

Kansas State University

Annual Financial Report
Fiscal Year Ended June 30, 2011



**Kansas State University
Manhattan, Kansas**

STATE BOARD OF REGENTS

Ed McKechnie, Chair Arcadia	Dan Lykins Topeka
Fred Logan Prairie Village	Robba Moran Hays
Mildred Edwards Wichita	Janie Perkins Garden City
Christine Downey-Schmidt Inman	Kenny Wilk Lansing
Tim Emert Independence	Andy Tompkins President and CEO

UNIVERSITY OFFICIALS

Kirk Schulz
President

April Mason
Provost

Pat Bosco
Vice President for Student Life

Bruce Shubert
Vice President for Administration and Finance

BUSINESS AND FINANCIAL STAFF

Fran Willbrant
Assistant Vice President – Financial Services

Jim Bach
Director – Financial Operations

Cindy Bontrager
Director of Budget

TABLE OF CONTENTS

Management's Discussion and Analysis	3
Statement of Net Assets.....	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	14

Kansas State University

Management's Discussion and Analysis

For the Year Ended June 30, 2011

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 that have placed time or purpose restrictions on the use of the assets.
3. **Unrestricted net assets** are available to the University for any lawful purpose of the institution.

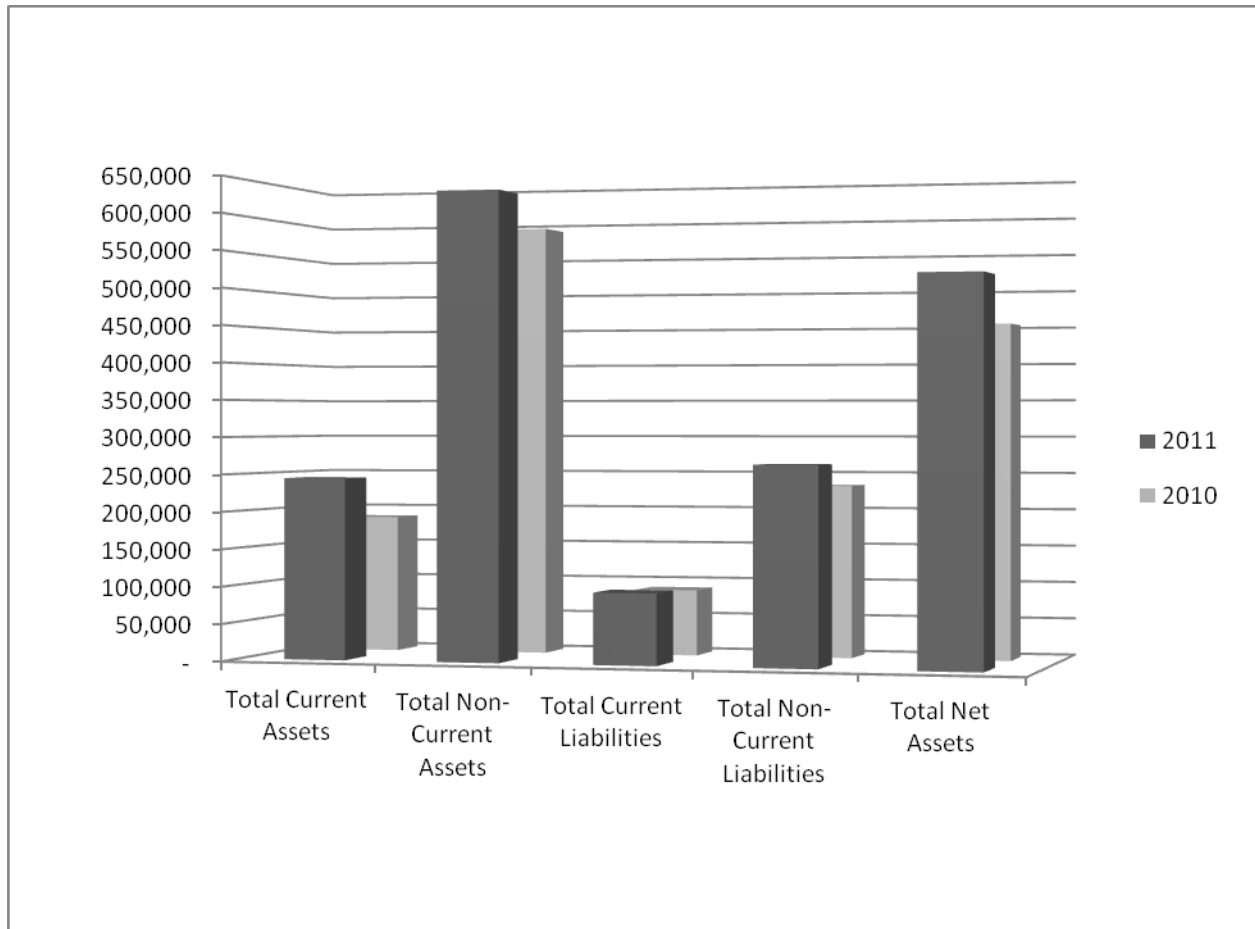
Total assets at June 30, 2011 were \$873.1 million, an increase of \$98.5 million (12.7%). Capital assets, net of depreciation, comprised 59.2%, or \$517.2 million of the total assets.

Total liabilities were \$360 million at June 30, 2011, an increase of \$37.3 million (11.6%), compared to \$322.7 million at June 30, 2010. Long-term liabilities comprised 73.5%, or \$264.7 million of the total liabilities.

Total net assets at June 30, 2011 were \$513.1 million, a \$61.2 million increase over the prior year. The breakout of net assets is shown below:

Capital assets, net of related debt.....	\$259,521,776
Restricted net assets	127,323,561
Unrestricted net assets	126,295,366
Total net assets.....	\$513,140,703

The composition of current and non-current assets and liabilities and net assets is displayed below for both the 2010 and 2011 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, 2011 increased by 10.6% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$170.1 million in 2011, compared to \$154.6 million in 2010. This increase is a result of enrollment changes and a tuition increase approved by the Kansas Board of Regents for fiscal year 2011.

- Grants and contracts (federal, state and local, and non-governmental) increased \$17.8 million from the previous fiscal year. This category of revenue includes funds received for sponsored research activities and athletic contractual agreements.
- Sales and services increased \$6.1 million from the previous fiscal year.
- Auxiliary enterprises increased \$3.2 million from the previous fiscal year. Auxiliary enterprises include Housing, Parking, University health services, Child Care Center and a variety of other smaller services. The increase is attributable to an increase in child care, housing and parking fees.
- Other operating revenues decreased \$5.9 million. The majority of this decrease is due to a one-time payment related to energy conservation measures in the previous fiscal year. Contributions increased \$9.8 million, which is directly attributed to the K-State Athletics, Inc.

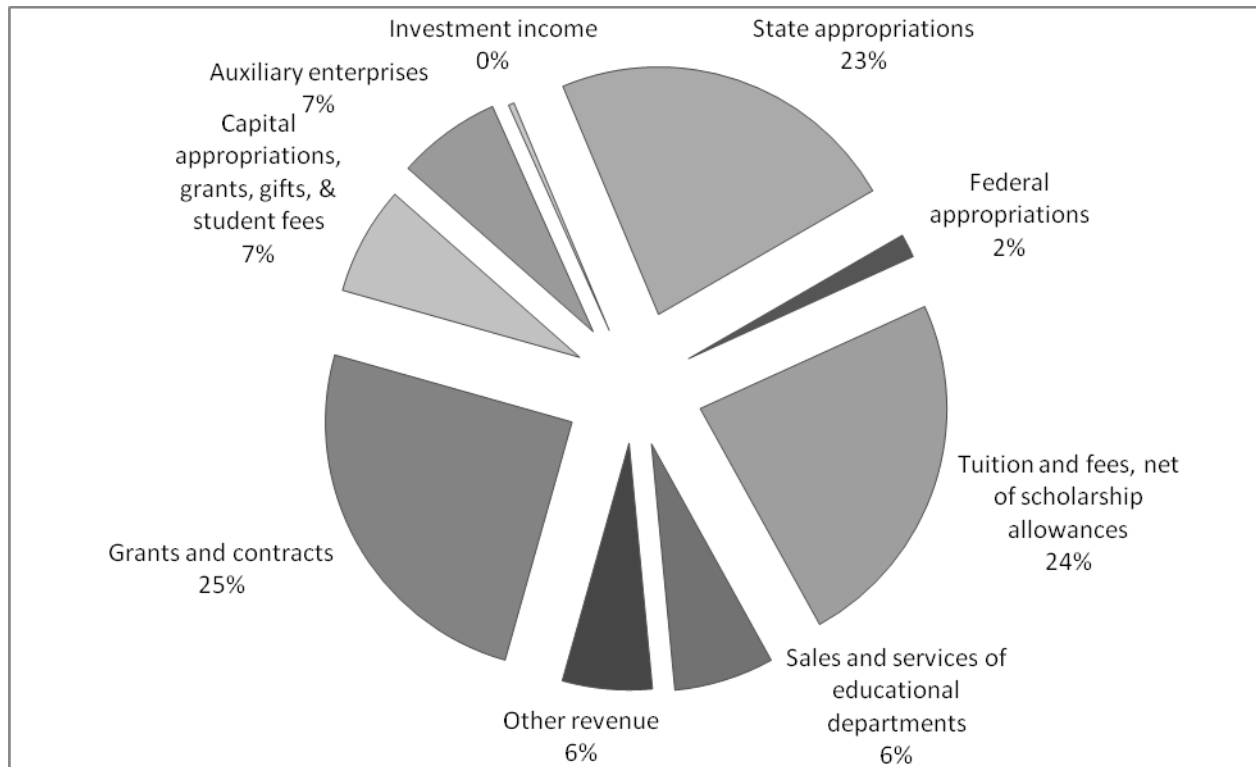
Total non-operating revenues were up 2.4% from the prior year from \$185.9 million to \$190.4 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from \$163.5 million to \$164.7 million.
- Investment income increased \$.5 million, which is reflective of national market conditions.
- Student fees collected for capital projects remained constant.
- Non-operating federal grants and contracts increased \$2.7 million, predominately consisting of PELL grant revenue.

Other revenues included the following:

- Capital appropriations decreased from \$11.9 million to \$7.8 million.
- Capital grants and gifts increased from \$16.5 million to \$20.1 million.

In summary, total revenues increased by \$51.8 million, or 7.8%, from \$665.3 million to \$717.2 million. The compositions of these revenues are displayed in the following graph:



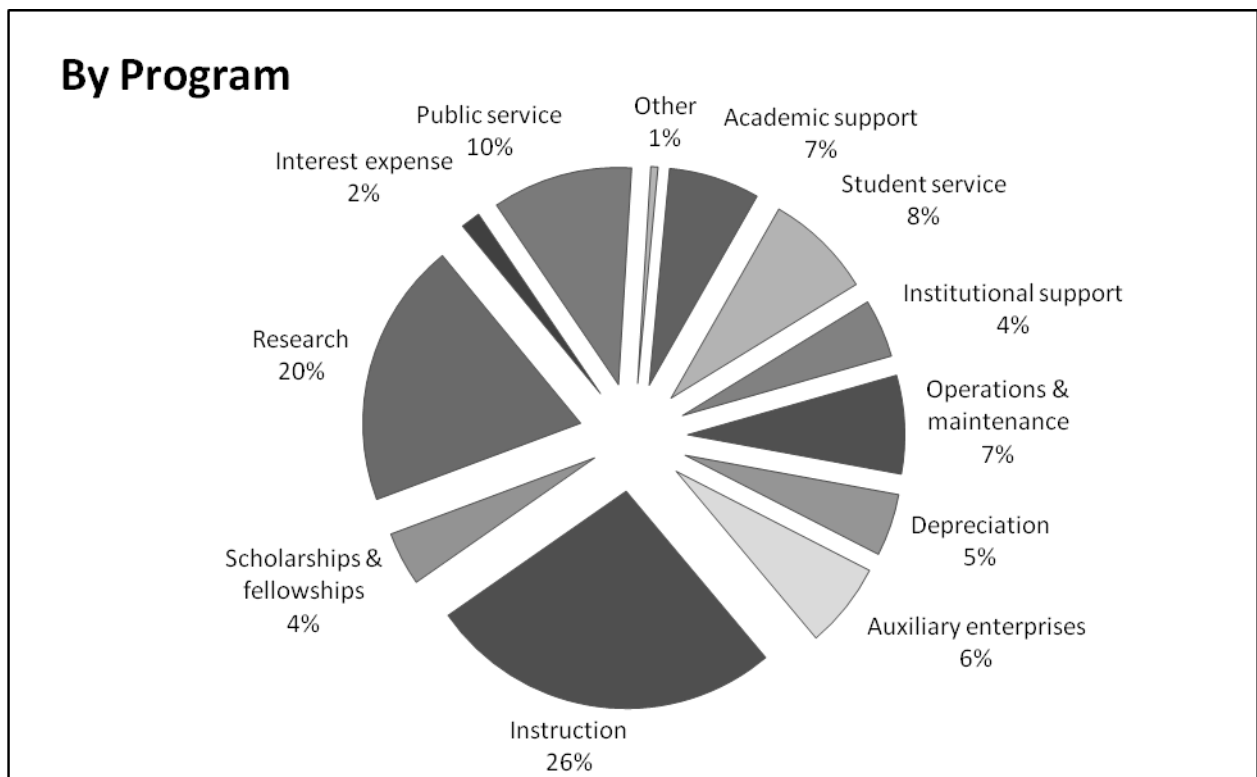
Expenses

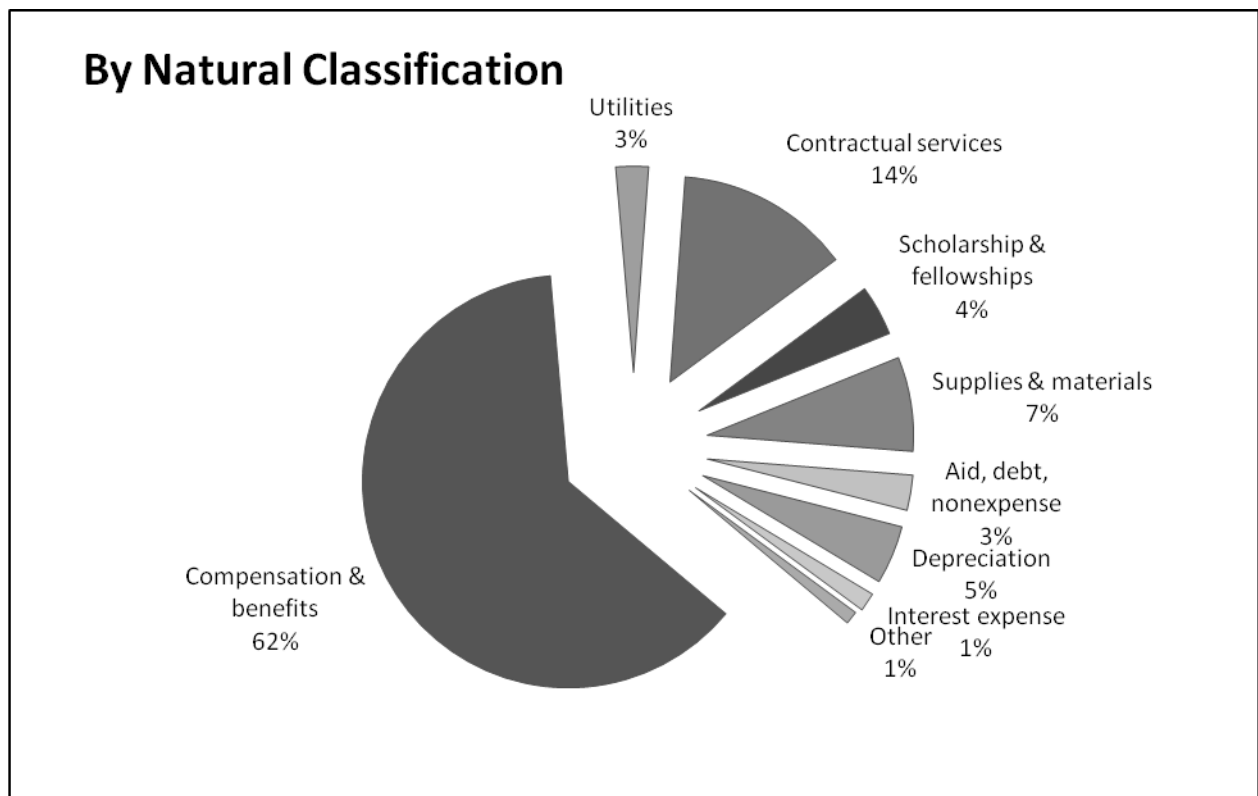
Operating expenses were \$642.6 million for the 2011 fiscal year. This was an increase over the prior year of \$37.5 million. The following is a brief summary of the significant changes:

- Expenses related to the University's mission of instruction, research and public service increased \$10.5 million in 2011.
- Auxiliary service expenses increased \$2.9 million in 2011.
- Expenses related to academic support, student services, and institutional support increased from \$115.7 million in 2010 to \$124.6 million in 2011.
- Operations & maintenance of plant expenditures increased \$7.8 million in 2011. This increase is a result of bond financed energy conservation repair and maintenance expenses.

Non-operating expenses increased from \$9.6 million in 2010 to \$10.6 million in 2011 and are represented primarily by interest expense.

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 2011.

Net Assets

Net assets increased by \$65.7 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, proceeds from the issuance of debt for construction projects, and adding the blended component unit Kansas State University Research Foundation.

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, 2011	June 30, 2010
Net cash provided (used) by:		
Operating activities	\$ (106,653)	\$ (127,406)
Non-capital financing activities	184,622	180,983
Capital and related financing/appropriations	(37,515)	19,720
Investing activities	(7,788)	(1,190)
Net increase in cash	32,666	72,107
Beginning cash and cash equivalent balances	215,054	142,947
Component Unit Prior Period Adjustment	393	-
Ending cash and cash equivalent balances	\$ 248,113	\$ 215,054

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

The University's overall liquidity increased by \$33.1 million during fiscal year 2011. This increase is the net result of an increase in tuition and fees and grants and contracts.

CAPITAL ASSETS

The University made significant investments in capital during the 2010-2011 fiscal year. Detailed information regarding capital asset additions, retirements & depreciation is available in Note 5 to the financial statements.

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

- The Large Animal Research Center was completed in October 2010 at a cost of approximately \$7.5 million. The building serves as a core resource for scientists who work with large animals in any of the university's colleges
- The first building for administration and research space at the K-State Olathe Innovation Campus, Inc was substantially completed at the end of FY2011. Sales tax revenue bonds in the amount of \$30.5 million were issued for this project with future repayment coming from the Johnson County Education Research Triangle (JCERT) sales tax.
- During FY2011, the university spent approximately \$7.4 million on infrastructure and deferred building maintenance projects. Funding for these undertakings has come from energy savings, federal stimulus funds and state of Kansas deferred maintenance funds.

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

- The Student Recreation Center Expansion project at the Manhattan Campus continued into FY2011. The \$24 million project involves many enhancements including expanding the cardio/weight room and indoor running track and adding personal training studios and a rock climbing wall.
- Work continues on the \$21.6 million project to accommodate the construction of the National Bio and Agro-Defense Facility (NBAF).
- The next phase of the Housing and Dining Services Jardine Apartments renovation project will commence in FY2012 with the issuance of \$12 million in revenue bonds. Future repayment of the bonds will come from Housing operation revenue.
- Construction of a 13,180 square foot addition to Justin Hall began in June 2011. The \$5 million addition will include space for student services, student collaborative workspace, administration, and two classrooms that will accommodate approximately 100 students each.
- Groundbreaking for the KSU Athletics, Inc. basketball training facility took place in February 2011. The \$17.6 million project will include men's and women's basketball facilities, practice courts, locker rooms, a weight room, and coaches' offices.

Several projects are in the planning stages, including a \$13 million feed mill building at the Grain Science Center and a Welcome Center in East Memorial Stadium.

DEBT ADMINISTRATION

At June 30, 2011, the University had \$257 million in debt outstanding, compared to \$228 million at June 30, 2010. The increase is due to the issuance of \$25 million of Athletics Facilities Revenue bonds, \$20.2 million of Energy Conservation bonds, \$4.36 million of Union refunding bonds and \$655 thousand in Ackert Hall refunding bonds. The University paid \$32.7 million in principal and interest payments related to all outstanding debt.

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

ECONOMIC OUTLOOK

Historically, approximately one-third of the total resources for the University, during a fiscal year, are provided by the State. During the last three years, State support has decreased from 32% in FY 2008 to 24% in FY 2011. Increased pursuit of extramural funding, increased tuition revenue, and implementation of internal budget reductions has helped to offset the impact of this trend. Appropriations for fiscal year 2012 are currently set at \$161.8 million, which represents a \$3 million decrease from fiscal year 2010. State revenue collections appear stable or slightly above estimates at this time, and it is anticipated that state funding will remain steady. The Kansas economy is projected to show modest growth through FY 2012 and FY 2013.

Enrollment for the academic 2011-2012 year is expected to be consistent with academic 2010-2011 year. Over the next few years, enrollment is expected to remain stable.

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

Kansas State University
Statement of Net Assets
For the Year Ended June 30, 2011

	University Funds		Component Units	
	2011	2010	2011	2010
<u>ASSETS</u>				
Current Assets				
Cash and cash equivalents	\$ 189,824,785	\$ 132,602,622	\$ 1,135,376	\$ 998,508
Accounts receivable, net	36,777,122	35,409,243	280,632	353,613
Investments	7,004,424	6,233,046	674,709	568,543
Loans to students, net	5,357,001	5,600,226	-	-
Inventories	3,903,544	5,549,470	435,814	416,103
Prepaid expenses	1,501,182	1,139,674	40,608	58,049
Total Current Assets	<u>244,368,058</u>	<u>186,534,281</u>	<u>2,567,139</u>	<u>2,394,816</u>
Noncurrent Assets				
Restricted cash and cash equivalents	58,287,862	82,844,365	193,721	187,853
Investments	41,251,258	29,807,953	235,763	210,100
Loans to students, net	11,521,246	11,469,222	-	-
Other assets	522,535	212,705	-	-
Capital assets, net	517,208,256	463,748,851	1,591,184	701,867
Total Noncurrent Assets	<u>628,791,157</u>	<u>588,083,096</u>	<u>2,020,668</u>	<u>1,099,820</u>
TOTAL ASSETS	<u>873,159,215</u>	<u>774,617,377</u>	<u>4,587,807</u>	<u>3,494,636</u>
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable and accrued liabilities	30,370,676	29,359,593	816,452	678,494
Deferred revenue	40,498,499	34,698,558	1,047,031	221,723
Deposits held in custody for others	1,385,205	1,391,707	-	-
Accrued compensated absences	14,319,106	15,457,313	-	-
Capital lease payable	763,420	833,164	-	-
Other loan payable	454,360	180,601	-	-
Revenue bonds payable	7,095,000	6,790,000	-	-
Other liabilities	461,946	528,317	360,562	246,688
Total Current Liabilities	<u>95,348,212</u>	<u>89,239,253</u>	<u>2,224,045</u>	<u>1,146,905</u>
Noncurrent Liabilities				
Accrued compensated absences	2,914,782	2,641,366	-	-
Accrued other postemployment benefits	12,311,489	8,974,068	-	-
Capital lease payable	451,728	1,260,215	-	-
Other loan payable	5,717,471	5,282,679	45,000	-
Revenue bonds payable	242,815,889	214,420,889	-	-
Other liabilities	458,941	842,076	-	-
Total Noncurrent Liabilities	<u>264,670,300</u>	<u>233,421,293</u>	<u>45,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>360,018,512</u>	<u>322,660,546</u>	<u>2,269,045</u>	<u>1,146,905</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	259,521,776	235,330,776	1,591,184	701,867
Restricted for:				
Nonexpendable	15,804,806	16,933,017	-	-
Expendable				
Scholarships, research, instruction, public service, & other	10,301,953	(3,332,416)	353,696	296,708
Loans	19,753,527	19,410,847	-	-
Capital projects	66,929,428	71,161,764	78,416	109,469
Debt service	14,533,847	15,839,555	-	-
Unrestricted	<u>126,295,366</u>	<u>96,613,288</u>	<u>295,466</u>	<u>1,239,687</u>
TOTAL NET ASSETS	<u>\$ 513,140,703</u>	<u>\$ 451,956,831</u>	<u>\$ 2,318,762</u>	<u>\$ 2,347,731</u>

Kansas State University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

	University Funds		Component Units	
	2011	2010	2011	2010
Operating Revenues:				
Tuition and fees, net of scholarship allowances of \$33,269,785	\$ 170,139,030	\$ 154,593,304	\$ 1,904,470	\$ 1,928,770
Federal appropriations	11,059,420	9,784,111	-	-
Federal grants and contracts	114,768,663	98,913,899	-	-
State and local grants and contracts	8,320,007	9,587,528	-	-
Nongovernmental grants and contracts	56,136,482	52,856,263	-	-
Sales and services of educational activities	46,840,330	40,771,263	4,392,579	5,176,528
Auxiliary enterprises				
Housing revenues (revenues are pledged as security for bonds)	37,281,844	34,234,556	-	-
Parking revenues (revenues are pledged as security for bonds)	3,590,452	3,623,071	-	-
Student health revenues	6,326,942	6,313,314	-	-
Child care center	1,470,680	1,393,777	-	-
Other auxiliary revenues	120,601	73,365	-	-
Interest earned on loans to students	304,015	338,464	-	-
Other operating revenues	15,911,145	21,826,470	2,008,280	2,175,638
Contributions	25,923,483	16,074,071	42,853	89,484
Total Operating Revenues	<u>498,193,094</u>	<u>450,383,456</u>	<u>8,348,182</u>	<u>9,370,420</u>
Operating Expenses:				
Instruction	172,352,299	167,189,701	-	-
Research	128,588,946	123,476,354	-	-
Public Service	68,242,289	68,042,994	-	-
Academic Support	44,075,596	43,579,708	-	-
Student Service	52,080,058	48,528,182	3,245,986	3,498,753
Institutional Support	28,354,268	23,582,728	1,120,184	2,586,301
Operations & Maintenance of Plant	47,744,707	39,911,524	125,629	-
Depreciation	30,235,558	26,372,297	205,690	201,451
Scholarships & Fellowships	26,048,813	25,198,742	-	-
Auxiliary Enterprises	41,430,752	38,482,249	-	-
Other Expenses	3,442,089	710,701	3,619,636	2,907,948
Total Operating Expenses	<u>642,595,375</u>	<u>605,075,180</u>	<u>8,317,125</u>	<u>9,194,453</u>
Operating Income (Loss)	<u>(144,402,281)</u>	<u>(154,691,724)</u>	<u>31,057</u>	<u>175,967</u>
Nonoperating Revenues (Expenses)				
State appropriations	164,740,289	163,516,554	-	-
Federal grants and contracts	19,881,545	17,191,921	-	-
Gifts	-	-	-	-
Investment income	2,654,247	2,166,955	39,594	274,002
Interest expense	(9,598,428)	(8,609,576)	-	-
Gain/Loss on disposal of assets	(982,645)	(972,405)	-	-
Student fees for capital projects	3,114,876	3,058,828	-	-
Net Nonoperating Revenues	<u>179,809,884</u>	<u>176,352,277</u>	<u>39,594</u>	<u>274,002</u>
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	<u>35,407,603</u>	<u>21,660,553</u>	<u>70,651</u>	<u>449,969</u>
Capital appropriations	7,817,425	11,951,441	-	-
Capital grants and gifts	20,149,680	16,511,853	-	-
Additions to permanent endowment	637,255	564,742	-	-
Other additions/deductions, net	(2,321,466)	(596,909)	-	-
Increase (Decrease) in Net Assets	<u>61,690,497</u>	<u>50,091,680</u>	<u>70,651</u>	<u>449,969</u>
Net Assets				
Net Assets -- Beginning of Year, as previously reported	447,461,183	397,369,503	6,811,780	6,361,811
Prior Period Restatement	3,989,023	-	(4,563,669)	-
Net Assets, Beginning of Year, as restated	<u>451,450,206</u>	<u>397,369,503</u>	<u>2,248,111</u>	<u>6,361,811</u>
Net Assets -- End of Year	<u>\$ 513,140,703</u>	<u>\$ 447,461,183</u>	<u>\$ 2,318,762</u>	<u>\$ 6,811,780</u>

Kansas State University
Statement of Cash Flows
For the Year Ended June 30, 2011

	University Funds	
	2011	2010
Cash Flows from Operating Activities		
Tuition and fees	\$ 204,359,577	\$ 183,736,539
Endowment income	100,000	84,220
Sales and services of educational activities	45,201,276	43,976,569
Auxiliary enterprise charges		
Housing	36,451,604	34,377,648
Parking	3,647,010	3,659,858
Student Health	6,356,555	6,342,677
Child Care Center	1,399,300	1,393,777
Other	1,041,797	73,372
Grants and contracts	182,149,953	157,957,521
Federal appropriations	11,059,420	9,784,111
Payments to suppliers	(253,881,568)	(227,567,829)
Compensation & benefits	(406,287,073)	(395,112,340)
Loans issued to students and employees	(2,915,656)	(2,795,420)
Collections on loans issued to students and employees	3,475,388	3,120,827
Other receipts (payments)	61,189,316	53,562,228
Net Cash Flows from Operating Activities	(106,653,101)	(127,406,242)
Cash Flows from Noncapital Financing Activities		
State appropriations	164,740,289	163,516,554
Federal/State student aid	19,958,876	17,045,329
Direct lending receipts	124,396,638	117,769,673
Direct lending payments	(124,501,148)	(117,593,852)
Funds held for others	(6,502)	(522,873)
Other	33,667	767,732
Net Cash Flows from Noncapital Financing Activities	184,621,820	180,982,563
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	51,054,821	63,250,762
Capital appropriations	7,817,425	11,951,441
Capital grants and gifts	7,101,015	5,158,032
Student fees for capital projects	3,118,326	3,057,560
Purchases of capital assets	(72,622,017)	(47,708,485)
Principal paid on capital debt and leases	(21,867,043)	(7,068,917)
Interest paid on capital debt and leases	(10,847,146)	(8,554,756)
Other	(1,270,758)	(364,913)
Net Cash Flows from Capital and Related Financing Activities	(37,515,377)	19,720,724
Cash Flows from Investing Activities		
Investment income	2,206,854	2,472,327
Purchase/Redemption of investments	(9,994,536)	(3,661,911)
Net Cash Flows from Investing Activities	(7,787,682)	(1,189,584)
Net change in cash and cash equivalents	32,665,660	72,107,461
Cash and cash equivalents -- beginning of year	215,054,219	142,946,758
Prior Period Restatement	392,768	
Cash and cash equivalents -- beginning of year	215,446,987	142,946,758
Cash and cash equivalents -- end of year	\$ 248,112,647	\$ 215,054,219

Kansas State University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2011

	University Funds	
	2011	2010
Reconciliation		
Operating income (loss)---SRECNA	\$ (144,402,281)	\$ (154,691,724)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	30,235,558	26,372,297
Changes in assets and liabilities:		
Accounts receivable, net	(2,075,648)	(3,399,482)
Loans to students, net	559,732	325,407
Inventories	1,645,926	(618,660)
Prepaid expenses	(361,508)	210,488
Accounts payable and accrued liabilities	3,449,759	1,043,452
Deferred revenue	5,259,152	1,643,433
Accrued compensated absences	(963,791)	1,708,547
	<u>\$ (106,653,101)</u>	<u>\$ (127,406,242)</u>
Net cash used in operating activities---Cash Flow	<u>\$ (106,653,101)</u>	<u>\$ (127,406,242)</u>

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2011

Note 1 - Organization and Summary of Significant Accounting Policies

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

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

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

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

The K-State Union Corporation 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., K-State Comprehensive Assessment Tools, Inc., Kansas State University Research Foundation (KSURF), and K-State Athletics, Inc. have been blended into the University's financial statements.

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, 2011

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

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

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

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

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

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

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

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

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

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

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

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

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

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

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).

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 2010 summer session are reported in the Statement of Revenues, Expenses, and Changes in Net Assets. For the 2011 summer session, revenues received prior to June 30, 2011 are reported as deferred revenues in the Statement of Net Assets while expenses paid prior to June 30, 2011 are reported as prepaid expenses. Kansas Board of Regents officials determined this methodology and believe the departure from generally accepted accounting principles will not have a material effect on the University's financial position.

Reclassifications. Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. The effects of these reclassifications are discussed in Note 15.

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

Note 2 – Deposits and Investments

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

	<u>2011</u>	<u>2010</u>
Cash deposits with State Treasury	\$189,985,671	\$166,296,580
Cash deposits with financial institutions	58,126,976	49,150,407
Certificates of deposits	1,118,091	1,112,362
Repurchase agreements	-	932,000
Guaranteed investment contracts	4,334,678	4,334,678
Investments at KSU Foundation	37,773,957	24,865,713
Other investments	<u>5,028,956</u>	<u>4,796,246</u>
	\$296,368,329	\$251,487,986

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

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

	2011	2010
Cash and cash equivalents (current)	\$189,824,785	\$132,602,622
Investments (current)	7,004,424	6,233,046
Restricted cash and cash equivalents (non-current)	58,287,862	82,844,365
Investments (non-current)	41,251,258	29,807,953
	\$296,368,329	\$251,487,986

Deposits.

The carrying amount of the University's cash and cash equivalents with the State Treasurer and other financial institutions at June 30, 2011 were \$248,112,647. 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:

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

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

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

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.

The Foundation is also the investing agent for the K-State Athletics, Inc. The investment policies of the Foundation are governed by policies and procedures established by the Investment Advisory Committee of the Founds. This committee is a subcommittee of the Executive Committee of the Foundation's board of trustees, in collaboration with staff and consultants. The Foundation staff implements policies through: (1) the selection of investment strategies, (2) the hiring, monitoring and changing of investment managers, and (3) re-balancing the portfolios. Investment results are monitored by the committee quarterly through manager and portfolio performance and due diligence reporting and annually through outside auditing of the Foundation's accounts and procedures. The specific return objectives, risk parameters and spending policies of K-State Athletics, Inc. are adopted to be in compliance with the Foundation's policies and procedures for endowment and investment management.

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

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

For revenue bond investments managed by KDFA, due to the tax-exempt status of the bonds, it is generally the practice of KDFA 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, KDFA 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 or are held as cash deposits. Therefore they are not exposed to interest rate risk.

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

As of June 30, 2011, the University had investments with the following maturities:

Investment Type	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Certificates of Deposit	\$ 1,118,091		\$1,118,091		
Guaranteed Investment Contracts	4,334,678		\$ 461,000		\$ 3,873,678
	\$ 5,452,769	\$ -	\$ 1,579,091	\$ -	\$ 3,873,678
Investments not subject to maturity dates:					
KSU Foundation Investment Pool	\$40,661,719				
Unlisted Securities	2,141,194				
Total	\$48,255,682				

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.

Note 3 – Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2011, accounts receivable consisted of the following:

	<u>June 30, 2011</u>
Student tuition and fees	\$11,462,827
Auxiliary enterprises and other operating activities	3,635,947
Federal, state, and private grants and contracts	19,388,146
Interest	68,198
Other	<u>2,792,278</u>
	\$37,347,396
Less allowance for doubtful accounts	<u>570,274</u>
Net accounts receivable	\$36,777,122

Note 4 – Loans to Students

Student loans made through the Federal Perkins Loan Program and the Health Profession Student Loan Program comprise substantially all of the loans to students at June 30, 2011 and 2010. 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, 2011 and 2010, the allowance for uncollectible loans was estimated to be \$1,155,540 and \$1,490,000, respectively.

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

Note 5 – Capital Assets

Capital asset activity for the University for the year ended June 30, 2011 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets (not depreciated)				
Land and Improvements	13,488,545	105,982	-	13,594,527
Art Collections	2,648,782	99,270	-	2,748,052
Construction in Progress	23,617,906	54,289,860	15,503,429	62,404,337
Capital Assets (being depreciated)				
Buildings & Improvements	609,692,590	23,449,738	661,042	632,481,286
Land Improvements	22,818,264	346,035	12,799	23,151,500
Infrastructure	15,507,447	5,377,002	-	20,884,449
Intangibles	6,576,927	499,615	62,740	7,013,802
Equipment and Furnishings	164,329,984	15,213,354	8,723,841	170,819,497
Vehicles	23,320,013	1,182,930	4,251,798	20,251,145
Total Capital Assets	882,000,458	100,563,786	29,215,649	953,348,595
Accumulated Depreciation				
Buildings & Improvements	261,417,122	15,420,101	523,188	276,314,035
Land Improvements	11,511,124	808,110	10,751	12,308,483
Infrastructure	4,942,962	672,896	-	5,615,858
Intangibles	5,601,180	313,422	33,108	5,881,494
Equipment and Furnishings	113,998,976	11,895,996	7,526,505	118,368,467
Vehicles	20,780,243	1,125,033	4,253,274	17,652,002
Total Depreciation	418,251,607	30,235,558	12,346,826	436,140,339
Capital Assets, net	463,748,851	70,328,228	16,868,823	517,208,256

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, 2011

Note 6 – Deferred Revenue

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

Tuition and fees	\$ 7,644,421
Grants and contracts	19,649,565
Athletic tickets and other	<u>13,204,513</u>
	<u>\$40,498,499</u>

Note 7 – Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2011 consists of the following:

	Beginning			Ending	Current
	Balance	Additions	Reductions	Balance	Portion
Accrued compensated absences	\$ 17,065,762	\$ 2,020,305	\$ 1,852,179	\$ 17,233,888	\$14,319,106
Accrued other postemployment benefits	8,974,068	3,337,421	-	12,311,489	-
Capital lease payable	2,036,007	153,108	973,967	1,215,148	763,420
Other loan payable	5,463,280	1,286,830	578,279	6,171,831	454,360
Revenue bonds payable	221,210,889	50,180,000	21,480,000	249,910,889	7,095,000
Other liabilities	1,266,080	-	424,006	842,074	383,133
Total Noncurrent Liabilities	\$256,016,086	\$56,977,664	\$ 25,308,431	\$287,685,319	\$23,015,019

Note 8 – Revenue Bonds Outstanding

Revenue bonds payable consisted of the following at June 30, 2011:

	Principal Outstanding 6/30/11
Kansas Development Finance Authority Revenue Bonds-Series 2011A-1 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2011 in the original amount of \$21,790,000. Due in annual installments with final maturity on 7/1/31. Interest ranging from 2.0% to 5.25% payable semi-annually.	\$21,790,000
Kansas Development Finance Authority Revenue Bonds-Series 2011A-2 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2011 in the original amount of \$3,210,000. Due in annual installments with final maturity on 7/1/14. Interest ranging from 0.7% to 2.25% payable semi-annually.	\$ 3,210,000
Kansas Development Finance Authority Revenue Bonds-Series 2010U-1 (The Kansas Board of Regents – Kansas State University Qualified Energy Conservation Project) issued on December 1, 2010 in the original amount of \$17,815,000. Due in annual installments with final maturity on 6/30/29. Interest ranging from 1.8% to 5.45% payable semi-annually.	\$17,815,000

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

	Principal Outstanding 6/30/11
<hr/>	
<p>Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project –Ackert Hall Refunding, Union Refunding, and Energy Conservation) issued on December 1, 2010 in the original amount of \$7,365,000. Due in annual installments with final maturity on 6/30/2029. Interest ranging from 2.0% to 4.375% payable semi-annually.</p>	\$ 6,810,000
<p>Kansas Development Finance Authority Refunding Revenue Bonds-Series 2010H (The Kansas Board of Regents – Kansas State University Farrell Library Expansion Project) issued on June 29, 2010 in the original amount of \$1,530,000. Due in annual installments beginning 10/1/10 with final maturity on 10/1/15. Interest at 2.0% payable semi-annually.</p>	\$ 1,280,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2010G-1 (The Kansas Board of Regents – Kansas State University Student Recreation Complex Expansion Project) and Taxable Revenue Bonds-Series 2010G-2 (Kansas Board of Regents – Kansas State University Student Recreation Complex Expansion Project) (Build America Bonds – Direct Payment to Issuer) issued on June 29, 2010 in the original amount of \$21,565,000. Due in annual installments beginning 10/1/13 with final maturity on 10/1/39. Interest ranging from 2.0% to 6.6% payable semi-annually.</p>	\$21,565,000
<p>Kansas Development Finance Authority Sales Tax Revenue Bonds-Series 2009L-1 & L-2 (K-State – Olathe Innovation Campus, Inc. Project) issued on September 10, 2009 in the original amount of \$30,500,000. Due in annual installments beginning 9/1/11 with final maturity on 9/1/39. Interest ranging from 1.9% to 6.0% payable semi-annually.</p>	\$29,990,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2009K-1 & K-2 (The Kansas Board of Regents – Kansas State University Child Care Facility Project) issued on July 29, 2009 in the original amount of \$6,140,000. Due in annual installments beginning 11/1/12 with final maturity on 11/1/39. Interest ranging from 2.625% to 5.625% payable semi-annually.</p>	\$ 6,140,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2008D (The Kansas Board of Regents – Kansas State University Student Life Center Project, Salina Campus) issued on June 15, 2008 in the original amount of \$1,600,000. Due in one installment from the Trust Estate 5/1/38. Interest at 5.10% payable semi-annually.</p>	\$ 1,600,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2007H (The Kansas Board of Regents – Kansas State University Parking System) issued on August 1, 2007 in the original amount of \$17,855,000. Due in annual installments beginning 5/1/09 with final maturity on 5/1/37. Interest ranging from 3.60% to 4.50% payable semi-annually.</p>	\$16,810,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2007A (The Kansas Board of Regents – Kansas State University Housing System, Manhattan Campus) issued on February 1, 2007 in the original amount of \$27,750,000. Due in annual installments beginning 10/1/07 with final maturity on 4/1/37. Interest ranging from 3.75% to 4.39% payable semi-annually.</p>	\$25,770,000

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

	Principal Outstanding 6/30/11
<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>	\$12,775,000
<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 3.0% to 5.0% payable semi-annually.</p>	\$40,065,000
<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>	\$15,665,000
<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 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>	\$ 290,000
<p>Kansas Development Finance Authority Refunding Revenue Bonds-Series 2001G-2 (The Kansas Board of Regents – Kansas State University Recreation Project) issued on June 15, 2001 in the original amount of \$6,385,000. Due in annual installments with final maturity on 4/1/13. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	\$ 1,845,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2002E (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2002 in the original amount of \$3,495,889.40. Due in annual installments with final maturity on 7/1/19. Interest ranging from 5.0% to 5.4% payable semi-annually.</p>	\$ 3,495,889
<p>Series 2010U-1 Qualified Energy Project and Series 2010U-2 University Projects are collateralized by a pledge of the University's unrestricted revenues. Series 2010H Farrell Library Expansion Project, Series 2010G-1 & G-2 Recreation Expansion Project, Series 2008D Student Life Center Project, and Series 2001G-2 Recreation Project are collateralized by a pledge of student fees. Series 2009L K-State Olathe Innovation Project is collateralized by a pledge of sales tax revenue. Series 2009K-1 & K-2 Child Care Facility Project is collateralized by a pledge of user fees. Series 2001G-1 Salina Housing Project, Series 2005A Housing System Manhattan Campus, and Series 2007A Housing System Manhattan Campus are collateralized by a pledge of housing revenues.</p>	

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

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. Series 2007H Parking System Project is collateralized by a pledge of parking operation revenues. Series 2002E and Series 2011A-1 & A-2 K-State Athletics, Inc. are collateralized by the pledge of revenues of the corporation.

Future debt service requirements for all bonds outstanding at June 30, 2011 are as follows:

Year Ending June 30:	Principal	Interest	Total
2012	\$ 7,095,000	\$ 11,094,928	\$ 18,189,928
2013	9,840,000	11,045,491	20,885,491
2014	9,445,000	10,679,557	20,124,557
2015	10,135,000	10,331,162	20,466,162
2016	9,292,851	10,857,290	20,150,141
2017-2021	46,153,038	47,974,186	94,127,224
2022-2026	46,985,000	34,044,605	81,029,605
2027-2031	51,180,000	21,932,099	73,112,099
2032-2036	41,920,000	9,784,643	51,704,643
2037-2040	17,865,000	1,841,750	19,706,750
Total	\$249,910,889	\$ 169,585,711	\$419,496,600

Note 9 – Loan and Lease Obligations

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. This obligation was paid in full in December 2010.

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, 2011 of \$291,067.

In July 2005, the University and National City Commercial Capital Corporation entered into a 19 year financing agreement for the purpose of funding steam pipe replacement in the amount of \$873,755. Quarterly principal and interest payments are due starting September 29, 2005 at an interest rate of 1.0475%. The outstanding balance at June 30, 2011 is \$757,612.

In December 2009, the University and Bank of America, N.A. entered into a 17 year financing agreement for the purpose of funding energy conservation measures at the University. Quarterly principal and interest payments are due starting April 15, 2011 at an interest rate of 4.956%. The outstanding balance at June 30, 2011 is \$2,297,118.

In fiscal year 2010, \$2,538,649 of special assessment bonds were issued in Johnson County to pay for the infrastructure of the K-State Olathe Innovation Campus, Inc., with an additional amount issued in fiscal year 2011 of \$427,368. The tax levy consists of six annual payments of \$156,106 commencing in fiscal year 2011, with a final payment of \$2,029,381. The outstanding balance at June 30, 2011 is \$2,809,911.

The University is obligated for the purchase of certain equipment funded through issuance of blanket financing agreements in the amount of \$924,081 as of June 30, 2011. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2012	\$ 671,872
2013	150,991
2014	72,849
2015	<u>28,369</u>
	\$ 924,081

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

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, 2011, active KPERS members were required by statute to contribute 4% and the University to contribute 8.17% of the employees' covered payroll. The Kansas Legislature establishes and may amend active plan members' and the University's contribution rates. The University contributed \$4,203,965 during fiscal year 2011 and individual employees contributed \$2,139,805. In addition, payments to KPERS for death and disability coverage for all University employees totaled \$1,880,242.

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, 2011 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 \$16,713,682 during fiscal year 2011 and individual employees contributed \$10,639,692.

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 11.7%. 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, 2011, the University contributed \$724,033 and individual employees contributed \$518,888 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

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

Note 11 – Other Postemployment Healthcare Benefits

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

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

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

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

Amortization of UAAL	\$ 1,575,813
Normal cost (with interest)	<u>1,925,668</u>
Annual required contribution (ARC)	\$ 3,501,481
Interest on net OPEB obligation	345,502
Adjustment to the ARC	<u>(509,562)</u>
Annual OPEB cost	\$ 3,337,421
Net OPEB obligation July 1, 2010	<u>8,974,068</u>
Net OPEB obligation June 30, 2011	<u>\$12,311,489</u>

Schedule of Employer Contributions (for fiscal year ended)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2009	\$2,415,391	\$0	0%	\$ 5,918,140
2010	3,055,928	0	0%	8,974,068
2011	3,337,421	0	0%	12,311,489

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$30,534,065. The University's policy is to fund the benefits on a pay as you go basis that is paid implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$30,534,065. The covered payroll (annual payroll of active employees covered by the plan) was \$308,087,493, 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.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
6/30/2009	\$0	\$20,714,616	\$20,714,616	0%	\$305,068,457	7%
6/30/2010	0	27,023,918	27,023,918	0%	304,213,543	9%
6/30/2011	0	30,534,065	30,534,065	0%	308,087,493	10%

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, 2011 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 13.0 to 17.0 percent in the first sixteen years and an ultimate rate of 13.0 percent after sixteen years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over a 30 year open period in level dollar amounts.

Note 12 – Pollution Remediation

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

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

The University was notified of potential remediation activity in Jacksonville, Florida for which the University is one of over 150 parties who sent waste to the disposal site. The primary source of the soil and groundwater contamination is Polychlorinated biphenyl (PCB) and other chlorinated solvents. No liability is recorded in the financial statements because an estimate of the University's portion of the liability, if any, is unknown at this time.

A chemical waste landfill was created with approval of the U.S. Atomic Energy Commission and utilized from the mid-1960's to 1987 as a burying ground for tritium, carbon-14 and other short-lived radioactive elements. The university also disposed of some chemicals at the site from 1979 to 1983. The Kansas Board of Regents has approved the plan to clean up the site, which has commenced in FY2011 and is estimated to be completed by FY2012 at a projected cost of approximately \$4 million.

Kansas State University
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2011

Note 13 – Commitments and Contingencies

At June 30, 2011, the University had outstanding commitments on various construction projects and contracts totaling approximately \$40 million.

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

University buildings are insured with a \$100,000 deductible and a maximum annual liability of \$500,000,000 per occurrence. Contents of a building are covered at 10% of the value of the building. The University, as an agency of the State of Kansas, is subject to the State of Kansas self-insurance program with regard to comprehensive general liability and personal injury insurance and is covered by the Regent's umbrella insurance policy for automobile liability. The University is not aware of any significant outstanding claims as of June 30, 2011.

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

Note 14 – Operating Expenses by Natural Classification

Year Ended June 30, 2011

	Compensation and Benefits	Contractual Services	Supplies and Materials	Utilities	Scholarships and Fellowships	Aid, Debt and Nonexpense	Depreciation	Total
Instruction	\$ 151,222,486	\$ 12,513,600	\$ 7,425,844	\$ 4,062	\$	\$ 1,186,307	\$	\$ 172,352,299
Research	83,511,967	21,872,852	16,532,210	329,700	\$	6,342,217	\$	128,588,946
Public Service	47,327,598	9,630,662	4,218,083	22,581	\$	7,043,365	\$	68,242,289
Academic Support	28,469,923	13,117,073	2,360,369	1,011	\$	127,220	\$	44,075,596
Student Service	34,713,858	8,267,966	6,031,408	3,592	\$	3,063,234	\$	52,080,058
Institutional Support	22,093,359	5,485,647	632,380	40	\$	142,842	\$	28,354,268
Operations and Maintenance of Plant	17,627,588	13,103,992	2,765,283	14,247,844	\$	\$	\$	47,744,707
Scholarships & Fellowships	\$	\$	\$	\$	26,048,813	\$	\$	26,048,813
Auxiliary Enterprises	24,712,880	5,880,958	8,506,767	2,165,768	\$	164,379	\$	41,430,752
Depreciation	\$	\$	\$	\$	\$	\$	30,235,558	30,235,558
Other	\$	480,264	2,961,825	\$	\$	\$	\$	3,442,089
Total Operating Expenses	\$ 409,679,659	\$ 90,353,014	\$ 51,434,169	\$ 16,774,598	\$ 26,048,813	\$ 18,069,564	\$ 30,235,558	\$ 642,595,375

Note 15 – Reclassification of Component Unit

For the fiscal year ending June 30, 2011, the Kansas State University Research Foundation (KSURF) was reclassified from a discretely presented component unit to a blended component unit. As a result, total net assets increased by \$4,464,049 as of July 1, 2010.

Additional copies available
at the
Division of Financial Services
Kansas State University
102 Anderson Hall
Manhattan, Kansas 66506-0108

Notice of nondiscrimination

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.

