

# Kansas State University

## Annual Financial Report

Fiscal Year Ended June 30, 2003



# Kansas State University Manhattan, Kansas

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**Kansas State University**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2003**

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) principles. For fiscal year 2002, the University adopted GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which establish standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis to focus on the University as a whole (opposed to the traditional presentation of fund groups). Other significant changes to the financial statement included:

- Revenues and expenses are categorized as either operating or non-operating. Significant recurring sources of revenue are now shown as non-operating, including state appropriations and investment income. Public universities depend heavily on these revenues to fund their programs and services. As a result, the University will always report a loss from operating activities.
- Student tuition and fees are now reported net of scholarships funded from university resources. Prior to fiscal year 2002, all scholarships were reported as a scholarship expense.
- The University is required to report accumulated depreciation on its capital assets. This change resulted in a \$237.4 million decrease in net assets in 2002, reported as a cumulative effect of changes in accounting principles, and depreciation expense of \$24.7 million and \$24.3 million in 2003 and 2002, respectively.

## **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). Its purpose is to present a financial snapshot of the University. 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. Current classification distinguishes those assets that are highly liquid and available for immediate and unrestricted use by the University, and those liabilities likely to be settled in the next 12 months.

Net assets are divided into three categories:

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

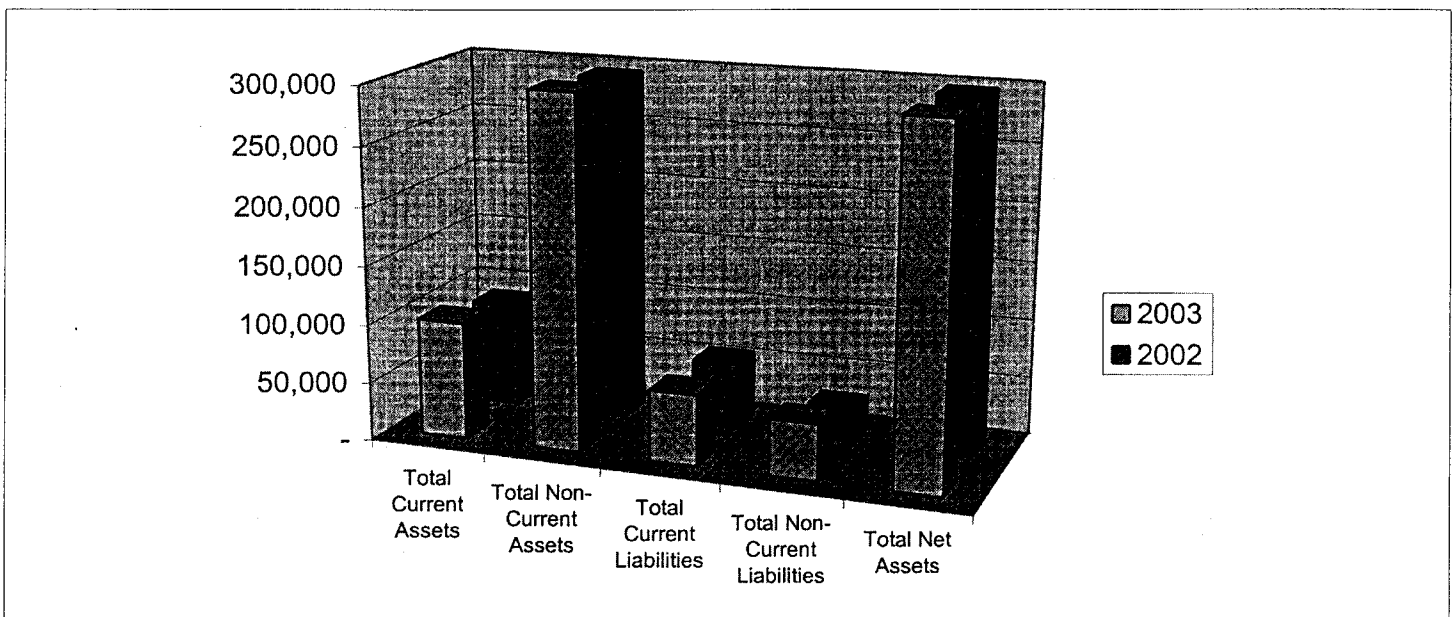
Total assets at June 30, 2003 were \$409.2 million, an increase of \$26 million (6.8%). Capital assets, net of depreciation, comprised 63.1%, or \$258.3 million of the total assets.

Total liabilities were \$109.8 million at June 30, 2003, an increase of \$24.4 million (28.6%) compared to \$85.4 million at June 30, 2002. Long-term liabilities comprised 44.2%, or \$48.5 million of the total liabilities.

Total net assets at June 30, 2003 were \$299.4 million, a \$1.6 million increase over the prior year, or a .5% increase in net assets. The breakout of net assets is shown below:

Capital assets, net of related debt.....	\$205,628,500
Restricted net assets .....	50,099,678
Unrestricted net assets.....	43,624,927
<b>Total net assets .....</b>	<b>\$299,353,105</b>

The composition of current and non-current assets and liabilities and net assets is displayed below for both the 2002 and 2003 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, 2003 increased by 12.4% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$68.4 million in 2003, compared to \$57.2 million in 2002. This increase is a direct result of a tuition increase approved by the Kansas Board of Regents for fiscal year 2003. The goal of the tuition increase, which was the result of collaboration between University Administration and University students, was to provide additional funds to the University to improve or enhance student education while State appropriations decreased significantly. The increase was used for specific expenses including faculty salary increases, instructional and technological upgrades, and additional scholarships.

- Grants and contracts (federal, state and local, and non-governmental) increased \$12.8 million over the previous fiscal year. This category of revenue includes funds received from the federal government for financial aid as well as other sponsored research revenue. In conjunction with this increase in grants and contracts revenue, the revenue from the University's facilities and administrative overhead reimbursement also increased from the prior year.
- Sales and services of educational of activities increased \$3.2 million from the previous fiscal year. These revenues are generated by activities that are related incidentally or exist primarily to afford hands on experience related to providing instruction, research, and public service.
- Auxiliary enterprises increased \$1.8 million from the previous fiscal year. Auxiliary enterprises include Housing, Parking, University health services, and a variety of other smaller services.

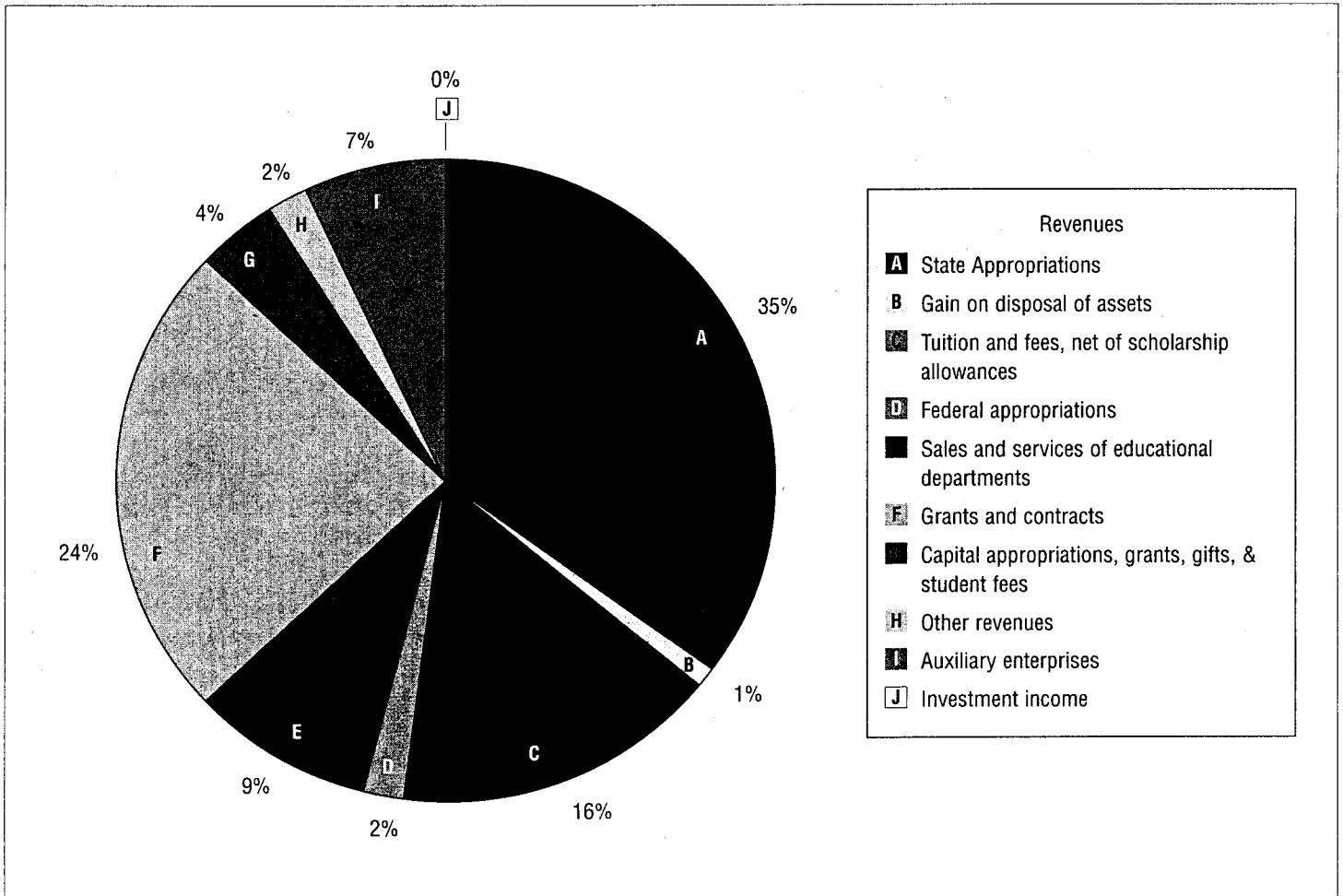
Total non-operating revenues were down 3.8% from the prior year from \$167.2 million to \$160.9 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, decreased from \$166 million to \$156.9 million.
- Investment income decreased.
- Student fees collected for capital projects decreased.

Other revenues included the following:

- Capital appropriations and grants and gifts decreased from \$14.4 million to \$13.3 million.
- Additions to permanent endowments increased over the prior year due to an increase in gas and oil royalties.

In summary, total revenues increased by \$21.6 million, from \$415.5 million to \$437.1 million, an overall increase of 5.2%. The compositions of these revenues are displayed in the following graph:

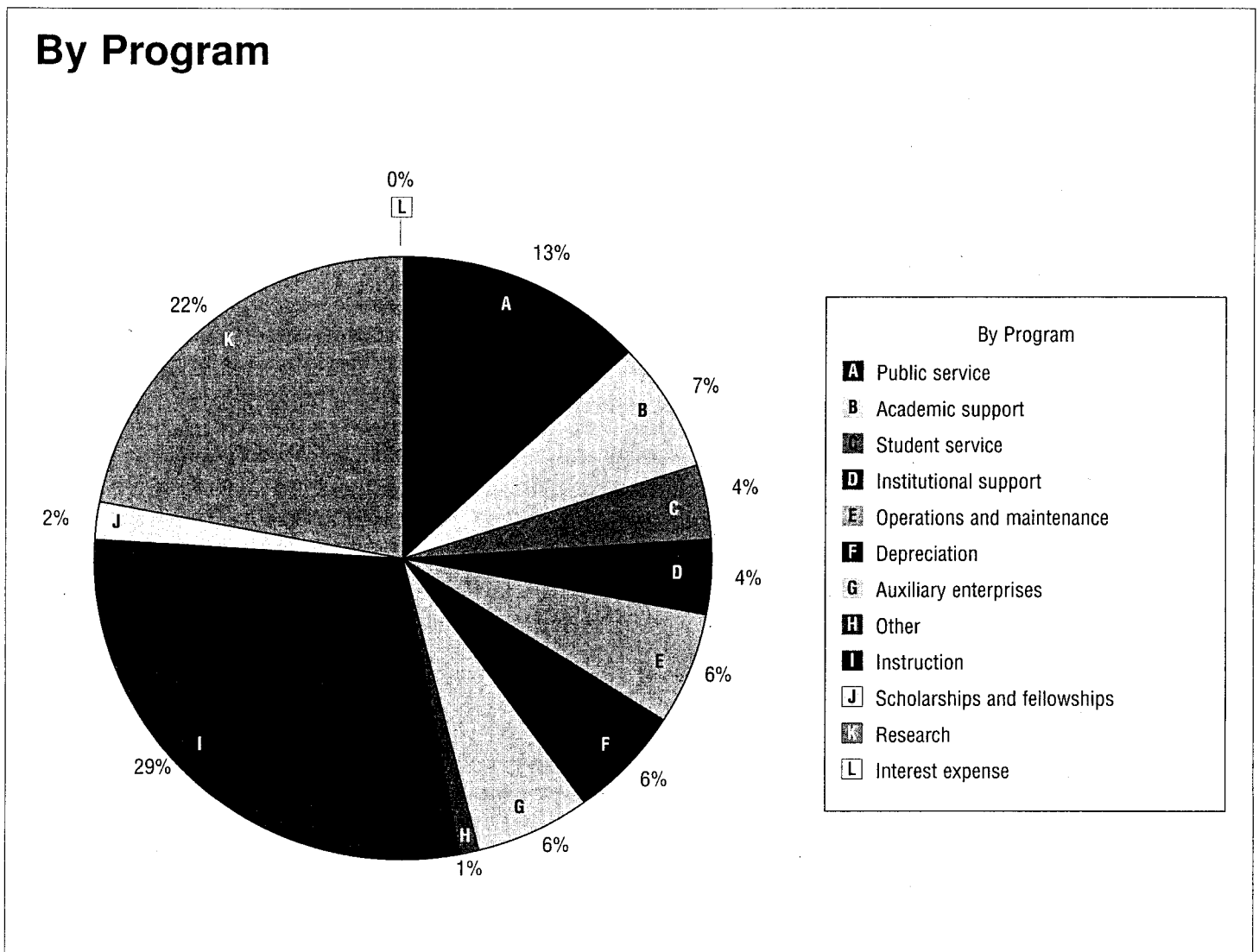


## Expenses

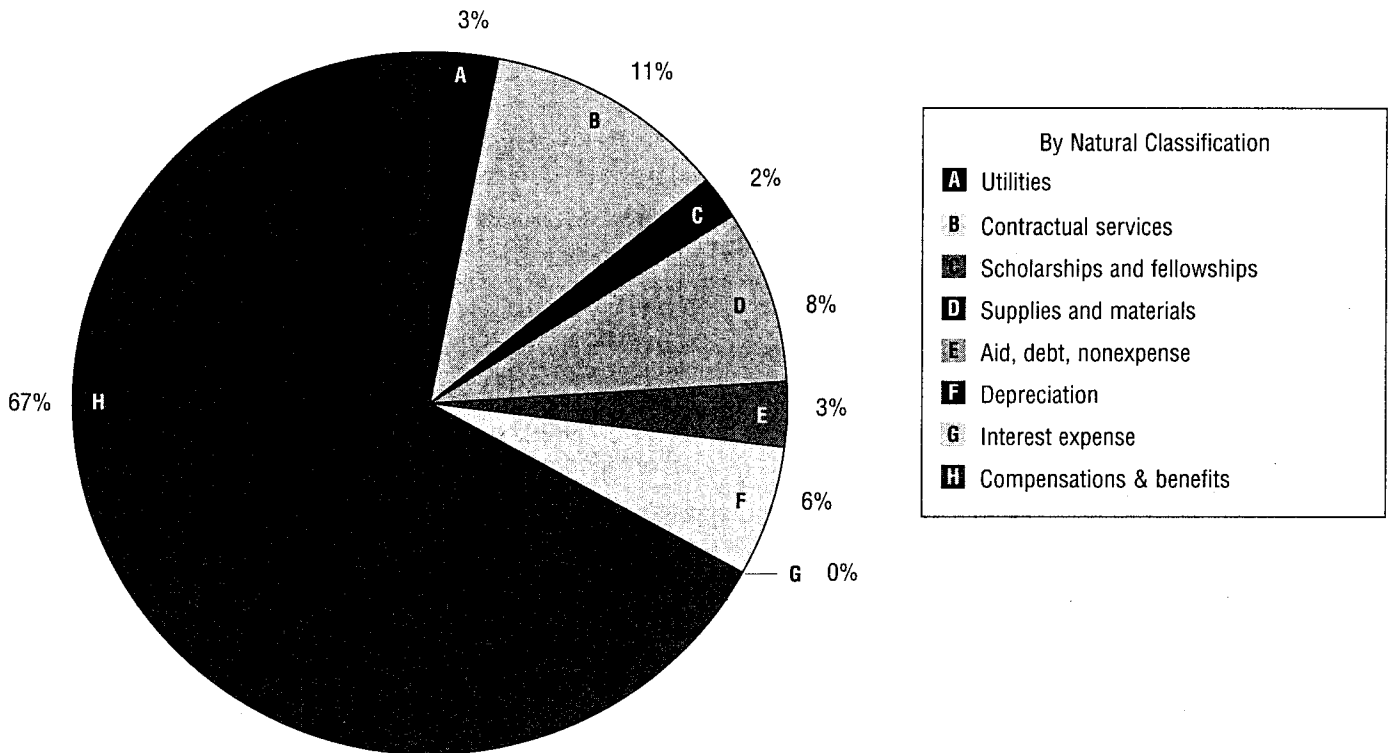
Operating expenses were \$434.4 million for the 2003 fiscal year. This was an increase over the prior year of \$25.6 million, or 6.3%. The following is a brief summary of the significant changes:

- Expenses related to the University's mission of instruction, research and public service increased \$19.2 million in 2003. This increase is directly related to the University's tuition increase earmarked for faculty salaries and the increase in grant and contract revenue.
- Scholarship and fellowship expenses increased by \$2 million. Overall student financial aid increased, with the remaining increase being in the form of scholarship allowances, which are reported as an offset to tuition and fee revenue.
- Other expenses decreased by \$2 million.

Non-operating expenses are represented primarily by interest expense. This amount decreased by 2.7% from the prior year. The composition of total expenses, including operating and non-operating are displayed below:



## By Natural Classification



### Extraordinary Items

The University did not have any special and extraordinary items in 2003.

### Net Assets

Net assets increased by \$1.6 million over the previous fiscal year. This increase in net assets can be attributed to the increased level of student fee revenue and grants and contracts received by the University during 2003.

## 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, 2003	June 30, 2002
Net cash provided (used) by:		
Operating activities	\$ (137,284)	\$ (141,718)
Non-capital financing activities	158,820	167,881
Capital and related financing/appropriations	8,435	(9,755)
Investing activities	344	268
Net increase in cash	30,315	16,676
Beginning cash and cash equivalent balances	80,193	63,517
Prior Period Restatement	(5,240)	-
<b>Ending cash and cash equivalent balances</b>	<b>\$ 105,268</b>	<b>\$ 80,193</b>

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

The University's overall liquidity increased by \$25 million consisting primarily of the issuance of capital debt in the amount of \$22.5 million and gains on the sale of assets of \$2.5 million during the fiscal year.

## CAPITAL ASSETS

The University made significant investments in capital during the 2002–2003 fiscal year. Detailed information regarding capital asset additions, retirements & depreciation is available in Note 3 to the financial statements.

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

- The Ackert Hall Addition (Phase II) was completed at a cost of \$11 million. The new 59,000-square-foot addition, named Chalmers Hall, provides additional space for the Division of Biology and houses the Terry C. Johnson Center for Basic Cancer Research. The addition was funded through revenue bond proceeds, private donations, and state funds.
- The Memorial Stadium had artificial turfgrass, a rubberized track system, and new field lighting installed at a cost of \$1.3 million. Wagner Field also benefited from the installation of new artificial turfgrass at a cost of \$.8 million. These projects were funded by the Intercollegiate Athletic Council issuing revenue bonds with future repayment of the bonds coming from ticket revenue and/or private gifts.

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

- Phase III of the Ackert Hall Addition will complete the lower level and first floor of the addition, providing much needed space for the Departments of Biochemistry and Chemistry. The estimated cost is \$3 million and will be provided through state funds.
- The Grain Science Center Biological and Industrial Value-Added Program Complex project commenced in FY2003. The conceptual design consists of five buildings: a feed mill, a flour mill, a value-added industrial facility, an International Grains Program auditorium, and a teaching/research/administration building. The project budget is approximately \$7 million.

- The Biosecurity Research Institute is a \$40 million project that will enable investigation of infectious diseases and provide for safe handling of biotechnology products. The majority of the funding is being provided through the issuance of revenue bonds, with future repayment of the bonds coming from state appropriations and various university revenue funds.
- The R. V. Christian Track System is in the process of receiving new artificial turfgrass and a rubberized track system at a cost of approximately \$1.3 million. This project is being funded by the Intercollegiate Athletic Council revenue bonds with future repayment of the bonds coming from ticket revenue and/or private gifts.
- Renovations to Ford Hall, which is a part of the Department of Housing and Dining Services, began in Spring 2003. The renovation project is estimated at \$4.7 million, to be funded by Housing Operation revenues. The newly renovated facility will consist of a variety of suite arrangements. This project also includes various smaller updates to Marlatt, Putnam and Goodnow Halls.
- In July 2001, the Department of Housing and Dining Services engaged Johnson Controls, Inc to conduct an investment grade energy audit of the dormitories and scholarship house for the purpose of identifying energy conservation projects. The audit identified over 50 energy savings measures, which include plumbing and lighting retrofits, upgrading water coolers, and a boiler replacement. The result will be an average annual utility and maintenance savings of \$400,000, at a cost of approximately \$2.4 million to implement. The project is being funded through the State of Kansas Facilities Conservation Improvement Program. At the end of the project, Housing and Dining will be responsible for repaying the State with the annual utility and maintenance savings.
- In Spring 2002, Kansas State University engaged Viron Energy Services to conduct an investment grade energy audit of the campus for the purpose of identifying energy conservation projects. The audit identified over 100 energy savings measures, which include new windows, plumbing and lighting retrofits, boiler replacements, and many others. The result will be an average annual utility and maintenance savings of \$1.7 million, at a cost of approximately \$19.3 million to implement. The project is being funded through an Energy Performance Bond issued by the State of Kansas. At the end of the project, the University will be responsible for repaying the State with the annual utility and maintenance savings.

## **DEBT ADMINISTRATION**

At June 30, 2003, the University had \$55 million in debt outstanding. Revenue bonds were issued by the Kansas Board of Regents in the amount of \$22,485,000 for the benefit of Kansas State University to finance a portion of the cost to construct, furnish, and equip the Biosecurity Research Institute. The University paid \$3,276,982 in principal and interest payments related to all outstanding revenue bonds.

Moody's Investors Service currently rates the University "Aaa". More detailed information about the University's long-term liabilities is available in Notes 7, 8, and 9 to the financial statements.

## **ECONOMIC OUTLOOK**

The State of Kansas revenues are significantly down. Thirty-five percent of the total resources for the University, during a fiscal year, are provided by the State. Appropriations for fiscal year 2004 are currently set at \$163.8 million, a decrease of 1% from fiscal year 2003.

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

Overall, the financial position of the University continues to be strong. Enrollment for the academic 2003–2004 year is expected to be relatively consistent with academic 2002–2003 year.

**Kansas State University**  
**Statement of Net Assets**  
For the Year Ended June 30, 2003

	University Funds		Component Units	
	2003	2002	2003	2002
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 73,873,538	\$ 61,359,694	\$ 15,908,948	\$ 8,355,341
Accounts receivable, net	19,070,018	20,522,855	1,830,776	2,293,412
Pledges receivable	-	-	538,875	157,000
Investments	-	-	1,139,536	893,411
Loans to students, net	3,286,375	3,415,664	-	-
Inventories	3,676,397	2,976,309	156,327	220,572
Prepaid expenses	659,410	600,209	250,356	454,189
Total Current Assets	<u>100,565,738</u>	<u>88,874,731</u>	<u>19,824,818</u>	<u>12,373,925</u>
<b>Noncurrent Assets</b>				
Restricted cash and cash equivalents	31,394,368	13,593,431	10,167,357	12,213,524
Pledges receivable	-	-	9,047	185,362
Investments	3,962,453	3,850,912	2,568,734	2,551,122
Loans to students, net	15,003,522	14,002,462	-	-
Other assets	-	-	818,774	1,125,517
Capital assets, net	258,253,180	262,885,713	4,929,036	4,789,986
Total Noncurrent Assets	<u>308,613,523</u>	<u>294,332,518</u>	<u>18,492,948</u>	<u>20,865,511</u>
TOTAL ASSETS	<u>409,179,261</u>	<u>383,207,249</u>	<u>38,317,766</u>	<u>33,239,436</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	20,921,692	17,288,899	4,920,693	3,383,058
Deferred revenue	23,213,985	24,898,810	12,211,222	10,171,810
Loan payable	193,204	182,973	33,206	94,971
Revenue bonds payable	2,245,000	2,145,000	889,960	862,726
Accrued compensated absences	10,656,037	9,830,230	738,800	631,552
Other liabilities	3,055,714	1,629,303	-	-
Capital lease payable	1,026,542	992,826	144,341	164,457
Total Current Liabilities	<u>61,312,174</u>	<u>56,968,041</u>	<u>18,938,222</u>	<u>15,308,574</u>
<b>Noncurrent Liabilities</b>				
Other liabilities	3,123,237	2,801,119	-	-
Revenue bonds payable	41,760,000	21,520,000	16,805,929	17,628,839
Other loan payable	879,717	1,072,921	50,000	80,414
Capital lease payable	2,005,133	2,159,717	124,398	207,250
Deposits held in custody for others	745,895	843,938	464,514	541,790
Total Noncurrent Liabilities	<u>48,513,982</u>	<u>28,397,695</u>	<u>17,444,841</u>	<u>18,458,293</u>
TOTAL LIABILITIES	<u>109,826,156</u>	<u>85,365,736</u>	<u>36,383,063</u>	<u>33,766,867</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	205,628,500	230,577,207	(13,031,826)*	(14,067,553)*
Restricted for:				
Nonexpendable	2,364,689	2,275,994	6,108,062	7,069,225
Expendable				
Scholarships, research, instruction, public service, & other	(5,153,458)	(5,452,394)	4,005,919	1,466,244
Loans	21,275,484	20,721,094	-	-
Capital projects	24,443,223	8,125,899	53,376	29,236
Debt service	7,169,740	5,735,121	4,078,509	5,697,798
Unrestricted	43,624,927	35,858,592	720,663	(722,381)
TOTAL NET ASSETS	<u>\$ 299,353,105</u>	<u>\$ 297,841,513</u>	<u>\$ 1,934,703</u>	<u>\$ (527,431)</u>

\*See accompanying Note 14.

**Kansas State University**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
For the Year Ended June 30, 2003

	University Funds		Component Units	
	2003	2002	2003	2002
<b>Operating Revenues:</b>				
Tuition and fees, net of scholarship allowances of \$ 7,821,459	\$ 68,428,803	\$ 57,176,220	\$ 2,240,990	\$ 2,212,610
Federal appropriations	8,720,429	8,684,831	-	-
Federal grants and contracts	75,829,593	64,037,977	-	-
State and local grants and contracts	8,512,146	9,623,382	-	-
Nongovernmental grants and contracts	21,593,872	19,517,630	8,781,970	7,515,581
Sales and services of educational activities	38,727,304	35,448,714	18,650,126	16,004,819
<b>Auxiliary enterprises</b>				
Housing revenues (revenues are pledged as security for bonds)	22,368,199	21,016,200	-	-
Parking revenues (revenues are pledged as security for bonds)	2,114,959	1,805,787	-	-
Student health revenues	5,361,742	5,138,000	-	-
Other auxiliary revenues	445,699	562,619	-	-
Interest earned on loans to students	377,194	451,590	-	-
Other operating revenues	8,554,593	8,839,879	4,498,893	3,260,471
Contributions	-	-	8,566,724	6,939,805
<b>Total Operating Revenues</b>	<b>261,034,533</b>	<b>232,302,829</b>	<b>42,738,703</b>	<b>35,933,286</b>
<b>Operating Expenses:</b>				
Instruction	129,310,319	120,778,476	-	-
Research	93,957,342	87,287,534	-	107,000
Public Service	54,837,137	50,752,857	755,478	679,169
Academic Support	28,712,966	27,365,689	-	-
Student Service	17,540,848	16,067,500	2,835,998	2,013,116
Institutional Support	18,736,212	17,177,581	29,674,901	26,120,278
Operations & Maintenance of Plant	25,752,916	25,068,619	-	-
Depreciation	24,675,603	24,287,369	861,419	739,462
Scholarships & Fellowships	10,683,134	8,639,258	3,727,756	3,047,968
Auxiliary Enterprises	26,429,207	25,453,877	-	-
Other Expenses	3,744,745	5,887,875	1,101,094	1,579,563
<b>Total Operating Expenses</b>	<b>434,380,429</b>	<b>408,766,635</b>	<b>38,956,646</b>	<b>34,286,556</b>
<b>Operating Income (Loss)</b>	<b>(173,345,896)</b>	<b>(176,463,806)</b>	<b>3,782,057</b>	<b>1,646,730</b>
<b>Nonoperating Revenues (Expenses)</b>				
State appropriations	156,880,717	166,006,382	1,273,303	617,085
Investment income	316,766	355,252	248,373	1,222,996
Interest expense	(1,204,936)	(1,237,432)	(1,061,160)	(959,432)
Gain on disposal of assets	2,846,463	-	-	-
Student fees for capital projects	2,057,359	2,093,243	-	-
<b>Net Nonoperating Revenues</b>	<b>160,896,369</b>	<b>167,217,445</b>	<b>460,516</b>	<b>880,649</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains and Losses</b>	<b>(12,449,527)</b>	<b>(9,246,361)</b>	<b>4,242,573</b>	<b>2,527,379</b>
Capital appropriations	7,231,040	8,507,914	-	-
Capital grants and gifts	6,081,696	5,921,086	-	-
Additions to permanent endowment	106,792	61,919	(295,956)	538,523
Other additions, net	541,591	282,871	(1,524,173)	(2,038,391)
<b>Increase in Net Assets</b>	<b>1,511,592</b>	<b>5,527,429</b>	<b>2,422,444</b>	<b>1,027,511</b>
<b>Net Assets</b>				
Net Assets -- Beginning of Year, as previously reported	298,723,238	293,195,809	(527,431)	(1,554,942)
Prior Period Restatement (note 15)	(881,725)	-	39,690	-
Net Assets, Beginning of Year, as restated	297,841,513	293,195,809	(487,741)	(1,554,942)
<b>Net Assets—End of Year</b>	<b>\$299,353,105</b>	<b>\$298,723,238</b>	<b>\$1,934,703</b>	<b>\$(527,431)</b>

**Kansas State University**  
**Statement of Cash Flows**  
For the Year Ended June 30, 2003

	University Funds	
	2003	2002
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 76,750,483	\$ 62,420,727
Endowment income	138,954	108,928
Sales and services of educational activities	38,532,601	35,450,485
Auxiliary enterprise charges		
Housing	22,093,659	20,806,923
Parking	2,032,017	1,743,665
Student Health	5,341,570	5,200,445
Other	484,077	544,633
Grants and contracts	105,707,166	102,864,111
Federal appropriations	8,720,429	8,684,831
Payments to suppliers	(138,709,613)	(131,567,971)
Compensation & benefits	(282,713,250)	(272,531,730)
Loans issued to students and employees	(6,129,280)	(4,893,681)
Collections on loans issued to students and employees	5,404,238	4,506,334
Other receipts (payments)	25,063,002	24,944,547
Net Cash Flows from Operating Activities	(137,283,947)	(141,717,753)
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	156,880,717	165,689,124
Disposal of intangible asset	1,500,000	-
Direct lending receipts	74,024,756	58,995,489
Direct lending payments	(74,291,865)	(59,003,488)
Funds held for others	(98,043)	2,199,466
Other	804,768	-
Net Cash Flows from Noncapital Financing Activities	158,820,333	167,880,591
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt	22,485,000	-
Capital appropriations	3,183,667	6,187,446
Capital Grants and gifts	2,513,255	5,921,086
Student fees for capital projects	2,057,359	2,093,245
Purchases of capital assets	(19,839,456)	(20,638,149)
Principal paid on capital debt and leases	(2,327,973)	(2,273,665)
Interest paid on capital debt and leases	(1,199,298)	(1,237,432)
Disposal of asset	1,424,988	-
Other	137,119	191,899
Net Cash Flows from Capital and Related Financing Activities	8,434,661	(9,755,570)
<b>Cash Flows from Investing Activities</b>		
Investment income	433,635	332,235
Purchase of investments	(89,901)	(64,015)
Net Cash Flows from Investing Activities	343,734	268,220
Net change in cash and cash equivalents	30,314,781	16,675,488
Cash and cash equivalents—beginning of year	80,192,847	63,517,359
Prior Period Restatement	(5,239,722)	-
Cash and cash equivalents—beginning of year	74,953,125	63,517,359
Cash and cash equivalents—end of year	\$105,267,906	\$80,192,847

**Kansas State University**  
**Statement of Cash Flows (Continued)**  
For the Year Ended June 30, 2003

	University Funds	
	2003	2002
<b>Reconciliation</b>		
Operating income (loss)—SRECNA	\$ (173,345,896)	\$ (176,463,806)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	24,675,603	24,287,369
Changes in assets and liabilities:		
Accounts receivable, net	1,421,119	(4,844,122)
Loans to students, net	(871,771)	(387,347)
Inventories	(700,088)	709,723
Prepaid expenses	(59,201)	117,899
Accounts payable and accrued liabilities	3,503,342	1,201,280
Deferred revenue	(1,684,825)	14,200,237
Accrued compensated absences	9,777,770	(38,073)
Other changes	-	(500,913)
Net cash used in operating activities—Cash Flow	\$ (137,283,947)	\$ (141,717,753)

**Kansas State University**  
Notes to Financial Statements  
For the Year Ended June 30, 2003

**Note 1—Organization and Summary of Significant Accounting Policies**

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

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

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

Financial Reporting Entity. As required by the accounting principles generally accepted in the United State of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the financial position and financial activities of the University and its component units: The Kansas State University Research Foundation (KSURF), The IDEA Center, Inc, The K-State Union Corporation, and The Intercollegiate Athletic Council of Kansas State University, Inc. Component unit financial activities and balances have been discretely presented.

The Kansas State University Foundation accounts are not included in the University's financial statements as it is a legally separate entity and the University does not appoint a voting majority of the Foundation's governing body.

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, 2003

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

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

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

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

Compensated Absences. Employee vacation and sick pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded as accrued compensated absences in the Statement of Net Assets, and as a component of compensation and benefit expense in Note 13 Operating Expenses by Natural Classification.

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

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

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

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

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

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

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



**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2003

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 2002 summer session are reported in the Statement of Revenues, Expenses, and Changes in Net Assets. For the 2003 summer session, revenues received prior to June 30, 2003 are reported as deferred revenues in the Statement of Net Assets while expenses paid prior to June 30, 2003 are reported as prepaid expenses. Kansas Board of Regents officials determined this methodology and believe the departure from generally accepted accounting principles will not have a material effect on the University's financial position.

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

## Note 2—Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents. The carrying amount of the University's deposits with the State Treasurer and other financial institutions at June 30, 2003 were \$105,267,906. The University's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in short-term investments with the exception of the bond funds. All bond proceeds are invested in conjunction with specifications stated in the bond resolutions.

Investments. The University's investments are categorized as to credit risk as either (1) insured or registered, or securities held by the University or its agent in the University's name, (2) uninsured and unregistered, with securities held by the counter party's trust department or agent in the University's name, or (3) uninsured and unregistered, with securities held by the counter party, or by its trust department or agent, but not in the University's name. At June 30, 2003, the University's investments consisted of the following:

	Categories			Fair Value
	1	2	3	
U. S. Government Securities	\$ 523,453	\$ --	\$ --	\$ 523,453
Certificates of Deposits	1,784,000	--	--	1,784,000
Guaranteed Investment Contracts	1,655,000	--	--	1,655,000
Total Investments	<u>\$ 3,962,453</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,962,453</u>

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2003

**Note 3—Capital Assets**

Capital asset activity for the University for the year ended June 30, 2003 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Capital Assets (not depreciated)</b>				
Land and Improvements	7,097,621	306,505	8,248	7,395,878
Art Collections	1,919,000	—	—	1,919,000
Construction in Progress	10,644,243	9,301,519	14,413,396	5,532,366
<b>Capital Assets (being depreciated)</b>				
Buildings & Improvements	359,720,673	23,781,334	11,169,260	372,332,747
Land Improvements	11,320,710	2,930,469	1,291,939	12,959,240
Infrastructure	6,562,806	22,555	—	6,585,361
Equipment and Furnishings	137,436,297	11,398,282	5,934,409	142,900,170
Vehicles	21,301,959	815,018	832,995	21,283,982
Total Capital Assets	556,003,309	48,555,682	33,650,247	570,908,744
<b>Accumulated Depreciation</b>				
Buildings & Improvements	173,912,725	10,741,477	183,933	184,470,269
Land Improvements	4,770,548	463,724	—	5,234,272
Infrastructure	3,586,235	201,129	—	3,787,364
Equipment and Furnishings	94,973,173	11,132,050	4,141,290	101,963,933
Vehicles	15,874,915	2,136,756	811,945	17,199,726
Total Depreciation	293,117,596	24,675,136	5,137,168	312,655,564
Capital Assets, net	262,885,713	23,880,546	28,513,079	258,253,180

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2003

**Note 4—Accounts Receivable**

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2003, accounts receivable consisted of the following:

	June 30, 2003
Student tuition and fees	\$ 2,058,451
Auxiliary enterprises and other operating activities	3,257,071
Federal, state, and private grants and contracts	14,290,730
	\$19,606,252
Less allowance for doubtful accounts	612,962
Net accounts receivable	\$18,993,290

**Note 5—Loans Receivable**

Student loans made through the Federal Perkins Loan Program and the Health Profession Student Loan Program comprise approximately 89% of the June 30, 2003 loan balances. The Programs provide for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100%, if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2003, the allowance for uncollectible loans was approximately \$1,050,000.

**Note 6—Deferred Revenue**

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

Tuition and fees	\$ 2,527,943
Grants and contracts	20,686,042
	\$23,213,985

**Note 7—Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2003 consist of the following:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	\$23,665,000	\$22,485,000	\$ 2,145,000	\$44,005,000	\$ 2,245,000
Loans payable	1,255,894	—	182,973	1,072,921	193,204
Lease obligations	3,152,543	1,426,905	1,547,773	3,031,675	1,029,542
Deposits held in custody for others	843,938	5,237,201	5,335,244	745,895	—
Other liabilities	4,430,422	3,465,658	1,717,129	6,178,951	3,055,714
Total Long-Term Liabilities	\$33,347,797	\$32,614,764	\$10,928,119	\$55,034,442	\$ 6,520,460

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2003

**Note 8—Revenue Bonds Outstanding**

Revenue bonds payable consisted of the following at June 30, 2003:

	<u>Principal Outstanding 6/30/03</u>
Kansas Development Finance Authority Revenue Bonds-Series 2003C (The Kansas Board of Regents—Kansas State University Research and Development Facilities Projects) issued on February 1, 2003 in the original amount of \$22,485,000. Due in annual installments beginning 10/1/22 with final maturity on 6/30/33. Interest ranging from 4.75% to 5.00% payable semi-annually.	\$22,485,000
Kansas Development Finance Authority Refunding Revenue Bonds- Series 2001G-1 (The Kansas Board of Regents—Kansas State University Salina Housing Project) issued on June 15, 2001 in the original amount of \$845,000. Due in annual installments with final maturity on 4/1/08. Interest ranging from 4.25% to 5.00% payable semi-annually.	\$ 750,000
Kansas Development Finance Authority Refunding Revenue Bonds- Series 2001G-2 (The Kansas Board of Regents—Kansas State University Recreation Project) issued on June 15, 2001 in the original amount of \$6,385,000. Due in annual installments with final maturity on 4/1/07. Interest ranging from 4.25% to 5.00% payable semi-annually.	\$ 5,610,000
Kansas Development Finance Authority Revenue Bonds-Series 2000D (The Kansas Board of Regents—Kansas State University Ackert Hall Addition Project) issued on July 15, 2000 in the original amount of \$1,735,000. Due in annual installments with final maturity on 5/1/15. Interest ranging from 4.60% to 5.60% payable semi-annually.	\$ 1,500,000
Kansas Development Finance Authority Refunding Revenue Bonds- Series 1999F (The Kansas Board of Regents—Kansas State University Housing System, Manhattan Campus) issued on July 1, 1999 in the original amount of \$5,740,000. Due in annual installments with final maturity on 4/1/05. Interest ranging from 3.70% to 5.00% payable semi-annually.	\$ 2,065,000
Kansas Development Finance Authority Revenue Bonds-Series 1998B (The Kansas Board of Regents—Kansas State University Student Union Renovation and Expansion Project) issued on April 1, 1998 in the original amount of \$9,320,000. Due in annual installments with final maturity on 4/1/18. Interest ranging from 3.90% to 5.00% payable semi-annually.	\$ 7,885,000
Kansas Development Finance Authority Refunding Revenue Bonds- Series 1995G (The Kansas Board of Regents—Kansas State University Parking System Refunding Project) issued on November 1, 1995 in the original amount of \$2,095,000. Due in annual installments with final maturity on 10/1/05. Interest ranging from 3.80% to 4.75% payable semi-annually.	\$ 690,000
Kansas Development Finance Authority Revenue Bonds-Series 1995K (The Kansas Board of Regents—Kansas State University Farrell Library Expansion Project) issued on November 1, 1995 in the original amount of \$3,835,000. Due in annual installments with final maturity on 10/1/15. Interest ranging from 3.75% to 5.40% payable semi-annually.	\$ 3,020,000

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2003

Series 2001G-2 Recreation Project, Series 1995K Farrell Library Expansion Project, and Series 1998B Student Union Renovation and Expansion Project are collateralized by a pledge of student fees. Series 2001G-1 Salina Housing Project and Series 1999F Housing System, Manhattan Campus are collateralized by a pledge of housing revenues. Series 1995G Parking System Refunding Project is collateralized by a pledge of parking fees. Series 2000D Ackert Hall Addition Project is collateralized by a pledge of sponsored research overhead revenues. Series 2003C Research and Development Facilities Projects are collateralized by a pledge of State appropriations and various university revenue funds.

In August and December 1985, certain bonds of the University were legally defeased through an advanced refunding by depositing sufficient funds to pay all future debt service in a special escrow trust. Therefore, neither the assets of the trust nor the related bonds payable are included in the Statement of Net Assets. The principal amount of defeased bonds outstanding at June 30, 2003 is \$679,000.

Future debt service requirements for all bonds outstanding at June 30, 2003 are as follows:

Year Ending June 30:	Principal	Interest	Total
2004	\$ 2,245,000	\$ 2,320,648	\$ 4,565,648
2005	2,560,000	2,031,940	4,591,940
2006	1,095,000	1,921,788	3,016,788
2007	1,150,000	1,872,782	3,022,782
2008	1,210,000	1,816,987	3,026,987
2009–2013	7,660,000	8,163,285	15,823,285
2014–2018	5,600,000	6,350,012	11,950,012
2019–2023	1,405,000	5,464,562	6,869,562
2024–2028	9,270,000	4,070,762	13,340,762
2029–2032	11,810,000	1,532,334	13,342,331
<b>Total</b>	<b>\$44,005,000</b>	<b>\$35,545,097</b>	<b>\$79,550,097</b>

**Note 9—Loan and Lease Obligations**

In December, 1991, Kansas State University and the Pooled Money Investment Board entered into a building construction and equipment loan agreement for Throckmorton Hall in the amount of \$1,757,509.14. The loan requires annual principal and interest payments through September 10, 2007 and bears interest at a rate of 5.25% per annum.

The University is obligated for the purchase of certain equipment funded through the State of Kansas Equipment Lease Purchase Program in the amount of \$3,031,675 as of June 30, 2003. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2004	\$ 956,171
2005	890,575
2006	712,406
2007	282,762
2008	189,761
	<u>\$3,031,675</u>

**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.

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2003

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, 2003, active KPERs members were required by statute to contribute 4% and the University to contribute 4.38% of the employees' covered payroll. The Kansas Legislature establishes and may amend active plan members' and the University's contribution rates. The University contributed \$1,855,669 during fiscal year 2003 and individual employees contributed \$1,704,709. In addition, \$2,220,706 was contributed to KPERs by the University for prior service benefits. Payments to KPERs for death and disability coverage for all University employees totaled \$355,937.

Defined Contribution Plan

Eligible unclassified employees are required to participate in the Kansas Board of Regents (Regents) defined contribution retirement plan, which was authorized by K.S.A. 74-4925. The Regents have selected the following companies to provide investment options to participants: 1) Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF), 2) ING Financial Advisers, 3) Lincoln National Life Insurance Company, and 4) Security Benefit Life Insurance Company. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. All contributions are fully vested with the first contribution.

For the year ended June 30, 2003 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 \$11,517,257 during fiscal year 2003 and individual employees contributed \$7,348,296.

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%.

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 10.7%. 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 up to 13%, in which case the employer contributes at a variable rate up to 5%. CSRS employees are also eligible for participation in the Thrift Savings Plan up to 8%, but without employer contributions. Acceptance of new member participation was terminated effective July 1, 1986.

For the year ended June 30, 2003, the University contributed \$1,069,289 and individual employees contributed \$574,750 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, 2003

**Note 11—Postemployment Benefits**

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

**Note 12—Commitments and Contingencies**

At June 30, 2003, the University had outstanding commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$6,900,000.

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

As a result of legislation, the University, as an agency of the State of Kansas, is subject to the state of Kansas' self-insurance program with regard to comprehensive general liability and personal injury insurance. The University is covered by the State's umbrella insurance policies for automobile liability and property insurance. Also, the University is self-insured relative to workers' compensation, medical, and unemployment insurance. These areas include stop-loss provisions that limit the University's exposure.

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

**Note 13—Operating Expenses by Natural Classification**

Year Ended June 30, 2003

	Compensation and Benefits	Contractual Services	Supplies and Materials	Utilities	Scholarships and Fellowships	Aid, Debt and Nonexpense	Depreciation	Total
Instruction	\$ 111,802,676	\$ 9,071,638	\$ 5,973,764	\$ 63	\$	\$ 2,462,178	\$	\$ 129,310,319
Research	62,953,753	12,421,904	12,855,602	220,147		5,505,936		93,957,342
Public Service	42,428,298	7,213,223	3,991,967	18,285		1,185,364		54,837,137
Academic Support	19,057,928	6,290,467	3,074,007			290,564		28,712,966
Student Service	11,539,547	2,391,427	750,916	3,478		2,855,480		17,540,848
Institutional Support	13,501,357	4,643,316	438,549	59		152,931		18,736,212
Operations and Maintenance of Plant	14,384,022	729,052	777,067	9,855,754		7,021		25,752,916
Scholarships & Fellowships					10,683,134			10,683,134
Auxiliary Enterprises	15,476,095	3,741,323	5,592,750	1,591,602		27,437		26,429,207
Depreciation							24,675,603	24,675,603
Other		2,887,254	620,050	1,179		236,262		3,744,745
<b>Total Operating Expenses</b>	<b>\$ 291,143,676</b>	<b>\$ 49,389,604</b>	<b>\$ 34,074,672</b>	<b>\$ 11,690,567</b>	<b>\$ 10,683,134</b>	<b>\$ 12,723,173</b>	<b>\$ 24,675,603</b>	<b>\$ 434,380,429</b>

**Kansas State University**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2003

**Note 14—Component Units**

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

**Note 15—Prior Period Adjustments**

Effective with the 2002 fiscal year, the University implemented the practice of componentizing certain research buildings. Supplementary componentization entries were made to capital assets as well as an addition of an airplane and corresponding liability that were inadvertently omitted from the capital asset records. As a result, Capital Assets (net) increased \$789,781, Total Liabilities increased \$1,671,506, and Net Assets (Invested in Capital Assets) decreased \$881,725,

Prior year Noncurrent Accrued Compensated Absences Liabilities were reclassified to Current Liabilities. Restricted Cash and Cash Equivalents Assets and the corresponding Deposits Held in Custody Liability were overstated as of June 30, 2002 and have been restated. There is no effect on Total Net Assets for these corrections.

**Note 16—Subsequent Event**

Subsequent to June 30, 2003, The Kansas Board of Regents authorized the sale of Energy Conservation Project Revenue Bonds, Series 2003J-1 for \$34,100,000 to be issued on August 1, 2003. The proceeds from the sales of these bonds will be used to finance the cost of certain energy improvement projects for institutions governed by the Board of Regents of the State of Kansas. Kansas State University's portion of this bond issue is \$21,020,000 and is payable from the annual utility and maintenance savings realized by the implementation of the energy improvement projects.





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