

ANNUAL *Financial Report*



TABLE OF CONTENTS

Kansas Board of Regents and Officers	1
Management's Discussion and Analysis	2
Statement of Net Assets	12
Statement of Revenues, Expenses, and Changes in Net Assets	14
Statement of Cash Flows	16
Notes to Financial Statements	18

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THE UNIVERSITY OF KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of the University of Kansas (the "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. During 2001-2002, the University of Kansas implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and local Governments," and Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities." This discussion – along with the financial statements and related footnote disclosures – has been prepared by management and should be read in conjunction with the statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

USING THIS ANNUAL REPORT

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. The notes to the financial statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. As noted above, the University implemented new accounting standards issued by GASB during fiscal year 2002. These new standards changed the focus of our financial statements to a comprehensive one-look at the University as a whole (opposed to the traditional presentation of fund groups). Other significant changes to the financial statements included:

- GASB Statement No. 35 categorizes revenues into operating and 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.
- GASB Statement No. 35 requires the University to report accumulated depreciation on its capital assets. This change resulted in a \$231.7 million decrease in net assets in 2002, reported as a cumulative effect of changes in accounting principles, and depreciation expense of \$29.3 million and \$28.9 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 purposes restrictions on the use of the assets.
3. **Unrestricted net assets** are available to the University for any lawful purpose of the institution.

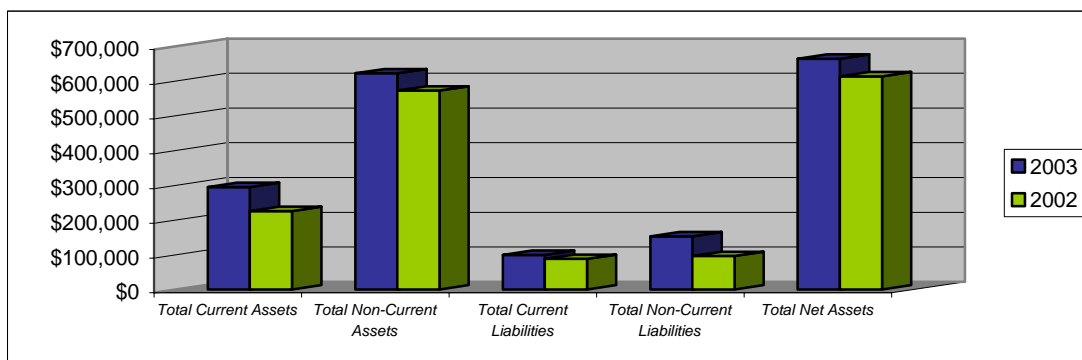
Total Assets at June 30, 2003 were \$917.1 million, an increase of \$119.2 million (15%). Capital net assets comprised 58%, or \$534.2 million of the assets.

Total liabilities were \$253.0 million at June 30, 2003, an increase of \$68.3 million (37%) compared to \$184.6 million at June 30, 2002. Long-term liabilities comprised 61%, or \$153.3 million of the liabilities.

Total net assets at June 30, 2003 were \$664.1 million, a \$50.9 million increase over the prior year, or an 8% increase in net assets. The breakout of net assets is shown below:

Capital Assets, net of related debt.....	\$ 423,287,297
Restricted net assets	130,666,357
Unrestricted net assets	110,173,134
Total net assets.....	\$ 664,126,788

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

Total revenues increased by \$65.4 million, from \$760.4 million to \$825.8 million, an overall increase of 9%.

Operating revenues at the University as of June 30, 2003 increased by 10% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$128.8 million in 2003, compared to \$112.2 million in 2002, an overall increase of 15%. 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 & University students, was to provide additional funds to the University to enhance student education. The tuition increase is the first year of a five year plan submitted to the Board of Regents and is composed of two components: a maintenance increase and an enhancement increase. The maintenance component is scheduled to increase at the rate of inflation, estimated by using the Higher Education Price Index (HEPI) over the next five years. In addition, all categories of tuition, resident/non-resident, graduate/undergraduate, would increase by \$16.50 per semester credit hour, or approximately \$500 per year for a full-time student. The increase will be used to improve the University in many ways. Funds will be targeted for technology, new faculty positions, salary increases, operating expenses, new staff and programs, and other investments to enhance the University.

- Grants and contracts (federal, state and local, and non-governmental) increased 15% 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. Increasing sponsored research is a primary focus for the University as it works toward becoming a top 25-research institution. This category of revenues also includes the University's federal and administrative overhead reimbursement (formerly known as the indirect cost reimbursement). The University's earned reimbursement revenue increased 4.0 million (18%) from the previous year and represents 1% of the increase in research revenues. Since the federal and administrative overhead rate is not applied to every grant and varies depending upon on-campus or off-campus activity there is not a direct one-to-one relationship for every dollar increase in research activity. However there is a general correlation as research activity increases so does the University's reimbursement revenues.
- Medical service revenue, net, increased \$4.0 million (5%) from the previous fiscal year. Two component units of the University, the Kansas University Physicians Inc. (KUPI) and HealthPartners generate medical service revenue. Kansas University Physicians, Inc. (KUPI) was incorporated in 1995 as a not-for-profit organization. KUPI operates at the University of Kansas Medical Center under a contract with the University. KUPI contracts with the various clinical departments at KUMC who provide physician and other health care services to patients. Revenues generated for these professional physician services are received by KUPI who incurs expenses associated with delivering these services. KUPI also reimburses the clinical departments for physician services. KUPI's reimbursements to the clinical departments totaled \$33,739,724 in the year ended June 30, 2003. K.U. HealthPartners, Inc. is a non-profit corporation affiliated with the University of Kansas Medical Center. K.U. HealthPartners provides clinical services that are non-physician in nature to individuals and other entities. KU HealthPartners provides professional clinical services from physical therapists, occupational therapists, hearing and speech pathologists, nurse practitioners, and other ancillary non-physician health care specialists. KU HealthPartners contracts with the School of Nursing and the School of Allied Health for the health care professionals who provide specific clinical services.
- Auxiliary enterprises increased \$4.2 million (5%) from the previous fiscal year. Auxiliary enterprises include Housing, Athletics, Parking, Student unions, University health services, and a variety of other smaller services.

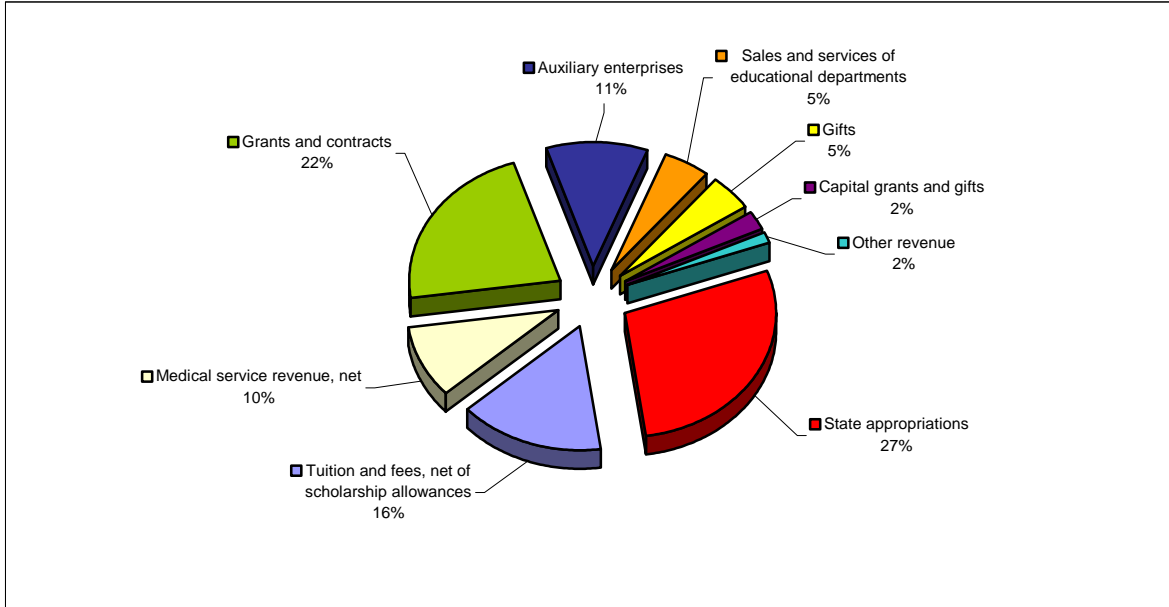
Total non-operating revenues were up 0.5% from the prior year from \$274.6 million to \$276.0 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, decreased from \$243.1 million to \$233.8 million, or 4% due to economic difficulties at the State level.
- Gifts increased 45% to \$40.5 million in 2003. Gifts received consisted primarily of support provided by the Kansas University Endowment Association (KUEA). Lawrence campus also had a significant increase in private monetary donations received during 2003 for the construction and dedication of the Dole Institute of Politics.
- Investment income decreased from \$3.6 million to \$1.5 million in 2003, a decrease of 57% due to a combination of fewer investments and lower economic returns on conservative investments.

Other revenues included the following...

- Capital appropriations, gifts and grants increased from \$6.1 million to \$18.7 million, or 207%. Capital gifts were primarily received from private donations via KUEA for the construction of several larger projects such as the Dole Institute of Politics, Eaton Hall, the Anderson Family Strength & Conditioning Center, and the Hoglund Brain Imaging Center.
- Additions to permanent endowments increased 100% over prior year due to private donations of \$1.3 million.

The composition of these revenues are displayed in the following graph:



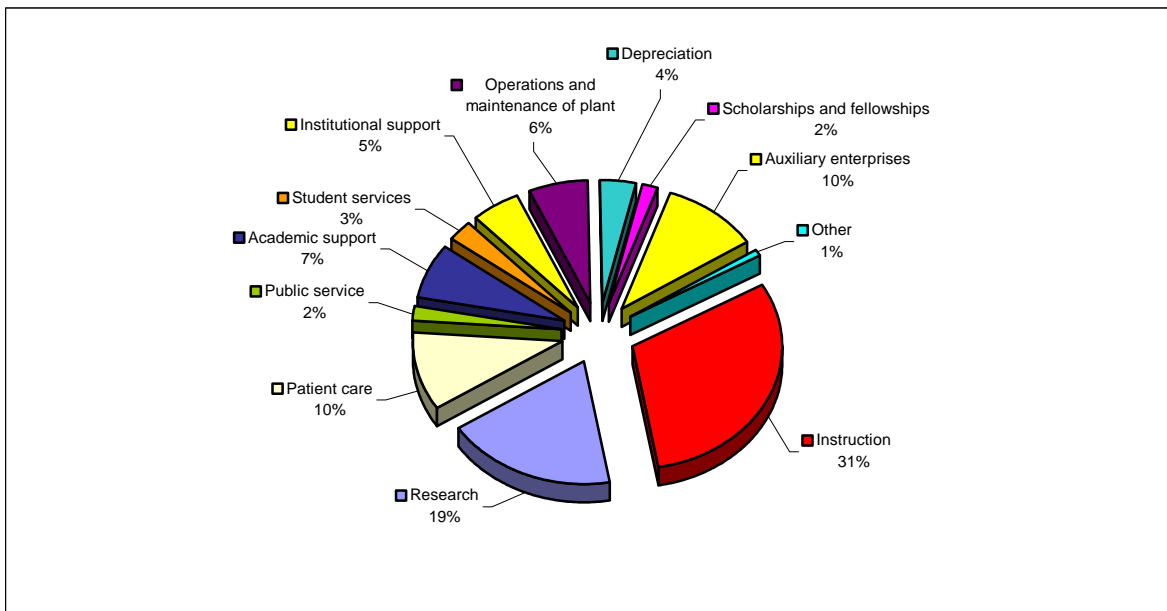
Expenses

Operating expenses were \$770.4 million for the 2003 fiscal year. This was an increase over the prior year of \$34.3 million, or 5%. The following is a brief summary of the significant changes:

- Research expenses increased by 14% or \$17.9 million. This increase in expenses reflects the increased level of research activity at the University as noted above in research revenues. Both the Kansas University Center for Research (KUCR) and the Kansas University Medical Center (KUMC) made great strides during the current year in obtaining significant sponsored research grants.
- Public service increased by 29% in 2003 to \$14.9 million. Public service expenses include funds expended for activities beneficial to individuals and groups external to the University. Activities include programs provided through the University's Continuing Education department, various public lecture series, KANU public radio programs, and various medical clinics.
- Student services increased from \$16.5 million in 2002 to \$20.3 million in 2003 (23% increase). Student services expenses include funds expended for offices of admissions, enrollment management, the registrar, and activities with the primary purpose of contributing to students' emotional and physical well being and intellectual, cultural, and social development outside the context of the formal instruction program. It includes expenses for student activities, cultural events, student newspapers, intramural athletics, student organizations, counseling and career guidance (excluding informal academic counseling by the faculty), and student aid administration.
- Institutional support decreased by 6% in 2003 as an impact of decreased state appropriations. All departments, including those primarily dedicated for administration, were forced to reduce expenses as a result of state budget cuts.
- The 25% increase in scholarships and fellowships is related to the University's tuition enhancement increase as the University promised students that a portion of the tuition enhancement increase would be to provide additional institutional scholarships and fellowships.
- Other expenses increased \$0.8 million (51%).

Non-operating expenses are represented primarily by interest expense. This amount increased by 64% from the prior year from \$2.3 million in 2002 to \$3.7 million in 2003 as the result of the increased debt the University has incurred over the past few years.

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



Extraordinary Items

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

Endowment Expenses Paid On Behalf of University

The Kansas University Endowment Association (KUEA), an independent, not-for-profit organization whose primary mission is to raise funds for the University, provides direct and indirect support to the University that is not entirely reflected in the University's Statement of Revenues, Expenses and Changes in Net Assets. Expense items paid on behalf of the University by KUEA include expenses such as scholarships and fellowships, salaries, construction, equipment, books, works of art, and travel. Total University support provided by KUEA equaled approximately \$85.1 million and \$68.9 million in 2003 and 2002, respectively.

The following support items totaling \$45.0 million are reflected in the University's statements for 2003...

- Capital Projects.** KUEA sponsored many capital projects throughout the year with a combined approximate value of \$28.7 million. Major capital projects that benefited from KUEA's fundraising efforts included Eaton Hall (College of Engineering) at \$8.9 million, the Dole Institute of Politics at \$5.7 million, and the Hogle Brain Imaging Center at \$9.1 million (includes both building & equipment costs). Note - amounts represent current year expenses and not the total cost of the capital projects.
- Salaries and other operating expenses.** KUEA reimbursed the University approximately \$16.3 million for various faculty and staff member salaries and other minor operating expenses including the University's distinguished professors. The salary expense is reflected in the University's statements as it represents a more accurate reflection of the University's operating expenses. KUEA's reimbursement is reflected as a gift to the University within non-operating revenues.

Net Assets

Net assets increased by \$50.9 million over the previous fiscal year. This significant increase in net assets can be attributed to the increased level of capital and non-capital gifts 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. The following is a condensed statement of cash flows for the years ended June 30, 2003 and 2002:

CASH FLOWS FOR THE PERIOD (in thousands of dollars)

	June 30, 2003	June 30, 2002
Net cash provided (used) by:		
Operating activities	\$(198,740)	\$(238,373)
Non-capital financing activities	277,720	271,142
Capital and related financing activities	(31,177)	(31,785)
Investing activities	(21,723)	6,716
Net increase in cash	26,080	7,700
Beginning cash and cash equivalent balances	119,616	111,916
Ending cash and cash equivalent balances	145,696	119,616

Cash flows from operating activities will always be negative since GASB requires state appropriations to be reported as cash flows from noncapital financing activities. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show all uses of cash and cash equivalents to purchase investments, and all increases in cash and cash equivalents as a result of selling investments or earning income on cash and investments.

Cash used by operating activities decreased \$39.6 million. This decrease in the use of cash is primarily the result of a \$33.1 million net increase in research grants and contracts cash activity as overall operating expenses grew relatively in proportion to the increase in operating revenues.

Non-capital financing activities increased by \$6.6 million. Items impacting this category of cash activity include a \$16.2 million increase in gifts to the University specifically at KUMC as well as a \$9.3 million decrease in state appropriations.

Cash flows from capital and related debt were relatively consistent with the prior year. Cash flows only increased by \$0.6 million (2%).

Cash flows from investing activities decreased \$28.4 million. The key factor in this decrease was the purchase of investments with proceeds from the Medical Center's \$36.1 million bond issuance.

CAPITAL ASSETS

The University made significant investments in capital during the 2002-2003 fiscal year. Detailed information regarding capital asset additions, retirements, and depreciation is available in Note 7 to the financial statements.

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

- The Kansas Memorial Union Phase III Renovation was completed on the Lawrence campus at a cost of \$5.6 million. Phase III included items such as a new glass-enclosed stair tower that joined all levels of the union, additional space devoted to student organization offices, an outdoor plaza on Mississippi Street, an expanded Mount Oread Bookshop, and a new bridge from the parking garage to the union. The renovation was funded through revenue bond proceeds secured by student fees.

- The Høglund Brain Imaging Center was dedicated in spring 2003 on the Medical Center campus. The new building is home to three state-of-the-art pieces of equipment, including two magnetic resonance imaging (MRI) systems and a magnetoencephalography (MEG) system. The equipment will be used for experimental and clinical research, studying the disturbances in brain function in conditions such as stroke, head injury, trauma, and autism. The total cost of the project was approximately \$12 million (\$3.2 for construction and \$8.8 million for equipment) and was funded through private donations as well as federal and state funds.
- The Anderson Family Strength & Conditioning Center opened in spring 2003. The new 42,000-square-foot facility includes an expanded weight training area, a cardiovascular workout area, and lockers. Built on existing university property at the northwest corner of Anschutz Sports Pavilion, the two-story center replaced the Shaffer-Holland Strength Center. The new center provides additional equipment and allows two teams to workout comfortably at the same time in different areas of the weight room. The approximately \$8 million facility was funded entirely through private donations.
- The Malott Gateway was completed on the Lawrence campus at a cost of \$0.9 million. The Malott Gateway is part of the Master Plan for the Lawrence Campus Landscape. The gateway is located at the campus entrance at 15th and Iowa streets, and was paid for through private donations. The entrance was named the Malott Gateway in honor of former Chancellor Deane Malott and his wife Eleanor.

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

- Renovations to Ellsworth Hall, which is a part of the Housing System located on the Lawrence Campus, were close to completion as of June 30, 2003. The renovation project funded via revenue bond proceeds of \$10.45 million and Student Housing revenue funds is estimated to have a final cost of approx. \$12.5 million. The newly renovated facility will consist of a variety of suite arrangements, similar to those in Lewis and Templin halls.
- The New Student Recreation Facility is scheduled to open to students in fall 2003. The new center, which will replace Robinson Center as the student recreation facility, will feature state-of-the-art equipment including 15,000 square feet of cardiovascular and resistance training machinery and top-of-the-line free weights. The facility also will have studios designated for aerobics and martial arts, a suspended 1/7-mile track, racquetball/squash courts, indoor and outdoor basketball courts, food and vending areas, and conference space. The \$16.3 million student recreation facility was funded using revenue bond proceeds of \$15.33 million as well as student campus fees. Ongoing student campus fees will provide funding for repayment of the bonds and operations.
- The Dole Institute of Politics will be completed and dedicated on July 22, 2003. The \$11.3 million, 28,000-square-foot space includes extensive exhibits tracing the life of Senator Robert J. Dole, an 18- by 12-foot stone floor map of Kansas, a soaring 29-foot-tall stained glass American flag, and the Hansen Forum, a 3,300-square-foot gathering place for conferences, symposia, lectures, and debates. Funding for the Institute was primarily provided through private donations. The State of Kansas also provided \$3 million toward the Institute's construction costs.
- Eaton Hall is a \$15.2 million project for the College of Engineering. The 80,000-square-foot building will provide much needed space for the Department of Electrical Engineering and Computer Science (EECS), as well as a multimedia lecture hall, instructional and computer laboratories, a lounge with computer facilities, the Engineering Careers Service Center, and administrative offices. The project was funded entirely through private donations.
- Construction also began on the second campus building at the University's Edwards Campus in Overland Park, Kansas. Construction of the approximately \$15.6 million building is being funded through revenue bonds secured by student fees as well as private donations from the Hall Family Foundation and the Victor and Helen Regnier Charitable Foundation. The 82,000-square-foot building will be named the Victor and Helen Regnier Hall. After the facility is completed in 2004, Regnier Hall is expected to allow enrollment to nearly double again. Currently 2,100 working adults attend campus programs at the graduate and undergraduate levels.

- In 2002 the State of Kansas Legislature passed the University Research and Development Enhancement Act (URDEA), which included \$5 million funding for research equipment at the University. The equipment includes a Nuclear Magnetic Resonance Spectrometer (NMR), a Proteomics Core Lab Suite, and a Proteomics Structures Lab. Bonds were sold in February 2003 for this project. The bonds will be repaid with a combination of State General Funds and University Sponsored Research Overhead.
- Also included in the URDEA was \$65 million for the construction of a biomedical research facility at the Medical Center campus. Ground breaking for the state-of-the art biomedical research building is scheduled for September 2003. The new building will feature state-of-the art equipment, administrative areas, support space, and laboratories that can be configured into flexible suites that can accommodate current and future research requirements. It will house scientists in KU research programs such as neuroscience, reproductive biology, and proteomics. Construction is expected to be completed by 2006. The funding is being provided through multiple bond issues. Bonds in the amount of \$36.1 million were sold in February 2003. The bonds will be repaid with a combination of State General Funds and Medical Center Sponsored Research Overhead.
- The Hall Center for Humanities is to be built within the existing stonewalls of the oldest standing building on the campus, which was originally constructed as the power plant. The stone wall will be both the “envelope” of the project and the predominant architectural element. The construction of this space will preserve a valued historic artifact of the campus, and enhance the entry to this area of campus. This \$5.2 million project is being funded predominately through private donations.
- Reiger Scholarship Hall is the third scholarship hall to be built in the last decade through the receipt of gift funds to the Student Housing Department at the Lawrence campus. The new hall will provide affordable housing that will enhance the living experience of KU scholarship students. General use areas will include recreation, living, kitchen/dining, and several multi-purpose rooms. The project budget is approximately \$3.5 million.
- In November 2001, the University of Kansas, Lawrence campus, engaged Viron Energy Services (recently purchased by Chevron) 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 that will result in an annual utility and maintenance savings of \$1.7 million. These projects, which will cost approximately \$18.4 million to implement, include energy savings measures such as solar window film, lighting retrofits, insulation, building automated control systems, programmable thermostats, and many others. The 18-month project is expected to be completed by July 2004. The project is being funded through a Master Lease Purchase Agreement between the State of Kansas and Citibank, N.A. The University is responsible for repaying the State, via our annual utility and maintenance savings, for the 20-year term of the lease. The first annual payment is scheduled for July 10, 2004.

DEBT ADMINISTRATION

At June 30, 2003, the University had \$131.7 million in debt outstanding. New debt was issued by the main campus to finance a portion of the cost to construct, to furnish, and to equip a second building at the University’s Edwards Campus in Overland Park, KS (\$5,120,000) as well as to finance the purchase of scientific equipment (\$4,965,000) for the University’s Bioscience facility that was in the early stage of construction as of year-end. Additionally KUMC also issued \$36.1 million in new debt to finance a portion of the cost to construct, to furnish, and to equip the KU Biomedical Research Center. The University paid \$8.5 million in principal & interest payments related to all outstanding revenue bonds.

Moody’s Investor Service currently rates the University “Aa3”. More detailed information about the University’s long-term liabilities is available in Notes 8 and 9 to the financial statements.

ECONOMIC OUTLOOK

The State of Kansas revenues appear to have stabilized for FY 2004. The distribution of federal funds as part of the support for anti-terrorism expenses has also helped shore up the State's cash position. No further budget cuts are expected in FY 2004. However, absent an increase in State revenues, from a robust economic recovery or tax increases, increases in State funding are unlikely in the short term. The near term for State funding appears to be one of steady state. The State of Kansas does provide approximately 28.5% of the total resources for the University during a fiscal year. Appropriations for fiscal year 2004 are currently set at \$232.8 million, a decrease of 2% 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. Additionally the University continues to move forward towards its goal of being a top-rated research institution with the receipt of several new federal and state grants including a \$17 million National Science Foundation grant that will be used to fund the Center for Environmentally Beneficial Catalysis at the University.

*Financial
Statements*

THE UNIVERSITY OF KANSAS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003 AND 2002

	<u>2003</u>	<u>Restated 2002</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 144,530,214	\$ 118,269,816
Investments	96,371,564	53,417,788
Accounts receivable, net	39,608,883	41,010,410
Pledges receivable, net	785,730	2,448,267
Loans to students, net	2,900,295	2,365,764
Inventories	7,752,259	7,806,770
Prepaid expenses	2,920,455	258,737
Other assets	212,312	(13,243)
Total current assets	<u>295,081,712</u>	<u>225,564,309</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,166,070	1,346,228
Accounts receivable, net	323,703	782,843
Pledges receivable, net	2,439,136	1,810,474
Endowment investments	49,258,404	50,353,440
Other investments	13,361,287	34,414,887
Loans to students, net	19,361,898	20,341,278
Prepaid expenses	1,472,953	1,465,696
Bonds discount	161,355	-
Other assets	233,078	764,842
Capital assets, net	<u>534,232,159</u>	<u>461,001,144</u>
Total noncurrent assets	<u>622,010,043</u>	<u>572,280,832</u>
Total assets	<u>917,091,755</u>	<u>797,845,141</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued expenses	44,405,936	38,826,673
Deferred revenue	27,098,075	22,922,043
Accrued compensated absences	9,516,004	8,740,605
Due to Foundations	11,163,640	9,833,297
Deposits held in custody for others	1,489,551	1,669,709
Revenue bonds payable - current portion	5,175,000	4,870,000
Capital leases payable - current portion	835,296	1,385,391
Total current liabilities	<u>99,683,502</u>	<u>88,247,718</u>
Noncurrent liabilities:		
Accrued compensated absences	2,749,374	3,133,968
Capital leases payable	23,309,941	7,722,206
Revenue bonds payable	126,545,000	85,445,000
Bond premium liability	677,150	74,841
Total noncurrent liabilities	<u>153,281,465</u>	<u>96,376,015</u>
Total liabilities	<u>\$ 252,964,967</u>	<u>\$ 184,623,733</u>

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003 AND 2002
(CONTINUED)

	<u>2003</u>	<u>Restated 2002</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 423,287,297	\$ 397,778,902
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	16,136,347	16,747,031
Other	33,352,085	36,776,890
Expendable:		
Scholarships and fellowships	3,102,080	2,567,010
Research	20,296,872	10,652,422
Loans	23,870,603	24,312,348
Capital projects	23,154,054	15,513,365
Debt service	8,556,574	5,563,894
Other	2,197,742	2,654,395
Unrestricted	<u>110,173,134</u>	<u>100,655,151</u>
Total net assets	<u>\$ 664,126,788</u>	<u>\$ 613,221,408</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF KANSAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	Restated 2002
<u>OPERATING REVENUES</u>		
Tuition and fees (net of scholarship allowances of \$8,063,863 and 8,435,523 in 2003 and 2002, respectively)	\$ 128,811,767	\$ 112,249,685
Net Patient service revenue	71,870,343	67,896,055
Foundation, Contractual & Hospital Fee Assessments	6,639,283	6,540,327
Federal grants and contracts	138,607,089	121,670,689
State and local grants and contracts	23,267,368	16,912,676
Nongovernmental grants and contracts	21,885,181	21,771,770
Sales and services of educational departments	40,219,982	38,763,548
Auxiliary enterprises:		
Housing	20,903,049	21,845,009
Athletics	34,323,863	30,539,308
Parking	5,114,462	4,925,922
Student unions	19,439,376	18,938,463
University health services	2,880,267	3,633,464
Other auxiliary enterprises	6,393,425	4,979,772
Interest earned on loans to students	437,274	252,984
Other operating revenues	8,844,860	8,685,093
Total operating revenues	529,637,589	479,604,765
<u>OPERATING EXPENSES</u>		
Educational and general		
Instruction	236,309,291	233,858,430
Research	144,542,523	126,607,509
Patient care	78,949,361	75,309,452
Public service	14,883,364	11,544,485
Academic support	57,196,582	58,158,154
Student services	20,252,833	16,513,563
Institutional support	42,361,405	45,218,020
Operations and maintenance of plant	49,040,935	49,725,534
Depreciation	29,310,504	28,895,851
Scholarships and fellowships	13,862,733	11,109,177
Auxiliary enterprises:		
Housing	19,641,309	18,828,866
Athletics	29,359,525	27,147,848
Parking	1,963,870	2,532,871
Student unions	19,371,619	19,151,070
University health services	6,360,209	5,927,263
Other auxiliary enterprises	4,476,965	3,857,654
Other	2,474,425	1,633,419
Total operating expenses	770,357,453	736,019,166
Operating income (loss)	\$ (240,719,864)	\$ (256,414,401)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
(Continued)

	2003	Restated 2002
<u>NONOPERATING REVENUES (EXPENSES)</u>		
State appropriations	\$ 233,826,953	\$ 243,145,026
Gifts	40,502,945	27,910,926
Investment income	1,533,803	3,557,132
Interest expense	(3,712,972)	(2,269,557)
Other nonoperating revenues	192,813	-
Other nonoperating expenses	<u>(792,820)</u>	<u>(823,406)</u>
Net nonoperating revenues (expenses)	<u>271,550,722</u>	<u>271,520,121</u>
Income before other revenues, expenses, gains, or losses	30,830,858	15,105,720
Capital appropriations	3,881,000	2,541,380
Capital grants and gifts (expense)	14,857,635	3,597,125
Additions to permanent endowments	<u>1,335,887</u>	<u>-</u>
Increase (decrease) in net assets	<u>50,905,380</u>	<u>21,244,225</u>
<u>NET ASSETS</u>		
Net assets - beginning of year	<u>613,221,408</u>	<u>591,977,183</u>
Net assets - end of year	<u>\$ 664,126,788</u>	<u>\$ 613,221,408</u>

See accompanying notes to financial statements

THE UNIVERSITY OF KANSAS
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	<u>2003</u>	<u>Restated 2002</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Tuition and fees	\$ 129,568,181	\$ 118,324,936
Sales and services of educational activities	40,391,996	28,001,424
Patient services revenue, net	72,370,602	67,896,055
Auxiliary enterprises:		
Housing	1,723,863	21,855,048
Athletics	6,820,714	5,263,042
Parking	3,076,217	3,604,003
Student unions	1,710,193	508,964
University health services	(3,486,086)	7,068,847
KU Healthpartners, Inc.	206,090	(3,726)
Other auxiliary enterprises	1,916,442	4,751,447
Grants and contracts	188,325,167	155,167,517
Payments to suppliers	(162,543,396)	(152,044,958)
Payments to utilities	(16,376,573)	(17,173,656)
Compensation and benefits	(419,602,994)	(435,197,709)
Payments to Foundations under PSA's	(32,409,381)	(33,154,146)
Payments for scholarships and fellowships	(13,873,212)	(13,092,342)
Loans issued to students and employees	(3,435,116)	(3,034,902)
Collection of loans to students and employees	3,739,417	3,326,105
Other receipts (payments)	3,137,976	(439,218)
Net cash provided (used) by operating activities	<u>(198,739,900)</u>	<u>(238,373,269)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
State appropriations	233,826,953	243,145,026
Gifts	44,072,442	27,910,926
Student organization agency transactions	(180,158)	50,793
Federal family education loan receipts	69,381,000	62,823,912
Federal family education loan disbursements	(69,367,277)	(62,788,390)
Other	(12,380)	-
Net cash provided by noncapital financing activities	<u>277,720,580</u>	<u>271,142,267</u>
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u>		
Proceeds from capital debt	46,548,321	35,892,402
Capital appropriations	3,881,000	2,541,380
Capital grants and gifts	(251,854)	3,597,124
Purchases of capital assets	(69,459,187)	(63,704,775)
Principal paid on capital debt and leases	(8,574,417)	(8,105,974)
Interest paid on capital debt and leases	(3,374,708)	(2,004,871)
Other	53,789	-
Net cash used by capital financing activities	<u>\$ (31,177,056)</u>	<u>\$ (31,784,714)</u>

STATEMENT OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
 (CONTINUED)

	<u>2003</u>	<u>Restated 2002</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sales and maturities of investments	\$ 42,958,232	\$ 18,371,012
Interest on investments	3,649,126	3,557,132
Purchase of investments	(68,323,128)	(15,212,298)
Other	(7,614)	-
Net cash provided by investing activities	<u>(21,723,384)</u>	<u>6,715,846</u>
Net increase (decrease) in cash	26,080,240	7,700,130
Cash - beginning of the year	119,616,044	111,915,914
Cash - end of year	<u>\$ 145,696,284</u>	<u>\$ 119,616,044</u>
<u>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating income	\$ (240,719,864)	\$ (256,414,401)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Noncash revenue	(1,975,088)	(215,376)
Depreciation expense	29,310,504	29,940,336
Other noncash expenses	1,884,697	3,410,814
Changes in assets and liabilities:		
Accounts receivables, net	2,274,921	(6,078,525)
Pledges receivable, net	1,033,875	-
Loans to students, net	444,849	(21,037)
Inventories	54,511	481,560
Prepaid expenses	(2,674,960)	(443,316)
Other assets	464,918	(153,959)
Accounts payable and accrued liabilities	5,264,557	(7,730,230)
Due to Foundations	1,330,343	1,137,338
Deferred revenue	4,176,032	(2,045,697)
Accrued compensated absences	390,805	(266,569)
Deposits held in custody for others	-	25,793
Net cash provided (used) by operating activities:	<u>\$ (198,739,900)</u>	<u>\$ (238,373,269)</u>
Noncash Investing, Capital and Financing Activities		
Capital Leases (Initial Year):		
Fair Market Value	\$ 98,002	\$ -
Current Year Cash Payments	(34,163)	-
Gifts-In-Kind	17,143,361	6,138,504
Net Change in Unrealized Gains and Losses	3,239,071	457,434

See accompanying notes to financial statements

THE UNIVERSITY OF KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The financial statements have not been audited.

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Organization. The University of Kansas (the "University") is a comprehensive institution providing undergraduate, graduate, and professional education in a variety of multicultural programs. The University is a Carnegie Research I University and is accredited by the North Central Association of Colleges and Schools. The University is governed by the Kansas Board of Regents and is an agency of the State of Kansas. As an agency of the State of Kansas, the University is included in the financial report of the State of Kansas.

The University conducts education, research, public service, and related activities at three campuses: the main campus in Lawrence, Kansas, the medical center campuses in Kansas City, Kansas and Wichita, Kansas, and the Edwards Campus in Overland Park, Kansas.

The University's main campus in Lawrence has an undergraduate enrollment of approximately 19,700 and a graduate enrollment of approximately 5,700. The medical center has an enrollment of approximately 500 undergraduates and 1,200 graduates.

Financial Reporting Entity. As required by accounting principles generally accepted in the United States of America, these financial statements present the combined financial position and financial activities of the University's three campuses and the following blended component units for which the University is financially accountable: the University of Kansas Center for Research, the University of Kansas Athletic Corporation, the University of Kansas Memorial Unions, the University of Kansas Medical Center Research Institute, the Student Union Corporation of the University of Kansas Medical Center, Kansas University Physicians, Inc. (KUPI), and Kansas University Health Partners, Inc.

The financial activity and balances of the Kansas University Endowment Association, the Alumni Association of the University of Kansas, and the University of Kansas Hospital Authority are not included in the financial statements of the University as they are legally separate entities and the University does not appoint a voting majority of their governing bodies.

In preparing the financial statements, all significant transactions and balances between campuses and blended component units have been eliminated to avoid overstatement of 1) revenues and expenses on the Statement of Revenues, Expenses, and Changes in Net Assets, and 2) balances on the Statement of Net Assets.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

Cash Equivalents. For 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 Investment 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 government, 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 carried at cost.

Prepaid Expenses. Prepaid expenses consist primarily of deferred charges related to revenue bond issuances as well as deferred summer school expenses.

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 assets 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 \$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 exceeds \$100,000. 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 over the estimated useful lives of the assets, 25 years for land improvements, 8 years for equipment, and 5 years for vehicles. Depreciation for buildings and infrastructure is computed using a componentized building and infrastructure depreciation study. Note – The estimated useful lives used by the blended component units for equipment and building improvements vary slightly from the University's policy ranging from 5 to 15 years. The financial impact of the variation is considered to be immaterial to the financials statements as a whole.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. No interest was capitalized during 2003 or 2002.

Deferred Revenues. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include 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 pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Assets, and as an expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Deposits Held In Custody For Others. Deposits held in custody for others consist primarily of student organizations' moneys administered by the University.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

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 – 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.

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.

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).

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, 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. 34, 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.

Contributions. Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received.

Reclassifications. Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 financial statement presentation. These reclassifications had no effect on the change in net assets.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

NOTE 2 – INVESTMENTS

The University of Kansas has the following investments reflected on the Statement of Net Assets as of June 30:

	<u>2003</u>	(Restated) <u>2002</u>
University of Kansas Main Campus	\$ 52,416,218	\$ 74,263,284
University of Kansas Medical Center	51,435,579	21,116,736
University of Kansas Center for Research	22,559,712	9,452,435
University of Kansas Athletic Corporation	29,663,759	30,439,508
University of Kansas Memorial Unions	2,915,987	2,914,152
Total	<u>\$ 158,991,255</u>	<u>\$ 138,186,115</u>

Of the University of Kansas' total investments of \$159.0 million and \$138.2 million as of June 30, 2003 and 2002, respectively; the University of Kansas Endowment Association administers \$63.0 million and \$69.4 million, respectively. The Kansas Development Finance Authority invests \$57.9 million and \$34.8 million of the total as of June 30, 2003 and 2002, respectively. These monies represent bond proceeds and reserve requirements. The remaining investments consist of \$27.5 million and \$23.0 million invested in short-term securities and \$10.6 million and \$11.0 million of endowment investments administered by trustees not related to the University.

The University of Kansas Main Campus investments include \$10.6 million and \$11.0 million of investments administered by outside trustees as of June 30, 2003 and 2002, respectively. These investments consist of three accounts: 1) the Gertrude S. Pearson Trust, 2) the Elizabeth M. Watkins Trust for Watkins and Miller Scholarship Halls, and 3) the Elizabeth M. Watkins Trust for Watkins Hospital.

The Gertrude S. Pearson Trust had a reported market value of \$6,142,232 at June 30, 2003 and \$6,378,469 at June 28, 2002. The trustee is Bank of America.

The Elizabeth M. Watkins Trust for Watkins and Miller Scholarship Halls had a reported market value of \$2,947,199 at June 30, 2003 and \$3,052,587 at June 30, 2002. The trustee is Bank of America.

The Elizabeth M. Watkins Trust for Watkins Hospital had a reported market value of \$1,563,588 at June 30, 2003 and \$1,614,648 at June 30, 2002. The trustee is Bank of America.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable net of estimated uncollectible amounts, consisted of the following at June 30:

	<u>2003</u>	(Restated) <u>2002</u>
Tuition & Fees	\$ 2,570,755	\$ 2,558,138
Auxiliary	15,990,902	18,732,561
Grants & Contracts	18,105,950	18,533,750
Other	3,264,979	1,968,804
	<u>\$ 39,932,586</u>	<u>\$ 41,793,253</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consist of the following unconditional promises to give:

	<u>2003</u>	<u>(Restated) 2002</u>
Due in less than one year	\$ 1,335,730	\$ 2,733,267
Due in one to five years	<u>3,193,922</u>	<u>1,977,007</u>
	4,529,652	4,710,274
Less		
Unamortized discount	154,786	61,533
Allowance for uncollectible amounts	<u>1,150,000</u>	<u>390,000</u>
	<u>\$ 3,224,866</u>	<u>\$ 4,258,741</u>

Pledges receivable are recorded on the accompanying statements of financial position as follows:

	<u>2003</u>	<u>(Restated) 2002</u>
Pledges receivable - current	\$ 785,730	\$ 2,448,267
Pledges receivable - non-current	<u>2,439,136</u>	<u>1,810,474</u>
	<u>\$ 3,224,866</u>	<u>\$ 4,258,741</u>

NOTE 5 – INVENTORIES

Inventories consisted of the following at June 30:

	<u>2003</u>	<u>(Restated) 2002</u>
Bookstore	\$ 2,939,692	\$ 2,918,633
Food Service	116,268	142,169
Physical Plant	1,646,463	1,353,578
Professional & Scientific Supplies	1,289,706	1,233,727
Office Supplies	760,684	935,452
Other	<u>999,446</u>	<u>1,223,211</u>
	<u>\$ 7,752,259</u>	<u>\$ 7,806,770</u>

NOTE 6 – LOANS TO STUDENTS

Student loans made through the Federal Perkins Loan Program comprise substantially all of the loans to students at June 30, 2003 and 2002. The Program provides 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.

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 and 2002, the allowance for uncollectible loans was estimated to be \$444,320 and \$684,693, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	(Restated) Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 5,944,814	\$ 1,103,711	\$ -	\$ 7,048,525
Works of Art	12,624,766	606,576	(20,000)	13,211,342
Infrastructure	28,826,311	2,008,309	-	30,834,620
Buildings	460,839,621	11,924,801	-	472,764,422
Equipment	67,376,770	4,480,924	(4,371,499)	67,486,195
Vehicles	9,598,336	241,569	(287,304)	9,552,601
Total	<u>585,210,618</u>	<u>20,365,890</u>	<u>(4,678,803)</u>	<u>600,897,705</u>
Less accumulated depreciation:				
Infrastructure	10,147,207	1,173,680	-	11,320,887
Buildings	193,704,249	12,737,084	-	206,441,333
Equipment	41,352,509	5,642,385	(3,656,062)	43,338,832
Vehicles	6,953,966	1,381,324	(281,324)	8,053,966
Total accumulated depreciation	<u>252,157,931</u>	<u>20,934,473</u>	<u>(3,937,386)</u>	<u>269,155,018</u>
Capital assets, net	<u>\$ 333,052,687</u>	<u>\$ (568,583)</u>	<u>\$ (741,417)</u>	331,742,687
University of Kansas Medical Center				84,128,012
University of Kansas Center for Research				9,099,555
University of Kansas Athletic Corporation				43,984,891
University of Kansas Memorial Unions				3,772,282
University of Kansas Main Campus Construction In Progress				<u>61,504,732</u>
				<u>\$ 534,232,159</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

NOTE 8 - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003 was as follows:

	(Restated)					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	
Revenue bonds payable	\$ 90,315,000	\$ 46,185,000	\$ 4,780,000	\$ 131,720,000	\$ 5,175,000	
Bond premium liability	74,841	641,357	39,048	677,150	28,670	
Lease obligations	9,107,597	19,426,568	4,388,928	24,145,237	835,296	
Compensated absences	<u>11,874,573</u>	<u>9,287,887</u>	<u>8,897,082</u>	<u>12,265,378</u>	<u>9,516,004</u>	
Total long-term liabilities	<u>\$ 111,372,011</u>	<u>\$ 75,540,812</u>	<u>\$ 18,105,058</u>	<u>\$ 168,807,765</u>	<u>\$ 15,554,970</u>	

NOTE 9 - REVENUE BONDS OUTSTANDING

Revenue bonds payable consist of the following:

	<u>Principal Outstanding</u> <u>at 6/30/03</u>
Kansas Development Finance Authority Revenue Bonds - Series E, 1996 (The Board of Regents - University of Kansas Housing System Renovation Project - Templin Hall) \$4,100,000. Due in annual installments of \$85,000 to \$670,000. Issued 6/1/96 with a final maturity on 5/1/21. Interest ranging from 3.90% to 5.75% payable semi-annually.	\$ 3,465,000
Kansas Development Finance Authority Refunding Revenue Bonds - Series C, 1997 (The Board of Regents - University of Kansas Regents Center Refunding Project) \$3,255,000. Due in annual installments of \$170,000 to \$245,000. Issued 3/15/97 with a final maturity on 12/1/10. Interest ranging from 4.70% to 5.30% payable semi-annually.	2,095,000
Kansas Development Finance Authority Revenue Bonds - Series D, 1998 (The Board of Regents - University of Kansas Housing System Renovation Project - Lewis Hall) \$4,290,000. Due in annual installments of \$100,000 to \$690,000. Issued 3/1/98 with a final maturity on 5/1/23. Interest ranging from 3.70% to 5.05% payable semi-annually.	3,790,000
Kansas Development Finance Authority Revenue Bonds - Series H, 1998 (The Board of Regents - University of Kansas Continuing Education Building Purchase Project) \$2,320,000. Due in annual installments of \$105,000 to \$420,000. Issued 6/1/98 with a final maturity on 4/1/13. Interest ranging from 3.75% to 4.80% payable semi-annually.	1,765,000
Kansas Development Finance Authority Revenue Bonds - Series C, 1999 (The Board of Regents - University of Kansas Child Care Facility Construction Project) \$3,085,000. Due in annual installments of \$100,000 to \$470,000. Issued 6/1/99 with a final maturity on 5/1/19. Interest ranging from 4.00% to 5.10% payable semi-annually.	2,780,000

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

	Principal Outstanding at 6/30/03
<p>Kansas Development Finance Authority Revenue Bonds – Series D, 1999 (The Board of Regents - University of Kansas - Parking Garage #2 Construction Project) \$11,170,000. Due in annual installments of \$560,000 to \$2,085,000. Issued 5/1/99 with final maturity on 4/1/14. Interest ranging from 4.00% to 4.75% payable semi-annually.</p>	\$ 9,450,000
<p>Kansas Development Finance Authority Refunding Revenue Bonds - Series 2001 G-4 (The Board of Regents – University of Kansas - Lawrence Campus Parking Facilities) \$2,825,000. Due in annual installments of \$335,000 to \$700,000. Issued 6/15/01 with final maturity on 4/1/08. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	2,165,000
<p>Kansas Development Finance Authority Refunding Revenue Bonds - Series 2001 G-5 (The Board of Regents – University of Kansas Bioscience Research Center Project) \$2,620,000. Due in annual installments of \$260,000 to \$600,000. Issued 6/15/01 with final maturity on 4/1/09. Interest ranging from 4.25% to 5.00% payable semi-annually.</p>	2,095,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2001 T-2 (The Board of Regents - University of Kansas Student Union Renovation and Expansion Project) \$4,435,000. Due in annual installments of \$300,000 to \$540,000. Issued 8/1/01 with final maturity on 4/1/13. Interest ranging from 3.10% to 4.75% payable semi-annually.</p>	3,835,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2002 A-1 (The Board of Regents - University of Kansas Housing System Renovation Project - Ellsworth Hall) \$11,230,000. Due in annual installments of \$45,000 to \$1,280,000. Issued 4/1/02 with final maturity on 5/1/27. Interest ranging from 3.50% to 5.00% payable semi-annually.</p>	11,230,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2002 A-2 (The Board of Regents - University of Kansas Student Recreation and Fitness Center) \$15,330,000. Due in annual installments of \$735,000 to \$1,350,000 Issued 4/1/02 with final maturity on 5/1/17. Interest ranging from 3.50% to 5.00% payable semi-annually.</p>	14,595,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2002 K (The Board of Regents – University of Kansas Edwards Campus Project) \$5,120,000. Due in annual installments of \$65,000 to \$540,000. Issued 11/1/02 with a final maturity on 12/1/22. Interest ranging from 4.3% to 5.0% payable semi-annually.</p>	5,120,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2003 C (The Board of Regents – Research and Development Facilities Projects) \$4,965,000. Due in annual installments of \$450,000 to \$1,890,000. Issued 2/1/03 with a final maturity on 10/1/10. Interest ranging from 3.3% to 5.0% payable semi-annually.</p>	4,965,000

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

	<u>Principal Outstanding at 6/30/03</u>
Kansas Development Finance Authority Revenue Bonds - Series 1999 B (The Board of Regents - University of Kansas Medical Center for Health in Aging) \$2,920,000. Due in annual installments of \$90,000 to \$440,000. Issued 4/1/99 with final maturity on 4/1/19. Interest ranging from 3.60% to 5.00% payable semi-annually.	\$ 2,625,000
Kansas Development Finance Authority Revenue Bonds - Series 2001 T-1 (The Board of Regents - University of Kansas Medical Center Research Support Facility) \$5,860,000. Due in annual installments of \$180,000 to \$880,000. Issued 4/1/01 with final maturity on 4/1/21. Interest ranging from 3.10% to 5.00% payable semi-annually.	5,680,000
Kansas Development Finance Authority Revenue Bonds – Series 2003 C (The Board of Regents – University of Kansas Medical Center Scientific Research and Development Facilities Projects) \$36,100,000. Due in annual installments Ranging from \$3,220,000 to \$5,430,000. Issued 2/1/03 with a final maturity on 4/1/21. Interest ranging from 2.13% to 5.01% payable semi-annually.	36,100,000
Kansas Development Finance Authority Revenue Bonds - Series 1998 A (The Board of Regents - University of Kansas Athletic Corporation) \$27,210,000. Due in annual installments of \$1,505,000 to \$2,430,000. Issued 2/1/98 with final maturity on 6/1/2013. Interest ranging from 3.8% to 4.8% payable semi-annually.	19,965,000

NOTE 10 - REVENUE BONDS MATURITY SCHEDULE

Maturities of principal and interest requirements on revenue bonds payable are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 5,175,000	\$ 6,521,064	\$ 11,696,064
2005	7,290,000	5,926,161	13,216,161
2006	6,065,000	5,641,663	11,706,663
2007	6,335,000	5,385,206	11,720,206
2008	6,895,000	5,105,462	12,000,462
2009-2013	33,070,000	21,146,312	54,216,312
2014-2018	23,495,000	14,481,092	37,976,092
2019-2023	33,205,000	6,882,850	40,087,850
2024-2028	<u>10,190,000</u>	<u>745,250</u>	<u>10,935,250</u>
Total	<u>\$ 131,720,000</u>	<u>\$ 71,835,060</u>	<u>\$ 203,555,060</u>

The University has defeased bonds through advance refunding in prior years and, accordingly, they are not reflected in the accompanying statements. The amount of bonds that have been defeased as of June 30, 2003 consists of the following:

<u>Series</u>	<u>Outstanding at June 30, 2003</u>
1964-E	<u>130,000</u>
Total	<u>\$ 130,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

NOTE 11 - LEASE OBLIGATIONS

The University of Kansas is obligated for the purchase of certain equipment funded through the issuance of blanket financing agreements in the amount of \$24,145,237 and \$9,107,597 as of June 30, 2003 and 2002, respectively. Included in this balance is the \$18.7 million Master Lease Purchase agreement between the University and the State for the University's Energy Performance Contract. The University's Energy Performance Contract consists of approximately 100 energy savings measures that are to be completed by June 2004 and that are expected to result in annual utility and maintenance savings of \$1.7 million. The projects are funded through a Master Lease Purchase Agreement between the State of Kansas and Citibank, N.A. The University is responsible for repaying the State for the 20-year term of the lease. Payments to liquidate these obligations are scheduled as follows:

Fiscal Year 2004 Total	\$	835,296
Fiscal Year 2005 Total		1,397,603
Fiscal Year 2006 Total		1,689,512
Fiscal Year 2007 Total		1,989,161
Fiscal Year 2008 Total		1,707,758
Fiscal Year 2009 and thereafter Total		<u>16,525,907</u>
Total	\$	<u><u>24,145,237</u></u>

NOTE 12 - RETIREMENT PLANS

University employees participate in two separate retirement programs. Classified employees participate in the "Kansas Public Employees Retirement System" (KPERs). This defined benefit program is funded through contributions by the University and the individual employees. The University contributed \$2,145,610 and \$2,401,170 during fiscal years 2003 and 2002, respectively, and individual employees contributed \$1,969,725 and \$2,186,124. Unclassified employees participate in the "Board of Regents Retirement Program". This defined contribution program is funded through contributions by the University and the individual employees. The University contributed \$19,606,075 and \$19,894,974 during fiscal years 2003 and 2002, respectively, and individual employees contributed \$12,578,967 and \$12,453,670. In addition, the University contributed \$3,801,531 and \$3,248,577 to KPERs for prior service benefits during fiscal years 2003 and 2002, respectively.

Employees of the University of Kansas Center for Research, the University of Kansas Athletic Corporation, and the University of Kansas Memorial Unions participate in defined contribution programs similar to the "Board of Regents Retirement Program". The Corporations contributed \$867,115 and \$841,291 to their individual plans during fiscal years 2003 and 2002, respectively.

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2003 and 2002 the University had outstanding commitments under construction contracts totaling \$52,407,388 and \$30,234,094, respectively.

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.

The University maintains specific insurance coverage as allowed by the State of Kansas and as required by outstanding bond issues. To a large extent, the State follows a policy of self-insurance; therefore, most claims against the University require legislative approval (and potential funding) prior to settlement. The University is not aware of any significant outstanding claims as of June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

The State does not insure buildings and contents valued under \$0.5 million and does not insure State-owned automobiles for bodily injury and property damages. State buildings valued over \$0.5 million are insured against catastrophic loss with a \$2.0 million deductible per occurrence and a maximum annual liability of \$100 million per occurrence.

In the normal course of operations, the University receives grants and other forms of reimbursement from various Federal and State agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing of such funds. University officials believe that the liability, if any, for any reimbursement that may arise as the result of audits, would not be material.

NOTE 14 – NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional and natural classification are as follows:

	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Educational and general						
Instruction	\$ 211,632,955		\$ 89,380	\$ 24,586,956		\$ 236,309,291
Research	90,588,328		6,615	53,947,580		144,542,523
Patient care	23,241,299			55,708,062		78,949,361
Public service	8,097,556		4,271	6,781,537		14,883,364
Academic support	41,439,958		2,623	15,754,001		57,196,582
Student services	13,963,743			6,289,090		20,252,833
Institutional support	31,284,385			11,077,020		42,361,405
Operations and maintenance of plant	22,743,376		15,273,193	11,024,366		49,040,935
Depreciation					29,310,504	29,310,504
Scholarships and fellowships		13,862,733				13,862,733
Auxiliary enterprises:						
Housing	9,037,063		2,181,553	8,422,693		19,641,309
Athletics	10,192,175	4,893,608	29,389	13,818,634	425,719	29,359,525
Parking	992,872		78,637	892,361		1,963,870
Student unions	5,609,848		293,921	12,839,419	628,431	19,371,619
University health services	4,151,846		119	2,208,244		6,360,209
Other auxiliary enterprises	961,952		1,250	3,513,763		4,476,965
Other	345,641			2,128,784		2,474,425
Total	\$ 474,282,997	\$ 18,756,341	\$ 17,960,951	\$ 228,992,510	\$ 30,364,654	\$ 770,357,453

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

NOTE 15 – PRIOR YEAR ADJUSTMENTS

The June 30, 2002 statements have been restated for the following reasons:

The fiscal year 2002 report did not include two component units, KUPI and Kansas University Health Partners, Inc. In fiscal year 2003, it was decided that these two additional entities should be included as a blended component units. The decision to include KUPI as a blended component unit was due to a bylaw change in 2003 that resulted in university control of the organization. Fiscal year 2002 was therefore restated in order to provided comparative statements. The effect of the change was as follows:

	<u>2002</u>
Assets	\$ 15,549,290
Liabilities	14,740,669
Net Assets	808,621
Operating Revenues	75,546,373
Operating Expenses	75,558,726

Net capital assets were improperly recorded as of June 30, 2002 as a result of several adjustments. In fiscal year 2003, the University discovered that the value of several buildings that had been built with KUEA funds and subsequently donated to the University had not been properly recorded. The Medical Center also corrected an error in its beginning balances. Additionally, in the fiscal year 2002 report the University did not include its “works of art” in its capital assets. The decision was made to include individual works of art that met the University’s capitalization threshold in order to be consistent with other Kansas Regents’ Universities. The effect of these corrections was an increase to capital assets and investment in capital assets, net of debt by \$19,832,592.

Finally, accounts payable was improperly recorded as of June 30, 2002. The effect of this correction was an increase in accounts payable and a decrease to unrestricted net assets by \$2,477,750.

