | \$3,502,749                              |

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2008

Funded Status and Funding Progress. As of June 30, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$29,255,102. The University's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$29,255,102. The covered payroll (annual payroll of active employees covered by the plan) was \$292,092,766, and the ratio of the UAAL to the covered payroll was 10 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.

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, 2008 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 5.5 to 10 percent in the first ten years and an ultimate rate of 5.0 percent after ten 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 – Commitments and Contingencies**

At June 30, 2008, the University had outstanding commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$21,600,000.

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.

During June 2008, an EF4 tornado swept through Manhattan and the University suffered an estimated \$10 million of damage to buildings, infrastructure and land improvements. High wind damage was also reported at the Salina campus. The deductible under the State's policy is \$5 million. The University has a separate building policy with a \$10,000 deductible, covering the K-State Student Union and Housing buildings at both the Manhattan and Salina campuses. Project proposals have been submitted for consideration to FEMA, which (if awarded) would fund seventy-five percent of approved costs not covered by insurance. Financial support for the amounts not covered by FEMA and/or insurance will be sought from the State.

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, 2008

**Note 14 – Operating Expenses by Natural Classification**

Year Ended June 30, 2008

|                                     | Compensation<br>and Benefits | Contractual<br>Services | Supplies<br>and Materials | Utilities            | Scholarships<br>and Fellowships | Aid, Debt<br>and Nonexpense | Depreciation         | Total                 |
|-------------------------------------|------------------------------|-------------------------|---------------------------|----------------------|---------------------------------|-----------------------------|----------------------|-----------------------|
| Instruction                         | \$ 140,064,554               | \$ 11,878,432           | \$ 7,587,558              | \$ 433               | \$                              | \$ 2,292,453                | \$                   | \$ 161,823,430        |
| Research                            | 77,250,780                   | 17,163,543              | 15,773,716                | 307,385              |                                 | 2,634,540                   |                      | 113,129,964           |
| Public Service                      | 49,089,508                   | 9,088,416               | 4,587,653                 | 18,056               |                                 | 4,015,573                   |                      | 66,799,206            |
| Academic Support                    | 30,644,065                   | 9,864,421               | 3,406,728                 | 216                  |                                 | 175,933                     |                      | 44,091,363            |
| Student Service                     | 15,509,952                   | 3,512,648               | 560,190                   | 12,452               |                                 | 1,943,912                   |                      | 21,539,154            |
| Institutional Support               | 18,095,964                   | 7,630,963               | 724,947                   |                      |                                 | 768,534                     |                      | 27,220,408            |
| Operations and Maintenance of Plant | 16,823,680                   | 4,773,078               | 2,351,729                 | 12,996,486           |                                 | 29,469                      |                      | 36,974,442            |
| Scholarships & Fellowships          |                              |                         |                           |                      | 14,359,376                      |                             |                      | 14,359,376            |
| Auxiliary Enterprises               | 19,390,501                   | 3,986,802               | 6,800,883                 | 2,020,948            |                                 | 68,682                      |                      | 32,267,816            |
| Depreciation                        |                              |                         |                           |                      |                                 |                             | 25,663,184           | 25,663,184            |
| Other                               |                              | 492,812                 | 294,184                   |                      |                                 |                             |                      | 786,996               |
| <b>Total Operating Expenses</b>     | <b>\$ 366,869,004</b>        | <b>\$ 68,391,115</b>    | <b>\$ 42,087,588</b>      | <b>\$ 15,355,976</b> | <b>\$ 14,359,376</b>            | <b>\$ 11,929,096</b>        | <b>\$ 25,663,184</b> | <b>\$ 544,655,339</b> |

**Note 15 – 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.

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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.

