Financial statements and report of independent certified public accountants

Oklahoma State University

June 30, 2003 and 2002
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Oklahoma State University

Management's Discussion and Analysis

Overview of Financial Statements and Financial Analysis

Oklahoma State University proudly presents its financial statements for fiscal year 2003, with comparative data presented for fiscal year 2002. The emphasis of discussions concerning these statements will be for the current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. All dollar amounts in this discussion are presented in thousands of dollars. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents the Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities) as of the end of the fiscal year. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Oklahoma State University. The difference between current and noncurrent assets is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.
Net assets are divided into three major categories. The first category, Invested in Capital Assets, Net of Debt, provides the institution’s equity in property, plant and equipment owned by the institution. The next asset category is Restricted Net Assets, which is divided into two categories, Nonexpendable and Expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Net Assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

<table>
<thead>
<tr>
<th>Statement of Net Assets</th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$145,199</td>
<td>$132,316</td>
<td>$134,296</td>
<td>$133,674</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>414,739</td>
<td>422,307</td>
<td>417,814</td>
<td>407,635</td>
</tr>
<tr>
<td>Other assets</td>
<td>57,647</td>
<td>72,402</td>
<td>48,197</td>
<td>53,675</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>617,585</td>
<td>627,025</td>
<td>600,307</td>
<td>594,984</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>48,744</td>
<td>42,205</td>
<td>40,231</td>
<td>39,797</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>152,451</td>
<td>151,667</td>
<td>128,684</td>
<td>133,803</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>201,195</td>
<td>193,872</td>
<td>168,915</td>
<td>173,600</td>
</tr>
<tr>
<td>Net Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of debt</td>
<td>310,503</td>
<td>327,880</td>
<td>322,365</td>
<td>316,823</td>
</tr>
<tr>
<td>Restricted - expendable</td>
<td>26,426</td>
<td>30,697</td>
<td>27,990</td>
<td>24,302</td>
</tr>
<tr>
<td>Restricted - nonexpendable</td>
<td>667</td>
<td>772</td>
<td>871</td>
<td>836</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>78,794</td>
<td>73,804</td>
<td>80,166</td>
<td>79,423</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>$416,390</strong></td>
<td><strong>$433,153</strong></td>
<td><strong>$431,392</strong></td>
<td><strong>$421,384</strong></td>
</tr>
</tbody>
</table>
The total assets of the institution decreased by $9,440. A review of the Statement of Net Assets will reveal that there are many offsetting variances, but the decrease was primarily due to a change of the capitalization threshold. The change in the capitalization threshold applied to Capital Assets contributed to a one-time decrease. The changes in other asset categories, current and noncurrent, show a net decrease of $1,872.

The total liabilities for the year increased by $7,323. The most significant cause for the increase was in the current liabilities category with an increase in deferred revenues of $5,658. This increase was due to a change in the timing of the Fall 2003 tuition billing for OSU-CHS ($3,052), an increase in ticket sales for the 2003 football season ($962), and increases in the deferred revenues of various grants within the University and the branch campuses ($1,337). Other current and noncurrent liabilities increased $1,665. The combination of the decrease in total assets and the increase in total liabilities nets to a decrease in total net assets of $16,763.

**Statement of Revenues, Expenses, and Changes in Net Assets**

While the 2002 – 2003 comparisons are important indicators of activity during the year under audit, it is important to look at some of the Operating and Nonoperating categories over time. One of the important measures of an Institution’s fiscal stability is how Operating Revenues compare to Operating Expenses. While public institutions will normally not have an excess of Operating Revenues over Operating Expenses (State Appropriations are considered Nonoperating Revenues under Generally Accepted Accounting Principles) it is important to understand the relationship of revenues to expenses over time. In the chart below, it can be seen that Operating Revenues for the University have increased over time at approximately the same rate as Operating Expenses.
To narrow the gap between Operating Revenues and Operating Expenses, Tuition and Fees, Grants and Contracts, and Auxiliary Enterprise revenues must increase in amounts greater than increases in operating expenses. Of particular interest is the relationship of State Appropriations when compared to Tuition and Fees over the past four years. Note the relationship in the charts below. In audit years 2000 and 2001, State Appropriations increased by almost $20,000 while Tuition and Fees remained relatively constant after factoring enrollment increases. Between audit years 2001 and 2002, State Appropriations remained relative constant while Tuition and Fees began to rise. Audit year 2003 reflects a compete reversal of these two categories. The University suffered State Appropriation budget reductions of over 9%. As a partial response to the reductions in State Appropriations, the University increased in-state tuition by 20% and out-of-state tuition by 24%. State Appropriations and Tuition and Fees are intensely interrelated in the revenue projections of the University.
Another important contributor to revenues is the Research component of the University. Over the past few years Grants and Contracts have increased by approximately $40,000 (See chart below.)
Auxiliary Enterprises (Residential Life, Student Union, Bookstore, Health, Physical Education and Recreation, Athletics, University Health Services, Fire Protection Publications, etc.) also have contributed positively to the Operating Revenues over time (See chart below).
Unfortunately, even with the positive contributions of Tuition and Fees, Grants and Contracts, and Auxiliary Enterprises, the University has had to generate a positive balance in other revenues, expenses, gains and losses to generate a Net Increase in Net Assets in each of the years reviewed above.

**Statement of Cash Flows**

The final statement presented by the Oklahoma State University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section deals with cash
flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

**Cash Flows**

(Thousands of Dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided (used) by:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>$(184,374)</td>
<td>$(196,694)</td>
<td>$(191,533)</td>
<td>$(183,627)</td>
</tr>
<tr>
<td>Noncapital financing activities</td>
<td>209,786</td>
<td>226,202</td>
<td>225,729</td>
<td>204,185</td>
</tr>
<tr>
<td>Investing activities</td>
<td>1,938</td>
<td>2,332</td>
<td>8,109</td>
<td>21,701</td>
</tr>
<tr>
<td>Capital and related financing activities</td>
<td>(35,367)</td>
<td>(13,631)</td>
<td>(44,507)</td>
<td>(70,549)</td>
</tr>
<tr>
<td>Net Change in Cash</td>
<td>(8,017)</td>
<td>18,209</td>
<td>(2,202)</td>
<td>(28,290)</td>
</tr>
<tr>
<td>Cash, beginning of year</td>
<td>66,541</td>
<td>48,332</td>
<td>50,534</td>
<td>78,824</td>
</tr>
<tr>
<td>Cash, end of year</td>
<td>$ 58,524</td>
<td>$ 66,541</td>
<td>$ 48,332</td>
<td>$ 50,534</td>
</tr>
</tbody>
</table>

**Economic Outlook**

During fiscal year 2003 and the last half of fiscal year 2002, the University had its State Appropriations reduced approximately 9.6%. The reduction in State Appropriations positions the University at a level slightly above that received in fiscal year 2000 but significantly less than those received in fiscal year 2001.

Through the first quarter of fiscal year 2004, Oklahoma General Revenues have improved in aggregate over the same period last year by 1.7%. While Net Income Taxes lagged behind estimates, Gross Production Taxes, Sales Taxes, and Motor Vehicle Taxes all exceeded estimates. As long as General Revenues exceed estimates, the probability of additional budget reductions is reduced.
The University continues to develop scenarios to reduce costs while protecting the student experience. While the University anticipates no further State imposed reductions in appropriations this year, reprogramming efforts will be necessary to address critical funding issues necessary to support a salary program as well as critical academic and research initiatives.

Kathy Kamm Elliott, CPA
Associate Controller

David C. Bosserman, Ph.D., CPA
Vice President for Administration and Finance, and Controller
Report of Independent Certified Public Accountants

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the accompanying statements of net assets of Oklahoma State University (a component unit of the State of Oklahoma) ("the University") as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the financial position of Oklahoma State University as of June 30, 2003 and 2002, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the University changed its policy for accounting of property and equipment during the year ended June 30, 2003.

Management’s discussion and analysis on pages i through ix is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report, dated October 23, 2003, on our consideration of the University’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 23, 2003
Oklahoma State University

STATEMENTS OF NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>$ in thousands)</th>
<th>Year ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2002</td>
</tr>
</tbody>
</table>

**ASSETS**

Current assets
- Cash and cash equivalents: $24,770, $14,178
- Accounts receivable, net: 36,475, 38,645
- Investments: 70,326, 66,313
- Interest receivable: 703, 747
- Current portion of student loans receivable, net: 1,683, 1,613
- Inventories: 10,273, 9,794
- Prepaid expenses: 969, 824
- Total current assets: 145,199, 132,316

Noncurrent assets
- Cash and cash equivalents: 33,754, 52,363
- Investments: 1,877, 2,704
- Accounts receivable: 1,953, 286
- Interest receivable: - 15
- Receivables from state agencies: 3,528, 1,227
- Loans to students, net: 15,146, 14,520
- Other assets: 1,589, 1,287
- Capital assets, net of accumulated depreciation: 414,739, 422,307
- Total noncurrent assets: 472,386, 494,709
- TOTAL ASSETS: $617,585, $627,025

**LIABILITIES**

Current liabilities
- Accounts payable: $14,119, $14,168
- Deferred revenue: 20,398, 14,740
- Assets held in trust for other institutions: 2,890, 2,695
- Student and other deposits: 1,829, 1,472
- Accrued compensated absences: 7,751, 7,316
- Accrued workers' compensation claims: 1,757, 1,814
- Total current liabilities: 48,744, 42,205

Noncurrent liabilities
- Accrued compensated absences: 7,414, 8,037
- Landfill closure and postclosure costs: 2,937, 2,937
- Accrued workers' compensation claims: 2,083, 2,454
- Deferred revenue: 440, 379
- Student deposits: 234, 184
- Revenue bonds payable: 77,295, 80,025
- Accounts payable for noncurrent assets: 3,406, 797
- Accrued interest payable: 2,156, 1,727
- Federal loan program contribution payable: 17,676, 17,464
- Notes payable: 20,104, 20,800
- OCIA capital lease obligation: 6,155, 6,671
- ODFA master lease program: 11,060, 8,736
- Obligations under other capital leases: 1,491, 1,456
- Total noncurrent liabilities: 152,451, 151,667
- TOTAL LIABILITIES: 201,195, 193,872

**NET ASSETS**

Invested in capital assets, net of related debt: $310,503, $327,880

Restricted for
- Nonexpendable: 667, 772
- Expendable
  - Scholarships, research, instruction and other: 295, 1,229
  - Loans: 1,611, 887
  - Capital projects: 20,839, 23,706
  - Debt service: 3,681, 4,875
- Unrestricted: 78,794, 73,804
- TOTAL NET ASSETS: $416,390, $433,153

The accompanying notes are an integral part of these statements.
Oklahoma State University

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

<table>
<thead>
<tr>
<th>($ in thousands)</th>
<th>Year ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>Operating revenues</td>
<td></td>
</tr>
<tr>
<td>Tuition and fees, net of scholarship allowances of $29,023 in 2003 and $25,528 in 2002</td>
<td>67,976</td>
</tr>
<tr>
<td>Federal appropriations</td>
<td>10,248</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
<td>78,792</td>
</tr>
<tr>
<td>State and local grants and contracts</td>
<td>25,950</td>
</tr>
<tr>
<td>Nongovernmental grants and contracts</td>
<td>19,901</td>
</tr>
<tr>
<td>Sales and services of educational departments</td>
<td>14,346</td>
</tr>
<tr>
<td>Auxiliary enterprise changes</td>
<td></td>
</tr>
<tr>
<td>Residential life, net of scholarship allowances of $403 in 2003 and $392 in 2002; revenues totaling $0 in 2003 and $5,517 in 2002 are used as security for Housing Bonds of 1965, 1966 and 1994</td>
<td>28,175</td>
</tr>
<tr>
<td>Student union services, including bookstore sales; revenues totaling $14,097 in 2003 and $13,649 in 2002 are used as security for 1978, 1994 and 2002 Student Union Revenue Bonds, 1992 OKC Student Center Revenue Bonds, and 1995 Okmulgee Student Union Refunding Revenue Bonds</td>
<td>14,119</td>
</tr>
<tr>
<td>Health, physical education and recreation; revenues totaling $1,721 in 2003 and $0 in 2002 are used as security for the Series 1989 Facilities Revenue Bonds and the 1993 Swimming Pool Revenue Bonds</td>
<td>2,441</td>
</tr>
<tr>
<td>Athletics, net of scholarship allowance of $702 in 2003 and $592 in 2002; revenues totaling $22,315 in 2003 and $17,824 in 2002 are used as security for Series 1998 Athletic Facilities Revenue Bonds</td>
<td>22,315</td>
</tr>
<tr>
<td>University health services</td>
<td>13,252</td>
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<tr>
<td>Fire protection publications</td>
<td>10,510</td>
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<tr>
<td>Other auxiliary revenue</td>
<td>18,483</td>
</tr>
<tr>
<td>Interest earned on loans to students</td>
<td>750</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>9,319</td>
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<tr>
<td>Total operating revenues</td>
<td>336,577</td>
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<tr>
<td>Operating expenses</td>
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<tr>
<td>Compensation and employee benefits</td>
<td>326,775</td>
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<tr>
<td>Contractual services</td>
<td>69,600</td>
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<td>Supplies and materials</td>
<td>38,015</td>
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<td>Utilities</td>
<td>16,250</td>
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<tr>
<td>Communication</td>
<td>5,876</td>
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<tr>
<td>Other operating expenses</td>
<td>40,021</td>
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<tr>
<td>Scholarships and fellowships</td>
<td>31,221</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>36,998</td>
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<tr>
<td>Total operating expenses</td>
<td>569,856</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(233,279)</td>
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<tr>
<td>Nonoperating revenues (expenses)</td>
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<tr>
<td>State appropriations</td>
<td>211,239</td>
</tr>
<tr>
<td>Gifts, including $2,854 in 2003 and $3,986 in 2002 used as security on 1998 Athletic Facilities Revenue Bonds</td>
<td>6,292</td>
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<tr>
<td>Investment income</td>
<td>4,863</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(5,792)</td>
</tr>
<tr>
<td>Net nonoperating revenues</td>
<td>216,602</td>
</tr>
<tr>
<td>Loss before other revenues, expenses, gains and losses and cumulative effect of change in accounting principle</td>
<td>(16,677)</td>
</tr>
<tr>
<td>Capital grants and gifts</td>
<td>9,931</td>
</tr>
<tr>
<td>State appropriations restricted for capital purposes</td>
<td>6,745</td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td>11</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>(1,472)</td>
</tr>
<tr>
<td>Other additions, net</td>
<td>9,148</td>
</tr>
<tr>
<td>Net increase in net assets before cumulative effect of change in accounting principle</td>
<td>7,686</td>
</tr>
<tr>
<td>Cumulative effect of change in accounting principle</td>
<td>(24,449)</td>
</tr>
<tr>
<td>Net increase (decrease) in net assets</td>
<td>(16,763)</td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
</tr>
<tr>
<td>Net assets - beginning of year</td>
<td>433,153</td>
</tr>
<tr>
<td>Net assets - end of year</td>
<td>$416,390</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
Oklahoma State University

STATEMENTS OF CASH FLOWS

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>$ 69,631</td>
<td>$ 61,485</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>138,576</td>
<td>119,279</td>
</tr>
<tr>
<td>Sales and services of educational activities</td>
<td>14,346</td>
<td>10,823</td>
</tr>
<tr>
<td>Auxiliary enterprise charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential life</td>
<td>28,106</td>
<td>24,659</td>
</tr>
<tr>
<td>Student union services</td>
<td>14,038</td>
<td>13,608</td>
</tr>
<tr>
<td>Health, physical education and recreation</td>
<td>2,395</td>
<td>4,092</td>
</tr>
<tr>
<td>Athletics</td>
<td>24,223</td>
<td>17,748</td>
</tr>
<tr>
<td>Interest earned on loans to students</td>
<td>750</td>
<td>439</td>
</tr>
<tr>
<td>Other operating receipts</td>
<td>51,789</td>
<td>41,505</td>
</tr>
<tr>
<td>Payments to employees for salaries and benefits</td>
<td>(321,480)</td>
<td>(313,053)</td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td>(205,793)</td>
<td>(178,310)</td>
</tr>
<tr>
<td>Loans issued to students and employees</td>
<td>(4,416)</td>
<td>(3,895)</td>
</tr>
<tr>
<td>Collection of loans to students and employees</td>
<td>3,461</td>
<td>4,526</td>
</tr>
<tr>
<td>Net cash used by operating activities</td>
<td>(184,374)</td>
<td>(196,694)</td>
</tr>
<tr>
<td>Cash flows from noncapital financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations</td>
<td>203,792</td>
<td>215,331</td>
</tr>
<tr>
<td>Gifts for other than capital purposes</td>
<td>5,459</td>
<td>10,365</td>
</tr>
<tr>
<td>Direct lending receipts</td>
<td>62,997</td>
<td>56,643</td>
</tr>
<tr>
<td>Direct lending payments</td>
<td>(62,997)</td>
<td>(56,643)</td>
</tr>
<tr>
<td>Agency fund receipts</td>
<td>4,815</td>
<td>4,456</td>
</tr>
<tr>
<td>Agency fund payments</td>
<td>(4,225)</td>
<td>(4,195)</td>
</tr>
<tr>
<td>Third party facility receipts</td>
<td>6,410</td>
<td>6,318</td>
</tr>
<tr>
<td>Third party facility payments</td>
<td>(6,465)</td>
<td>(6,073)</td>
</tr>
<tr>
<td>Net cash provided by noncapital financing activities</td>
<td>209,786</td>
<td>226,202</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(7,105)</td>
<td>(25,762)</td>
</tr>
<tr>
<td>Proceeds from sales of investments</td>
<td>7,702</td>
<td>26,992</td>
</tr>
<tr>
<td>Interest received on investments</td>
<td>1,341</td>
<td>1,102</td>
</tr>
<tr>
<td>Net cash provided by investing activities</td>
<td>1,938</td>
<td>2,332</td>
</tr>
<tr>
<td>Cash flows from capital and related financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for capital assets</td>
<td>(49,245)</td>
<td>(43,188)</td>
</tr>
<tr>
<td>Capital appropriations received</td>
<td>5,892</td>
<td>3,168</td>
</tr>
<tr>
<td>Capital grants and gifts received</td>
<td>9,344</td>
<td>4,578</td>
</tr>
<tr>
<td>Proceeds of capital debt</td>
<td>7,139</td>
<td>29,523</td>
</tr>
<tr>
<td>Repayments of capital debt and leases</td>
<td>(11,190)</td>
<td>(8,532)</td>
</tr>
<tr>
<td>Interest paid on capital debt and leases</td>
<td>(4,983)</td>
<td>(4,369)</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>(1,472)</td>
<td>(1,638)</td>
</tr>
<tr>
<td>Other sources</td>
<td>9,148</td>
<td>6,827</td>
</tr>
<tr>
<td>Net cash used by capital and related financing activities</td>
<td>(35,367)</td>
<td>(13,631)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>(8,017)</td>
<td>18,209</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>66,541</td>
<td>48,332</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$ 58,524</td>
<td>$ 66,541</td>
</tr>
</tbody>
</table>
**Oklahoma State University**

**STATEMENTS OF CASH FLOWS - CONTINUED**

<table>
<thead>
<tr>
<th>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating loss</strong></td>
<td>$ (233,279)</td>
<td>$ (244,184)</td>
</tr>
<tr>
<td>Adjustments to reconcile operating loss to net cash used by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>36,098</td>
<td>39,584</td>
</tr>
<tr>
<td>On-behalf contributions to teachers' retirement system</td>
<td>7,448</td>
<td>7,882</td>
</tr>
<tr>
<td>Changes in assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,546</td>
<td>(5,264)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(479)</td>
<td>(218)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(145)</td>
<td>(190)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>(477)</td>
<td>4,457</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>5,719</td>
<td>(784)</td>
</tr>
<tr>
<td>Student and other deposits</td>
<td>67</td>
<td>28</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>186</td>
<td>531</td>
</tr>
<tr>
<td>Federal contribution payable</td>
<td>212</td>
<td>1,321</td>
</tr>
<tr>
<td>Loans to students and employees</td>
<td>(696)</td>
<td>83</td>
</tr>
<tr>
<td><strong>Net cash used by operating activities</strong></td>
<td>$ (184,374)</td>
<td>$ (196,694)</td>
</tr>
</tbody>
</table>

**NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING TRANSACTIONS**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative effect of change in accounting principle</td>
<td>$ 24,449</td>
<td>-</td>
</tr>
<tr>
<td>Fixed assets acquired by incurring capital lease obligations</td>
<td>$ 538</td>
<td>$ 612</td>
</tr>
<tr>
<td>Change in accounts payable capital assets</td>
<td>$ 2,609</td>
<td>-</td>
</tr>
<tr>
<td>Change in accounts receivable related to private gifts</td>
<td>$ (843)</td>
<td>$ 2,247</td>
</tr>
<tr>
<td>Change in receivable from State agency affecting proceeds of capital debt</td>
<td>$ (2,101)</td>
<td>$ 2,469</td>
</tr>
<tr>
<td>Change in fair value of investments recognized as a component of interest income</td>
<td>$ (3,581)</td>
<td>(3,852)</td>
</tr>
<tr>
<td>Change in interest receivable affecting interest received</td>
<td>$ 59</td>
<td>$ 27</td>
</tr>
<tr>
<td>Bond issuance costs reducing proceeds of long-term debt</td>
<td>$ (344)</td>
<td>(589)</td>
</tr>
<tr>
<td>Change in accrued interest payable affecting interest paid</td>
<td>$ 429</td>
<td>(153)</td>
</tr>
<tr>
<td>Amortization of bond issuance costs reducing interest paid</td>
<td>$ 42</td>
<td>$ 41</td>
</tr>
<tr>
<td>Interest on capital debt paid by State agency on behalf of University</td>
<td>$ 338</td>
<td>$ 359</td>
</tr>
<tr>
<td>Principal on capital debt paid by State agency on behalf of University</td>
<td>$ 515</td>
<td>$ 495</td>
</tr>
<tr>
<td>Gift of capital assets reducing proceeds of capital grants and gifts</td>
<td>$ (587)</td>
<td>(514)</td>
</tr>
</tbody>
</table>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents classified as current assets</td>
<td>$ 24,770</td>
<td>$ 14,178</td>
</tr>
<tr>
<td>Cash and cash equivalents classified as noncurrent assets</td>
<td>33,754</td>
<td>52,363</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 58,524</td>
<td>$ 66,541</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these statements.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS
($ in thousands)

June 30, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Oklahoma State University is a modern comprehensive land grant university that serves the state, national and international communities by providing its students with academic instruction, by conducting research and other activities that advance fundamental knowledge and by disseminating knowledge to the people of Oklahoma and throughout the world.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, The Financial Reporting Entity, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of all agencies of Oklahoma State University (the “General University”), as the primary government, and the accounts of the Oklahoma State University Education, Research and Economic Development Foundation, Inc. (the “Foundation”), collectively referred to as the “University”.

The General University includes Oklahoma State University - Stillwater; Oklahoma State University - Okmulgee; Oklahoma State University - Oklahoma City; the College of Veterinary Medicine; the Agricultural Experiment Station; the Agricultural Extension Division; the College of Osteopathic Medicine - Tulsa and Oklahoma State University - Tulsa. The General University is governed by the Board of Regents for the Oklahoma Agricultural and Mechanical Colleges (“Board of Regents”). The State of Oklahoma allocates and allots funds to each agency separately and requires that the funds be maintained accordingly. Because of this requirement, separate accounts are maintained for each agency.

The Foundation was formed in 1967 as a nonprofit corporation to engage in research, extension and academic contractual arrangements for the benefit and advancement of the General University. The Foundation receives and administers funds from Federal and state agencies and from private sources for the purpose of carrying out the educational and research programs of the General University. The Foundation is governed by a board of directors comprised primarily of management of the General University. In addition, General University employees and facilities are used for virtually all activities of the Foundation. Accordingly, the Foundation has been reported as a blended component unit in the financial statements. Separate financial statements of the Foundation can be requested from the University’s controller.

In preparing the financial statements, all significant transactions and balances between agencies and between the General University and the Foundation are eliminated.

The University is a component unit of the State of Oklahoma (the “State”) and is included in the basic financial statements of the State of Oklahoma. Accounts of the Oklahoma State University Foundation are not included in the financial statements as it is a legally separate entity and the University does not appoint any member of its board (see Note 14).
NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial Statement Presentation: As a component unit of the State, the University presents its financial statements in accordance with the requirements of GASB issued Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments and GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. The financial statement presentation required by GASB Nos. 34 and 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

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: The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered 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 statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State. 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 the lower of cost or market on either the first-in, first-out ("FIFO") basis or the average cost basis.

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 statements of net assets.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. Livestock for educational purposes is recorded at estimated fair value. For equipment, the University's capitalization policy includes all items with a unit cost of $5 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. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

The University's capitalization threshold increased from $.50 to $5 pursuant to Enrolled Senate Bill 1358 effective November 1, 2002. The effect of this change is reflected as a cumulative effect of change in accounting principle in the accompanying 2003 statement of revenue, expenses and changes in net assets.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 10 years for library books, and 5 to 7 years for equipment.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. The University capitalizes interest as a component of capital assets constructed for its own use. In 2003, total interest incurred was $5,792, of which $1,078 was capitalized. In 2002, total interest incurred was $4,616, none of which was capitalized.

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 amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: The liability and expense incurred for employee vacation pay are recorded as accrued vacation payable in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 and auxiliary enterprises. 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.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University’s policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

Income Taxes: The General University, as a political subdivision of the State, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code for activities which relate to its exempt purpose.

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, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations and (4) interest on institutional student loans.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB 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 statements 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.

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

New Pronouncements: In 2002, GASB issued Statement No. 39, Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14. GASB No. 39 provides guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. GASB No. 39 is effective for the University for the fiscal year beginning July 1, 2003. Management has not yet determined the effect, if any, this Statement will have on the University’s financial condition or results of operations.

In 2003, GASB issued Statement No. 40, Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3. GASB No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement are also required to be disclosed. The Statement is designed to inform users about deposit risks that could affect the entity’s ability to meet obligations. GASB No. 40 is effective for the University for the fiscal year beginning July 1, 2004 with earlier adoption encouraged. Management has not yet determined the effect, if any, this Statement will have on the University’s financial condition or results of operations.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Change in Accounting Policy: The University has historically capitalized all property and equipment additions in excess of $.5. On November 1, 2002, upon the passage of Enrolled Senate Bill 1358, the University increased its capitalization threshold to $.5. The new capitalization threshold was adopted to simplify accounting for capital assets and has been applied retroactively to property and equipment acquisitions of prior years. The effect of this change was to decrease the change in net assets for 2003 by $2,618. The adjustment of $(24,449) to retroactively apply the new threshold is included in the change in net assets for 2003. The pro forma amounts shown in the following table have been adjusted for the effect of retroactive application on depreciation and supplies and materials expense which would have been made had the new method been in effect for the following years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase in net assets - as previously reported</td>
<td>$ 7,686</td>
<td>$ 1,761</td>
</tr>
<tr>
<td>Effect of change in capitalization threshold</td>
<td>-</td>
<td>(7,188)</td>
</tr>
<tr>
<td>Net increase (decrease) in net assets - pro forma</td>
<td>$ 7,686</td>
<td>$(5,427)</td>
</tr>
</tbody>
</table>

NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents: At June 30, 2003 and 2002, the carrying amount of the University’s deposits with the State Treasurer and other financial institutions was $58,524 and $66,541, respectively. This amount consisted of deposits with the State Treasurer ($54,653 and $62,617), U.S. financial institutions ($379 and $741), trustees related to the University’s various bond indenture agreements ($3,334 and $3,038) and petty cash and change funds ($158 and $145). Included in deposits with the State Treasurer are amounts invested through the State Treasurer’s Cash Management Program totaling $19,163 and $26,066 at June 30, 2003 and 2002, respectively. For financial reporting purposes, these deposits have been classified as cash equivalents.

The State Treasurer requires that all state funds are either insured by the Federal Deposit Insurance Corporation (“FDIC”), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. Government obligations. The University’s deposits with the State Treasurer are pooled with funds of other State agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State’s name.

The University requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in the University’s name.

Deposits: At June 30, 2003 and 2002, the University held non-negotiable certificates of deposit totaling $55 and $54, respectively. These certificates of deposit are fully insured by the FDIC. For financial reporting purposes, these deposits have been classified as investments.
NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS AND INVESTMENTS
- CONTINUED

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 counterparty’s trust department or agent in the University’s name, or (3) uninsured and unregistered, with securities held by the counterparty, 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:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2003</th>
<th></th>
<th></th>
<th>June 30, 2002</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Risk category</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>Fair</td>
</tr>
<tr>
<td>U.S. Government securities</td>
<td>$ 63,454</td>
<td>$</td>
<td>-</td>
<td>$</td>
<td>$ 63,454</td>
</tr>
<tr>
<td>Money funds</td>
<td>1,590</td>
<td>-</td>
<td></td>
<td>1,590</td>
<td>-</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>-</td>
<td>3,807</td>
<td>-</td>
<td>3,807</td>
<td>-</td>
</tr>
<tr>
<td>Corporate bonds and notes</td>
<td>-</td>
<td>468</td>
<td>-</td>
<td>468</td>
<td>-</td>
</tr>
<tr>
<td>Equity funds</td>
<td>-</td>
<td>2,508</td>
<td>-</td>
<td>2,508</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$ 65,044</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$ 71,827</td>
</tr>
</tbody>
</table>

Investments not subject to categorization
- Certificates of deposit                  | 55  | 54  |
- State Regents Endowment Trust funds       | 321 | 365 |

Total investments                          | $ 72,203 | $ 69,219 |

Investments in the State Regents Endowment Trust funds have not been classified as to credit risk because the investments are not evidenced by securities that exist in physical or book entry form.

At June 30, 2003 and 2002, the University held investments in trust for two higher education institutions that are also under the governance of the Board of Regents. Such investments consist of U.S. Government securities and money market accounts. These investments are maintained in separate investment accounts for each participant. The fair value of U.S. Government securities at June 30, 2003 and 2002 was $2,767 and $2,547, respectively. These investments bear interest at rates from 2% to 7%, with maturities from October 2003 through January 2029. Investments in money market accounts totaled $123 and $148 at June 30, 2003 and 2002, respectively.
NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS AND INVESTMENTS - CONTINUED

Condensed statements of net assets and changes in net assets of the investments held in trust are as follows for the years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets held in trust at beginning of period</td>
<td>$2,695</td>
<td>$2,503</td>
</tr>
<tr>
<td>Net interest, realized gains (losses) and fees</td>
<td>128</td>
<td>153</td>
</tr>
<tr>
<td>Net increase in fair value</td>
<td>67</td>
<td>39</td>
</tr>
<tr>
<td>Total change in net assets held in trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets held in trust at end of period</td>
<td>$2,890</td>
<td>$2,695</td>
</tr>
</tbody>
</table>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student tuition and fees</td>
<td>$5,046</td>
<td>$3,482</td>
</tr>
<tr>
<td>Auxiliary enterprises and other operating activities</td>
<td>20,506</td>
<td>17,780</td>
</tr>
<tr>
<td>Contributions and gifts</td>
<td>2,504</td>
<td>1,661</td>
</tr>
<tr>
<td>Federal appropriations</td>
<td>270</td>
<td>868</td>
</tr>
<tr>
<td>Federal, state and private grants and contracts</td>
<td>16,713</td>
<td>18,849</td>
</tr>
<tr>
<td>Less allowance for doubtful accounts</td>
<td>45,039</td>
<td>42,640</td>
</tr>
<tr>
<td>Total accounts receivable</td>
<td>6,611</td>
<td>3,709</td>
</tr>
<tr>
<td>Net accounts receivable</td>
<td>$38,428</td>
<td>$38,931</td>
</tr>
</tbody>
</table>

The Department of Intercollegiate Athletics has incurred certain expenses related to the Strasburg, Colorado airplane accident which occurred on January 27, 2001, generating approximately $669,000 and $635,000 in accounts receivable at June 30, 2003 and 2002, respectively, for which collection is anticipated through insurance reimbursement. The University is obligated to reimburse the Department of Intercollegiate Athletics for such expenses not reimbursed by insurance coverage.
NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bookstore</td>
<td>$ 2,373</td>
<td>$ 2,329</td>
</tr>
<tr>
<td>Livestock - College of Agriculture</td>
<td>1,457</td>
<td>1,302</td>
</tr>
<tr>
<td>Fire protection publications</td>
<td>3,723</td>
<td>3,571</td>
</tr>
<tr>
<td>Food services</td>
<td>661</td>
<td>645</td>
</tr>
<tr>
<td>Physical plant</td>
<td>788</td>
<td>812</td>
</tr>
<tr>
<td>Other</td>
<td>1,271</td>
<td>1,135</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 10,273</strong></td>
<td><strong>$ 9,794</strong></td>
</tr>
</tbody>
</table>

NOTE 5 - LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the “Program”) comprise substantially all of the loans receivable at June 30, 2003 and 2002. Under this Program, the Federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions, such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The Federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993 under the Program. No reimbursements are provided for loans originated after this date. Amounts refundable to the U.S. Government upon cessation of the program of approximately $17,676 and $17,464 at June 30, 2003 and 2002, respectively, are reflected in the accompanying statements of net assets as noncurrent liabilities.

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 allowance for uncollectible loans only applies to University funded loans and the University portion of Federal student loans, as the University is not obligated to fund the Federal portion of uncollected student loans. 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 approximately $255 and $1,945, respectively.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 6 - CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2003 and 2002:

<table>
<thead>
<tr>
<th>Year ended June 30, 2003</th>
<th>Balance of Capital assets not being depreciated</th>
<th>Capacity of Capital assets not being depreciated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$10,538</td>
<td>$(47)</td>
</tr>
<tr>
<td>Capitalized collections</td>
<td>510</td>
<td>2</td>
</tr>
<tr>
<td>Livestock for educational purposes</td>
<td>1,242</td>
<td>368</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>11,511</td>
<td>26,768</td>
</tr>
<tr>
<td>Total capital assets not being depreciated</td>
<td>$23,801</td>
<td>$27,091</td>
</tr>
</tbody>
</table>

Other capital assets

<table>
<thead>
<tr>
<th></th>
<th>Non-major infrastructure networks</th>
<th>Land improvements</th>
<th>Buildings</th>
<th>Furniture, fixtures and equipment</th>
<th>Library materials</th>
<th>Total other capital assets</th>
<th>Less accumulated depreciation for</th>
<th>Total accumulated depreciation</th>
<th>Other capital assets, net</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$31,258</td>
<td>-</td>
<td>22,368</td>
<td>1,833</td>
<td>72,891</td>
<td>853,218</td>
<td>$(17,901)</td>
<td>(48,128)</td>
<td>$398,506</td>
</tr>
<tr>
<td></td>
<td>$ (47)</td>
<td>$816</td>
<td>910</td>
<td>(305)</td>
<td>4,439</td>
<td>27,360</td>
<td>$(1,549)</td>
<td>(4,019)</td>
<td>$(8,736)</td>
</tr>
<tr>
<td></td>
<td>$816</td>
<td>-</td>
<td>23,226</td>
<td>(8,472)</td>
<td>-</td>
<td>10,198</td>
<td>-</td>
<td>267</td>
<td>$(1,205)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(497)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$24,449</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(8,299)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$374,312</td>
</tr>
</tbody>
</table>

Capital asset summary

<table>
<thead>
<tr>
<th></th>
<th>Capital assets not being depreciated</th>
<th>Other capital assets, at cost</th>
<th>Total cost of capital assets</th>
<th>Less accumulated depreciation</th>
<th>Capital assets, net</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$23,801</td>
<td>853,218</td>
<td>877,019</td>
<td>(454,712)</td>
<td>422,307</td>
</tr>
<tr>
<td></td>
<td>$27,091</td>
<td>$27,360</td>
<td>54,451</td>
<td>(454,712)</td>
<td>18,353</td>
</tr>
<tr>
<td></td>
<td>$(10,198)</td>
<td>$(10,198)</td>
<td>-</td>
<td>(267)</td>
<td>$(1,472)</td>
</tr>
<tr>
<td></td>
<td>$(267)</td>
<td>$(267)</td>
<td>-</td>
<td>$(1,472)</td>
<td>$(24,449)</td>
</tr>
<tr>
<td></td>
<td>$(24,449)</td>
<td></td>
<td></td>
<td></td>
<td>$414,739</td>
</tr>
</tbody>
</table>
## NOTE 6 - CAPITAL ASSETS - CONTINUED

### Capital assets not being depreciated

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance June 30, 2001</th>
<th>Additions</th>
<th>Transfers</th>
<th>Retirements</th>
<th>Balance June 30, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 10,574</td>
<td>$ 19</td>
<td>$ -</td>
<td>$ (55)</td>
<td>$ 10,538</td>
</tr>
<tr>
<td>Capitalized collections</td>
<td>501</td>
<td>13</td>
<td>-</td>
<td>(4)</td>
<td>510</td>
</tr>
<tr>
<td>Livestock for educational purposes</td>
<td>1,363</td>
<td>-</td>
<td>-</td>
<td>(121)</td>
<td>1,242</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>10,209</td>
<td>11,722</td>
<td>(10,420)</td>
<td>-</td>
<td>11,511</td>
</tr>
<tr>
<td><strong>Total capital assets not being depreciated</strong></td>
<td><strong>$ 22,647</strong></td>
<td><strong>$ 11,754</strong></td>
<td><strong>(10,420)</strong></td>
<td><strong>(180)</strong></td>
<td><strong>$ 23,801</strong></td>
</tr>
</tbody>
</table>

### Other capital assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance June 30, 2001</th>
<th>Additions</th>
<th>Transfers</th>
<th>Retirements</th>
<th>Balance June 30, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-major infrastructure networks</td>
<td>$ 30,514</td>
<td>-</td>
<td>$ 744</td>
<td>-</td>
<td>$ 31,258</td>
</tr>
<tr>
<td>Land improvements</td>
<td>20,587</td>
<td>-</td>
<td>1,781</td>
<td>-</td>
<td>22,368</td>
</tr>
<tr>
<td>Buildings</td>
<td>503,956</td>
<td>-</td>
<td>7,895</td>
<td>-</td>
<td>511,851</td>
</tr>
<tr>
<td>Furniture, fixtures and equipment</td>
<td>198,709</td>
<td>29,416</td>
<td>-</td>
<td>(13,275)</td>
<td>214,850</td>
</tr>
<tr>
<td>Library materials</td>
<td>68,346</td>
<td>4,545</td>
<td>-</td>
<td>-</td>
<td>72,891</td>
</tr>
<tr>
<td><strong>Total other capital assets</strong></td>
<td><strong>822,112</strong></td>
<td><strong>33,961</strong></td>
<td><strong>10,420</strong></td>
<td><strong>(13,275)</strong></td>
<td><strong>853,218</strong></td>
</tr>
</tbody>
</table>

### Less accumulated depreciation for

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance June 30, 2001</th>
<th>Additions</th>
<th>Transfers</th>
<th>Retirements</th>
<th>Balance June 30, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-major infrastructure networks</td>
<td>(15,864)</td>
<td>(2,037)</td>
<td>-</td>
<td>-</td>
<td>(17,901)</td>
</tr>
<tr>
<td>Land improvements</td>
<td>(13,287)</td>
<td>(380)</td>
<td>-</td>
<td>-</td>
<td>(13,667)</td>
</tr>
<tr>
<td>Buildings</td>
<td>(228,209)</td>
<td>(11,102)</td>
<td>-</td>
<td>-</td>
<td>(239,311)</td>
</tr>
<tr>
<td>Furniture, fixtures and equipment</td>
<td>(125,356)</td>
<td>(22,166)</td>
<td>-</td>
<td>11,817</td>
<td>(135,705)</td>
</tr>
<tr>
<td>Library materials</td>
<td>(44,229)</td>
<td>(3,899)</td>
<td>-</td>
<td>-</td>
<td>(48,128)</td>
</tr>
<tr>
<td><strong>Total accumulated depreciation</strong></td>
<td><strong>(426,945)</strong></td>
<td><strong>(39,584)</strong></td>
<td>-</td>
<td><strong>11,817</strong></td>
<td><strong>(454,712)</strong></td>
</tr>
</tbody>
</table>

### Other capital assets, net

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance June 30, 2001</th>
<th>Additions</th>
<th>Transfers</th>
<th>Retirements</th>
<th>Balance June 30, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets not being depreciated</td>
<td>$ 22,647</td>
<td>$ 11,754</td>
<td>(10,420)</td>
<td>(180)</td>
<td>$ 23,801</td>
</tr>
<tr>
<td>Other capital assets, at cost</td>
<td>822,112</td>
<td>33,961</td>
<td>10,420</td>
<td>(13,275)</td>
<td>853,218</td>
</tr>
<tr>
<td><strong>Total cost of capital assets</strong></td>
<td>844,759</td>
<td>45,715</td>
<td>-</td>
<td>(13,455)</td>
<td>877,019</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(426,945)</td>
<td>(39,584)</td>
<td>-</td>
<td>11,817</td>
<td>(454,712)</td>
</tr>
<tr>
<td><strong>Capital assets, net</strong></td>
<td><strong>$ 417,814</strong></td>
<td><strong>$ 6,131</strong></td>
<td>-</td>
<td><strong>$ (1,638)</strong></td>
<td><strong>$ 422,307</strong></td>
</tr>
</tbody>
</table>
NOTE 7 - DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid tuition and fees</td>
<td>$5,463</td>
<td>$2,244</td>
</tr>
<tr>
<td>Prepaid athletic ticket sales</td>
<td>4,377</td>
<td>3,411</td>
</tr>
<tr>
<td>Other auxiliary enterprises</td>
<td>616</td>
<td>420</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>10,382</td>
<td>9,044</td>
</tr>
<tr>
<td></td>
<td>$20,838</td>
<td>$15,119</td>
</tr>
</tbody>
</table>

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity was as follows for the years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>Balance June 30, 2002</th>
<th>Additions</th>
<th>Reductions</th>
<th>Balance June 30, 2003</th>
<th>Amounts due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds and notes payable and capital lease obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue bonds payable</td>
<td>$80,025</td>
<td>$2,400</td>
<td>($5,130)</td>
<td>$77,295</td>
<td>$2,565</td>
</tr>
<tr>
<td>Notes payable</td>
<td>20,800</td>
<td>2,591</td>
<td>(3,287)</td>
<td>20,104</td>
<td>3,401</td>
</tr>
<tr>
<td>Capital lease obligations, including unexpended funds of $3,327</td>
<td>16,863</td>
<td>5,132</td>
<td>(3,289)</td>
<td>18,706</td>
<td>3,628</td>
</tr>
<tr>
<td>Total bonds, notes and capital leases</td>
<td>117,688</td>
<td>10,123</td>
<td>(11,706)</td>
<td>116,105</td>
<td>9,594</td>
</tr>
</tbody>
</table>

Other liabilities

<table>
<thead>
<tr>
<th></th>
<th>Balance June 30, 2002</th>
<th>Additions</th>
<th>Reductions</th>
<th>Balance June 30, 2003</th>
<th>Amounts due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued compensated absences</td>
<td>15,353</td>
<td>7,563</td>
<td>(7,751)</td>
<td>15,165</td>
<td>7,751</td>
</tr>
<tr>
<td>Landfill closure and postclosure costs</td>
<td>2,937</td>
<td>3,406</td>
<td>(797)</td>
<td>3,406</td>
<td>3,406</td>
</tr>
<tr>
<td>Accounts payable for noncurrent assets</td>
<td>17,464</td>
<td>212</td>
<td>(62)</td>
<td>17,676</td>
<td>-</td>
</tr>
<tr>
<td>Federal loan program contribution payable</td>
<td>246</td>
<td>129</td>
<td>(30)</td>
<td>313</td>
<td>79</td>
</tr>
<tr>
<td>Student deposits</td>
<td>379</td>
<td>91</td>
<td>(148)</td>
<td>440</td>
<td>126</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>1,727</td>
<td>577</td>
<td>(3,840)</td>
<td>1,757</td>
<td>1,757</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>4,268</td>
<td>3,329</td>
<td>(1,757)</td>
<td>3,840</td>
<td>1,757</td>
</tr>
<tr>
<td>Accrued workers compensation claims</td>
<td>43,171</td>
<td>13,307</td>
<td>(10,545)</td>
<td>45,933</td>
<td>13,267</td>
</tr>
<tr>
<td>Total other liabilities</td>
<td>$160,859</td>
<td>$23,430</td>
<td>($22,251)</td>
<td>$162,038</td>
<td>$22,861</td>
</tr>
</tbody>
</table>
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

<table>
<thead>
<tr>
<th>Bonds and notes payable and capital lease obligations</th>
<th>Year ended June 30, 2002</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance June 30, 2001</td>
<td>Additions</td>
<td>Reductions</td>
</tr>
<tr>
<td>Revenue bonds payable</td>
<td>$63,135</td>
<td>$21,860</td>
</tr>
<tr>
<td>Notes payable</td>
<td>21,492</td>
<td>547</td>
</tr>
<tr>
<td>Capital lease obligations, including unexpended funds of $1,226</td>
<td>13,773</td>
<td>6,077</td>
</tr>
<tr>
<td>Total bonds, notes and capital leases</td>
<td>98,400</td>
<td>28,484</td>
</tr>
</tbody>
</table>

Other liabilities

<table>
<thead>
<tr>
<th>Amounts</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued compensated absences</td>
<td>14,822</td>
</tr>
<tr>
<td>Landfill closure and postclosure costs</td>
<td>2,937</td>
</tr>
<tr>
<td>Accounts payable for noncurrent assets</td>
<td>1,034</td>
</tr>
<tr>
<td>Federal loan program contribution payable</td>
<td>16,143</td>
</tr>
<tr>
<td>Student deposits</td>
<td>218</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>-</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>-</td>
</tr>
<tr>
<td>Accrued workers compensation claims</td>
<td>4,134</td>
</tr>
<tr>
<td>Total other liabilities</td>
<td>39,288</td>
</tr>
<tr>
<td>Total</td>
<td>$137,688</td>
</tr>
</tbody>
</table>

Additional information regarding revenue bonds payable and notes payable is included at Note 9. Additional information regarding capital lease obligations is included at Note 10.

*Landfill Closure and Postclosure Costs:* State laws and regulations require the University to place a final cover on its landfill site and to perform certain maintenance and monitoring functions, including evaluation of well water samples, at the site after closure. The landfill, containing radioactive and chemical waste, is no longer being used, but the University has not placed a final cover on it.Estimated closure and postclosure costs as of June 30, 2003 and 2002 are $2,937. Actual cost may differ due to inflation, changes in technology or changes in regulations.
**NOTE 9 - REVENUE BONDS AND NOTES PAYABLE**

*Revenue Bonds Payable*

Revenue bonds payable consisted of the following at June 30:

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.4% Housing Revenue Bonds of 1966, issued in the original amount of $4,435 and mature in varying annual amounts to July 1, 2006 (defeased during the year ended June 30, 2003)</td>
<td>$</td>
<td>$1,245</td>
</tr>
<tr>
<td>3.6% - 8.89% Student Union System Revenue Bonds of 1978, 1994 and 2002 issued in the original amount of $9,335 and mature in varying annual amounts to April 1, 2019</td>
<td>5,265</td>
<td>3,180</td>
</tr>
<tr>
<td>5.8% - 6.1% Oklahoma State University Technical Branch - Oklahoma City Student Center Revenue Bonds, Series 1992, issued in the original amount of $3,500 and mature in varying annual amounts to July 1, 2012</td>
<td>2,245</td>
<td>2,405</td>
</tr>
<tr>
<td>5.2% - 9% Housing System Refunding Revenue Bonds, Series 1994A and Revenue Bond Series 1994B, issued in the original amount of $2,740 and mature in varying annual amounts to July 1, 2014 (defeased during the year ended June 30, 2003)</td>
<td>-</td>
<td>1,670</td>
</tr>
<tr>
<td>4.25% - 5% Oklahoma State University Technical Branch - Okmulgee Student Union Refunding Revenue Bonds, Series 1995, issued in the original amount of $1,340 and mature in varying annual amounts to December 1, 2008</td>
<td>730</td>
<td>830</td>
</tr>
<tr>
<td>4.35% - 7.25% Utility System Revenue Bonds, Series 1998, issued in the original amount of $18,000 and mature in varying annual amounts to July 1, 2018</td>
<td>15,835</td>
<td>16,435</td>
</tr>
<tr>
<td>4.2% - 5% Athletic Facilities Revenue Bonds, Series 1998, issued in the original amount of $33,405 and mature in varying amounts to August 1, 2024</td>
<td>31,360</td>
<td>32,400</td>
</tr>
<tr>
<td>3% - 5.05% Recreation Facilities Revenue Bonds, Series 2002, issued in the original amount of $21,860 and mature in varying amounts to July 1, 2032</td>
<td>21,860</td>
<td>21,860</td>
</tr>
</tbody>
</table>

**Total**: $77,295 $80,025


Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 9 - REVENUE BONDS AND NOTES PAYABLE - CONTINUED

Revenue Bonds Payable - Continued

Principal and interest on these revenue bonds are collateralized by a pledge of revenues produced by the facilities constructed with the bond proceeds and/or student activity fees and facility fees. Certain of these bonds payable are callable at the option of the Board of Regents.

The University is required to maintain certain renewal and replacement and debt service reserves aggregating $1,237 in 2003 and $1,652 in 2002. The University's reserve balances exceeded these amounts at June 30, 2003 and 2002.


Notes Payable

Notes payable consisted of the following at June 30:

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation multiple-advance note payable collateralized by vehicles and</td>
<td>$58</td>
<td>$68</td>
</tr>
<tr>
<td>equipment, dated March 2003, line of credit cap of $600, matures March</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006, current draws at monthly payment amount mature January 2004, interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>rate of 4.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation note payable, collateralized by vans, dated May 2002, payable</td>
<td>249</td>
<td>368</td>
</tr>
<tr>
<td>in monthly installments of $11, matures May 2003, interest rate of 5.875%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation multiple advance note payable collateralized by Foundation's</td>
<td>2,007</td>
<td>-</td>
</tr>
<tr>
<td>investments with UBS Paine Webber, dated December 2002, line of credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cap of $2,007, payable on demand, variable interest rate (2.734% at June 30,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation multiple advance note payable collateralized by Foundation's</td>
<td>400</td>
<td>-</td>
</tr>
<tr>
<td>investments with UBS Paine Webber, dated July 2002, line of credit cap of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$2,000, payable on demand, variable interest rate (2.734% at June 30, 2003)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation note payable, paid off during 2003</td>
<td>-</td>
<td>99</td>
</tr>
<tr>
<td>Foundation note payable, paid off during 2003</td>
<td>-</td>
<td>76</td>
</tr>
<tr>
<td>Foundation note payable, paid off during 2003</td>
<td></td>
<td>2,019</td>
</tr>
<tr>
<td>Total Foundation notes payable</td>
<td>2,714</td>
<td>2,630</td>
</tr>
</tbody>
</table>
NOTE 9 - REVENUE BONDS AND NOTES PAYABLE - CONTINUED

University note payable to construct Advanced Technology Research Center, collateralized by a pledge of Section 13 funds; note is payable to Oklahoma Development Finance Authority ("ODFA"), principal payable in annual installments through July 2016, interest payable semiannually, variable annual interest rate, 4.75% at June 30, 2003 8,025 8,410

University note payable to fund renovations to Gallagher-Iba Arena, collateralized by a pledge of Section 13 funds, note is payable to ODFA, principal payable in annual installments through July 2018, interest payable semiannually, variable annual interest rate, 4.15% at June 30, 2003 9,365 9,760

Total University notes payable 17,390 18,170

Total notes payable $20,104 $20,800

Under the terms of loan agreements with the ODFA and related trust indentures, accounts have been established with the trustee bank into which all Section 13 and New College monies are deposited on a monthly basis for the benefit of the University. The University is required to make debt service payments to the trustee bank on June 15 and December 15, which are sufficient to meet the debt service requirements on July 1 and January 1 of each year.

In August 2003, the University refunded the note payable secured to fund renovations of the Gallagher-Iba Arena by use of a new note payable agreement in the amount of $9,430. This note is also held by the ODFA and is collateralized by the same pledges. It is payable in annual installments, beginning July 1, 2004 and continuing through July 1, 2018. Interest is payable semiannually each January 1 and July 1 at variable annual interest rates ranging from 2% to 4.35%. The following maturity schedule does not reflect the maturities under new note payable agreements.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 9 - REVENUE BONDS AND NOTES PAYABLE - CONTINUED

Maturity Information

The scheduled maturities of the revenue bonds and notes payable are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Bonds</th>
<th>Notes</th>
<th>Total principal</th>
<th>Interest</th>
<th>Total payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$ 2,565</td>
<td>$ 3,401</td>
<td>$ 5,966</td>
<td>$ 4,650</td>
<td>$ 10,616</td>
</tr>
<tr>
<td>2005</td>
<td>2,960</td>
<td>973</td>
<td>3,933</td>
<td>4,389</td>
<td>8,322</td>
</tr>
<tr>
<td>2006</td>
<td>3,125</td>
<td>885</td>
<td>4,010</td>
<td>4,022</td>
<td>8,032</td>
</tr>
<tr>
<td>2007</td>
<td>3,210</td>
<td>930</td>
<td>4,140</td>
<td>3,998</td>
<td>8,138</td>
</tr>
<tr>
<td>2008</td>
<td>3,105</td>
<td>975</td>
<td>4,080</td>
<td>3,806</td>
<td>7,886</td>
</tr>
<tr>
<td>2009-2013</td>
<td>17,220</td>
<td>5,655</td>
<td>22,875</td>
<td>15,943</td>
<td>38,818</td>
</tr>
<tr>
<td>2014-2018</td>
<td>19,570</td>
<td>6,470</td>
<td>26,040</td>
<td>9,885</td>
<td>35,925</td>
</tr>
<tr>
<td>2019-2023</td>
<td>11,790</td>
<td>815</td>
<td>12,605</td>
<td>4,834</td>
<td>17,439</td>
</tr>
<tr>
<td>2024-2028</td>
<td>7,660</td>
<td>-</td>
<td>7,660</td>
<td>2,299</td>
<td>9,959</td>
</tr>
<tr>
<td>2029-2033</td>
<td>6,090</td>
<td>-</td>
<td>6,090</td>
<td>799</td>
<td>6,889</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 77,295</td>
<td>$ 20,104</td>
<td>$ 97,399</td>
<td>$ 54,625</td>
<td>$ 152,024</td>
</tr>
</tbody>
</table>

Deceased Revenue Bonds

In November 1995, the University defeased the Housing System Revenue Bonds of 1967A by placing funds in an irrevocable trust to provide all future debt service payments of the defeased bonds. These bonds have been escrowed to maturity (July 1, 2007) and the principal balance of the defeased 1967A bonds at June 30, 2003 was $325.

In March 1998, the University defeased the Housing System Revenue Bonds of 1964 by placing funds in escrow to provide future debt service payments. The 1964 bonds have been escrowed to maturity (April 1, 2004). The principal balance of the defeased 1964 bonds at June 30, 2003 is $125.

In August 1998, the University defeased the Athletic System Revenue Bonds of 1996 by placing funds into escrow to provide future debt service payments. The 1996 Athletic bonds have been escrowed to maturity (January 1, 2012). The principal balance of the defeased 1996 Athletic bonds at June 30, 2003 is $5,115.

In January 2001, the University defeased the Housing System Revenue Bonds of 1965 by placing funds in escrow to provide future debt service payments. The 1965 bonds have been escrowed to maturity (July 1, 2005). The principal balance of the defeased 1965 bonds at June 30, 2003 is $990.
NOTE 9 - REVENUE BONDS AND NOTES PAYABLE - CONTINUED

Defeased Revenue Bonds - Continued

In March 2002, the University defeased the Colvin Center Swimming Pool Restoration Project Revenue Bonds, Series 1993, by placing funds in escrow to provide future debt service payments. The 1993 bonds have been escrowed to the call date of July 1, 2003. The principle balance of the defeased 1993 bonds at June 30, 2003 is $600.

In May 2002, the University defeased the Health, Physical Education, and Recreation Facilities Bonds of 1989 by placing funds in escrow to provide future debt service payments. The 1989 bonds were escrowed to the call date of July 1, 2002 at which time the remaining principal balance was paid off.

In October 2002, the Housing Revenue Bonds, Series 1966, 1994A and 1994B were defeased by the closing of the Capstone Phase III project. The 1966 bonds were escrowed to the call date of January 1, 2003. The 1994A and 1994B bonds were escrowed to the call date of December 1, 2002, at which time the remaining principal balance was paid off.

NOTE 10 - LEASE OBLIGATIONS

Equipment Leases

The University has acquired certain equipment under various lease-purchase contracts and other capital lease agreements. The cost of University assets held under capital leases totaled $3,078 and $2,540 as of June 30, 2003 and 2002, respectively. Accumulated amortization of leased equipment totaled $1,757 and $1,544 at June 30, 2003 and 2002, respectively.

Oklahoma Capital Improvement Authority Leases

In September 1999, the Oklahoma Capital Improvement Authority ("OCIA") issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated $7,850 to the University. Concurrently with the allocation, the University entered into three lease agreements with OCIA, providing for six projects that are being funded by the OCIA bonds. The lease agreements provide for the University to make specified monthly payments to OCIA over the respective terms of the agreements, which range from 5 to 20 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 10 - LEASE OBLIGATIONS - CONTINUED

Oklahoma Capital Improvement Authority Leases - Continued

As of June 30, 2003 and 2002, the University has drawn down $7,845 and $7,672, respectively, of its total allotment for expenditures incurred in connection with the specific projects. These expenditures have been capitalized as investment in plant assets or recorded as non-capitalized expenditures, in accordance with University policy. The University has recorded a receivable from OCIA, totaling $5 and $178, for the allotments not drawn down as of June 30, 2003 and 2002, respectively, and a lease obligation payable to OCIA for the total amount of the allotment, less cumulative repayments. The University has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2003 and 2002, the unamortized bond issuance costs totaled $75 and $103, respectively.

During the years ended June 30, 2003 and 2002, OCIA made lease principal and interest payments totaling $853 and $854, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted State appropriations in the University’s statements of revenues, expenses and changes in net assets.

Oklahoma Development Finance Authority Master Lease Program

In March 2001, the Oklahoma Development Finance Authority (“ODFA”) issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001A. Of the total bond indebtedness, the State Regents for Higher Education allocated $5,560 to the University. The proceeds of the bonds are to provide for capital improvements at the University. As of June 30, 2003 and 2002, the University had drawn down $5,560 and $5,534, respectively, of its total allotment. At June 30, 2003 and 2002, other assets include $593 and $601, respectively, of amounts restricted for payments of debt service and closing costs.

In August 2001, the ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001B. Of the total bond indebtedness, the State Regents for Higher Education allocated $3,275 to the University. The proceeds of the bonds are to provide for capital improvements at the University. As of June 30, 2003 and 2002, the University has drawn down $3,275 and $3,213, respectively, of its total allotment. At June 30, 2003 and 2002, other assets include $340 and $343, respectively, of amounts restricted for payments of debt service and closing costs.

In December 2001, the ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001C. Of the total bond indebtedness, the State Regents for Higher Education allocated $1,949 to the University. The proceeds of the bonds are to provide for capital improvements at the University. As of June 30, 2003 and 2002, the University has drawn down $1,885 and $1,203, respectively, of its total allotment. At June 30, 2003 and 2002, other assets include $211 and $213, respectively, of amounts restricted for payments of debt service and closing costs.
NOTE 10 - LEASE OBLIGATIONS - CONTINUED

Oklahoma Development Finance Authority Master Lease Program - Continued

In April 2002, the ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002A. Of the total bond indebtedness, the State Regents for Higher Education allocated $241 to the University. The proceeds of the bonds are to provide for capital improvements at the University. As of June 30, 2003 and 2002, the University has drawn down $241 and $27, respectively, of its total allotment. At June 30, 2003 and 2002, other assets include $27 and $27, respectively, of amounts restricted for payments of debt service and closing costs.

In July 2002, the ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002B. Of the total bond indebtedness, the State Regents for Higher Education allocated $57 to the University. The proceeds of the bonds are to provide for capital improvements at the University. As of June 30, 2003, the University has drawn down the entire amount of its total allotment. At June 30, 2003, other assets include $7 of amounts restricted for payments of debt service and closing costs.

In December 2002, the ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002C. Of the total bond indebtedness, the State Regents for Higher Education allocated $450 to the University. The proceeds of the bonds are to provide for capital improvements at the University. As of June 30, 2003, the University has drawn down $442 of its total allotment. At June 30, 2003, other assets include $47 of amounts restricted for payments of debt service and closing costs.

In May 2003, the ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003A. Of the total bond indebtedness, the State Regents for Higher Education allocated $4,086 to the University. The proceeds of the bonds are to provide for capital improvements at the University. As of June 30, 2003, the University has drawn down $836 of its total allotment. At June 30, 2003, other assets include $290 of amounts restricted for payments of debt service and closing costs.

In connection with the ODFA Master Lease Program, the University has recorded a receivable from ODFA, totaling $3,322 and $1,048 for the allotments not drawn down as of June 30, 2003 and 2002, respectively, and lease obligations payable to ODFA for the total amounts of the allotments, less cumulative repayments.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 10 - LEASE OBLIGATIONS - CONTINUED

Future minimum lease payments for all capital lease obligations as of June 30, 2003, are as follows:

<table>
<thead>
<tr>
<th>Year ending June 30</th>
<th>Equipment leases</th>
<th>ODFA leases</th>
<th>OCIA leases</th>
<th>Interest</th>
<th>Total payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$ 564</td>
<td>$ 2,525</td>
<td>$ 539</td>
<td>$ 955</td>
<td>$ 4,583</td>
</tr>
<tr>
<td>2005</td>
<td>352</td>
<td>1,514</td>
<td>380</td>
<td>723</td>
<td>2,969</td>
</tr>
<tr>
<td>2006</td>
<td>320</td>
<td>1,338</td>
<td>360</td>
<td>608</td>
<td>2,626</td>
</tr>
<tr>
<td>2007</td>
<td>223</td>
<td>1,231</td>
<td>377</td>
<td>489</td>
<td>2,320</td>
</tr>
<tr>
<td>2008</td>
<td>32</td>
<td>1,049</td>
<td>393</td>
<td>408</td>
<td>1,882</td>
</tr>
<tr>
<td>2009-2013</td>
<td>-</td>
<td>3,403</td>
<td>1,657</td>
<td>1,249</td>
<td>6,309</td>
</tr>
<tr>
<td>2014-2018</td>
<td>-</td>
<td>-</td>
<td>1,927</td>
<td>470</td>
<td>2,397</td>
</tr>
<tr>
<td>2019-2021</td>
<td>-</td>
<td>-</td>
<td>522</td>
<td>37</td>
<td>559</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 1,491</td>
<td>$11,060</td>
<td>$ 6,155</td>
<td>$ 4,939</td>
<td>$ 23,645</td>
</tr>
</tbody>
</table>

NOTE 11 - FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the “Section Thirteen Fund State Educational Institutions” and the “New College Fund” held in the care of the Commissioners of the Land Office as Trustees. The University has the right to receive annually 30% of the distributions of income produced by “Section Thirteen Fund State Educational Institutions” assets and 100% of the distribution of income produced by the University’s “New College Fund.” The University received $4,279 and $3,759 during the years ended June 30, 2003 and 2002, respectively, which is restricted to the acquisition of buildings, equipment or other capital items. Present State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust fund for the University, held in trust by the Commissioners of the Land Office, is approximately $62,268 and $63,697 as of June 30, 2003 and 2002, respectively.

Oklahoma State Regents Endowment Trust Fund

The State has matched contributions received under the Endowed Chair Program. The State match amount, plus retained accumulated earnings, totaled approximately $38,688 and $38,510 at June 30, 2003 and 2002, respectively, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution on these funds; however, since legal title of the State match amount is retained by the Oklahoma State Regents, such funds have not been reflected in the accompanying financial statements. With regard to private matching funds, approximately $1,975 and $2,004 from donor matching funds and $316 and $317 in institutional matching funds as of June 30, 2003 and 2002, respectively, are on deposit with the Oklahoma State Regents for Higher Education, with the remaining matching funds of approximately $55,451 and $49,553 as of June 30, 2003 and 2002, respectively, held by the Oklahoma State University Foundation.
NOTE 12 - RETIREMENT PLANS

Through June 30, 1996, the University provided eligible employees the opportunity to participate in a defined contribution plan, the TIAA-CREF plan, and two defined benefit plans, the Teachers' Retirement System of Oklahoma (the "OTRS") and the Supplemental Retirement Plan. Effective June 30, 1996, the University terminated the Supplemental Retirement Plan such that no future retirees will be eligible to receive benefits under the plan.

The TIAA-CREF and OTRS plans are integrated with the University's ongoing retirement program. Effective July 1, 1993, these eligibility requirements were modified; however, any employee eligible under the previous requirements was included in the modified plan pursuant to a grandfather provision. Eligible employees include all faculty, administrative and professional and classified staff who are at least age 26 with one year of service and scheduled to work at least 1,560 hours annually.

Effective July 1, 1993, the University's retirement program requires the University to contribute 7% of the first $12 of each eligible employee's salary and 11% of the salary over $12. The contribution schedule changed July 1, 2003 to 11% of salary for employees hired on or after July 1, 1993. For employees hired before July 1, 2003, the University pays the first $1.50 of the OTRS cost in the fiscal year plus 10% of salary over $7.8. These retirement contributions are first distributed to the OTRS on mandatory members and optional members who were grandfathered July 1, 1993, as determined by the calculation of OTRS contributions as defined below (see Cost Sharing Multiple-Employer PERS). Any remaining retirement contributions are distributed to the TIAA-CREF plan.

Defined Contribution Plan

On May 8, 1971, the University approved a contract providing for a funded plan for staff retirement, the TIAA-CREF plan. The TIAA-CREF, which is a defined contribution plan qualified under Internal Revenue Code Section 401(a), provides an annuity in the name of the employee based upon contributions made by the University. All contributions to the TIAA-CREF are fully vested immediately.

The University's total payroll for the years ended June 30, 2003 and 2002 was approximately $221,032 and $214,387, respectively. The University's contributions to the TIAA-CREF were calculated using the base salary amount of approximately $198,325 and $190,094 in 2003 and 2002, respectively. The University funded mandatory participant contributions to the TIAA-CREF of approximately $8,193 and $8,208 in 2003 and 2002, respectively, which represents approximately 4% of covered payroll in 2003 and 2002. Employees may voluntarily contribute to the TIAA-CREF, as well as other qualified 403(b) plans, but such contributions are not considered part of the University's retirement program.

As of June 30, 2003 and 2002, the TIAA-CREF held no related party investments of the University.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 12 - RETIREMENT PLANS - CONTINUED

Oklahoma Teachers' Retirement System ("OTRS")

Plan Description
The University contributes to the OTRS, a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. The OTRS provides retirement, disability and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State. Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of OTRS to the Board of Trustees of the OTRS. The OTRS issues a publicly available financial report that includes financial statements and supplementary information for the OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152 or by calling (877) 738-6365 (toll free).

Funding Policy
The contribution requirements of system members and the University are established by and may be amended by the legislature of the State. For the year ended June 30, 2003, the contribution rate for the system members of 7% is applied to their maximum salary contribution election of either $58 or $74, or applied to their total compensation for those employees who began participating after June 30, 1995. For the year ended June 30, 2002, the contribution rate for the system members of 7% is applied to their maximum salary contribution election of either $53 or $69, or applied to their total compensation for those employees who began participating after June 30, 1995.

For 2003 and 2002, the local employer contribution rate due from the University was 7.05% and 6.8%, respectively. The State is also required to contribute to the OTRS on behalf of participating employers. For 2003 and 2002, the State contributed 3.54% of State revenues from sales and use taxes and individual income taxes to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2003 and 2002, the total amount contributed to the OTRS by the State on behalf of the University was approximately $7,448 and $7,882, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

The University's contributions to the OTRS for the years ended June 30, 2003 and 2002 were $11,356 and $10,596, respectively, equal to the required contributions for each year.
NOTE 12 - RETIREMENT PLANS - CONTINUED

Supplemental Retirement Plan

Plan Description
The University sponsors the Supplemental Retirement Plan (the “Plan”), a single-employer public employee retirement system, which was approved in 1971 and terminated as of June 30, 1996. Individuals employed by the University on or after July 1, 1980, when the TIAA-CREF annuity contribution became fully funded, were ineligible for participation in the Plan. Benefits vested upon retirement. The Plan guaranteed eligible employees with 25 years of service, provided they continuously participated in TIAA/CREF and OTRS, a level of annual retirement benefit if Social Security, the OTRS and the TIAA-CREF, when applicable, do not equal one-half of the average of the highest three years’ earnings. Authority to establish and amend benefit provisions rests with the Board of Regents. The Plan does not issue a stand-alone financial report.

Funding Policy
Contribution requirements of the University are established and may be amended by the Board of Regents. All contributions are made by the University. Benefits are funded under a “pay as you go” funding method; however, expenses are recorded as benefits accumulate.

Annual Pension Cost and Net Pension Asset
The University’s annual pension cost and net pension asset of the Plan for the year ended June 30, 2003 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual required contribution</td>
<td>$ 864</td>
</tr>
<tr>
<td>Interest on net pension obligation</td>
<td>(42)</td>
</tr>
<tr>
<td>Adjustment to annual required contribution</td>
<td>65</td>
</tr>
<tr>
<td>Annual pension cost</td>
<td>887</td>
</tr>
<tr>
<td>Contributions made</td>
<td>1,102</td>
</tr>
<tr>
<td>Increase in net pension asset</td>
<td>215</td>
</tr>
<tr>
<td>Net pension asset, beginning of year</td>
<td>525</td>
</tr>
<tr>
<td>Net pension asset, end of year</td>
<td>740</td>
</tr>
</tbody>
</table>

The net pension asset at June 30, 2003 and 2002 is included in prepaid expenses.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 12 - RETIREMENT PLANS - CONTINUED

Supplemental Retirement Plan - Continued

The annual required contribution for the current year was determined as part of the June 30, 2003 actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) an 8% investment rate of return and (b) 3.5% per year postretirement benefit increases. No projected salary increases are included as no current employees will be eligible for benefits. The investment rate of return includes an inflation component of 4%. The assumptions also include postretirement benefit increases, which will be funded by the University when granted. The Plan is an unfunded plan and, accordingly, no assets have been accumulated and no investment income is earned. The unfunded actuarial accrued liability is being amortized over ten years using the level dollar amortization method on a closed basis.

Three Year Trend Information

<table>
<thead>
<tr>
<th>Fiscal year ending</th>
<th>Annual pension cost (&quot;APC&quot;)</th>
<th>Percentage of APC contributed</th>
<th>Net pension asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2001</td>
<td>$1,019</td>
<td>92%</td>
<td>$253</td>
</tr>
<tr>
<td>June 30, 2002</td>
<td>$859</td>
<td>132%</td>
<td>$525</td>
</tr>
<tr>
<td>June 30, 2003</td>
<td>$887</td>
<td>124%</td>
<td>$740</td>
</tr>
</tbody>
</table>

Schedule of Funding Progress

<table>
<thead>
<tr>
<th>Actuarial valuation date</th>
<th>Unfunded actuarial accrued liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2001</td>
<td>$7,275</td>
</tr>
<tr>
<td>June 30, 2002</td>
<td>$6,511</td>
</tr>
<tr>
<td>June 30, 2003</td>
<td>$6,264</td>
</tr>
</tbody>
</table>

The actuarial accrued liability is based on the projected unit credit method.
NOTE 13 - RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Oklahoma Statutes require participation of all State agencies in basic general liability, tort claim coverage, directors and officers liability and property and casualty programs provided by the State of Oklahoma Department of Central Services Risk Management Division (the “SRMD”). In addition to these basic policies, the University’s Department of Risk, Plant and Property Management establishes guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

Oklahoma State University, including individual employees, is provided sovereign immunity when performing official business within the scope of their employment under the Oklahoma State Tort Claims Act. For risks not protected by sovereign immunity, it is the internal policy of the University’s Risk, Plant and Property Management department to accept initial risk in the form of retention or deductibles only to the extent that funds are available from the University’s general operations to maintain this risk.

Beyond acceptable retention levels, complete risk transfer is practiced by purchasing conventional insurance coverage directly or through the SRMD. These coverages are outlined as follows:

- The buildings and contents are insured for replacement value. Each loss incident is subject to a $500 deductible.
- General liability and tort claim coverages (including comprehensive general liability, auto liability, personal injury liability, aircraft liability, watercraft liability, leased vehicles and equipment) are purchased by the University from the SRMD. To complement coverage provided by State Statute and to meet specific coverage requirements for special grants and/or contracts, additional coverage is purchased based on specific departmental and institutional needs and risks, but the related risks are not considered material to the University as a whole. Claim settlements have not exceeded insurance coverage in each of the past three fiscal years.

**Self-Funded Programs**

The University’s life insurance program is self-funded. No contributions from employees are required for their individual coverage; however, employees must contribute a premium amount for covered dependents. The program is administered by a third party. The University is required to maintain a deposit with the third party in an amount approximating required reserves. Required reserves for life insurance coverage are 30% of previous policy year premiums.

Through June 30, 1999, the University’s health care programs were also self-funded. Effective July 1, 1999, the University terminated its self-insurance program, and is now participating in the State self-insurance program. The University believes that there is no exposure to pay run-off claims for the previous self-insured program at June 30, 2003.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 13 - RISK MANAGEMENT - CONTINUED

Self-Funded Programs - Continued

The University’s workers’ compensation program is also self-funded and is administered by a third party. The University maintains a cash deposit of $300 with the administrator and reimburses the administrator for claims paid and administrative expenses on a monthly basis. Benefits provided are prescribed by State law and include lump sum payments for rated disabilities, in addition to medical expenses and a portion of salary loss, resulting from a job-related injury or illness. The University records a liability for workers’ compensation in its financial statements based on annual actuarial valuations. As of June 30, 2003 and 2002, the accrued workers’ compensation liability totaled approximately $3,840 and $4,268, respectively, computed utilizing a discount rate of 5% for each year.

The University’s unemployment compensation insurance program is also self-funded. Unemployment benefits that separated employees receive are determined by Oklahoma Statutes and are administered by the Oklahoma Employment Security Commission (“OESC”). As a reimbursing employer, the University is billed quarterly by the OESC for benefits paid to former employees. The Board of Regents requires that the University maintain a minimum of $700 in reserve to cover claims. This minimum cash balance is considered each year during the rate-setting process.

NOTE 14 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the years ended June 30, 2003 and 2002, including a description of the relationship and operations are as follows:

The Oklahoma State University Foundation

Nature of Relationship - The Oklahoma State University Foundation (the “University Foundation”) was formed to promote and foster the educational, benevolent and scientific purposes of the University, and to create a fund to be used for any program, project or enterprise undertaken in the interest of the University, and to promote and foster educational and cultural interests in the State and southern and southwestern regions of the United States.

Description of Operations - The University Foundation acts largely as a fund-raising organization; soliciting, receiving, managing and disbursing contributions on behalf of the University. Most of the contributions received are designated by the donors to be used for specific purposes or by specific departments. In these instances, the University Foundation serves essentially as a conduit. Contributions that are not designated are used where the need is considered greatest, as determined by the University Foundation.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

($ in thousands)

June 30, 2003 and 2002

NOTE 14 - RELATED PARTY TRANSACTIONS - CONTINUED

Related party transactions and funds held of the University Foundation on behalf of the University are as follows during fiscal years:

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar value of transactions for the year ended June 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds disbursed to or on behalf of the University</td>
<td>$23,583</td>
<td>$20,271</td>
</tr>
<tr>
<td>Funds collected from the University</td>
<td>366</td>
<td>424</td>
</tr>
<tr>
<td>Nonmonetary goods distributed to the University</td>
<td>4,531</td>
<td>3,637</td>
</tr>
<tr>
<td>Funds held on behalf of or for the benefit of the University at June 30</td>
<td>243,190</td>
<td>229,487</td>
</tr>
<tr>
<td>Related party receivables and payables at June 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to the University</td>
<td>649</td>
<td>1,638</td>
</tr>
<tr>
<td>Due from the University</td>
<td>736</td>
<td>633</td>
</tr>
</tbody>
</table>

The following table sets forth summary financial information of the University Foundation as of and for the years ended June 30 as derived from its audited financial statements as reported on by other auditors:

<table>
<thead>
<tr>
<th>Description</th>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Total 2003</th>
<th>Total 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$42,705</td>
<td>$14,416</td>
<td>$2,210</td>
<td>$59,331</td>
<td>$41,452</td>
</tr>
<tr>
<td>Expenses</td>
<td>$37,767</td>
<td>-</td>
<td>-</td>
<td>$37,767</td>
<td>$33,682</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>4,938</td>
<td>14,416</td>
<td>2,210</td>
<td>21,564</td>
<td>7,770</td>
</tr>
<tr>
<td>Other gains (losses)</td>
<td>(560)</td>
<td>(6,227)</td>
<td>(1,074)</td>
<td>(7,861)</td>
<td>(26,303)</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>4,378</td>
<td>8,189</td>
<td>1,136</td>
<td>13,703</td>
<td>(18,533)</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>49,553</td>
<td>86,825</td>
<td>93,109</td>
<td>229,487</td>
<td>248,020</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$53,931</td>
<td>$95,014</td>
<td>$94,245</td>
<td>$243,190</td>
<td>$229,487</td>
</tr>
</tbody>
</table>

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

The University had outstanding commitments under construction contracts of approximately $13,486 and $2,178 at June 30, 2003 and 2002, respectively.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, the ultimate resolution of these matters will not have a material adverse effect upon the University's financial position.

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

Through October 31, 2002, the University was party to two agreements with the Collegiate Housing Foundation ("CHF"), an Alabama not-for-profit organization. Stillwater Oklahoma Projects I and II ("Projects") were operating divisions of CHF. The University also entered an agreement with CHF to manage these two residential life facilities located on the University's Stillwater campus. Under these agreements, the University received $155 and $1,089 in management fees for fiscal years 2003 and 2002, respectively. The University's Board of Regents also entered into ground lease agreements with CHF, under which CHF leased the land on which the facilities are located. The ground lease agreements were for 40 years through 2040. The University received payments of approximately $1,476 and $418 for the years ended June 30, 2003 and 2002, respectively, under these ground lease agreements. The construction of these Projects was financed largely through a series of taxable and non-taxable long-term revenue bonds issued by the Board of Trustees of the Payne County Economic Development Authority (the "Board"). The proceeds of these bonds were loaned to Projects I and II pursuant to loan agreements between the Board and the Projects. Pursuant to security agreements, leasehold deeds to secure debt, assignment of contract documents and assignment of rents, the Projects have granted a first lien security title in the leasehold estates created by the ground leases and a security interest in the revenues and accounts generated by the operations of the Projects. On October 31, 2002, substantially all assets and liabilities of Projects I and II were assumed by OSUF Phase III Student Housing, L.L.C. as described below. In addition, as directed under the bond agreements, the existing management and ground lease agreements were terminated as of the date the bonds were paid off.

On October 31, 2002, the Payne County Economic Authority issued its 2002 Series Variable Rate Demand Student Housing Revenue Bonds totaling $161,275, the proceeds of which were loaned to OSUF Phase III Student Housing, L.L.C. ("OSUF Phase III"), a special-purpose entity created for the benefit of the University Foundation. The loan to OSUF Phase III was made pursuant to a loan agreement dated October 1, 2002 to finance, construct and equip a student housing facility, remodel certain existing dormitories, finance existing bond indebtedness and construct appropriate dining facilities on the University's campus in Stillwater, Oklahoma. Assets related to the assumption and refinancing of existing bond indebtedness were acquired by OSUF Phase III, including approximately $76,000 of assets acquired and liabilities assumed of the Projects. The University also entered into agreements to manage the operations and dining facilities of the Projects. No payments were received by the University under this agreement during fiscal year 2003. The University's Board of Regents also entered into a ground lease agreement with OSUF Phase III, under which OSUF Phase III leased the land on which the facilities are located. The ground lease
NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

is for 30 years through 2032 and provides for an annual rental to the University equal to the “net available cash flow” from operations as defined in the agreement. No payments were received by the University during fiscal 2003 under the ground lease agreement.

Following is a summary of certain financial information for OSUF Phase III and the Projects as of and for the years ended June 30 as derived from the audited financial statements as reported on by other auditors:

<table>
<thead>
<tr>
<th></th>
<th>OSUF Phase III</th>
<th>Projects I and II Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2002</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>$ 17,563</td>
<td>$ -</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>108,086</td>
<td>66,316</td>
</tr>
<tr>
<td>Other assets</td>
<td>36,366</td>
<td>11,573</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$ 162,015</strong></td>
<td><strong>$ 77,889</strong></td>
</tr>
<tr>
<td>Bonds payable</td>
<td>$ 160,333</td>
<td>$ 77,585</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>13,451</td>
<td>2,531</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>173,784</strong></td>
<td><strong>80,116</strong></td>
</tr>
<tr>
<td>Member deficit</td>
<td>(11,769)</td>
<td>(2,227)</td>
</tr>
<tr>
<td><strong>Total liabilities and member deficit</strong></td>
<td><strong>$ 162,015</strong></td>
<td><strong>$ 77,889</strong></td>
</tr>
<tr>
<td>Revenues</td>
<td>$ 4,739</td>
<td>$ 6,518</td>
</tr>
<tr>
<td>Expenses</td>
<td>(6,057)</td>
<td>(8,027)</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>(9,245)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Comprehensive loss</strong></td>
<td><strong>$ (10,563)</strong></td>
<td><strong>$ (1,509)</strong></td>
</tr>
</tbody>
</table>

The University has also entered into certain agreements with OSUF Okmulgee Student Housing, L.L.C. (the “LLC”), a special purpose entity created for the benefit of the University Foundation. The LLC was formed solely to facilitate financing and constructing of a student apartment project at the University’s campus in Okmulgee, Oklahoma. The University entered into an agreement with the LLC to manage the operations of the project. As part of the agreement, the University received approximately $0 and $260 in management fees for fiscal years 2003 and 2002, respectively. The University’s Board of Regents also entered into a ground lease agreement with the LLC, under which the LLC leased the land on which the facilities are located. The ground lease agreement is for 40 years through 2040 and provides for an annual rental to the University equal to the “net available cash flow” from operations as defined in the agreement. To the extent that cash flow from the project is not sufficient to pay its operating expenses, the University is required to pay such amounts from its unrestricted funds. The University received payments of approximately $365 and $0 for the years ended June 30, 2003 and 2002, respectively, under the ground lease agreement.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

The construction project has been financed largely from the proceeds of a series of primarily nontaxable and taxable long-term revenue bonds issued by Rural Enterprises of Oklahoma, Inc. ("REO") on behalf of the LLC. The bonds are nonrecourse to REO and the LLC. In addition to the debt service reserves, the bonds are collateralized by the assignment of rents and leases, the LLC’s rights under the construction contract for the project and a bond insurance policy. At such time as the financing for the project is paid in full, the mortgage will be cancelled and the LLC’s interest in the facility and the underlying property will be conveyed to the University.

Following is a summary of certain financial information for the LLC as of and for the years ended June 30 as derived from audited financial statements as reported on by other auditors:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment</td>
<td>$11,209</td>
<td>$11,634</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,367</td>
<td>3,813</td>
</tr>
<tr>
<td>Total assets</td>
<td>$14,576</td>
<td>$15,447</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>$15,503</td>
<td>$15,664</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>536</td>
<td>1,022</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>16,039</td>
<td>16,686</td>
</tr>
<tr>
<td>Member deficit</td>
<td>(1,463)</td>
<td>(1,239)</td>
</tr>
<tr>
<td>Total liabilities and member deficit</td>
<td>$14,576</td>
<td>$15,447</td>
</tr>
<tr>
<td>Revenues</td>
<td>$1,707</td>
<td>$1,602</td>
</tr>
<tr>
<td>Expenses</td>
<td>(1,931)</td>
<td>(2,841)</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(224)</td>
<td>$(1,239)</td>
</tr>
</tbody>
</table>

At June 30, 2003, the University accounts include an account entitled Physical Plant Special Events with accumulated operational expenditures of approximately $2,500. The University believes that substantially all of the expenses are General University expenses; however, the University is analyzing these expenditures to determine if the University Athletics Program should be responsible for any portion.

NOTE 16 - SUBSEQUENT EVENT

In August 2003, in connection with the renovation of the football stadium, the University Foundation secured a $16,000 loan from a bank to assist the University in funding the project. In conjunction with this loan, the University Foundation and the University have entered into a financing agreement that grant the University Foundation a right of offset in current and future pledges received by the University Foundation toward the project and other funds held by the University Foundation for the benefit of the University Athletics Program, with certain limitations regarding seating revenue.
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 16 - SUBSEQUENT EVENT - CONTINUED

In addition, in September 2003, the University issued the Athletic Facility Revenue Bonds, Series 2003 with an outstanding balance of $19,385, maturing in varying amounts to August 12, 2033. The Series 2003 bonds are part of a project to construct, improve, renovate and enlarge athletic facilities. In connection therewith, the University Foundation extended a security agreement under which certain contributions to the Foundation for athletic facilities have been pledged along with other University revenues and dedicated use taxes, as collateral for payment of the new bonds, which are being issued on parity with the University’s Athletic Facilities Revenue Bonds, Series 1998.

On September 1, 2003, Cowboy Golf, Inc. (“Golf”), a subsidiary of the Foundation organized to construct and operate Karsten Creek, the University’s golf course, was merged into OSU Cowboy Golf, Inc. (“OSU Golf”), a tax-exempt entity created for the benefit of the University to operate the University’s golf course. In connection with this merger, the University Foundation also agreed to transfer OSUF Building Corporation (“Building Corporation”), a subsidiary of the University Foundation formed to hold certain real properties, and its related assets, including the clubhouse at Karsten Creek, to OSU Golf, by allowing OSU Golf to become the sole and only member of Building Corporation, a not-for-profit entity. In addition, the University Foundation also plans to transfer to OSU Golf all other assets held by the Foundation for the benefit of the men’s and women’s golf programs at the University. In aggregate, approximately $19,900, $1,000 and $18,900 of the consolidated assets, liabilities and net assets of the University Foundation at June 30, 2003 as reflected in its audited financial statements will be transferred to OSU Golf in connection with these above-described transactions. The University Foundation plans to continue its role as the initial recipient of gifts to the University’s men’s and women’s golf programs, but will pass these gifts on to OSU Golf upon their receipt by the University Foundation.

NOTE 17 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University’s operating expenses by functional classification were as follows for the:

<table>
<thead>
<tr>
<th>Functional classification</th>
<th>Compensation and benefits</th>
<th>Contractual services</th>
<th>Supplies and materials</th>
<th>Utilities</th>
<th>Communication</th>
<th>Other operating expenses</th>
<th>Scholarships</th>
<th>Depreciation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$129,843</td>
<td>$15,623</td>
<td>$4,752</td>
<td>$27</td>
<td>$1,220</td>
<td>$8,069</td>
<td>-</td>
<td>-</td>
<td>$159,534</td>
</tr>
<tr>
<td>Research</td>
<td>56,252</td>
<td>11,903</td>
<td>7,803</td>
<td>168</td>
<td>416</td>
<td>3,088</td>
<td>-</td>
<td>-</td>
<td>80,230</td>
</tr>
<tr>
<td>Public service</td>
<td>42,358</td>
<td>3,117</td>
<td>1,563</td>
<td>157</td>
<td>423</td>
<td>2,616</td>
<td>-</td>
<td>-</td>
<td>50,224</td>
</tr>
<tr>
<td>Academic support</td>
<td>29,419</td>
<td>6,323</td>
<td>2,053</td>
<td>16</td>
<td>509</td>
<td>1,359</td>
<td>-</td>
<td>-</td>
<td>39,679</td>
</tr>
<tr>
<td>Student services</td>
<td>11,356</td>
<td>3,226</td>
<td>415</td>
<td>-</td>
<td>341</td>
<td>487</td>
<td>-</td>
<td>-</td>
<td>15,825</td>
</tr>
<tr>
<td>Institutional support</td>
<td>13,625</td>
<td>2,599</td>
<td>278</td>
<td>-</td>
<td>345</td>
<td>8,403</td>
<td>-</td>
<td>-</td>
<td>25,250</td>
</tr>
<tr>
<td>Operation of plant</td>
<td>8,517</td>
<td>7,988</td>
<td>1,065</td>
<td>11,325</td>
<td>238</td>
<td>136</td>
<td>-</td>
<td>-</td>
<td>29,269</td>
</tr>
<tr>
<td>Scholarships</td>
<td>1,495</td>
<td>-</td>
<td>19</td>
<td>-</td>
<td>80</td>
<td>31,221</td>
<td>-</td>
<td>-</td>
<td>32,815</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>33,910</td>
<td>18,821</td>
<td>20,067</td>
<td>4,557</td>
<td>2,384</td>
<td>21,183</td>
<td>-</td>
<td>-</td>
<td>100,922</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>36,098</td>
<td>36,098</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$326,775</td>
<td>$69,600</td>
<td>$38,015</td>
<td>$16,250</td>
<td>$5,876</td>
<td>$46,021</td>
<td>$31,221</td>
<td>$36,098</td>
<td>$569,856</td>
</tr>
</tbody>
</table>

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Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 17 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS - CONTINUED

Year ended June 30, 2002

<table>
<thead>
<tr>
<th>Functional classification</th>
<th>Compensation and benefits</th>
<th>Contractual services</th>
<th>Supplies and materials</th>
<th>Utilities</th>
<th>Communication</th>
<th>Other operating expenses</th>
<th>Scholarships</th>
<th>Depreciation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$128,368</td>
<td>$7,651</td>
<td>$5,665</td>
<td>$37</td>
<td>$1,167</td>
<td>$11,490</td>
<td>-</td>
<td>-</td>
<td>$154,378</td>
</tr>
<tr>
<td>Research</td>
<td>53,581</td>
<td>10,674</td>
<td>7,772</td>
<td>161</td>
<td>395</td>
<td>2,579</td>
<td>-</td>
<td>-</td>
<td>75,162</td>
</tr>
<tr>
<td>Public service</td>
<td>42,788</td>
<td>2,723</td>
<td>1,721</td>
<td>203</td>
<td>447</td>
<td>2,652</td>
<td>-</td>
<td>-</td>
<td>50,534</td>
</tr>
<tr>
<td>Academic support</td>
<td>29,224</td>
<td>5,117</td>
<td>2,449</td>
<td>77</td>
<td>644</td>
<td>997</td>
<td>-</td>
<td>-</td>
<td>38,508</td>
</tr>
<tr>
<td>Student services</td>
<td>11,888</td>
<td>4,500</td>
<td>357</td>
<td>-</td>
<td>330</td>
<td>431</td>
<td>-</td>
<td>-</td>
<td>17,506</td>
</tr>
<tr>
<td>Institutional support</td>
<td>14,287</td>
<td>2,206</td>
<td>243</td>
<td>-</td>
<td>321</td>
<td>935</td>
<td>-</td>
<td>-</td>
<td>17,992</td>
</tr>
<tr>
<td>Operation of plant</td>
<td>9,161</td>
<td>9,563</td>
<td>1,351</td>
<td>11,770</td>
<td>417</td>
<td>32</td>
<td>-</td>
<td>-</td>
<td>32,294</td>
</tr>
<tr>
<td>Scholarships</td>
<td>1,456</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>73</td>
<td>28,986</td>
<td>-</td>
<td>-</td>
<td>30,519</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>31,596</td>
<td>18,206</td>
<td>17,354</td>
<td>5,106</td>
<td>2,277</td>
<td>11,944</td>
<td>-</td>
<td>-</td>
<td>86,483</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>39,573</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$322,349</td>
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<td>$36,916</td>
<td>$17,354</td>
<td>$5,908</td>
<td>$31,133</td>
<td>$28,986</td>
<td>$39,573</td>
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NOTE 18 - SEGMENT INFORMATION

The University issues revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Descriptive information for each of the University’s segments is shown below:

Housing Revenue Bonds of 1966

The Housing Revenue Bonds of 1966 were issued to provide construction funding for Willham South and Ilba Residence Halls. The bonds were defeased in fiscal year 2003.

Student Union Revenue Bonds of 1978, 1994 and 2002

Refunding of old bonds and new funding for renovation of the building was provided by the Student Union Revenue Bonds of 1978, 1994 and 2002.

Health, Physical Education and Recreation Bonds of 1989

The Health, Physical Education and Recreation Bonds of 1989 were issued to refund two older bond issues and provide construction funding for the building of the Wellness Center. The bonds were defeased in fiscal year 2002.
NOTE 18 - SEGMENT INFORMATION - CONTINUED

Colvin Swimming Pools Restoration Project Revenue Bonds of 1993

An indoor pool and an outdoor pool were renovated with proceeds from the Colvin Swimming Pools Restoration Project Revenue Bonds of 1993. The bonds were defeased in fiscal year 2002.

Housing Revenue Bonds of 1994A and 1994B

The Housing Revenue Bonds of 1994A refunded the Housing Revenue Bonds of 1987A. Series B of the 1994 bonds provided for the renovation of a portion of Bennett Residence Hall. The bonds were defeased in fiscal year 2003.

Utility System Revenue Bonds of 1998

The west side chilled water plant was built with funds provided by the Utility System Revenue Bonds of 1998.

Athletic Facilities Revenue Bonds of 1998


Oklahoma City Student Center Revenue Bonds of 1992

Oklahoma City Student Center Revenue Bonds, Series 1992, were issued for the construction of a student center on the Oklahoma City campus.

Okmulgee Student Union Refunding Revenue Bonds of 1995

Okmulgee Student Union Refunding Revenue Bonds of 1995 refunded the previous bonds issued to build the student union on the Okmulgee campus.

Recreation Facilities Revenue Bonds of 2002

The Recreation Facilities Revenue Bonds, Series 2002, refunded the outstanding Health, Physical Education and Recreation Bonds of 1989 and provided funds for the renovation and expansion of the Colvin Center.

Condensed financial information for each of the University's segments follows:
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED
($ in thousands)

June 30, 2003 and 2002

NOTE 18 - SEGMENT INFORMATION - CONTINUED

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**CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

|                         |                         |                         |                                                   |                         |                                                     |
| Operating revenues     | 1,034                     | 1,885                     | 16,410                                            | 16,012                  | -                                                      | 3,016                     |
| Operating expenses     | (514)                     | (1,719)                   | (15,222)                                          | (14,967)                | -                                                      | (2,400)                   |
| Depreciation expense   | (149)                     | (274)                     | (274)                                            | (390)                   | -                                                      | -                        | - | - |
| Net operating income   | 520                        | 17                       | 914                                              | 655                     | -                                                      | 616                       |
| Nonoperating revenues/expenses |                   |                         |                                                   |                         |                                                     |
| Investment income      | 3                           | 18                       | 23                                               | 46                      | -                                                      | 13                        |
| Gifts of equipment     | -                           | -                        | -                                               | -                      | -                                                      | -                        | - | - |
| Gift income            | -                           | -                        | -                                               | 119                     | -                                                      | -                        | - | - |
| Interest expense       | -                           | (55)                     | (245)                                            | (197)                   | -                                                      | (160)                     |
| Other (net)            | (39)                        | 5                        | (1,863)                                          | 748                     | -                                                      | 37                        |
| Transfers in (out)     | (606)                      | (252)                    | 1,105                                            | (2,272)                 | -                                                      | (2,498)                   |
| Change in net assets   | (122)                      | (267)                    | 53                                               | (1,020)                 | -                                                      | (1,992)                   |
| Net assets - beginning of year | 122                     | 389                       | 11,210                                           | 12,230                  | -                                                      | 1,992                     |
| Net assets - end of year | $1,122                   | $11,263                  | $11,210                                          | $11,210                 | -                                                      | $11,210                   |

**CONDENSED STATEMENT OF CASH FLOWS**

|                         |                         |                         |                                                   |                         |                                                     |
| Net cash flows provided by |                   |                         |                                                   |                         |                                                     |
| Operating activities    | 584                        | 238                      | (543)                                            | (877)                   | -                                                      | 4,041                     |
| Noncapital financing    | 119                        | -                        | -                                               | -                      | -                                                      | -                        | - | - |
| Capital and related financing | (1,349)               | (486)                    | 2,082                                            | 83                      | -                                                      | (1,951)                   |
| Investment activities   | 534                        | 21                       | (1,310)                                          | (83)                   | -                                                      | 309                       |
| Net increase (decrease) in cash | (231)                    | (227)                    | 348                                              | (877)                   | -                                                      | 2,399                     |
| Cash - beginning of year | 231                        | 458                      | 1,252                                            | 2,129                   | -                                                      | (2,399)                   |
| Cash - end of year      | $1,600                      | $1,252                    | $2,129                                           | $ -                     | -                                                      | $ -                      | - | - |
NOTE 18 - SEGMENT INFORMATION - CONTINUED

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<td>Net assets - end of year</td>
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<td><strong>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</strong></td>
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<td><strong>CONDENSED STATEMENT OF CASH FLOWS</strong></td>
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<td>Net cash flows provided by</td>
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<td>Operating activities</td>
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<td>Noncapital financing</td>
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<td>Cash - beginning of year</td>
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<td>Cash - end of year</td>
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Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

($ in thousands)

June 30, 2003 and 2002

NOTE 18 - SEGMENT INFORMATION - CONTINUED

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<td>2003</td>
<td>2002</td>
<td>2003</td>
</tr>
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</table>

**CONDENSED STATEMENT OF NET ASSETS**

**Assets**

- Current assets
  - 2003: $4,791
  - 2002: $5,566
- Noncurrent assets
- Capital assets
  - 2003: $16,867
  - 2002: $18,181
- Total assets
  - 2003: $21,658
  - 2002: $23,747

**Liabilities**

- Interfund payables
  - 2003: $339
  - 2002: $347
- Current liabilities
  - 2003: $1,875
  - 2002: $2,237
- Long-term liabilities
  - 2003: $15,191
  - 2002: $15,835
- Total liabilities
  - 2003: $17,045
  - 2002: $18,419

**Net assets**

- Invested in capital assets, net of related debt
  - 2003: $1,032
  - 2002: $1,746
- Restricted
  - 2003: $1,788
  - 2002: $1,680
- Unrestricted
  - 2003: $1,453
  - 2002: $1,902
- Total net assets
  - 2003: $4,253
  - 2002: $5,328

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**Operating revenues**

- 2003: $16,757
- 2002: $18,744

**Operating expenses**

- 2003: $(17,361)
- 2002: $(17,565)

**Depreciation expense**

- 2003: $(469)
- 2002: $(43)

**Net operating income**

- 2003: $(1,073)
- 2002: $(1,136)

**Nonoperating revenues/expenses**

- Investment income
  - 2003: $34
  - 2002: $3
- Gifts of equipment
- Gift income
  - 2003: $-4,152
  - 2002: $-4,152
- Interest expense
  - 2003: $(818)
  - 2002: $(862)
- Other (net)
  - 2003: $(1,778)
  - 2002: $(670)

**Transfers in (out)**

- 2003: $782
- 2002: $641

**Change in net assets**

- 2003: $(1,075)
- 2002: $2,096

**Net assets - beginning of year**

- 2003: $5,328
- 2002: $2,632

**Net assets - end of year**

- 2003: $4,253
- 2002: $5,328

**CONDENSED STATEMENT OF CASH FLOWS**

**Net cash flows provided by**

- Operating activities
  - 2003: $(556)
  - 2002: $(419)
- Noncapital financing
  - 2003: $4,152
- Capital and related financing
  - 2003: $213
  - 2002: $732
- Investment activities
  - 2003: $34
  - 2002: $8
  - Net increase (decrease) in cash
    - 2003: $(309)
    - 2002: $321
- Cash - beginning of year
  - 2003: $4,280
  - 2002: $3,959
- Cash - end of year
  - 2003: $(3,971)
  - 2002: $4,280
Oklahoma State University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

($ in thousands)

June 30, 2003 and 2002

NOTE 18 - SEGMENT INFORMATION - CONTINUED

<table>
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<th>OKMULGEE STUDENT UNION REFINING PROJECT REVENUE</th>
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CONDENSED STATEMENT OF NET ASSETS

Assets
- Current assets $111 $109 $12,713 $21,575
- Noncurrent assets 134 138 - 57
- Capital assets 2,032 2,109 2,315 4,739
- Total assets 2,277 2,356 15,028 26,371

Liabilities
- Interfund payables - - - -
- Current liabilities 113 110 1,359 -
- Long-term liabilities 625 730 21,645 21,860
- Total liabilities 738 840 23,004 21,860

Net assets
- Invested in capital assets, net of related debt 1,302 1,279 (12,058) 4,739
- Restricted 132 135 3,631 (272)
- Unrestricted 105 103 431 44
- Total net assets $1,539 $1,517 $7,976 $4,511

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating revenues $250 $252 $1,721 $132
Operating expenses (115) (193) (7) (27)
Depreciation expense (77) (77) (169) -
Net operating income 58 (18) 1,545 105

Nonoperating revenues/expenses
- Investment income 1 4 222 -
- Gifts of equipment - - - -
- Gift income - - - -
- Interest expense (37) (41) (1,193) -
- Other (net) - - (11,101) (1,593)
- Transfers in (out) - - (1,960) 5,099
- Change in net assets 22 40 (12,487) 4,511
- Net assets - beginning of year 1,517 1,477 4,511 -
- Net assets - end of year $1,539 $1,517 $(7,976) $4,511

CONDENSED STATEMENT OF CASH FLOWS

Net cash flows provided by
- Operating activities $7 $15 $432 $-
- Noncapital financing - - - -
- Capital and related financing (5) (10) (9,578) 21,529
- Investment activities 4 - 10,742 (18,556)
- Net increase (decrease) in cash 6 5 1,596 2,973
- Cash - beginning of year 93 88 2,973 -
- Cash - end of year $99 $93 $4,562 $2,973

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Independent Auditors’ Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the financial statements of Oklahoma State University (the “University”) as of and for the year ended June 30, 2003 and have issued our report thereon dated October 23, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether the University’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the University’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal controls over financial reporting, which we have reported to management of the University in a separate letter dated October 23, 2003.

This report is intended solely for the use of the Fiscal Affairs Committee and Board of Regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 23, 2003