

Pittsburg State University Annual Financial Report

For the Fiscal Year ended June 30, 2015
Pittsburg, Kansas

Pittsburg State University

Management's Discussion and Analysis

For the Year Ended June 30, 2015

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of Pittsburg State University (the "University") based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. This discussion – along with the financial statements and related footnote disclosures – has been prepared by management and should be read in conjunction with the statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

USING THIS ANNUAL REPORT

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

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of the University at a point in time (at the end of the fiscal year). Its purpose is to present a financial snapshot of the University. The Statement of Net Position includes all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Under the accrual basis of accounting all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Within the Statement of Net Position, assets and liabilities are further classified as current or non-current. Current classification distinguishes those assets that are highly liquid and available for immediate and unrestricted use by the University and those liabilities likely to be settled in the next 12 months.

Net Position is divided into three categories:

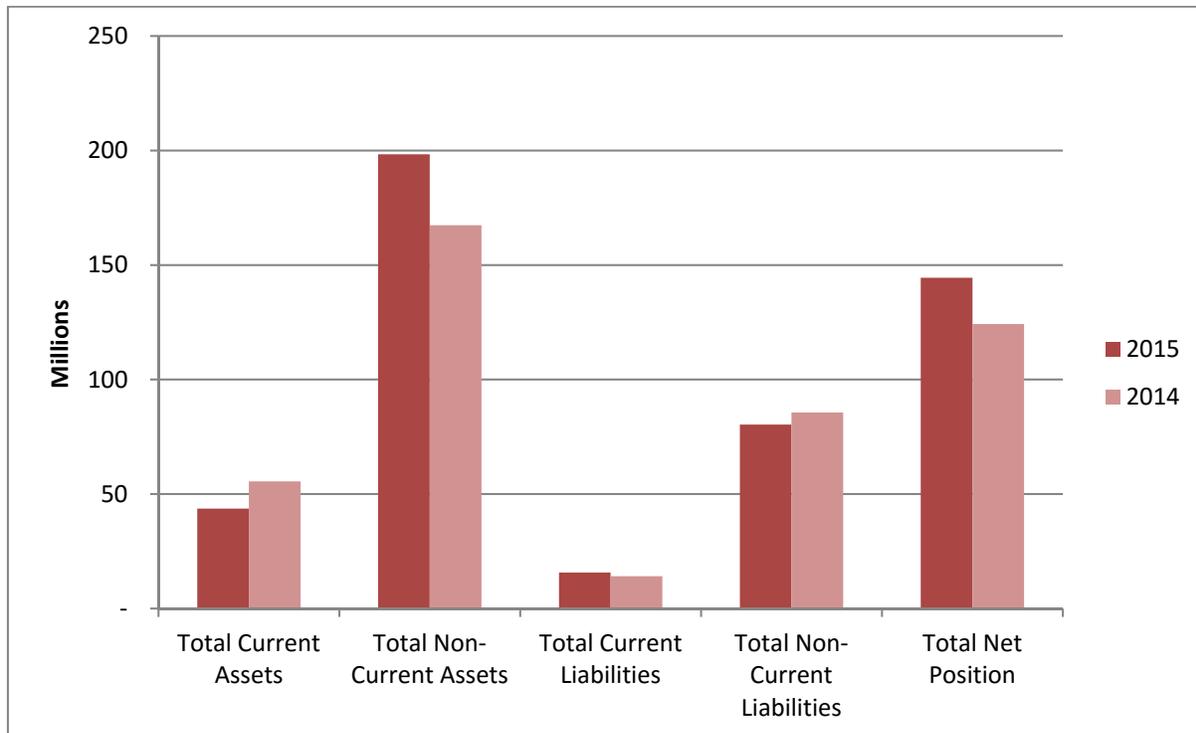
1. **Net investment in capital assets**, indicates the university's equity in property, plant, and equipment owned by the University.
2. **Restricted net position** is further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is only available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

Total assets at June 30, 2015 were \$242.0 million, an increase of \$19.1 million or 8.57% compared to \$222.9 million at June 30, 2014. Capital assets, net of depreciation, comprised 80.5%, or \$194.9 million of the total assets.

Total liabilities were \$96.0 million at June 30, 2015, a decrease of \$3.8 million or 3.8% compared to \$99.8 million at June 30, 2014. Noncurrent liabilities comprised 83.6%, or \$80.3 million of the liabilities.

Total net position at June 30, 2015 was \$144.5 million, a \$20.3 million increase over the prior year of \$124.2 million or a 16.3% increase in net position. The breakout of net position is shown below:

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|----------------------------------|-----------------------------|-----------------------------|
| Net investment in capital assets | \$129,235,378 | \$ 92,769,039 |
| Restricted net position | 14,690,615 | 30,524,972 |
| Unrestricted net position | <u>540,782</u> | <u>933,637</u> |
| Total net position | <u>\$144,466,775</u> | <u>\$124,227,648</u> |



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the total revenues earned and expenses incurred by the University for operating, non-operating and other related activities during a period of time. Its purpose is to assess the University's operating results.

Revenues

Operating revenues at the University as of June 30, 2015 increased by 3.3% over the previous fiscal year. The following is a brief summary of the significant changes:

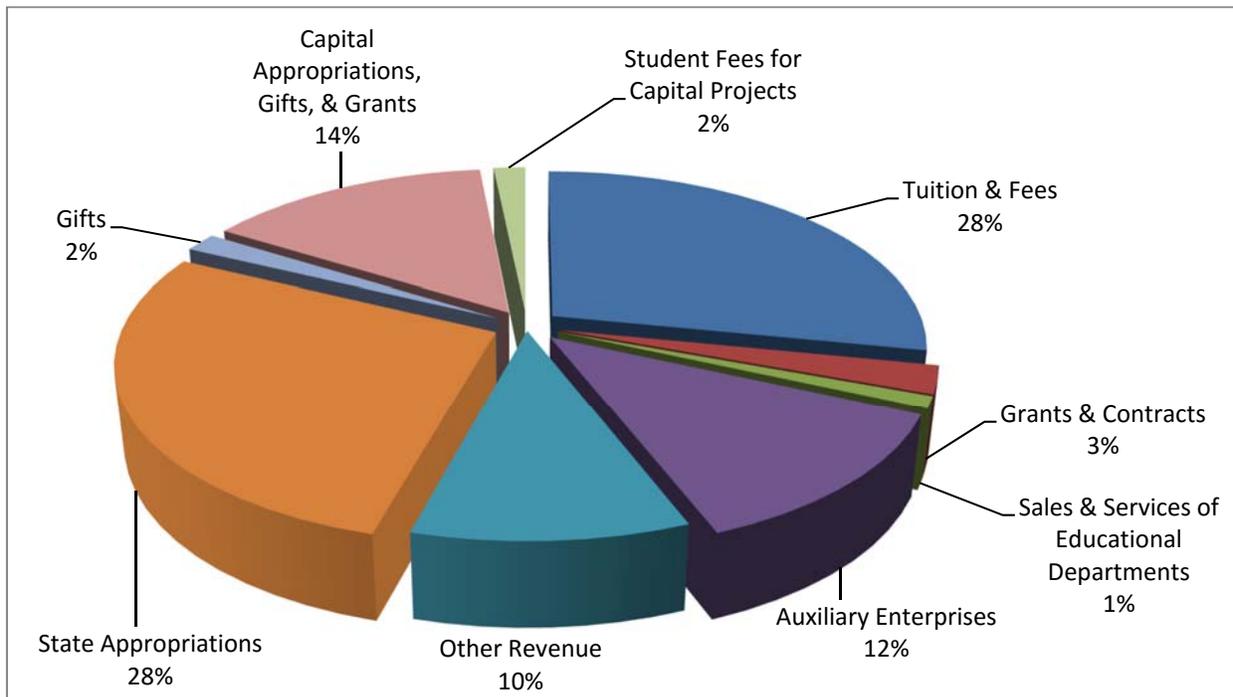
- Student tuition and fee revenues, after scholarship allowances, were \$35.7 million in 2015, compared to \$34.1 million in 2014, a net increase of 5.0%.
- Federal grants and contracts decreased \$0.8 million from \$2.7 million in 2014 to \$1.9 million in 2015.

- Auxiliary enterprise revenues, increased 5.4% from \$14.9 million to \$15.7 million in 2015. Auxiliary enterprises include University Housing, Parking Services, Health Services, Student Center, Athletics, and Student Publications. Auxiliary enterprise revenues are 27.2% of total operating revenue.

Total non-operating revenues (expenses) were up \$3 million from \$47.7 million to \$50.7 million. The following is a brief summary of the significant changes:

- Gifts increased from \$2.05 million in 2014 to \$2.17 in 2015. Capital Grants and Gifts increased from \$14.0 million in 2014 to \$16.8 million. See Capital Assets section for details.
- Other non-operating revenues (expenses) increased from \$10.1 million in 2014 to \$11.0 million.

Revenues for fiscal year 2015 are displayed in the following graph:



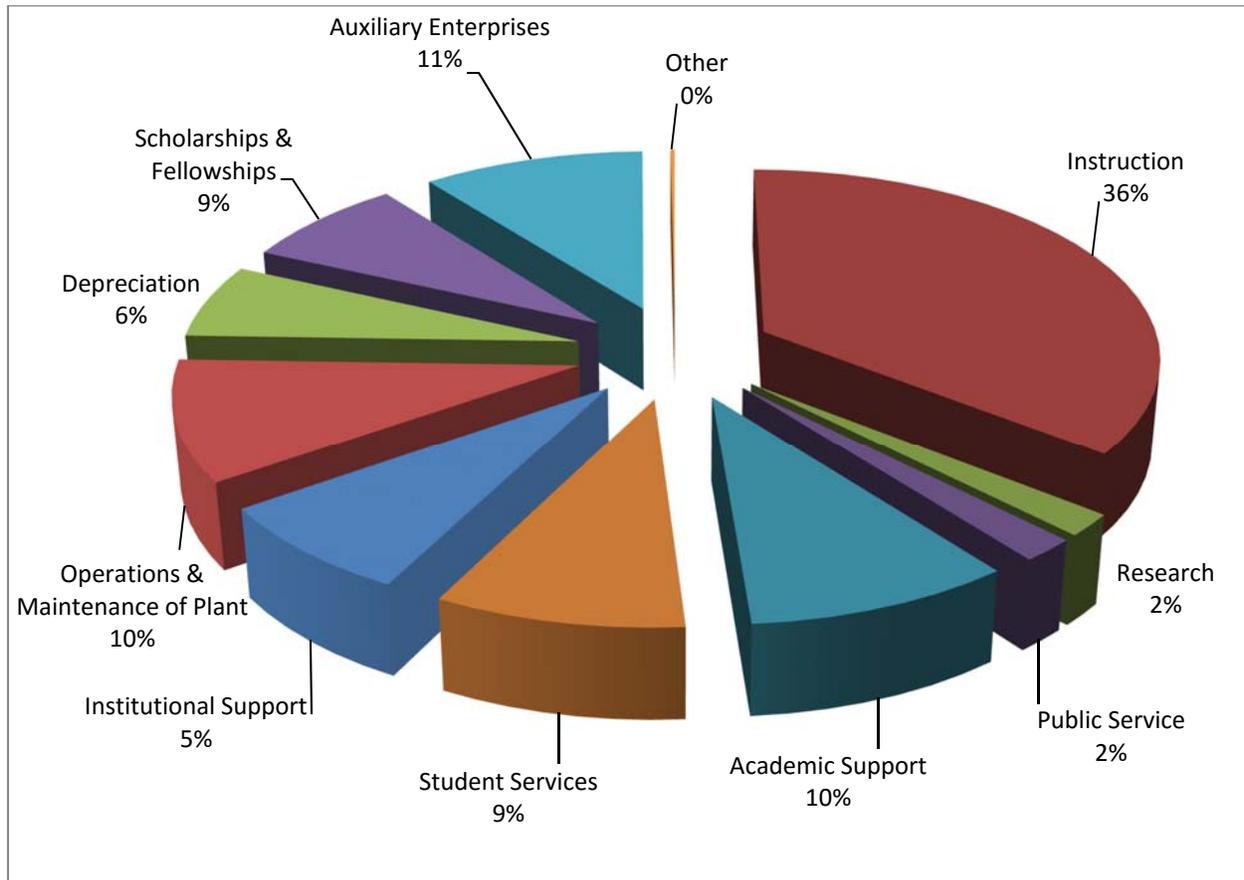
Expenses

Operating expenses increased \$2.1 million, from \$101.7 million for the 2014 fiscal year to \$103.8 million for the 2015 fiscal year. The following is a brief summary of the significant changes:

- Instruction expenses, which comprise 35.7% of total operating expenses, were \$37.0 million in 2015, an increase of \$1.2 million or 3.4%, compared to \$35.8 million in 2014. Instruction includes expenses from academic departments campus wide.
- Public Service expenses increased \$0.3 million, or 17.6%, from \$1.7 million to \$2.0 million.
- Depreciation expense increased \$0.8 million from \$5.7 million in 2014 to 6.5 million in 2015.
- Auxiliary enterprise expenses, which include University Housing, Parking Services, Health Services, Student Center, Athletics, and Student Publications, decreased from \$10.8 million in 2014 to \$10.7 million in 2015.

- Non-operating expenses consist of interest expense. Interest expense increased 16.7%, from \$2.4 million to \$2.8 million.

Expenses for fiscal year 2015 are displayed in the following graph:



Extraordinary Items

The University did not have any special and extraordinary items in 2015.

Endowment Expenses Paid On Behalf of the University

The Pittsburg State University Foundation, Inc. is an independent, not-for-profit organization, whose primary mission is to raise funds for the University, provide direct and indirect support to the University that is not entirely reflected in the University's Statement of Revenues, Expenses, and Changes in Net Position. Expense items paid on behalf of the University by the Foundation include expenses such as travel, supplies, equipment, books, and construction. Total University support provided by the Foundation was approximately \$2.2 and \$2.0 million in 2015 and 2014, respectively. Capital Gifts from the Foundation was approximately \$16.8 and \$14.0 million in 2015 and 2014. This is largely due to capital projects using private donations, which are described in further detail in the Capital Assets section. The Foundation's financial statements are included following the University's financial statements in this Annual Financial Report.

Net Position

Net position increased by \$20.2 million over the previous fiscal year.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments of the University during a period of time. Its purpose is to assess the University's ability to generate future net cash flows and meet its obligations as they come due. The following is a condensed statement of cash flows for the years ended June 30, 2015 and 2014:

| | June 30, 2015 | June 30, 2014 |
|---|----------------------|----------------------|
| Net Cash provided (used) by: | | |
| Operating activities | \$(38,778,573) | \$(37,702,435) |
| Non-capital financing activities | 38,378,770 | 37,284,637 |
| Capital and related financing activities | (11,392,987) | 13,694,984 |
| Investing activities | 72,865 | 322,792 |
| Net increase (decrease) in cash | (11,719,925) | 13,599,978 |
| Beginning cash and cash equivalent balances | 52,105,773 | 38,505,795 |
| Ending cash and cash equivalent balances | <u>\$ 40,385,848</u> | <u>\$ 52,105,773</u> |

Cash provided by operating activities includes tuition and fees, grant and contract revenues, sales of educational activities and auxiliary enterprises. Cash flows from operating activities will always be negative because GASB requires state appropriations to be reported as cash flows from non-capital financing activities. Cash flows from capital financing activities include all plant funds related long-term debt activities. Cash flows from investing activities show all uses of cash and cash equivalents to purchase investments, and all increases in cash and cash equivalents as a result of selling investments or earning income on cash and investments.

CAPITAL ASSETS

The University continued to invest in capital assets during the 2015 fiscal year. Additional detailed information regarding capital asset additions, retirements and depreciation is available in Note 6 to the financial statements.

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

- The Bicknell Family Center for the Arts provides two new performance venues, lobby, gallery, and back-of-the-house spaces with all the benefits of technology. The new facility greatly enhances the ability to provide state-of-the-art space for presentations, performances, exhibitions, and a wide range of special events and cultural activities. Construction documents and bidding were completed in October of 2012. Construction began in November of 2012 and was completed in October of 2014. This project was funded with private donations and student fees.
- The Robert W. Plaster Center is located directly adjacent to the Weede P.E. Building. It is a new multi-use facility that includes an indoor track, spectator seating, concession, public restrooms, locker rooms and weight room. The facility includes areas for field events and practice areas for soccer and football. Construction began in January of 2014 and completed in April of 2015. This project was funded with private donations and student fees.
- The Heckert-Wells New HVAC and Lab Hood Systems project includes providing a new heating, cooling and ventilation system in conjunction with replacing existing lab hoods and providing a new dedicated exhaust air system. Construction documents and bidding were completed in January of 2014. Construction began in April of 2014 and completed in September of 2014. This project was funded with State of Kansas Rehabilitation and Repair funding.

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

- The Housing System Maintenance and Improvement project was started in the summer of 2009 and is expected to take several years. The \$16 million project includes improvements to seven existing student housing facilities. The renovations will provide new exterior windows; student room doors; exterior entrance, corridor access, and stairwell doors; floor coverings; ceiling and lights; and all new surface finishes. It also includes renovation of restroom and shower/bath facilities and upgrades to two dorms' HVAC distribution systems. Bowen Hall, the first of seven existing dorms, was started in May of 2009 and completed in August 2009. Trout Hall, the second dorm renovation, was started in May 2010 and completed in August 2010. Tanner Hall, the third dorm renovation, was started in May of 2011 and completed in August 2011. Tanner Hall Annex, the fourth dorm renovation, was started in May of 2012 and completed in August of 2012. Dellinger Hall, the fifth dorm renovation, was started in May of 2013 and completed in August 2013. Nation Hall West, the sixth dorm renovation, was started in May of 2014 and was completed in August of 2014. Nation Hall East, the final dorm renovation, was started in May of 2015 and is scheduled to complete in August of 2015. These projects are financed by revenue bonds to be repaid from housing revenues.
- The JHO Student Center Expansion will provide an expanded ballroom with improved site line and audio visual capabilities. This expansion includes an addition to the east which will provide a much needed campus activities center complex that includes student organization offices, more student gathering spaces, lounge space, and meeting rooms. Construction documents and bidding were completed in March of 2013. Construction began in May of 2014 and is scheduled to complete July of 2015. This project is funded with student fees.
- The Weede Physical Education Building Renovation will provide renovated locker rooms, added air conditioning, corridor and restroom remodel, addition of a tiered lecture and video classroom, and expanding and remodeling the athletic training room. The Weede building locker room renovation and remodel of the athletic training room is the first project to complete construction documents and bidding in March of 2015 and is expected to complete in September of 2015. The corridor and restroom remodel and addition of a tiered lecture and video classroom are currently in the design phase. The design team was hired in February of 2015. These projects are funded with student fees and private donations.

DEBT ADMINISTRATION

At June 30, 2015, the University had \$61.570 million in debt outstanding.

Debt was issued in fiscal year 2005 to finance the Polymer Research Center project, Lease Revenue Bonds Series 2005D for \$3.0 million. Standard & Poor's rated the state's lease revenue bonds "AA" based on a state annual appropriation lease pledge.

Debt was issued in fiscal year 2009 to finance the Bryant Student Health Center project, Revenue Bonds Series 2009G for \$0.8 million. The bonds have been assigned a rating of "A" by Standard & Poor's Ratings Services. Prior to receipt of the Bryant Student Health Center project bond revenue, Series 2009G, the Kansas Board of Regents authorized the sale of bond anticipation notes, Series 2009-3, for \$1.5 million to temporarily fund the related construction and project costs. The stated \$1.5 million bond anticipation note was paid in fiscal year 2009 by Bryant Student Health Center bond proceeds, Series 2009G, and Bryant Student Health Center private gifts.

Debt was issued in fiscal year 2009 to finance the University Parking System project, Revenue Bonds Series 2009J for \$4.5 million. The bonds have been assigned a rating of "A" by Standard & Poor's Ratings Services. Prior to receipt of the University Parking System bond revenue, Series 2009J, the Kansas Board of Regents authorized the sale of bond anticipation notes, Series 2009-2, for \$4.0 million to temporarily fund the related construction and

project costs. The stated \$4.0 million bond anticipation note was paid in fiscal year 2009 by University Parking System bond proceeds, Series 2009J.

Debt was issued in fiscal year 2009 to finance the Housing System Improvement project, Revenue Bonds Series 2009H for \$14.6 million. The bonds have been assigned a rating of "A" by Standard & Poor's Ratings Services. Prior to receipt of the Housing System Improvement Project bond revenue, Series 2009H, the Kansas Board of Regents authorized the sale of bond anticipation notes, Series 2009-1, for \$1.0 million to temporarily fund the related construction and project costs. The stated \$1.0 million bond anticipation note was paid in fiscal year 2009 by Housing System Improvement bond proceeds, Series 2009H.

Debt was issued in fiscal year 2011 to finance the University Energy Conservation Projects, Revenue Bonds Series 2011D for \$9.465 million. The bonds have been assigned a rating of "A" by Standard & Poor's Ratings Services.

Debt was issued in fiscal year 2014 to finance the Bicknell Center for the Arts, renovations to the Overman Student Center, and the Plaster Event Center. Proceeds from the bond were also used to re-finance Revenue Bonds Series 2003 A-1, Revenue Bonds Series 2004D, and to refund Bond Anticipation Note Series 2012-3. Revenue Bonds Series 2014A have been assigned a rating of "A1" by Moody's Investors Service.

More detailed information about the University's noncurrent liabilities is available in Notes 8, 9, and 10 to the financial statements.

ECONOMIC OUTLOOK

According to the Kansas Legislative Research Department and the Kansas Division of the Budget, economic indicators point to slow growth for the State of Kansas in 2016. The Kansas Personal Income growth estimate for 2016 is 3.9 percent, or 0.9 percent lower than the national average. The latest 12 month employment figures for the State show an unemployment rate of 4.1 percent expected for 2016 compared to the national average of 4.8 percent. Significant concerns persist regarding the uncertainty of Federal Government fiscal policies and State General Fund income. They also indicate that current projections for fiscal year 2016 State General Fund revenues are \$237.1 million, or 4.0 percent, above actual 2015 receipts. State appropriations made up 28.0% of the University's total revenue during fiscal year 2015.

In line with most other Kansas Universities, enrollment fell for the academic fall 2015 semester. With enrollment of 7,244, the University reported a 3.1% decrease from the fall 2014 figure of 7,479 students. The University reported the largest graduating class in the history of the school during the Spring 2015 term. Long term enrollment projections remain positive.

The University is not aware of any additional currently known facts, decisions, or conditions that are expected to have significant effect on the financial position or results of operations during fiscal year 2015 beyond unknown variations having a global effect on all types of business operations.

Pittsburg State University
Statement of Net Position
As Of June 30, 2015 and 2014

| | 2015 | 2014 |
|--|---------------|---------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 25,226,072 | \$ 25,652,609 |
| Restricted cash and cash equivalents | 15,075,283 | 26,368,671 |
| Accounts receivable, net | 1,626,239 | 2,086,371 |
| Loans to students, net | 889,477 | 633,893 |
| Inventories | 344,413 | 314,253 |
| Prepaid expenses | 486,430 | 482,373 |
| Total current assets | 43,647,914 | 55,538,170 |
| Noncurrent Assets | | |
| Restricted investments | 84,493 | 84,493 |
| Loans to students, net | 3,356,263 | 3,745,625 |
| Capital assets, net | 194,912,855 | 163,523,513 |
| Total noncurrent assets | 198,353,611 | 167,353,631 |
| Total Assets | 242,001,525 | 222,891,801 |
| <u>DEFERRED OUTFLOWS</u> | 1,118,391 | 1,093,525 |
| <u>LIABILITIES</u> | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 8,080,019 | 7,002,218 |
| Deferred revenue | 1,477,774 | 1,441,834 |
| Accrued compensated absences | 2,693,501 | 2,686,927 |
| Revenue bonds payable - current portion | 2,598,452 | 1,982,122 |
| Capital leases payable - current portion | 357,562 | 358,616 |
| Deposits held in custody for others | 492,705 | 647,153 |
| Total current liabilities | 15,700,013 | 14,118,870 |
| Noncurrent Liabilities | | |
| Other postemployment healthcare benefits | 3,404,000 | 3,110,000 |
| Capital leases payable | 2,621,008 | 2,961,847 |
| Pension Liability | 14,883,214 | 17,549,190 |
| Revenue bonds payable | 59,419,319 | 62,017,771 |
| Total noncurrent liabilities | 80,327,541 | 85,638,808 |
| Total Liabilities | 96,027,554 | 99,757,678 |
| <u>DEFERRED INFLOWS</u> | 2,625,587 | - |

**Pittsburg State University
Statement of Net Position
As Of June 30, 2015 and 2014**

| <u>NET POSITION</u> | <u>2015</u> | <u>2014</u> |
|----------------------------------|------------------------------|------------------------------|
| Net investment in capital assets | 129,235,378 | 92,769,039 |
| Restricted for | | |
| Expendable | | |
| Scholarships and fellowships | - | 3,098 |
| Research | 321,037 | 556,275 |
| Instructional department uses | 816,522 | 848,594 |
| Loans | 4,885,938 | 4,906,665 |
| Capital projects | 5,016,194 | 20,772,401 |
| Debt services | 3,734,681 | 3,514,064 |
| Other | (83,757) | (76,125) |
| Unrestricted | <u>540,782</u> | <u>933,637</u> |
| Total Net Position | <u><u>\$ 144,466,775</u></u> | <u><u>\$ 124,227,648</u></u> |

See accompanying notes to financial statements

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|---------------|---------------|
| <u>OPERATING REVENUES</u> | | |
| Tuition and fees (net of scholarship allowances of \$9,322,940 and \$8,718,850 in 2015 and 2014, respectively) | \$ 35,717,653 | \$ 34,052,246 |
| Federal grants and contracts | 1,902,857 | 2,690,016 |
| State and local grants and contracts | 826,931 | 1,029,351 |
| Nongovernmental grants and contracts | 484,638 | 474,279 |
| Sales and services of educational departments | 1,350,525 | 1,330,886 |
| Auxiliary enterprises: | | |
| Housing | 9,178,895 | 8,731,796 |
| Parking | 661,504 | 638,920 |
| Health Services | 1,559,880 | 1,385,014 |
| Student Center | 1,235,194 | 1,117,290 |
| Athletics | 2,916,863 | 2,881,131 |
| Student Publications | 138,847 | 136,773 |
| Interest earned on loans to students | 98,019 | 84,011 |
| Other operating revenues | 1,644,290 | 1,319,123 |
| Total operating revenues | 57,716,096 | 55,870,836 |
| <u>OPERATING EXPENSES</u> | | |
| Educational and General | | |
| Instruction | 37,024,418 | 35,763,269 |
| Research | 1,938,636 | 2,075,984 |
| Public Service | 2,011,537 | 1,730,751 |
| Academic support | 9,723,966 | 10,040,974 |
| Student services | 9,069,232 | 8,943,990 |
| Institutional support | 7,993,618 | 7,936,238 |
| Operations and maintenance of plant | 10,614,491 | 10,000,294 |
| Depreciation | 6,533,300 | 5,729,906 |
| Scholarships and fellowships | 7,958,523 | 8,512,138 |
| Auxiliary enterprises: | | |
| Housing | 5,370,160 | 5,373,617 |
| Parking | 157,542 | 234,060 |
| Health Services | 1,304,003 | 1,304,795 |
| Student Center | 1,038,241 | 1,017,483 |
| Athletics | 2,751,092 | 2,776,927 |
| Student Publications | 118,923 | 140,375 |
| Other | 197,822 | 137,942 |
| Total operating expenses | 103,805,504 | 101,718,743 |
| Operating Income (Loss) | (46,089,408) | (45,847,907) |

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|-----------------------|-----------------------|
| <u>NON-OPERATING REVENUES (EXPENSES)</u> | | |
| State appropriations | 35,473,176 | 34,427,958 |
| Gifts | 2,165,387 | 2,049,333 |
| Investment income | 72,865 | 201,617 |
| Interest expense | (2,835,941) | (2,374,679) |
| Student fees for capital projects | 2,046,646 | 908,238 |
| Other nonoperating revenues (expenses) | 10,974,473 | 10,149,332 |
| Net nonoperating revenues (expenses) | <u>47,896,606</u> | <u>45,361,799</u> |
| Income before other revenues, expenses, gains, or losses | 1,807,198 | (486,108) |
| Capital appropriations | 1,670,810 | 3,530,534 |
| Capital grants and gifts | 16,761,119 | 13,975,104 |
| | <u>18,431,929</u> | <u>17,505,638</u> |
| Increase In Net Position | 20,239,127 | 17,019,530 |
| Net position - beginning of year | 124,227,648 | 107,208,118 |
| Net position - end of year | <u>\$ 144,466,775</u> | <u>\$ 124,227,648</u> |

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 41,745,540 | \$ 39,991,139 |
| Sales and services of educational activities | 1,359,611 | 1,330,886 |
| Auxiliary enterprises: | | |
| Housing | 3,873,253 | 4,399,080 |
| Parking | 591,018 | 519,939 |
| Health Services | 272,990 | 136,394 |
| Student Center | 424,525 | 284,223 |
| Athletics | 158,945 | 384,145 |
| Student Publications | 18,339 | (3,825) |
| Grants and contracts | 3,358,716 | 3,892,500 |
| Payments to suppliers | (14,515,500) | (12,218,598) |
| Payments to utilities | (2,098,458) | (2,561,810) |
| Compensation & benefits | (61,232,144) | (60,661,877) |
| Payments for scholarships and fellowships | (14,395,858) | (14,646,845) |
| Loans issued to students and employees | (853,346) | (792,687) |
| Collections on loans issued to students and employees | 968,761 | 707,680 |
| Other receipts (payments) | 1,545,035 | 1,537,221 |
| | <u>(38,778,573)</u> | <u>(37,702,435)</u> |
| Net Cash Flows from Operating Activities | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | 35,473,176 | 34,427,958 |
| Noncapital debt proceeds | - | 10,820,000 |
| Noncapital debt payments | - | (10,820,000) |
| Gifts | 2,165,387 | 2,049,333 |
| Federal family education loan receipts | 35,664,777 | 26,001,082 |
| Federal family education loan disbursements | (35,664,777) | (26,001,082) |
| Student organization agency transactions | (58,497) | 26,304 |
| Other | 798,704 | 781,042 |
| | <u>38,378,770</u> | <u>37,284,637</u> |
| Net Cash Flows from Noncapital Financing Activities | | |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Proceeds from capital debt | - | 24,355,000 |
| Capital appropriations | 2,583,000 | 2,583,000 |
| Capital Grants and gifts | 16,761,119 | 13,975,104 |
| Student fees for capital projects | 2,046,646 | 908,238 |
| Purchases of capital assets | (37,419,870) | (34,504,727) |
| Principal paid on capital debt and leases | (2,336,469) | (1,978,599) |
| Interest paid on capital debt and leases | (2,951,421) | (1,812,469) |
| Disposal of asset | - | - |
| Other | 9,924,008 | 10,169,437 |
| | <u>9,924,008</u> | <u>10,169,437</u> |
| Net Cash Flows from Capital Financing Activities | <u>(11,392,987)</u> | <u>13,694,984</u> |

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|------------------------|------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales of investments | - | 121,175 |
| Investment income | 72,865 | 201,617 |
| Purchase of investments | - | - |
| | <u>72,865</u> | <u>322,792</u> |
| | | |
| Net change in cash and cash equivalents | (11,719,925) | 13,599,978 |
| Cash and cash equivalents-beginning of year | 52,105,773 | 38,505,795 |
| Cash and cash equivalents-end of year | <u>\$ 40,385,848</u> | <u>\$ 52,105,773</u> |
| | | |
| RECONCILIATION | | |
| Operating income (loss) | \$ (46,089,408) | \$ (45,847,907) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 6,533,300 | 5,729,906 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 460,132 | 217,556 |
| Loans to students, net | 133,778 | 64,361 |
| Inventories | (30,160) | (18,024) |
| Prepaid expenses | (4,057) | (14,120) |
| Accounts payable and accrued liabilities | 900,724 | 597,537 |
| Deferred revenue | (888,805) | 799,301 |
| Accrued compensated absences | 6,574 | 320,146 |
| Other postemployment healthcare benefits | 294,000 | 347,000 |
| Deposits held in custody for others | (94,651) | 101,809 |
| | <u>\$ (38,778,573)</u> | <u>\$ (37,702,435)</u> |

See accompanying notes to financial statements

**Pittsburg State University
Component Unit Financial Statements
For Fiscal Year Ended June 30, 2015**

Pittsburg State University Foundation, Inc.

- Statement of Financial Position
- Statement of Activities

Pittsburg State University Alumni Association

- Statement of Financial Position
- Statement of Activities

Pittsburg State University Foundation, Inc.
 Statements of Financial Position
 June 30, 2015 and 2014

| | 2015 | 2014 |
|---------------------------------------|---------------|---------------|
| Assets | | |
| Cash and cash equivalents | \$ 618,821 | \$ 593,011 |
| Interest receivable | 24,813 | 22,933 |
| Student loans receivable | 534 | 534 |
| Allowance for doubtful loan accounts | (534) | (267) |
| Contributions receivable | 10,212,894 | 12,345,242 |
| Specific investments | 157,767 | 172,034 |
| Pooled investments | 73,323,056 | 77,029,021 |
| Fixed assets - net of depreciation | 793,979 | 825,397 |
| Advances for loan matching | 183,135 | 183,135 |
| Total Assets | \$ 85,314,465 | \$ 91,171,040 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 788,164 | \$ 17,021,753 |
| Interest payable | 33,389 | 8,309 |
| Agency funds - nine pay twelve | 313,710 | 305,926 |
| Notes payable | 8,985,920 | 2,357,911 |
| Annuity liabilities | 306,027 | 324,304 |
| Total Liabilities | 10,427,210 | 20,018,203 |
| Net Assets | | |
| Unrestricted net assets | 21,943,028 | 20,721,704 |
| Temporarily restricted net assets | 13,945,918 | 12,757,023 |
| Permanently restricted net assets | 38,998,309 | 37,674,110 |
| Net Assets | 74,887,255 | 71,152,837 |
| Total Liabilities and Net Assets | \$ 85,314,465 | \$ 91,171,040 |

Pittsburg State University Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2015 and 2014

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | 2015 Totals | 2014 Totals |
|--|----------------------------|---|---|----------------------|----------------------|
| Revenues, gains and other support | | | | | |
| Contributions | \$ 2,628,058 | \$ 3,583,356 | \$ 1,249,496 | \$ 7,460,910 | \$ 15,057,110 |
| Investment Income | 1,337,971 | 27,112 | - | 1,365,083 | 1,174,266 |
| Net realized gain (loss) on investments | 2,364,253 | (3,243) | 15,973 | 2,376,983 | 2,787,133 |
| Net unrealized gain (loss) on investments reported at fair value | (231,300) | (23,179) | (831,619) | (1,086,098) | 6,154,200 |
| Interest and service charges on student loans | - | - | 294 | 294 | 1,139 |
| Other miscellaneous revenue | 1,152,062 | - | - | 1,152,062 | 1,178,824 |
| Net assets released from restrictions | 1,505,096 | (2,395,151) | 890,055 | - | - |
| Total revenues, gains and other support | <u>8,756,140</u> | <u>1,188,895</u> | <u>1,324,199</u> | <u>11,269,234</u> | <u>26,352,672</u> |
| Expenses | | | | | |
| Program services | | | | | |
| Scholarships, grants & awards | 3,000,796 | - | - | 3,000,796 | 2,976,060 |
| Marketing | 7,200 | - | - | 7,200 | 9,508 |
| Classroom instruction aids & other Univ. expenses | 1,340,673 | - | - | 1,340,673 | 1,471,724 |
| Faculty/professional development | 116,308 | - | - | 116,308 | 115,485 |
| Student loan bad debt allowance | 179 | - | - | 179 | (440) |
| Student loan collection expense | 13 | - | - | 13 | 558 |
| Other special Univ. projects | 2,023,400 | - | - | 2,023,400 | 12,302,610 |
| Total program services | <u>6,488,569</u> | <u>-</u> | <u>-</u> | <u>6,488,569</u> | <u>16,875,505</u> |
| Support services | | | | | |
| Salaries | 318,497 | - | - | 318,497 | 279,058 |
| Promotion | 3,721 | - | - | 3,721 | 6,473 |
| Auditing & investment counsel | 48,299 | - | - | 48,299 | 48,576 |
| Investment management fees | 135,379 | - | - | 135,379 | 348,164 |
| Equipment, service contracts and repairs | 35,914 | - | - | 35,914 | 23,889 |
| Postage | 26,243 | - | - | 26,243 | 24,664 |
| Insurance | 12,662 | - | - | 12,662 | 11,339 |
| Repairs and maintenance building and grounds | 62,575 | - | - | 62,575 | 34,871 |
| Publications | 15,189 | - | - | 15,189 | 15,329 |
| Planned giving | 20,308 | - | - | 20,308 | 17,042 |
| Telephone | 24,454 | - | - | 24,454 | 29,293 |
| Utilities | 12,578 | - | - | 12,578 | 14,533 |
| Depreciation | 52,158 | - | - | 52,158 | 59,617 |
| General operating | 190,842 | - | - | 190,842 | 162,153 |
| Alumni activities | 51,894 | - | - | 51,894 | 61,722 |
| Travel | 22,766 | - | - | 22,766 | 26,431 |
| Miscellaneous | 12,768 | - | - | 12,768 | 13,539 |
| Total support services | <u>1,046,247</u> | <u>-</u> | <u>-</u> | <u>1,046,247</u> | <u>1,176,693</u> |
| Total expenses | <u>7,534,816</u> | <u>-</u> | <u>-</u> | <u>7,534,816</u> | <u>18,052,198</u> |
| Increase (decrease) in net assets | <u>1,221,324</u> | <u>1,188,895</u> | <u>1,324,199</u> | <u>3,734,418</u> | <u>8,300,474</u> |
| Net assets at beginning of year | <u>20,721,704</u> | <u>12,757,023</u> | <u>37,674,110</u> | <u>71,152,837</u> | <u>62,852,363</u> |
| Net assets at end of year | <u>\$ 21,943,028</u> | <u>\$ 13,945,918</u> | <u>\$ 38,998,309</u> | <u>\$ 74,887,255</u> | <u>\$ 71,152,837</u> |

See accompanying notes and independent auditor's report

Pittsburg State University Alumni Association

Statement of Financial Position

June 30, 2015 and 2014

| | 2015 | 2014 |
|--|--------------------------|--------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents - held by Pittsburg State University | \$ 55,349 | \$ 23,060 |
| Cash and cash equivalents - held by Pittsburg State University Foundation, Inc. | <u>691,562</u> | <u>702,434</u> |
| Total Current Assets | <u>\$ 746,911</u> | <u>\$ 725,494</u> |
| | | |
| Total Assets | <u><u>\$ 746,911</u></u> | <u><u>\$ 725,494</u></u> |
| | | |
| Net Assets | | |
| Unrestricted | <u>\$ 746,911</u> | <u>\$ 725,494</u> |
| Total Net Assets | <u><u>\$ 746,911</u></u> | <u><u>\$ 725,494</u></u> |

Pittsburg State University Alumni Association, Inc. is a legally separate 501(c)(3) non-profit entity, however all assets of the Association are held in trust by either Pittsburg State University or Pittsburg State University Foundation, Inc. The Alumni Association is a component unit of the University for financial reporting purposes, and the University is a component unit of the State of Kansas.

Pittsburg State University Alumni Association

**Statement of Activities
June 30, 2015 and 2014**

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Operating Revenues: | | |
| University Support | \$ 203,690 | \$ 204,703 |
| Foundation Support | 40,015 | 41,456 |
| Royalties | 24,173 | 22,507 |
| License Plate Royalty and Admin Fee | 62,606 | 61,050 |
| Champions Plaza Apparel | 2,001 | - |
| Gorilla Fest | 9,705 | 11,900 |
| Family Events | - | 1,361 |
| Gorilla Gatherings | 12,393 | 9,259 |
| Reunions | 6,828 | 7,769 |
| Student Programs | - | 250 |
| Other Revenues | 102 | 690 |
| Total Operating Revenues | <u>361,513</u> | <u>360,945</u> |
| Operating Expenses: | | |
| Salaries and Wages | 195,394 | 196,706 |
| General Administrative | 15,979 | 16,311 |
| Alumni Legacy Scholarship | 38,875 | 30,250 |
| Gorilla License Plate Program | 10,448 | 17,394 |
| Gorilla Fest | 9,091 | 12,135 |
| Family Events | 2,791 | 2,729 |
| Gorilla Events | 31,591 | 31,459 |
| Reunions | 13,888 | 15,288 |
| PSU Magazine Advertising | 5,507 | 5,989 |
| Giveaways | 3,893 | 3,952 |
| Online Community | 2,124 | 2,115 |
| Skybox Expense | 1,695 | 1,867 |
| Campus Relations | 2,429 | 1,732 |
| Association Board | 1,239 | 1,246 |
| Student Programs | 3,187 | 3,970 |
| Champions Plaza Expense | 4,357 | - |
| Awards | 15,567 | 12,333 |
| Total Operating Expenses | <u>358,055</u> | <u>355,476</u> |
| Operating Income (Loss) | <u>3,458</u> | <u>5,469</u> |
| Nonoperating Revenues (Expenses) | | |
| Donations | 2,219 | 600 |
| Endowment Earnings from Investments held by PSU Foundation, Inc. | 15,740 | 98,394 |
| Net Nonoperating Revenues (Expenses) | <u>17,959</u> | <u>98,994</u> |
| Increase (decrease) in Net Assets | 21,417 | 104,463 |
| Net Assets: | | |
| Beginning | <u>725,494</u> | <u>621,031</u> |
| Ending | <u>\$ 746,911</u> | <u>\$ 725,494</u> |

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2015 and 2014

NOTE 1 – Summary of Significant Accounting Policies

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

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

Organization. Pittsburg State University is a regional, comprehensive, four-year state university serving the residents of Kansas and the four-state region of Kansas, Missouri, Oklahoma, and Arkansas. The university has an enrollment of more than 7,000 students where students may choose from more than 100 undergraduate and graduate programs within the College of Education, the College of Business, the College of Technology and the College of Arts and Sciences. The University is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools, and is governed by the Kansas Board of Regents and is an agency of the State of Kansas. As an agency of the State of Kansas, the University is included in the financial report of the State of Kansas.

Financial Reporting Entity. As required by accounting principles generally accepted in the United States of America, these financial statements present the combined financial position and financial activities of the University and the Pittsburg State University Research Foundation, Inc. The financial activity and balances of the Pittsburg State University Foundation, Inc. and the Pittsburg State University Alumni Association, Inc. may be found following the University's financial statements.

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

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

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

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

Accounts Receivable. Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories. Inventories are carried at cost.

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

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 25 years for infrastructure and land improvements, 8 years for equipment, 5 years for vehicles, and 3 years for software.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2015 and 2014

Deferred Revenues. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include summer school tuition not earned during the current year, amounts received from grant and contract sponsors that have not yet been earned and certain capital appropriations which remain unspent at the end of the fiscal year.

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

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

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

Deferred Inflows/Outflows. In accordance with GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, deferred outflows and deferred inflows result from the transactions of the consumption or acquisition of net position in one period that are applicable to future periods. These items are reported separately from assets and liabilities. Deferred Inflows/Outflows on the Statement of Net Position relate to the University's Pension Liability as well as amortized bond premiums/discounts.

Net Position. The University's net position is classified as follows:

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

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

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

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

Classification of Revenues. The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as 1) student tuition and fees, net of scholarship discounts and allowances, 2) sales and services of auxiliary enterprises, 3) most federal, state and local grants and contracts, and 4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2015 and 2014

Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

NOTE 2 – Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents. The carrying amount of the University's deposits with the State Treasurer and other financial institutions at June 30, 2015 and 2014 were \$40,301,355 and \$52,021,280 respectively. The University's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in short-term investments with the exception of the bond funds. All bond proceeds are invested in conjunction with specifications stated in the bond resolutions.

Investments. The University's total investments at June 30, 2015 and 2014 were \$84,493 and \$84,493 respectively and are administered by the Kansas Development Finance Authority. These monies represent bond reserve requirements.

NOTE 3 - Accounts Receivable

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

| | 2015 | 2014 |
|-----------------------|---------------------|---------------------|
| Tuition and Fees | \$ 694,573 | \$ 944,189 |
| Auxiliary enterprises | 190,510 | 108,650 |
| Grants & Contracts | 286,466 | 614,084 |
| State Appropriations | 292,005 | 324,940 |
| Other | 162,685 | 94,508 |
| Total | \$ 1,626,239 | \$ 2,086,371 |

NOTE 4 – Loans to Students

Student loans made through the Federal Perkins Loan and Nursing Student Loan Programs comprise substantially all of the loans to students at June 30, 2015 and 2014. The Perkins Loan Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectable and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2015 and 2014, the allowance for uncollectible loans was estimated to be \$745,707 and \$764,500, respectively.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2015 and 2014

NOTE 5 – Inventories

Inventories consisted of the following at June 30:

| | <u>2015</u> | <u>2014</u> |
|----------------|-------------------|-------------------|
| Physical Plant | \$ 234,406 | \$ 216,086 |
| Other | 110,007 | 98,167 |
| Total | <u>\$ 344,413</u> | <u>\$ 314,253</u> |

NOTE 6 – Capital Assets

Capital asset activity for the year ended June 30, 2015 and June 30, 2014 are as follows:

| | <u>2015</u> | | | |
|--------------------------------|-----------------------|----------------------|--------------------|-----------------------|
| | <u>Balance</u> | | <u>Retirements</u> | <u>Ending</u> |
| | <u>Remaining</u> | <u>Additions</u> | | <u>Balance</u> |
| Land | \$ 6,210,415 | \$ | \$ | \$ 6,210,415 |
| Land Improvements | 6,746,565 | 852,952 | | 7,599,517 |
| Works of Art | 782,264 | 200,000 | | 982,264 |
| Buildings & Improvements | 167,027,087 | 46,392,149 | | 213,419,236 |
| Equipment & Furnishings | 18,032,806 | 1,805,924 | 219,810 | 19,618,920 |
| Vehicles | 2,160,915 | 296,809 | 86,056 | 2,371,668 |
| Software | 1,906,870 | 191,181 | | 2,098,051 |
| Total | <u>\$ 202,866,922</u> | <u>\$ 49,739,015</u> | <u>\$ 305,866</u> | <u>\$ 252,300,071</u> |
| Less accumulated depreciation: | | | | |
| Land Improvements | \$ 3,209,404 | \$ 256,273 | \$ | \$ 3,465,677 |
| Buildings & Improvements | 60,259,437 | 4,974,548 | 24,151 | 65,209,834 |
| Equipment & Furnishings | 14,431,567 | 1,257,734 | 210,436 | 15,478,865 |
| Vehicles | 1,810,169 | 212,539 | 86,056 | 1,936,652 |
| Software | 1,366,433 | 152,850 | | 1,519,283 |
| Total accumulated depreciation | <u>\$ 81,077,010</u> | <u>\$ 6,853,944</u> | <u>\$ 320,643</u> | <u>\$ 87,610,311</u> |
| Capital assets, net | <u>\$ 121,789,912</u> | <u>\$ 42,885,071</u> | <u>\$ (14,777)</u> | \$ 164,689,760 |
| Construction In Progress | | | | <u>30,223,095</u> |
| | | | | <u>\$ 194,912,855</u> |

The University elected not to capitalize its library book collections. These collections adhere to the University's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep encumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at the time of purchase rather than be capitalized.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2015 and 2014

| | 2014 | | | |
|-----------------------------------|-----------------------|-----------------------|-------------------|-----------------------|
| | Balance Remaining | Additions | Retirements | Ending Balance |
| Land | \$ 6,131,489 | \$ 78,926 | \$ | \$ 6,210,415 |
| Land Improvements | 6,599,065 | 147,500 | | 6,746,565 |
| Works of Art | 782,264 | | | 782,264 |
| Buildings & Improvements | 165,236,569 | 1,790,518 | | 167,027,087 |
| Equipment & Furnishings | 17,415,319 | 834,699 | 217,212 | 18,032,806 |
| Vehicles | 2,101,258 | 118,259 | 58,602 | 2,160,915 |
| Software | 1,844,810 | 62,060 | | 1,906,870 |
| Total | <u>\$200,110,774</u> | <u>\$ 3,031,962</u> | <u>\$ 275,814</u> | <u>\$ 202,866,922</u> |
| Less accumulated depreciation: | | | | |
| Land Improvements | \$ 2,980,431 | \$ 228,973 | \$ | \$ 3,209,404 |
| Buildings & Improvements | 56,443,814 | 3,815,623 | | 60,259,437 |
| Equipment & Furnishings | 13,178,652 | 1,407,510 | 154,595 | 14,431,567 |
| Vehicles | 1,733,379 | 135,392 | 58,602 | 1,810,169 |
| Software | 1,224,025 | 142,408 | | 1,366,433 |
| Total accumulated depreciation | <u>\$ 75,560,301</u> | <u>\$ 5,729,906</u> | <u>\$ 213,197</u> | <u>\$ 81,077,010</u> |
| Capital assets, net | <u>\$ 124,550,473</u> | <u>\$ (2,697,944)</u> | <u>\$ 62,617</u> | <u>\$ 121,789,912</u> |
| Construction In Progress | | | | <u>41,733,601</u> |
| | | | | <u>\$ 163,523,513</u> |

NOTE 7 – Deferred Revenue

Deferred revenues consisted of the following at June 30:

| | 2015 | 2014 |
|------------------------|---------------------|---------------------|
| Tuition and Fees | \$ (236,878) | \$ 450,046 |
| Grants & Contracts | 477,995 | 661,323 |
| Capital Appropriations | 1,121,387 | 209,197 |
| Auxiliary enterprises | 115,270 | 121,268 |
| | <u>\$ 1,477,774</u> | <u>\$ 1,441,834</u> |

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2015 and 2014

NOTE 8 - Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2015 and June 30, 2014 was as follows:

| | 2015 | | | | |
|-----------------------------|----------------------|------------------|---------------------|----------------------|---------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Revenue bonds payable | \$ 63,999,893 | \$ 0 | \$ 1,982,122 | \$ 62,017,771 | \$ 2,598,452 |
| Lease obligations | 3,320,463 | 16,723 | 358,616 | 2,978,570 | 357,562 |
| Total long-term liabilities | <u>\$ 67,320,356</u> | <u>\$ 16,723</u> | <u>\$ 2,340,738</u> | <u>\$ 64,996,341</u> | <u>\$ 2,956,014</u> |

| | 2014 | | | | |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Revenue bonds payable | \$ 31,828,167 | \$ 33,813,245 | \$ 1,641,519 | \$ 63,999,893 | \$ 1,982,122 |
| Bond anticipation note payable | 8,998,205 | 0 | 8,998,205 | 0 | 0 |
| Lease obligations | 3,645,578 | 18,484 | 343,599 | 3,320,463 | 358,616 |
| Total long-term liabilities | <u>\$ 44,471,950</u> | <u>\$ 33,831,729</u> | <u>\$ 10,983,323</u> | <u>\$ 67,320,356</u> | <u>\$ 2,340,738</u> |

NOTE 9 - Revenue Bonds Outstanding

Revenue bonds payable consist of the following:

| | Principal Outstanding at 6/30/15 |
|--|--|
| Kansas Development Finance Authority Revenue Bonds – Series A, 2014 (The Board of Regents - Pittsburg State University Projects) \$35,175,000 Due in annual installments of 385,000 to 2,345,000. Issued 4/1/2014 with a final maturity on 10/1/2034. Interest ranging from 3.0% to 4.25% payable semi-annually. | 34,790,000 |
| Kansas Development Finance Authority Revenue Bonds – Series 2011D, 2011 (The Board of Regents – Pittsburg State University Refinance & New Energy Conservation Bonds) \$9,465,000 Due in annual installments of \$435,000 to \$895,000. Issued 4/14/11 with a final maturity on 4/1/2024. Interest ranging from 2.0% to 4.4% payable semi-annually. | 6,375,000 |
| Kansas Development Finance Authority Revenue Bonds – Series H-1 & H-2, 2009 (The Board of Regents – Pittsburg State University Housing System Improvement Project) \$14,630,000 Due in annual installments of \$380,000 to \$975,000. Issued 6/17/09 with a final maturity on 10/1/2034. Interest ranging from 2.5% to 7.3% payable semi-annually. | 13,050,000 |

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2015 and 2014

| | Principal Outstanding at 6/30/15 |
|---|--|
| Kansas Development Finance Authority Revenue Bonds – Series G, 2009 (The Board of Regents – Pittsburg State University Bryant Student Health Center) \$825,000 Due in annual installments of \$50,000 to \$70,000. Issued 6/17/09 with a final maturity on 10/1/2023. Interest ranging from 2.5% to 4.75% payable semi-annually. | 540,000 |
| Kansas Development Finance Authority Revenue Bonds – Series J-1 & J-2, 2009 (The Board of Regents – Pittsburg State University Parking System Project) \$4,545,000 Due in annual installments of \$160,000 to \$330,000. Issued 6/17/09 with a final maturity on 10/1/2029. Interest ranging from 2.5% to 7.0% payable semi-annually. | 3,700,000 |
| Kansas Development Finance Authority Revenue Bonds – Series D, 2005 (The Board of Regents – Pittsburg State University Kansas Polymer Research Center) \$3,000,000 Due in annual installments of \$155,000 to \$850,000. Issued 4/1/06 with a final maturity on 10/1/2021. Interest is 5.18% payable semi-annually. This series was refinanced during fiscal year 2016. | 3,000,000 |
| Kansas Development Finance Authority Revenue Bonds - Series A-2, 2003 (The Board of Regents - Pittsburg State University Overman Student Center Project) \$2,610,000 Due in a final installment of \$115,000. Issued 1/28/03 with a final maturity of 4/1/2023. Interest ranging from 1.8% to 5.25% payable semi-annually. | 115,000 |

NOTE 10 - Revenue Bonds Maturity Schedule

Maturities of principal and interest requirements on revenue bonds payable for the year ended June 30, 2015 are as follows:

| Year Ending June 30: | Principal | Interest | Total |
|----------------------|---------------|---------------|---------------|
| 2016 | \$ 2,565,000 | \$ 2,701,945 | \$ 5,266,945 |
| 2017 | 2,970,000 | 2,604,768 | 5,574,768 |
| 2018 | 3,065,000 | 2,496,565 | 5,561,565 |
| 2019 | 3,605,000 | 2,368,752 | 5,973,752 |
| 2020-2024 | 17,405,000 | 9,544,111 | 26,949,111 |
| 2025-2029 | 13,775,000 | 6,269,665 | 20,044,665 |
| 2030-2034 | 15,420,000 | 2,680,389 | 18,100,389 |
| 2035 | 2,765,000 | 73,625 | 2,838,625 |
| Total | \$ 61,570,000 | \$ 28,739,820 | \$ 90,309,820 |

NOTE 11 - Lease Obligations

Pittsburg State University is obligated for the purchase of certain equipment funded through the issuance of blanket financing agreements in the amount of \$2,978,570 and \$3,320,463 as of June 30, 2015 and 2014, respectively. Included in this balance is the \$4.5 million Master Lease Purchase agreement between the University and the State for the University's Energy Performance Contract. The University is responsible for repaying the State for the 20-year term of the lease. The Energy Performance contract was refinanced in fiscal year 2016.

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Payments to liquidate these obligations as of June 30, 2015 are scheduled as follows:

| Year Ending June 30: | Total |
|----------------------|--------------|
| 2016 | \$ 357,562 |
| 2017 | 367,020 |
| 2018 | 374,822 |
| 2019 | 391,779 |
| 2020 and thereafter | 1,487,387 |
| Total | \$ 2,978,570 |

NOTE 12 - Retirement Plans

University employees participate in two separate retirement programs. Classified employees participate in the "Kansas Public Employees Retirement System" (KPERs). This defined benefit program is funded through contributions by the University and the individual employees. The University contributed \$1,155,647 and \$1,108,473 during fiscal years 2015 and 2014, respectively, and individual employees contributed \$609,167 and \$509,378. Unclassified employees participate in the "Board of Regents Retirement Plan". This defined contribution program is funded through contributions by the University and the individual employees. The University contributed \$3,089,006 and \$2,951,441 during fiscal years 2015 and 2014, respectively, and individual employees contributed \$1,951,546 and \$1,862,077.

NOTE 13 – Other Postemployment Healthcare Benefits

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

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

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

Annual OPEB Cost and Net OPEB Obligation. GASB 45 requires accrual-based measurement and recognition of OPEB expenses, such as retiree medical and dental costs, over the employees' years of service, along with the related liability. The University's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the University's annual OPEB cost for the year, the University's contribution to the plan, and changes in the University's net OPEB obligation.

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| | |
|-----------------------------------|----------------------------|
| Amortization of UAAL | \$ 259,000 |
| Normal cost (with interest) | <u>290,000</u> |
| Annual OPEB cost (expense) | 549,000 |
| Interest on Net OPEB Obligation | 120,000 |
| Adjustment to the ARC | <u>(177,000)</u> |
| Increase in OPEB obligation | 492,000 |
| Net Employer Contributions | (198,000) |
| Net OPEB obligation July 1, 2012 | <u>3,110,000</u> |
| Net OPEB obligation June 30, 2013 | <u><u>\$ 3,404,000</u></u> |

Schedule of Employer Contributions (for fiscal year ended)

| Fiscal Year | Annual OPEB Cost | Net Employer Contributions | Percentage Contributed | End of Year Net OPEB Obligation |
|----------------|------------------------|----------------------------------|---------------------------|---------------------------------------|
| 2013 | \$552,000 | \$187,000 | 34% | \$2,763,000 |
| 2014 | \$547,000 | \$200,000 | 37% | \$3,110,000 |
| 2015 | \$492,000 | \$198,000 | 40% | \$3,404,000 |

Funded Status and Funding Progress. As of June 30, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$4,770,000. The University's policy is to fund the benefits implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,770,000. The covered payroll (annual payroll of active employees covered by the plan) was \$51,049,000, and the ratio of the UAAL to the covered payroll was 9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percent of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| 6/30/2013 | \$0 | \$5,077,000 | \$5,077,000 | 0% | \$50,008,000 | 10% |
| 6/30/2014 | \$0 | \$5,265,000 | \$5,265,000 | 0% | \$49,931,000 | 11% |
| 6/30/2015 | \$0 | \$4,770,000 | \$4,770,000 | 0% | \$51,049,000 | 9% |

Actuarial Methods and Assumptions. Projections of benefits for reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to

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reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 5.0 to 6.50 percent in the first nine years and an ultimate rate of 5.0 percent after nine years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over a 30 year open period in level dollar amounts.

NOTE 14 - Commitments and Contingent Liabilities

At June 30, 2015 and 2014 the University had outstanding commitments under construction contracts totaling \$6,401,680 and \$22,308,506, respectively.

The University is not a defendant in any lawsuit, nor is it currently involved as a plaintiff in any litigation in State or Federal Court.

The University maintains specific insurance coverage as allowed by the State of Kansas and as required by outstanding bond issues. To a large extent, the University follows a policy of self-insurance. Certain claims against the University would require legislative approval (and potential funding) prior to settlement. The University is not aware of any significant outstanding claims as of June 30, 2015.

The University does not insure State-owned automobiles for bodily injury and property damages of State employees. Buildings are insured with a policy that has a \$0.25 million deductible per occurrence and a maximum annual liability of \$500 million per occurrence.

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

NOTE 15 – Other Grants

The June 30, 2007 edition of GASB's *Comprehensive Implementation Guide* instructed that "Because of public institutions' administrative involvement with Pell grant requirements and because Pell grants are non-exchange transactions, public institutions should record Pell grant receipts as nonoperating revenues in their financial statements and any amounts applied to student receivable accounts should be recorded as scholarship discounts or allowances". Therefore the June 30, 2015 and 2014 Statement of Revenues, Expense, and Changes in Net Position reflect the Pell grant reclassification from Federal grants and contracts to other nonoperating revenues.

Other grant nonoperating revenues accounting reclassification for the year ended June 30 are as follows:

| | <u>2015</u> | <u>2014</u> |
|-----------------------------|----------------------|----------------------|
| Pell Grants | \$ 10,171,646 | \$ 10,443,682 |
| SEOG Grants | 178,945 | 179,395 |
| Regents Supplemental Grants | <u>746,226</u> | <u>722,713</u> |
| Total | <u>\$ 11,096,817</u> | <u>\$ 11,345,790</u> |

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NOTE 16 – Natural Classifications with Functional Classifications

The University's operating expenses by functional and natural classification as of June 30, 2015 and June 30, 2014 are as follows:

| | 2015 | | | | | Total |
|-------------------------------------|----------------------------|----------------------------------|--------------------|---------------------------------|---------------------|----------------------|
| | Compensation & Benefits | Scholarships & Fellowships | Utilities | Supplies & Other Services | Depreciation | |
| Educational and general | | | | | | |
| Instruction | \$ 33,182,243 | \$ | \$ 1,220 | \$ 3,840,955 | \$ | \$ 37,024,418 |
| Research | 1,524,631 | | 1,820 | 412,185 | | 1,938,636 |
| Public service | 1,347,977 | | 731 | 662,829 | | 2,011,537 |
| Academic support | 6,833,486 | | | 2,890,480 | | 9,723,966 |
| Student services | 6,740,225 | | | 2,329,007 | | 9,069,232 |
| Institutional support | 5,634,363 | | 276 | 2,358,979 | | 7,993,618 |
| Operations and maintenance of plant | 6,941,119 | | 2,138,606 | 1,534,766 | | 10,614,491 |
| Depreciation | | | | | 6,533,300 | 6,533,300 |
| Scholarships and fellowships | | 7,958,523 | | | | 7,958,523 |
| Auxiliary enterprises: | | | | | | |
| Housing | 1,944,677 | | 708,753 | 2,716,730 | | 5,370,160 |
| Parking | 74,420 | | | 83,122 | | 157,542 |
| Health Services | 1,061,521 | | 19,064 | 223,418 | | 1,304,003 |
| Student Center | (21,697) | | 158,998 | 900,940 | | 1,038,241 |
| Athletics | 428,331 | | | 2,322,761 | | 2,751,092 |
| Student Publications | (1,585) | | | 120,508 | | 118,923 |
| Other | | | | 197,822 | | 197,822 |
| Total | \$ 65,689,711 | \$ 7,958,523 | \$3,029,468 | \$20,594,502 | \$ 6,533,300 | \$103,805,504 |

| | 2014 | | | | | Total |
|-------------------------------------|----------------------------|----------------------------------|--------------------|---------------------------------|---------------------|----------------------|
| | Compensation & Benefits | Scholarships & Fellowships | Utilities | Supplies & Other Services | Depreciation | |
| Educational and general | | | | | | |
| Instruction | \$ 31,962,847 | \$ | \$ 1,748 | \$ 3,798,674 | \$ | \$ 35,763,269 |
| Research | 1,568,986 | | 1,667 | 505,331 | | 2,075,984 |
| Public service | 1,222,155 | | 850 | 507,746 | | 1,730,751 |
| Academic support | 6,865,698 | | | 3,175,276 | | 10,040,974 |
| Student services | 6,577,856 | | | 2,366,134 | | 8,943,990 |
| Institutional support | 5,551,476 | | (273) | 2,385,035 | | 7,936,238 |
| Operations and maintenance of plant | 6,810,560 | | 1,760,835 | 1,428,899 | | 10,000,294 |
| Depreciation | | | | | 5,729,906 | 5,729,906 |
| Scholarships and fellowships | | 8,512,138 | | | | 8,512,138 |
| Auxiliary enterprises: | | | | | | |
| Housing | 1,831,179 | | 632,622 | 2,909,816 | | 5,373,617 |
| Parking | 78,816 | | | 155,244 | | 234,060 |
| Health Services | 1,035,331 | | 19,208 | 250,256 | | 1,304,795 |
| Student Center | 7,830 | | 145,151 | 864,502 | | 1,017,483 |
| Athletics | 355,774 | | | 2,421,153 | | 2,776,927 |
| Student Publications | 437 | | | 139,938 | | 140,375 |
| Other | | | | 137,942 | | 137,942 |
| Total | \$ 63,868,945 | \$ 8,512,138 | \$2,561,808 | \$21,045,946 | \$ 5,729,906 | \$101,718,743 |

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NOTE 17 - GASB 68 KPERS Pittsburg State University

Pensions. For the year ended June 30, 2015, Pittsburg State University implemented the provisions of GASB 68, Accounting and Financial Reporting for Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description: Pittsburg State University (PSU) participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Benefits provided. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees chose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. The retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. Effective July 1, 2009, KPERS has two benefit structures and contribution rates depend on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing member hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 member and 6% of covered salary for Tier 2 members through December 31, 2014. On January 1, 2015, Kansas law increased the KPERS member-employee contribution rate to 6% of covered salary for Tier 1 members; however, the Tier 2 member-employee contribution rate remained at 6% of covered salary. Member employee's contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rate was 15.12% and 10.27%, respectively, for the fiscal year ended June 30, 2014. The actuarially determined employer contribution rate was 15.41% for the fiscal year ended June 30, 2015. The statutory contribution rate was 11.27% from July 1, 2014 to December 31, 2014 and 8.65% from January 1, 2015 to June 30, 2015. Contributions to the pension plan from PSU was \$1,108,473 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, PSU reported a liability of \$14,883,215 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. PSU's proportion of the net pension liability was based on the ratio of PSU's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the State/School subgroup within KPERS for the fiscal year ended June 30, 2014. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2014 PSU's State Employer proportion

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was 0.221% which was a decrease of 0.007% from its proportion measured as of June 30, 2013. At June 30, 2014 PSU's Kansas Police & Fire Group proportion was 0.119%, which was a decrease of 0.006% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, PSU recognized pension expense of \$1,108,473. At June 30, 2015, PSU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred inflows of Resources</u> |
|--|---|--|
| Difference between expected and actual experience | \$ 9,918 | \$ 334,098 |
| Net difference between projected and actual earnings on pension plan investments | - | 1,848,429 |
| Changes in proportion | - | 443,060 |
| PSU contributions subsequent to measurement date | 1,108,473 | - |
| Total | \$ 1,118,391 | \$ 2,625,587 |

\$1,108,473 reported as deferred outflows of resources related to pensions resulting from "state agency" contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|-------|-----------|
| 2016 | 570,459 |
| 2017 | 570,459 |
| 2018 | 570,459 |
| 2019 | 570,459 |
| 2020 | 123,527 |
| Total | 2,405,363 |

Actuarial assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|--|
| Price inflation | 3.00 percent |
| Wage inflation | 4.00 percent |
| Salary increases, including wage increases | 4.00 to 12.50 percent, including inflation |
| Long-term rate of return net of investment expense, and including price inflation | 8.00 percent |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2009.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best

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estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2014 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|--------------------------|---|
| Global equity | 47% | 6.00% |
| Fixed income | 14 | 0.85 |
| Yield driven | 8 | 5.50 |
| Real return | 11 | 3.75 |
| Real estate | 11 | 6.65 |
| Alternatives | 8 | 9.50 |
| Short-term investments | 1 | - |
| Total | <u>100%</u> | |

Discount rate. The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from "state agency" will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Pittsburg State University's proportionate share of the net pension liability to changes in the discount rate. The following presents PSU's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what PSU's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

| | <u>1% Decrease (7.00%)</u> | <u>Current Discount Rate (8.00%)</u> | <u>1% Increase (9.00%)</u> |
|--|--------------------------------|--|--------------------------------|
| PSU proportionate share of the net pension liability | \$ 19,570,636 | \$ 14,883,215 | \$ 10,905,037 |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

Subsequent events. Under the budgetary allotment process for the State of Kansas, the Kansas governor has authority to reduce the approved budget for purposes of balancing the budget. For the State's fiscal year ending June 30, 2015, the KPERS employer contribution to the State/School group was reduced by \$58 million. It is unknown at the time whether this reduction will have a significant effect on "state agency" proportionate share of the KPERS collective net pension liability, or an effect on any actuarial assumptions used by KPERS to calculate the net pension liability.

During the 2015 state legislative session, Senate Bill 228 was passed authoring the issuance of one or more series of revenue bonds to provide deposits to KPERS in a total amount not to exceed \$1 billion. The purpose of such bond issuance would be for financing a portion of the unfunded actuarial pension liability of KPERS, which would also have an affect on the collective net pension liability. Final issuance of such bonds must be approved by a resolution of the State Finance Council. As of the date of this report, no such bonds under Senate Bill 228 had been issued. The effect of any potential bond issuance on PSU's proportionate share of the KPERS collective net pension liability is unknown at this time.

Changes in benefit terms. Effective January 1 2014, KPERS Tier 1 member's employee contribution rate increased to 5.0% and then on January 1, 2015, will increase to 6.00%, with an increase in benefit multiplier to 1.85% for future years of service. For Tier II members retiring after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85% multiplier for all years of service.

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NOTE 18 – Prior Period Adjustments

The June 30, 2014 Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows have been restated to reflect an accounting change for the method of calculation for deferred summer tuition. Adjustments to the Statement of Net Position have also been made due to changes in accounting policy related to the recognition of appropriated cash remaining at year end. Previously these have been included in Cash and Cash Equivalents but are classified as Accounts Receivable, net in fiscal year 2015 and forward. Restatements related to Revenue Bonds Payable have been made to include the unamortized bond discounts (premiums) which were not previously recognized on the Statement of Net Position by the University.

In addition to the changes due to accounting policy listed above, an error was discovered in the recognition of capital expenditures in accounts payable whereby both accounts payable and accrued liabilities and Capital Assets, net were both understated. The correction had no impact on ending net position. The fiscal year 2014 comparatives column on the Statement of Net Position has been restated to reflect the correction.