

Kansas State University

Annual Financial Report
Fiscal Year Ended June 30, 2013



**Kansas State University
Manhattan, Kansas**

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Kansas State University

Management's Discussion and Analysis

For the Year Ended June 30, 2013

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

USING THE FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, liabilities, and net position of the University at a point in time (at the end of the fiscal year). The Statement of Net Position includes all assets, deferred outflows, liabilities, and deferred inflows 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 Position, 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 Position is 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 position** is 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 Position 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 position** is available to the University for any lawful purpose of the institution.

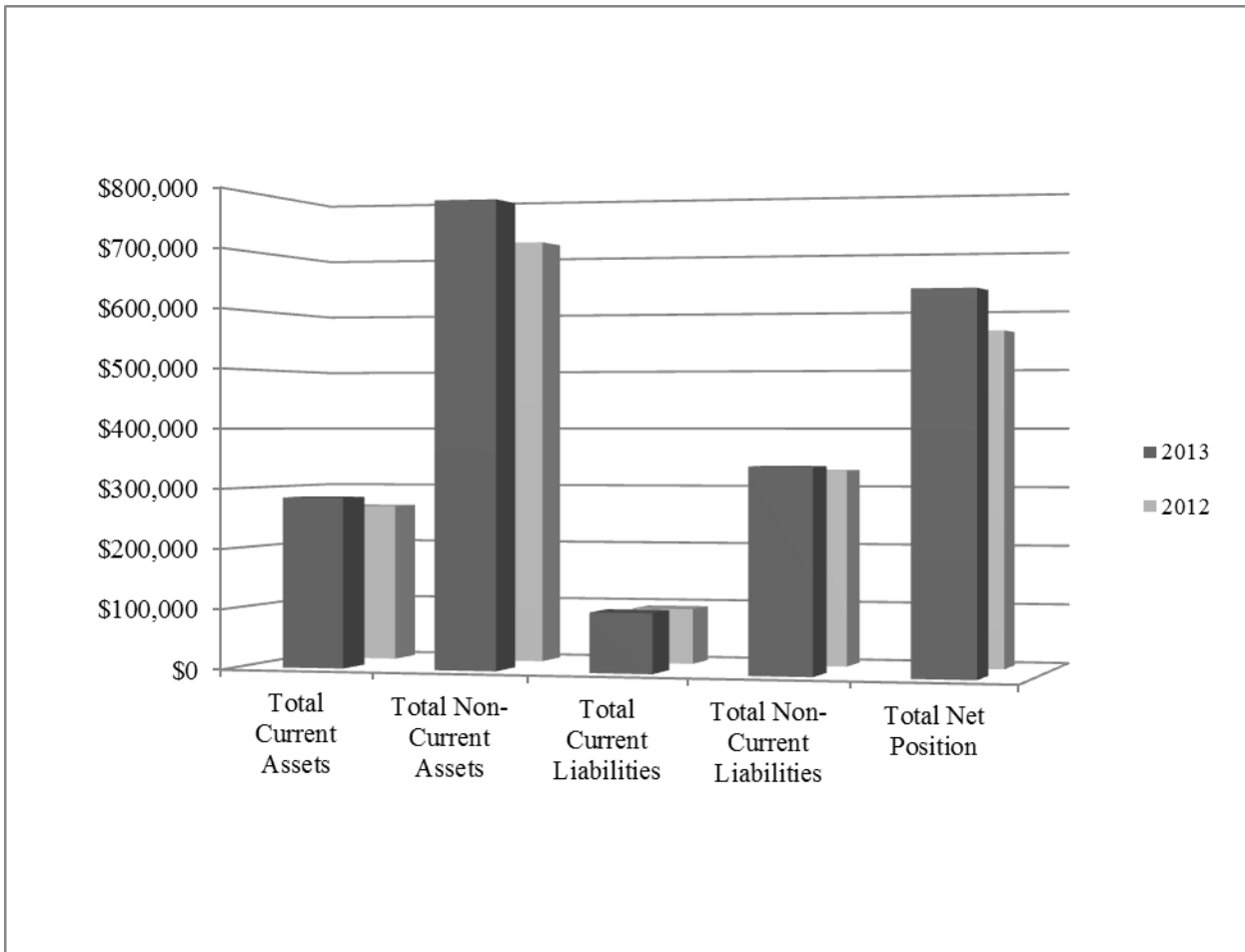
Total assets at June 30, 2013 were \$1.06 billion, an increase of \$76.7 million (7.8%). Capital assets, net of depreciation, comprised 62%, or \$659.1 million of the total assets.

Total liabilities were \$438.2 million at June 30, 2013, an increase of \$15.8 million (3.7%), compared to \$422.4 million at June 30, 2012. Long-term liabilities comprised 77.3%, or \$338.8 million of the total liabilities.

Total net position at June 30, 2013 was \$624.1 million, a \$60.8 million increase 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 the university's net investment in capital assets. The breakout of net position is shown below:

Invested in capital assets, net of related debt....	\$328,325,167
Restricted net position	91,081,788
Unrestricted net position	204,724,254
Total net position.....	\$624,131,209

The composition of current and non-current assets and liabilities and net position is displayed below for both the 2012 and 2013 fiscal year ends (in thousands):



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position 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, 2013 increased by 2.4% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$202 million in 2013, compared to \$183.3 million in 2012. This increase is a result of an enrollment growth of 515 students and a tuition increase approved by the Kansas Board of Regents for fiscal year 2013.
- Grants and contracts (federal, state and local, and non-governmental) increased \$4.2 million from the previous fiscal year. This category of revenue includes funds received for sponsored research activities and athletic contractual agreements.
- Sales and services decreased \$2.9 million from the previous fiscal year.
- Auxiliary enterprises increased \$4.2 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 housing fees, as well as an expansion in the housing system infrastructure.
- Other operating revenues increased \$3.9 million and contributions decreased \$13.6 million, which are both directly attributed to the K-State Athletics, Inc.

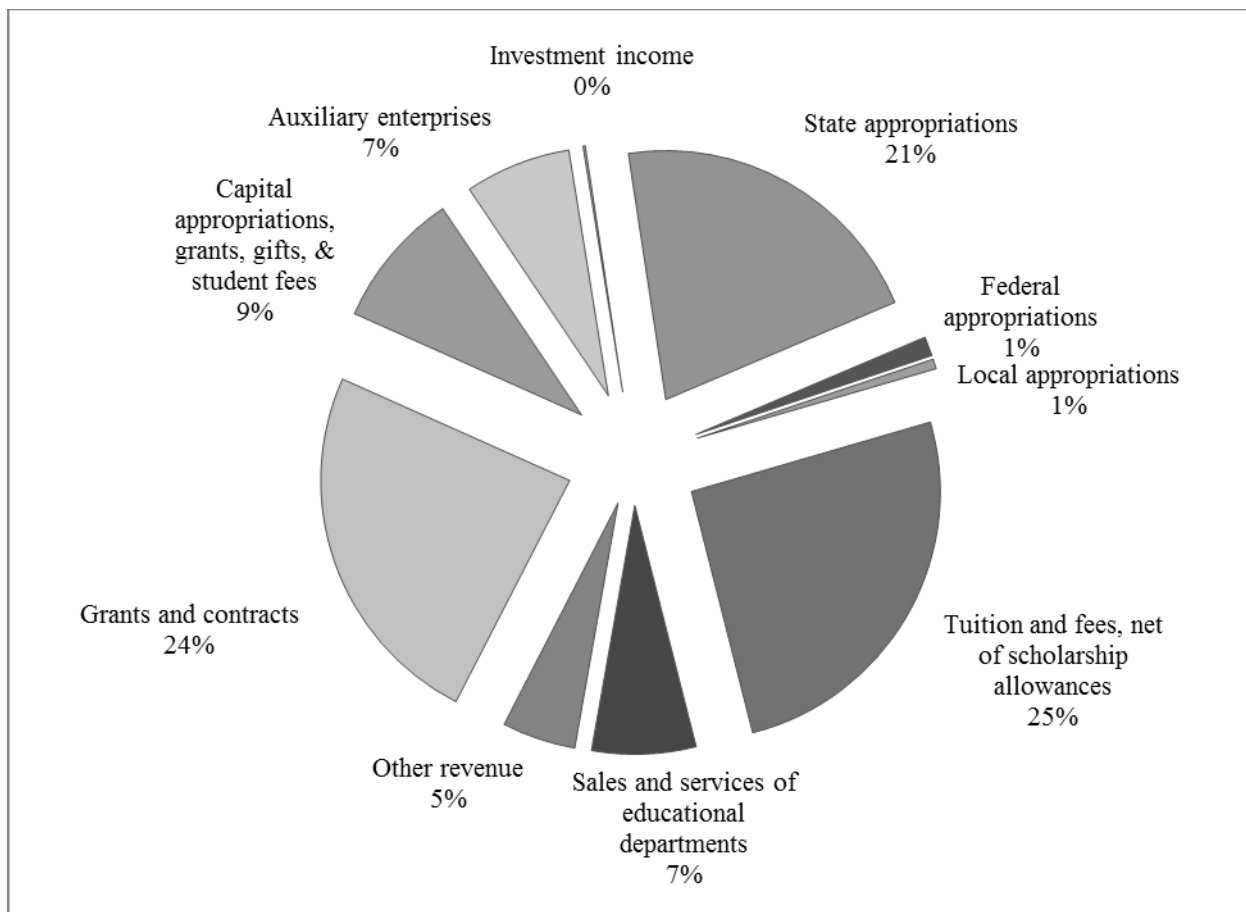
Total non-operating revenues were up 3% from the prior year from \$185.5 million to \$191.2 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from \$161.5 million to \$166.3 million.
- Local appropriations remained constant.
- Investment income increased \$0.6 million, which is reflective of national market conditions.
- Student fees collected for capital projects and non-operating federal grants and contracts remained consistent with the previous fiscal year.

Other revenues included the following:

- Capital appropriations increased from \$5.9 million to \$10.4 million.
- Capital grants and gifts increased from \$26.1 million to \$35.1 million.

In summary, total revenues increased by \$33.1 million, or 4.4%, from \$758.1 million to \$791.2 million. The compositions of these revenues are displayed in the following graph:



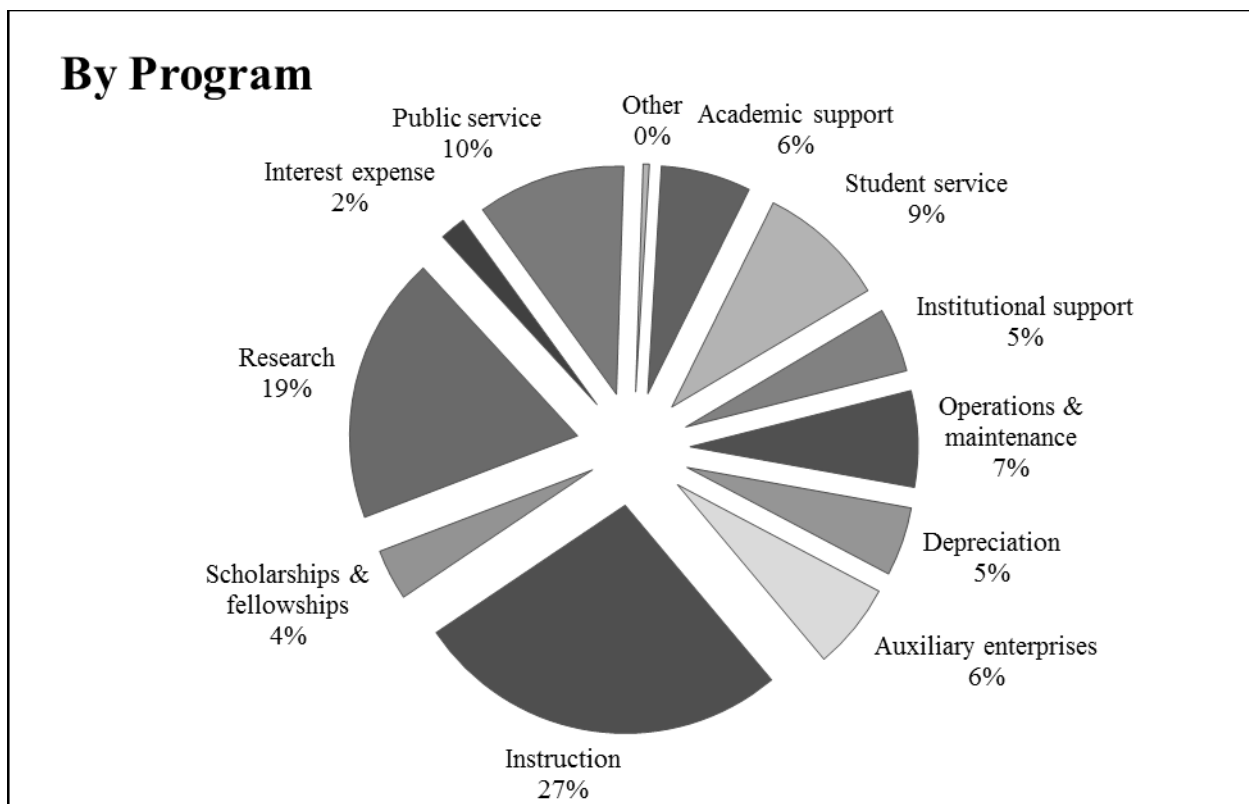
Expenses

Operating expenses were \$713.8 million for the 2013 fiscal year. This was an increase over the prior year of \$29.3 million. The following is a brief summary of the significant changes:

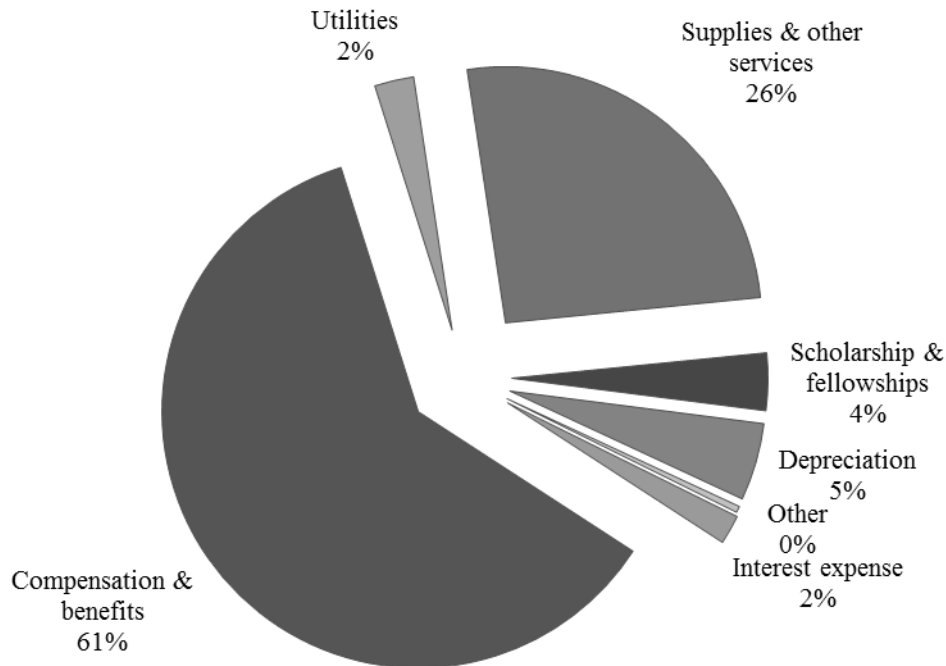
- Expenses related to the University's mission of instruction, research and public service increased \$13.5 million from \$396.5 million to \$410 million in 2013.
- Auxiliary service expenses increased \$3.9 million from \$41 million to \$44.9 million in 2013. This increase is a result of the expansion in the Housing system infrastructure.
- Expenses related to academic support, student services, and institutional support increased \$10.8 million from \$135.8 million to \$146.6 million in 2013.
- Operations & maintenance of plant expenditures decreased \$1.5 million from \$51.3 million to \$49.8 million in 2013.

Non-operating expenses increased \$2.4 million from \$14 million to \$16.4 million in 2013 and are represented by interest expense and loss on disposal of assets.

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



By Natural Classification



Extraordinary Items

The University did not have any special and extraordinary items in 2013.

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, 2013	June 30, 2012
Net cash provided (used) by:		
Operating activities	\$ (119,761)	\$ (121,682)
Non-capital financing activities	190,671	185,744
Capital and related financing/appropriations	(95,053)	(3,316)
Investing activities	42,528	(43,383)
Net increase in cash	18,385	17,363
Beginning cash and cash equivalent balances	250,580	233,217
Ending cash and cash equivalent balances	\$ 268,965	\$ 250,580

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/local 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.

CAPITAL ASSETS

The University made significant investments in capital during the 2012-2013 fiscal year. Detailed information regarding capital asset additions, retirements & depreciation is available in Note 5 to the financial statements.

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

- During FY2013, the university spent approximately \$24.6 million on infrastructure and deferred building maintenance projects.
- Construction of a 13,180 square foot addition to Justin Hall began in June 2011. The \$5 million addition includes space for student services, student collaborative workspace, administration, and two classrooms that accommodate approximately 100 students each. The addition was completed in August 2012.
- Groundbreaking for the KSU Athletics, Inc. basketball training facility took place in February 2012. The \$17.6 million project includes men's and women's basketball facilities, practice courts, locker rooms, a weight room, and coaches' offices. The facility was completed in August 2012.
- Housing and Dining Services purchased a fraternity house and renovated it to create the new Honors Hall.
- The \$3.0 million John C. Pair Horticulture Center is a 3000 sq. ft. metal building in Haysville, Kansas. The building, which includes classroom space and offices, opened in April 2013.

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 FY2013. 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. In addition, the tennis courts and equipment rental buildings are being renovated. The project is expected to be complete in November 2013.
- The Housing and Dining Services Jardine Apartments renovation project commenced in FY2012.
- Groundbreaking for the KSU Athletics, Inc. West Stadium Center and Bill Snyder Family Stadium renovation project took place in April 2012. The \$75 million project will create additional premium seating and update ancillary support areas that include: improved broadcasting space and equipment; concessions; heating, ventilation and air conditioning; Americans with Disabilities Act access; and life safety. The project is anticipated to be completed in August 2013.
- Construction began in FY2012 on a \$13 million Feed Technology Innovation Center. The project is expected to officially open in October 2013.
- In FY2012, construction began on the KSU Athletics, Inc. Intercollegiate Rowing Center. The \$2.7 million facility is expected to be completed in late fall 2013.

Several projects are in the planning stages, including a Welcome Center in East Memorial Stadium, a new College of Business Administration building, a new residence hall, a new wing added to the College of Engineering facility, and renovation of the Seaton Complex for the College of Architecture, Planning and Design.

DEBT ADMINISTRATION

At June 30, 2013, the University had \$329 million in debt outstanding, compared to \$318 million at June 30, 2012. The increase is due to the issuance of \$17 million of Energy Conservation bonds and an adjustment made to the classification of the K-State Athletics, Inc. 2002E bonds. The University paid \$12 million in principal payments related to all outstanding debt.

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

ECONOMIC OUTLOOK

The State of Kansas economy continues on a path to recovery, but growth remains slow. The Governor introduced initiatives for fiscal year 2013 to reduce state income tax rates and eliminate state income taxes on small business owners, and in the long run to stimulate new economic activity and generate additional revenue streams. One of the outcomes of this is a decrease in State General Fund receipts, which affects the funding for higher education in Kansas. The overall long-term economic impact of these initiatives will become more obvious over the next several years.

State appropriations for fiscal year 2014 are currently set at \$159.7 million, compared to \$166.5 million in fiscal year 2013. This is a 4% decrease in State support. The University continues to pursue extramural funding, is reviewing tuition revenue options and new student recruitment efforts, and has implemented internal budget reallocations to help offset this trend. Even though general appropriation funding for the University overall has declined, the Governor continued to support the initiative to increase the number of engineering graduates from the University, by funding the second year of a \$3.5 million a year strategy to span a ten year period.

The University's visionary goal to be recognized as a Top 50 Public Research University by the year 2025, continues to make progress. Key metrics have been identified to benchmark and measure our progress and theme areas with goals, associated action plans, and expected outcomes have been defined. The next step is to expand the planning from the university-level focus to the college, department, and similar unit tiers.

Student enrollment for the 2012-2013 academic year grew slightly over 2011-2012, with projections for the 2013-2014 academic year predicting moderate growth. Overall, the financial position of the University is favorable and management will continue to monitor state and national economic conditions as part of its financial planning.

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

Kansas State University
Statement of Net Position
For the Year Ended June 30, 2013

	University Funds		Component Units	
	2013	2012	2013	2012
<u>ASSETS</u>				
Current Assets				
Cash and cash equivalents	\$ 220,913,479	\$ 202,075,880	\$ 5,134,708	\$ 4,745,140
Accounts receivable, net	39,174,648	39,534,983	250,272	273,418
Pledges receivable, net	1,266,505	5,903,294	-	-
Investments	8,916,642	6,987,789	1,150,856	1,350,892
Loans to students, net	5,239,521	5,176,778	-	-
Inventories	6,413,721	4,110,007	602,430	461,844
Prepaid expenses	2,617,808	1,439,875	34,021	60,372
Total Current Assets	<u>284,542,324</u>	<u>265,228,606</u>	<u>7,172,287</u>	<u>6,891,666</u>
Noncurrent Assets				
Restricted cash and cash equivalents	48,051,057	48,503,617	473,218	481,117
Pledges receivable, net	11,763,336	11,476,168	-	-
Investments	45,535,482	88,799,404	20,631	214,220
Loans to students, net	11,033,743	11,195,336	-	-
Other assets	2,303,457	1,065,007	1,251,538	1,804,497
Capital assets, net	659,107,694	559,400,248	1,706,202	1,901,169
Total Noncurrent Assets	<u>777,794,769</u>	<u>720,439,780</u>	<u>3,451,589</u>	<u>4,401,003</u>
TOTAL ASSETS	<u>1,062,337,093</u>	<u>985,668,386</u>	<u>10,623,876</u>	<u>11,292,669</u>
<u>DEFERRED OUTFLOWS</u>				
-				
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable and accrued liabilities	29,251,966	31,077,502	693,570	900,739
Deferred revenue	39,567,264	34,778,669	269,898	1,040,759
Deposits held in custody for others	1,238,495	1,121,267	-	-
Accrued compensated absences	16,925,363	14,230,169	-	-
Capital lease payable	939,555	267,137	-	-
Other loan payable	493,618	474,751	45,000	45,000
Revenue bonds payable	10,820,000	10,665,000	-	-
Other liabilities	162,866	387,131	348,662	328,235
Total Current Liabilities	<u>99,399,127</u>	<u>93,001,626</u>	<u>1,357,130</u>	<u>2,314,733</u>
Noncurrent Liabilities				
Accrued compensated absences	2,773,310	3,472,298	-	-
Accrued other postemployment benefits	16,485,000	14,041,000	-	-
Capital lease payable	589,945	313,755	-	-
Other loan payable	3,977,599	4,471,217	953,862	195,427
Revenue bonds payable	312,555,000	302,090,889	-	-
Other liabilities	2,425,903	4,986,428	-	-
Total Noncurrent Liabilities	<u>338,806,757</u>	<u>329,375,587</u>	<u>953,862</u>	<u>195,427</u>
TOTAL LIABILITIES	<u>438,205,884</u>	<u>422,377,213</u>	<u>2,310,992</u>	<u>2,510,160</u>
<u>DEFERRED INFLOWS</u>				
-				
<u>NET POSITION</u>				
Invested in capital assets, net of related debt	328,325,167	238,552,938	1,493,042	1,645,495
Restricted for:				
Nonexpendable	16,186,745	15,693,192	-	-
Expendable				
Scholarships, research, instruction, public service, & other	20,521,479	4,819,654	312,006	218,970
Loans	20,106,380	19,782,676	165,000	210,000
Capital projects	26,116,336	36,720,900	140,919	119,072
Debt service	8,150,848	9,393,761	-	-
Unrestricted	<u>204,724,254</u>	<u>238,328,052</u>	<u>6,201,917</u>	<u>6,588,972</u>
TOTAL NET POSITION	<u>\$ 624,131,209</u>	<u>\$ 563,291,173</u>	<u>\$ 8,312,884</u>	<u>\$ 8,782,509</u>

Kansas State University
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013

	University Funds		Component Units	
	2013	2012	2013	2012
Operating Revenues:				
Tuition and fees, net of scholarship allowances of \$36,467,690	\$ 202,057,597	\$ 183,329,020	\$ 1,984,806	\$ 1,883,214
Federal appropriations	9,901,155	11,391,713	-	-
Federal grants and contracts	96,255,693	109,468,634	-	-
State and local grants and contracts	11,486,914	8,268,348	-	-
Nongovernmental grants and contracts	83,032,801	68,836,337	-	-
Sales and services of educational activities	53,383,865	56,357,713	5,786,748	4,924,168
Auxiliary enterprises				
Housing revenues (revenues are pledged as security for bonds)	42,215,484	38,516,710	-	-
Parking revenues (revenues are pledged as security for bonds)	3,621,449	3,568,588	-	-
Student health revenues	6,753,626	6,436,168	-	-
Child care center	1,823,492	1,672,454	-	-
Other auxiliary revenues	55,161	60,504	-	-
Interest earned on loans to students	297,949	291,104	-	-
Other operating revenues	19,713,238	15,743,655	1,861,672	2,075,270
Contributions	17,870,856	31,459,575	32,018	30,414
	<u>548,469,280</u>	<u>535,400,523</u>	<u>9,665,244</u>	<u>8,913,066</u>
Total Operating Revenues				
Operating Expenses:				
Instruction	194,786,297	183,035,583	-	-
Research	138,601,255	133,752,145	-	-
Public Service	76,670,854	79,729,760	-	-
Academic Support	46,576,706	46,130,529	-	-
Student Service	66,696,870	59,935,472	3,337,868	3,247,157
Institutional Support	33,349,074	29,712,289	2,307,232	2,206,260
Operations & Maintenance of Plant	49,779,331	51,313,132	360,034	308,733
Depreciation	35,726,957	32,174,663	330,762	386,889
Scholarships & Fellowships	26,379,745	25,700,806	-	-
Auxiliary Enterprises	44,869,707	41,053,117	-	-
Other Expenses	348,293	1,904,259	3,404,777	3,366,854
	<u>713,785,089</u>	<u>684,441,755</u>	<u>9,740,673</u>	<u>9,515,893</u>
Total Operating Expenses				
Operating Income (Loss)	<u>(165,315,809)</u>	<u>(149,041,232)</u>	<u>(75,429)</u>	<u>(602,827)</u>
Nonoperating Revenues (Expenses)				
State appropriations	166,319,132	161,545,041	-	-
Local appropriations	4,991,900	4,882,520	-	-
Federal grants and contracts	20,441,950	20,250,960	-	-
Gifts	-	-	-	-
Investment income	1,090,231	400,459	(393,589)	(560)
Interest expense	(13,539,456)	(12,314,574)	-	-
Gain/Loss on disposal of assets	(2,846,424)	(1,676,363)	-	-
Student fees for capital projects	3,388,944	3,334,967	-	-
	<u>179,846,277</u>	<u>176,423,010</u>	<u>(393,589)</u>	<u>(560)</u>
Net Nonoperating Revenues				
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	<u>14,530,468</u>	<u>27,381,778</u>	<u>(469,018)</u>	<u>(603,387)</u>
Capital appropriations	10,465,000	5,936,316	-	-
Capital grants and gifts	35,110,033	26,058,090	-	-
Additions to permanent endowment	298,257	351,355	-	-
Other additions/deductions, net	579,341	(13,043,017)	(607)	(15,331)
	<u>60,983,099</u>	<u>46,684,522</u>	<u>(469,625)</u>	<u>(618,718)</u>
Increase (Decrease) in Net Assets				
Net Position				
Net Position -- Beginning of Year, as previously reported	563,291,173	506,680,285	8,782,509	8,779,180
Prior Period Restatement	(143,063)	9,926,366	-	-
Net Position -- Beginning of Year, as restated	<u>563,148,110</u>	<u>516,606,651</u>	<u>8,782,509</u>	<u>8,779,180</u>
Net Position -- End of Year	<u>\$ 624,131,209</u>	<u>\$ 563,291,173</u>	<u>\$ 8,312,884</u>	<u>\$ 8,160,462</u>

Kansas State University
Statement of Cash Flows
For the Year Ended June 30, 2013

	University Funds	
	2013	2012
Cash Flows from Operating Activities		
Tuition and fees	\$ 236,135,995	\$ 214,736,835
Endowment income	100,000	100,000
Sales and services of educational activities	56,429,018	56,756,913
Auxiliary enterprise charges		
Housing	42,617,385	38,175,540
Parking	3,911,591	3,656,543
Student Health	6,741,880	6,443,585
Child Care Center	1,823,492	1,743,834
Other	54,858	60,106
Grants and contracts	198,085,495	171,323,970
Federal appropriations	9,901,155	11,391,713
Payments to suppliers	(292,434,828)	(274,639,010)
Compensation & benefits	(441,991,629)	(424,078,240)
Loans issued to students and employees	(3,129,635)	(2,939,922)
Collections on loans issued to students and employees	3,371,342	3,681,187
Other receipts (payments)	58,622,779	71,904,653
	<u>(119,761,102)</u>	<u>(121,682,293)</u>
Net Cash Flows from Operating Activities		
Cash Flows from Noncapital Financing Activities		
State appropriations	166,319,132	161,545,041
Local appropriations	4,991,900	4,882,520
Federal/State student aid	19,987,626	19,797,754
Direct lending receipts	125,686,061	125,638,812
Direct lending payments	(126,431,245)	(125,856,055)
Funds held for others	117,228	(263,939)
	<u>190,670,702</u>	<u>185,744,133</u>
Net Cash Flows from Noncapital Financing Activities		
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	17,205,000	108,236,965
Capital appropriations	10,465,000	5,936,316
Capital grants and gifts	79,546,732	17,112,578
Student fees for capital projects	3,389,655	3,334,967
Purchases of capital assets	(181,313,777)	(79,114,619)
Principal paid on capital debt and leases	(11,799,228)	(43,630,427)
Interest paid on capital debt and leases	(13,156,696)	(14,546,561)
Other	610,842	(645,342)
	<u>(95,052,472)</u>	<u>(3,316,123)</u>
Net Cash Flows from Capital and Related Financing Activities		
Cash Flows from Investing Activities		
Investment income	(394,125)	1,390,110
Purchase/Redemption of investments	42,922,036	(44,772,823)
	<u>42,527,911</u>	<u>(43,382,713)</u>
Net Cash Flows from Investing Activities		
Net change in cash and cash equivalents	18,385,039	17,363,004
Cash and cash equivalents -- beginning of year	250,579,497	233,216,493
Prior Period Restatement	-	-
Cash and cash equivalents -- beginning of year	<u>250,579,497</u>	<u>233,216,493</u>
Cash and cash equivalents -- end of year	<u>\$ 268,964,536</u>	<u>\$ 250,579,497</u>

Kansas State University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2013

	University Funds	
	2013	2012
Reconciliation		
Operating income (loss)---SRECNA	\$ (165,315,809)	\$ (149,041,232)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	35,726,957	32,174,663
Changes in assets and liabilities:		
Accounts receivable, net	5,238,762	(9,720,903)
Loans to students, net	(241,708)	741,265
Inventories	(2,303,714)	(206,463)
Prepaid expenses	(1,177,932)	159,734
Accounts payable and accrued liabilities	1,748,034	4,034,886
Deferred revenue	4,992,676	(332,081)
Accrued compensated absences	1,571,632	507,838
Net cash used in operating activities---Cash Flow	\$ (119,761,102)	\$ (121,682,293)

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2013

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.

Blended Component Units – the following entities are legally separate from the University, but are so intertwined with the University that they are, in substance, part of the University.

K-State Olathe Innovation Campus, Inc. is a Kansas not-for-profit corporation under the laws for the State of Kansas. Located in Olathe, Kansas it is a place of academic research and focuses primarily on commercially viable applied research and technology discovery in animal health, plant science, food safety and security, bioenergy, and other relevant areas. It is a Type 1 Supporting Organization of Kansas State University under section 509 (a)(3) of the Internal Revenue Code.

Kansas State University Veterinary Clinical Outreach, Inc. is a not-for-profit corporation under the laws of the State of Kansas. Its purpose is to provide satellite clinical training facilities for the Veterinary Medical Teaching Hospital of Kansas State University.

K-State Diagnostic and Analytical Services, Inc. is a not-for-profit corporation under the laws of the State of Kansas. Its purpose is to provide support to enhance the educational, research and service missions of Kansas State University.

Universal K-State, Inc. is a not-for-profit corporation under the laws of the State of Kansas. Support is provided exclusively to Kansas State University to promote, encourage and aid development of non-patentable intellectual property and to provide the means by which such intellectual property may be developed, applied and protected to its greatest advantage and that of the University and the public.

Kansas State University Research Foundation (KSURF) is a not-for-profit corporation under the laws of the State of Kansas. The business and purposes of this corporation are to promote, encourage and aid scientific investigation, research and technology transfer at Kansas State University in all departments by the members of the faculty, staff, alumni, and students and to provide the means by which their scientific discoveries, inventions, processes, writings, computer programs, films, tapes and other creative productions may be developed, applied, patented, trademarked or copyrighted to their greatest advantage and that of Kansas State University and the public. KSURF operates under a December 31 fiscal year.

K-State Athletics, Inc. is a not-for-profit entity under the laws of the State of Kansas. It provides an intercollegiate athletic program for the students, faculty, alumni, guests and visitors of Kansas State University. The primary source of revenue is derived from athletic event ticket sales, conference distributions and game guarantees. K-State Athletics, Inc. has agreed to operate as a department of the University and be subject to the regulations and administrative policies of the University.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

Discretely Presented Component Units – the following entities are legally separate from the University and based on the nature and significance of their relationship to the University are discretely presented.

The K-State Union Corporation is a not-for-profit entity, organized under the laws of the State of Kansas, which was formed for the purpose of providing services and maintaining facilities for the operation of a student union at Kansas State University.

Kansas State University Institute for Commercialization is a not-for-profit corporation under the laws of the State of Kansas. It was organized for educational and scientific purposes to support technology advancement, technology transfer and education and scientific research in Kansas. The membership consists of Kansas State University and the State of Kansas Department of Commerce.

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

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

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

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

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

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.

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

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

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

Depreciation is computed using the straight-line method and half-year convention over the estimated useful lives of the assets, generally 40 years for buildings, 25 years for infrastructure and land improvements, 8 years for equipment, 5 years for vehicles, 3 years for information processing and computer systems, and 5 to 40 years for componentized buildings and building improvements.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

In FY2013, the University revised its estimate of the useful lives of IT equipment. Previously, IT equipment was in one class and depreciated over 8 years. The change applies to assets purchased new after July 1st. Those lives are now 3 years. These changes were made to better reflect the estimated periods during which such assets will remain in service. The change had the effect of increasing depreciation expense and decreasing net income by \$27,377.

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 Revenues. 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 Position, and as an expense in the Statement of Revenues, Expenses and Changes in Net Position.

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.

Deferred Inflows/Outflows. In accordance with GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position*, deferred outflows and deferred inflows result from the transactions of the consumption or acquisition of net assets in one period that are applicable to future periods. These items are reported separately from assets and liabilities. With the adoption of this new GASB Statement in fiscal year 2013, there are no reclassifications.

Net Position. In accordance with GASB 63, the Statement of Net Position replaces the Statement of Net Assets and is presented in a format that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position.

The University’s net position is 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 position – nonexpendable: Restricted nonexpendable net position consists 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 position – expendable: Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represents 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. The University is classified as exempt from federal income tax under Section 115(a) and under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3). Certain revenues generated from activities unrelated to the University’s exempt purpose may be subject to federal income tax under Internal Revenue Code Section 511(a)(2)(B).

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

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) federal appropriations, 3) sales and services of auxiliary enterprises or educational activities, 4) most Federal, state and local grants and contracts, and 5) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, contributions, certain federal and state grants, 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 Position. 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 2012 summer session are reported in the Statement of Revenues, Expenses, and Changes in Net Position. For the 2013 summer session, revenues received prior to June 30, 2013 are reported as deferred revenues in the Statement of Net Position while expenses paid prior to June 30, 2013 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 2012 financial statements to conform to the 2013 financial statement presentation. The effects of these reclassifications are discussed in Note 16.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires 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:

	2013	2012
Cash deposits with State Treasury	\$193,816,798	\$186,872,531
Cash deposits with financial institutions	75,147,738	63,706,966
Certificates of deposits	1,125,630	1,122,401
Short Term Investment	1,983,716	-
Guaranteed investment contracts	3,927,557	4,334,678
Investments at KSU Foundation	20,769,425	85,198,325
Other investments	26,645,796	5,131,789
	\$323,416,660	\$346,366,690

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

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

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents (current)	\$220,913,479	\$202,075,880
Investments (current)	8,916,642	6,987,789
Restricted cash and cash equivalents (non-current)	48,051,057	48,503,617
Investments (non-current)	<u>45,535,482</u>	<u>88,799,404</u>
	\$323,416,660	\$346,366,690

Deposits

The carrying amount of the University's cash and cash equivalents with the State Treasurer and other financial institutions at June 30, 2013 were \$268,964,536. The University's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in short-term investments with the exception of the bond funds. All bond proceeds are invested in conjunction with specifications stated in the bond resolutions.

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

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

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

Investments

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

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

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

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

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

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

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

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

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

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

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

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

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

As of June 30, 2013, 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	\$ 1,125,630		\$ 1,125,630		
Investment Agreements	3,927,557		53,879		\$ 3,873,678
Short Term Investments	1,983,716		1,983,716		
	\$ 7,036,903	\$ -	\$ 3,163,225	\$ -	\$ 3,873,678
Investments not subject to maturity dates:					
KSU Foundation Investment Pool	\$24,094,123				
Unlisted Securities	93,411				
Other Long Term Investments	23,227,687				
Grand Total	\$54,452,124				

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 Position. At June 30, 2013, accounts receivable consisted of the following:

	<u>June 30, 2013</u>
Student tuition and fees	\$14,066,990
Auxiliary enterprises and other operating activities	4,735,148
Federal, state, and private grants and contracts	19,054,189
Interest	61,676
Other	<u>14,788,225</u>
	\$40,942,892
Less allowance for doubtful accounts	<u>501,739</u>
Net accounts receivable	<u>\$52,204,489</u>

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

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, 2013 and 2012. 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, 2013 and 2012, the allowance for uncollectible loans was estimated to be \$972,523 and \$1,094,504, respectively.

Note 5 – Capital Assets

Capital asset activity for the University for the year ended June 30, 2013 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land and Improvements	\$ 9,095,416	\$ 858,470	\$ 5,750	\$ 9,948,136
Art Collections	2,675,485	52,025	-	2,727,510
Construction in Progress	66,114,832	99,701,180	81,053,744	84,762,268
Buildings & Improvements	644,437,702	87,089,474	4,114,185	727,412,991
Land Improvements	23,457,226	3,345,080	563,457	26,238,849
Infrastructure	29,478,300	1,927,193	295,623	31,109,870
Intangibles	10,674,756	6,824,754	571,536	16,927,974
Equipment and Furnishings	160,802,440	14,774,358	4,336,640	171,240,158
Vehicles	21,660,767	1,936,190	1,209,275	22,387,682
IT Info Processing Equipment	-	952,533	-	952,533
Total Capital Assets	968,396,924	217,461,257	92,150,210	1,093,707,971
Less: Accumulated Depreciation				
Buildings & Improvements	292,166,437	17,080,710	2,135,655	307,111,492
Land Improvements	12,970,291	844,188	349,911	13,464,568
Infrastructure	6,567,902	1,153,107	292,512	7,428,497
Intangibles	6,338,028	1,106,080	552,796	6,891,312
Equipment and Furnishings	116,041,589	11,040,497	3,769,684	123,312,402
Vehicles	17,541,295	1,415,733	1,206,434	17,750,594
IT Info Processing Equipment	-	156,924	-	156,924
Total Depreciation	451,625,542	32,797,239	8,306,992	476,115,789
Capital Assets, net	\$516,771,382	\$184,664,018	\$ 83,843,218	\$617,592,182
K-State Olathe Innovation Campus, Inc.				34,254,040
KSU Veterinary Clinical Outreach, Inc.				152,622
K-State Diagnostic and Analytical Services, Inc.				800,268
K-State Athletics, Inc.				6,292,171
Kansas State University Research Foundation				16,411
				<u>\$659,107,694</u>

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

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.

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	\$ 6,825,927
Grants and contracts	22,149,234
Athletic tickets and other	<u>10,592,103</u>
	<u>\$39,567,264</u>

Note 7 – Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2013 consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 17,702,467	\$ 4,092,273	\$ 2,096,067	\$ 19,698,673	\$16,925,363
Accrued other postemployment benefits	14,041,000	2,444,000	-	16,485,000	-
Capital lease payable	580,892	2,008,616	1,060,008	1,529,500	939,555
Other loan payable	4,945,968	-	474,751	4,471,217	493,618
Revenue bonds payable	312,755,889	21,284,111	10,665,000	323,375,000	10,820,000
Other liabilities	<u>5,373,559</u>	-	<u>2,784,790</u>	<u>2,588,769</u>	<u>162,866</u>
Total Noncurrent Liabilities	\$355,399,775	\$ 29,829,000	\$ 17,080,616	\$368,148,159	\$29,341,402

Note 8 – Revenue Bonds Outstanding

Revenue bonds payable consisted of the following at June 30, 2013:

	Principal Outstanding 6/30/13
Kansas Development Finance Authority Revenue Bonds – Series 2012F (Kansas State University Energy Conservation Project) Issued on November 1, 2012 in the original amount of \$17,205,000. Due in annual installments with the final maturity on 5/1/33. Interest ranging from 2.0% to 5.0% payable semi-annually.	<u>\$17,205,000</u>
Kansas Development Finance Authority Refunding Revenue Bonds-Series 2012H (Kansas State University Project – Energy Conservation) Issued on April 19, 2012 in the original amount of \$12,460,000. Due in annual installments with final maturity on 8/1/32. Interest ranging from 2.0% to 5.0% payable semi-annually.	\$12,315,000

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

	Principal Outstanding 6/30/13
Kansas Development Finance Authority Refunding Revenue Bonds-Series 2012H (Kansas State University Project – Scientific R&D Facilities) issued on April 19, 2012 in the original amount of \$23,510,000. Due in annual installments with final maturity on 8/1/32. Interest ranging from 2.0% to 5.0% payable semi-annually.	\$23,190,000
Kansas Development Finance Authority Revenue Bonds-Series 2012B-1 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2012 in the original amount of \$30,035,000. Due in annual installments with final maturity on 7/1/32. Interest ranging from 3.0% to 5.25% payable annually.	\$30,035,000
Kansas Development Finance Authority Revenue Bonds-Series 2012B-2 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2012 in the original amount of \$23,640,000. Due in annual installments with final maturity on 7/1/25. Interest ranging from 1.088% to 4.233% payable annually.	\$23,640,000
Kansas Development Finance Authority Revenue Bonds-Series 2011G (Kansas State University Project – Landfill) issued on November 3, 2011 in the original amount of \$3,840,000. Due in annual installments with final maturity on 4/1/41. Interest ranging from 0.50% to 4.125% payable semi-annually.	\$ 3,585,000
Kansas Development Finance Authority Revenue Bonds-Series 2011G (Kansas State University Project – Manhattan Housing Jardine) issued on November 3, 2011 in the original amount of \$12,460,000. Due in annual installments with final maturity on 4/1/41. Interest ranging from 0.50% to 4.125% payable semi-annually.	\$11,645,000
Kansas Development Finance Authority Revenue Bonds-Series 2011A-1 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2011 in the original amount of \$21,790,000. Due in annual installments with final maturity on 7/1/31. Interest ranging from 2.0% to 5.25% payable semi-annually.	\$20,025,000
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.	\$ 1,765,000
Kansas Development Finance Authority Revenue Bonds-Series 2010U-1 (The Kansas Board of Regents – Kansas State University Qualified Energy Conservation Project) issued on December 1, 2010 in the original amount of \$17,815,000. Due in annual installments with final maturity on 5/1/29. Interest ranging from 1.8% to 5.45% payable semi-annually.	\$16,675,000
Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project – Energy Conservation) issued on December 1, 2010 in the original amount of \$2,345,000. Due in annual installments with final maturity on 5/1/2029. Interest ranging from 2.0% to 4.375% payable semi-annually.	\$ 2,345,000

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

	Principal Outstanding 6/30/13
	\$
Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project –Ackert Hall Refunding) issued on December 1, 2010 in the original amount of \$655,000. Due in annual installments with final maturity on 5/1/2015. Interest at 2.0% payable semi-annually.	\$ 275,000
Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project –Union Refunding) issued on December 1, 2010 in the original amount of \$4,365,000. Due in annual installments with final maturity on 5/1/2018. Interest ranging from 2.0% to 3.0% payable semi-annually.	\$ 2,865,000
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.	\$ 775,000
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.	\$21,565,000
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.	\$29,470,000
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.	\$ 6,030,000
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.	\$ 1,600,000
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.	\$16,045,000
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.	\$24,595,000

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

	Principal Outstanding 6/30/13
<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>	\$10,915,000
<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>	\$38,080,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2003J-1 (The Kansas Board of Regents – Kansas State University Energy Conservation Projects) issued on August 1, 2003 in the original amount of \$21,020,000. Due in annual installments beginning 8/1/05 with final maturity on 8/1/23. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	\$ 1,010,000
<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>	\$ 150,000
<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>	\$ 7,575,000
<p>Series 2012F Energy Conservation Project, Series 2010U-1 Qualified Energy Project, Series 2010U-2 University Projects, Series 2011G University Projects and Series 2012H University Projects are collateralized by a pledge of the University's unrestricted revenues. Series 2010H Farrell Library Expansion Project, Series 2010G-1 & G-2 Recreation Expansion Project, Series 2008D Student Life Center Project, and Series 2001G-2 Recreation Project are collateralized by a pledge of student fees. Series 2009L K-State Olathe Innovation Project is collateralized by a pledge of sales tax revenue. Series 2009K-1 & K-2 Child Care Facility Project is collateralized by a pledge of user fees. Series 2001G-1 Salina Housing Project, Series 2005A Housing System Manhattan Campus, and Series 2007A Housing System Manhattan Campus are collateralized by a pledge of housing revenues. Series 2005D Research and Development Facilities Projects are collateralized by a pledge of State appropriations and various university revenue funds. Series 2003J-1 Energy Conservation Projects are collateralized by the annual utility and maintenance savings realized by the implementation of the energy improvement projects. Series 2007H Parking System Project is collateralized by a pledge of parking operation revenues. Series 2002E, Series 2011A-1 & A-2 and Series 2012B-1 & B-2 K-State Athletics, Inc. are collateralized by the pledge of revenues of the corporation.</p>	

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 9 – Revenue Bonds Maturity Schedule

Future debt service requirements for all bonds outstanding at June 30, 2013 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 10,820,000	\$ 13,594,882	\$ 24,414,882
2015	11,840,000	13,225,422	25,065,422
2016	12,015,000	12,863,633	24,878,633
2017	12,105,000	12,487,387	24,592,387
2018	12,485,000	12,075,132	24,560,132
2019-2023	65,690,000	53,232,538	118,922,538
2024-2028	71,465,000	38,741,990	110,206,990
2029-2033	81,990,000	21,282,000	103,272,000
2034-2038	35,385,000	6,990,328	42,375,328
2039-2041	9,580,000	606,384	10,186,384
Total	<u>\$ 323,375,000</u>	<u>\$ 185,099,696</u>	<u>\$508,474,696</u>

In prior years, the University defeased certain revenue bonds payable by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the defeased bonds and the related trust balances are not reflected in the University's financial statements.

Note 10 – Loan and Lease Obligations

In December 2002, the University and the KSU Foundation entered into a 15 year capital lease agreement for a building located at 5980 Corporate Drive in Manhattan, KS in the amount of \$825,000. In January 2008, the lease was increased by \$210,974 to account for improvements made to the property. In January 2013, the lease was increased by an additional \$154,623. Annual lease payments due July 31 are \$87,936 for FY13 and \$84,325 for FY14 forward, with an outstanding balance at June 30, 2013 of \$266,207.

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, 2013 is \$693,838.

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, 2013 is \$1,597,897.

In fiscal year 2010, \$2,538,649 of special assessment bonds were issued in Johnson County to pay for the infrastructure of the K-State Olathe Innovation Campus, Inc., with an additional amount issued in fiscal year 2011 of \$427,368. The City of Olathe reevaluated property boundaries used to allocate special assessment bonds, as a result the liability decreased by \$338,105. The tax levy consists of six annual payments of \$136,218 commencing in fiscal year 2011, with a final payment of \$1,634,609. The outstanding balance at June 30, 2013 is \$2,179,482.

In February of 2013, the University and the KSU Foundation entered into a 10 year capital lease agreement for a building located at 1930 College Heights Road in Manhattan, KS in the amount of \$1,400,000 to cover the lease-purchase of the building as well as additional renovation costs. The building, which was designated as the Housing Honors House, provides housing for those students who participate in the University Honors Program. An initial principal and interest payment of \$500,000 was made at the beginning of the lease with annual principal and interest payments of \$100,000 due starting February 1, 2014. The lease obligation was recorded at a net present value of \$1,039,040 and had an outstanding balance at June 30, 2013 of \$553,283. Subsequent to fiscal year end, the lease was paid in its entirety.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

The University is obligated for the purchase of certain equipment funded through issuance of blanket financing agreements in the amount of \$447,510 as of June 30, 2013. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2014	\$ 219,447
2015	174,966
2016	34,963
2017	9,067
2018	<u>9,067</u>
	\$ 447,510

Note 11 – Retirement Plans

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

Defined Benefit Plan

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

For the year ended June 30, 2013, active KPERS members were required by statute to contribute 4% and the University to contribute 9.37% of the employees' covered payroll. The Kansas Legislature establishes and may amend active plan members' and the University's contribution rates. The University contributed \$4,703,932 during fiscal year 2013 and individual employees contributed \$2,188,091. In addition, payments to KPERS for death and disability coverage for all University employees totaled \$2,113,797.

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, 2013 active members were required by statute to contribute 5.5% and the University to contribute 8.5% of the employees' covered payroll. The Kansas Legislature establishes and may amend active plan members' and the University's contribution rates. The University contributed \$17,962,102 during fiscal year 2013 and individual employees contributed \$11,423,738.

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. Current FERS employees contribute 0.8% with an employer contribution rate of 11.9%. New FERS employees hired on or after January 1, 2013 contribute 3.1% with an employer contribution rate of 9.6%. FERS employees contribute at the full FICA rate. They

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

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, 2013, the University contributed \$625,454 and individual employees contributed \$457,369 to these plans.

Voluntary Tax-Sheltered Annuity Program

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

Note 12 – Other Postemployment Healthcare Benefits

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

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

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

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	\$ 1,656,000
Normal cost (with interest)	<u>1,866,000</u>
Annual required contribution (ARC)	\$ 3,522,000
Interest on net OPEB obligation	541,000
Adjustment to the ARC	<u>(797,000)</u>
Annual OPEB cost	\$ 3,266,000
Fiscal Year 2013 Net Employer Contributions	(822,000)
Net OPEB obligation July 1, 2012	<u>14,041,000</u>
Net OPEB obligation June 30, 2013	<u>\$16,485,000</u>

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

Schedule of Employer Contributions (for fiscal year ended)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2011	\$3,505,000	562,000	16%	\$11,917,000
2012	3,006,000	882,000	29%	14,041,000
2013	3,266,000	822,000	25%	16,485,000

Funded Status and Funding Progress. As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$29,157,000. The University's policy is to fund the benefits on a pay as you go basis that is paid implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$29,157,000. The covered payroll (annual payroll of active employees covered by the plan) was \$327,181,000, 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)
6/30/2011	\$0	\$32,997,000	\$32,997,000	0%	\$308,087,000	11%
6/30/2012	0	29,432,000	29,432,000	0%	318,062,000	9%
6/30/2013	0	31,114,000	31,114,000	0%	327,181,000	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, 2013 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 thirteen years and an ultimate rate of 13.0 percent after thirteen 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.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 13 – Pollution Remediation

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

A settlement has been reached to correct soil and groundwater contamination resulting primarily from the use of the chemical Trichloroethylene (TCE) at the former Schilling Air Force Base in Salina, Kansas. The cost is estimated at \$9.3 million and the federal government has agreed to pay 90 percent of the cost, with the remaining 10 percent to be paid by the City of Salina, KS. There is no liability to the University.

A chemical waste landfill was created with approval of the U.S. Atomic Energy Commission and utilized from the mid-1960's to 1987 as a burying ground for tritium, carbon-14 and other short-lived radioactive elements. The university also disposed of some chemicals at the site from 1979 to 1983. The Kansas Board of Regents approved the plan to clean up the site, which commenced in FY2011 and was completed as of July 2012, with a project cost of approximately \$7 million. Monitoring groundwater, sampling and reporting will continue as mandated by the EPA.

Site assessments and investigations will begin in FY2013 to determine the extent and levels of contamination from diesel and gasoline underground storage tanks which have been removed at the Ashland Bottoms Agronomy farm in Riley County. The remediation costs will be paid from the State of Kansas Storage Tank Trust fund, less a \$4,000 deductible which has been paid by the university.

Note 14 – Commitments and Contingencies

At June 30, 2013, the University had outstanding commitments on various construction projects and contracts totaling approximately \$22 million.

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

University buildings are insured with a \$250,000 deductible and a maximum annual liability of \$350,000,000 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, 2013.

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
For the Year Ended June 30, 2013

Note 15 – Operating Expenses by Natural Classification

	Compensation & Benefits	Supplies & Other Services	Utilities	Scholarships & Fellowships	Depreciation	Total
Instruction	\$ 165,126,264	\$ 29,657,332	\$ 2,701	\$	\$	\$ 194,786,297
Research	88,630,239	49,576,820	394,196			138,601,255
Public Service	50,669,603	25,984,797	16,454			76,670,854
Academic Support	30,717,318	15,858,108	1,280			46,576,706
Student Service	41,197,725	25,498,298	847			66,696,870
Institutional Support	24,295,621	9,053,453				33,349,074
Operations and Maintenance of Plant	18,704,543	16,461,541	14,613,247			49,779,331
Depreciation					35,726,957	35,726,957
Scholarships and Fellowships				26,379,745		26,379,745
Auxiliary Enterprises	25,748,308	16,065,977	3,055,422			44,869,707
Other		348,293				348,293
Total Operating Expenses	\$ 445,089,621	\$ 188,504,619	\$ 18,084,147	\$ 26,379,745	\$ 35,726,957	\$ 713,785,089

Note 16 – De-Blending of Component Unit

For the fiscal year ending June 30, 2013, the Kansas State University Institute for Commercialization was de-blended and presented as a discrete component unit. As a result, total net position decreased by \$6,120,641 as of July 1, 2012.

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