The background of the cover features a photograph of a multi-story brick university building. In the foreground, a large tree with vibrant yellow and orange autumn leaves stands prominently. A person wearing a green jacket is riding a bicycle on a path in front of the tree. To the right, a red pickup truck is parked on a grassy area. The entire scene is overlaid with a semi-transparent white filter.

Pittsburg State University Annual Financial Report

For the Fiscal Year ended June 30, 2013

Pittsburg, Kansas

PITTSBURG STATE UNIVERSITY

Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Kansas Board of Regents

Shane Bangerter	Dodge City
Ann Brandau-Murguia	Kansas City
Mildred Edwards	Wichita
Tim Emert	Independence
Fred Logan	Leawood
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Andy Tompkins, President and CEO	Topeka

President of the University

Steven A. Scott, B.S.Ed., M.S., Ed.S.

Vice President for Administration and Campus Life

John D. Patterson, B.S.Ed., M.S., C.P.A.

Controller's Office

Barbara J. Winter, B.B.A., M.B.A.	Controller
Donald L. Hartshorn, B.B.A., M.B.A.	Assistant Controller
Misty D. Button, B.B.A., M.B.A.	Assistant Controller
James J. Compton, B.B.A., M.B.A.	Assistant Controller
T. James Hughes, B.B.A., M.B.A.	Director of Purchasing

Pittsburg State University

Management's Discussion and Analysis

For the Year Ended June 30, 2013

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of 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. During 2002-2003, Pittsburg State University implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and local Governments," and Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities." This discussion – along with the financial statements and related footnote disclosures – has been prepared by management and should be read in conjunction with the statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

USING THIS ANNUAL REPORT

This report consists of the three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The notes to the financial statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. As noted above, the University implemented new accounting standards issued by GASB during fiscal year 2003. These new standards changed the focus of our financial statements to a comprehensive one-look at the University as a whole (as opposed to the traditional presentation of fund groups). Other significant changes to the financial statements include:

- GASB Statements No. 35 categorizes revenues into operating and non-operating. Significant recurring sources of revenue are now shown as non-operating, including state appropriations and investment income. Public universities depend heavily on these revenues to fund their programs and services. As a result, the University will always report a loss from operating activities.
- Student tuition and fees are now reported net of scholarships funded from University resources. Prior to fiscal year 2003, all scholarships were reported as a scholarship expense.
- GASB Statement No. 35 requires the University to report accumulated depreciation on its capital assets.

STATEMENT OF NET POSITION

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

Within the Statement of Net 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. **Invested in capital assets, net of debt**, indicates the university's equity in property, plant, and equipment owned by the University.
2. **Restricted net position** is further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is only available for investment purposes. Expendable restricted net position 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, 2013 were \$180.0 million, an increase of \$17.4 million or 10.7% compared to \$162.6 million at June 30, 2012. Capital assets, net of depreciation, comprised 74.8%, or \$134.6 million of the total assets.

Total liabilities were \$57.0 million at June 30, 2013, an increase of \$7.7 million or 15.6% compared to \$49.3 million at June 30, 2012. Noncurrent liabilities comprised 63.7%, or \$36.3 million of the liabilities.

Total net position at June 30, 2013 was \$123.0 million, a \$9.7 million increase over the prior year of \$113.3 million or a 8.6% increase in net position. The breakout of net position is shown below:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Capital assets, net of related debt	\$ 98,657,506	\$ 88,189,221
Restricted net position	9,770,808	12,970,512
Unrestricted net position	<u>14,563,703</u>	<u>12,165,289</u>
Total net position	<u><u>\$122,992,017</u></u>	<u><u>\$113,325,022</u></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

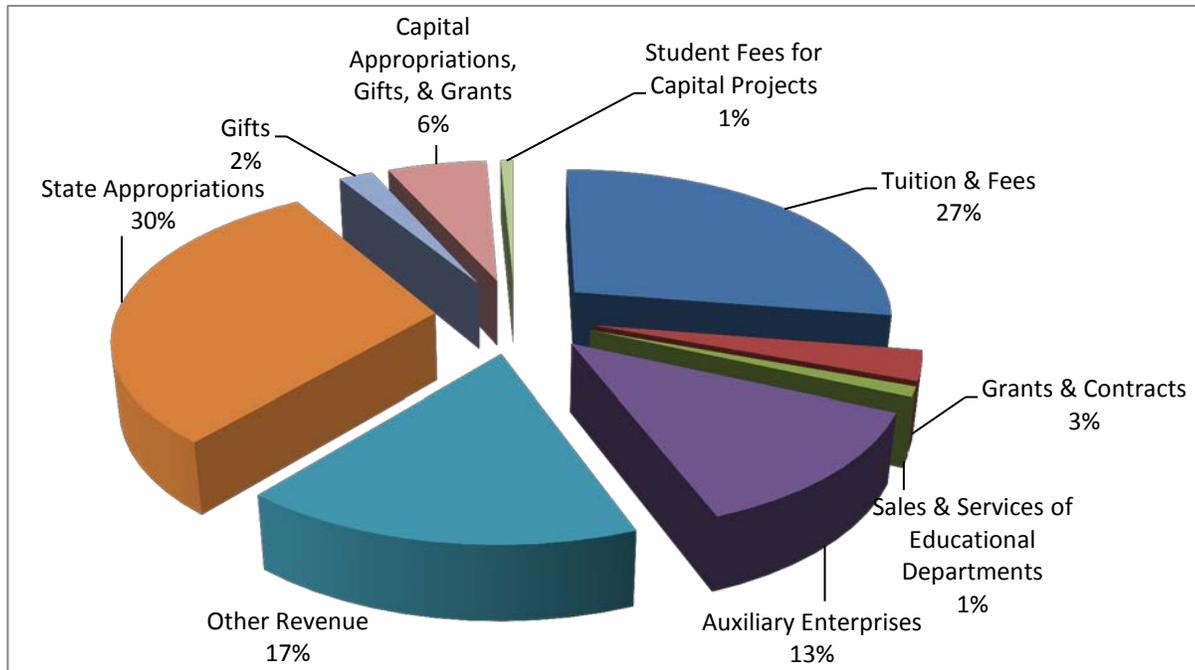
Operating revenues at the University as of June 30, 2013 decreased by 2.2% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$31.7 million in 2013, compared to \$30.4 million in 2012, a net increase of 4.3%.
- Federal grants and contracts decreased 52.4% from \$5.0 million in 2012 to \$2.4 million in 2013.
- Auxiliary enterprise revenues, increased 2.1% from \$14.1 million to \$14.4 million in 2013. Auxiliary enterprises include University Housing, Parking Services, Health Services, Student Center, Athletics, and Student Publications. Auxiliary enterprise revenues are 27.3% of total operating revenue.

Total non-operating revenues were up 7.8% from \$51.4 million to \$55.4 million. The following is a brief summary of the significant changes:

- Gifts increased from \$2.25 million in 2012 to \$2.36 million in 2013, an increase of 4.6%.
- Other non-operating revenues increased from \$13.9 million in 2012 to \$17.2 million, a 23.9% increase.

Revenues for fiscal year 2013 are displayed in the following graph:



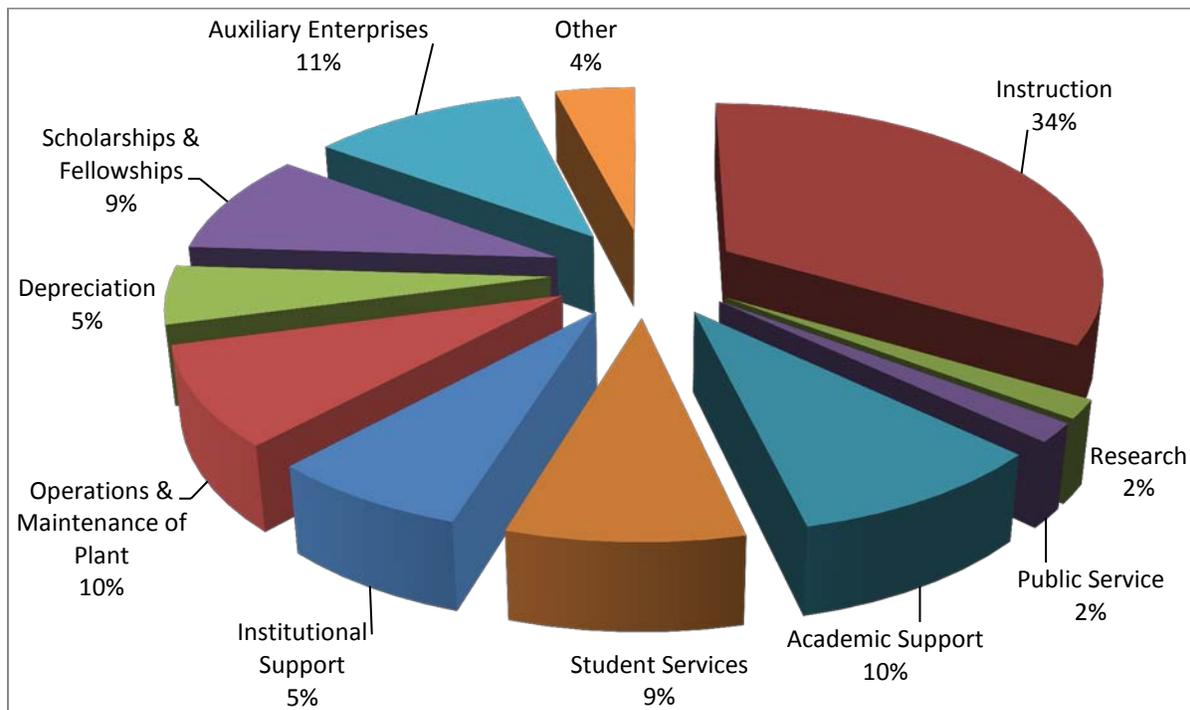
Expenses

Operating expenses increased \$1.3 million, from \$100.1 million for the 2012 fiscal year to \$101.4 million for the 2013 fiscal year. The following is a brief summary of the significant changes:

- Instruction expenses, which comprise 34.9% of total operating expenses, were \$35.4 million in 2013, an increase of \$0.8 million or 2.3%, compared to \$34.6 million in 2012. Instruction includes expenses from academic departments campus wide.
- Institutional Support increased \$1.7 million, or 28.8%, from \$5.9 million to \$7.6 million.
- Student Services decreased 6.9% from \$9.5 million in 2012 to \$8.9 million in 2013.
- Auxiliary enterprise expenses, which include University Housing, Parking Services, Health Services, Student Center, Athletics, and Student Publications, increased 7% from \$10.7 million in 2012 to \$11.5 million in 2013.

Non-operating expenses consist of interest expense and other non-operating expenses. Interest expense increased 66.7%, from \$1.5 million to \$2.5 million.

Expenses for fiscal year 2013 are displayed in the following graph:



Extraordinary Items

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

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 \$2.4 million and \$2.3 million in 2013 and 2012, respectively. The Foundation's financial statements are not included in the accompanying financial statements of the University.

Net Position

Net position increased by \$9.7 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, 2013 and 2012:

	June 30, 2013	June 30, 2012
Net Cash provided (used) by:		
Operating activities	\$(43,608,858)	\$(41,429,327)
Non-capital financing activities	38,057,457	37,414,990
Capital and related financing activities	13,949,512	(698,559)
Investing activities	201,952	33,995
Net increase (decrease) in cash	8,600,063	(4,678,901)
Beginning cash and cash equivalent balances	29,721,034	34,399,935
Ending cash and cash equivalent balances	<u>\$ 38,321,097</u>	<u>\$ 29,721,034</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 2013 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 new University House will provide entertainment space for University functions and receptions in a great room and sit down dining room with an adjacent catering kitchen. There is a separate guest suite with private entrance and sitting room. On the south end of the University House is a private residence for the president and his/her family to reside. Construction documents and bidding for this project were completed in June 2011. Construction began in August 2011 and was completed in July of 2012. This project was funded with private donations.

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 \$12 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. These projects are financed by revenue bonds to be repaid from housing revenues.

- The new Fine and Performing Arts Center will provide two new performance venues, lobby, gallery and back-of-the-house spaces with all the benefits of technology. The new facility will greatly enhance 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 is scheduled to complete in the Fall of 2014. This project is funded with private donations and student fees.
- 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. This project is currently in the design phase. The design team was hired in March of 2013. This project is funded with student fees.
- The Indoor Event Center will be located directly adjacent to the Weede P.E. Building. It will be 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. This project is currently in the design phase. This project is funded with private donations.
- 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. This project is currently in the design phase. This project is funded with State Rehabilitation and Repair dollars.
- The Weede P.E. 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. This project is in the planning stages and will be funded with student fees.

DEBT ADMINISTRATION

At June 30, 2013, the University had \$40.833 million in debt outstanding.

Debt was issued in fiscal year 2003 to finance the Overman Student Center project, Revenue Bonds Series 2003 A-1 and A-2 totaling \$2.6 million. The bonds have been assigned a rating of "A" by Standard & Poor's Ratings Services.

Debt was issued in fiscal year 2004 to finance the Bonita Terrace project, Housing Revenue Bonds Series 2004D for \$1.2 million. The bonds have been assigned a rating of "A-" by Standard & Poor's Ratings Services.

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.

Bond Anticipation Notes Series 2012-3 was issued in December of 2012. The proceeds from the Bond Anticipation Notes are being used for the housing renovation project and will be repaid by Bond Series 2014A to be issued January 2014.

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

ECONOMIC OUTLOOK

Though the Kansas economy has shown moderate growth, significant concerns persist regarding the uncertainty of Federal Government fiscal policies and State General Fund income. According to estimates from the Kansas Division of Budget and Kansas Legislative Research Department, projections for State General Fund revenue are 7.6% below fiscal year 2013 receipts. Additionally, early estimates indicate another 1.8% decrease in revenue for fiscal year 2015. State appropriations made up 30.3% of the University’s total revenue during fiscal year 2013, up 1.3% from fiscal years 2012.

Enrollment for the academic fall 2013 semester was 7,400, the highest in the University’s history. Enrollment projections continue to be 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 2013 beyond unknown variations having a global effect on all types of business operations.

Pittsburg State University
Statement of Net Position
As Of June 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 21,732,625	\$ 20,524,960
Restricted cash and cash equivalents	16,588,472	9,196,074
Accounts receivable, net	1,677,690	1,101,922
Loans to students, net	643,945	690,873
Inventories	296,229	345,844
Prepaid expenses	468,253	462,977
Total current assets	41,407,214	32,322,650
Noncurrent Assets		
Restricted investments	205,668	205,668
Loans to students, net	3,799,934	3,922,877
Capital assets, net	134,567,273	126,135,565
Total noncurrent assets	138,572,875	130,264,110
Total Assets	179,980,089	162,586,760
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable and accrued liabilities	3,747,499	4,260,018
Deferred revenue	3,037,927	1,949,520
Accrued compensated absences	2,366,781	2,583,827
Revenue bonds payable - current portion	1,635,000	1,565,000
Bond anticipation note payable - current portion	8,998,205	-
Capital leases payable - current portion	337,375	457,207
Deposits held in custody for others	594,081	567,588
Total current liabilities	20,716,868	11,383,160
Noncurrent Liabilities		
Other postemployment healthcare benefits	2,763,000	2,398,000
Capital leases payable	3,308,204	3,645,578
Revenue bonds payable	30,200,000	31,835,000
Total noncurrent liabilities	36,271,204	37,878,578
Total Liabilities	56,988,072	49,261,738

**Pittsburg State University
Statement of Net Position
As Of June 30, 2013 and 2012**

<u>NET POSITION</u>	<u>2013</u>	<u>2012</u>
Invested in capital assets, net of related debt	98,657,506	88,189,221
Restricted for		
Expendable		
Scholarships and fellowships	7	11,271
Research	265,004	368,792
Instructional department uses	716,138	749,689
Loans	5,074,304	5,130,792
Capital projects	1,947,795	3,488,294
Debt services	1,970,521	3,172,316
Other	(202,961)	49,358
Unrestricted	<u>14,563,703</u>	<u>12,165,289</u>
Total Net Position	<u>\$ 122,992,017</u>	<u>\$ 113,325,022</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, 2013 and 2012

	2013	2012
<u>OPERATING REVENUES</u>		
Tuition and fees (net of scholarship allowances of \$8,140,565 and \$7,490,858 in 2013 and 2012, respectively)	\$ 31,684,813	\$ 30,399,510
Federal grants and contracts	2,364,741	4,972,145
State and local grants and contracts	868,959	721,923
Nongovernmental grants and contracts	385,571	791,756
Sales and services of educational departments	1,206,105	1,419,141
Auxiliary enterprises:		
Housing	8,536,037	7,997,166
Parking	654,546	559,776
Health Services	1,388,933	1,431,349
Student Center	1,126,802	1,328,651
Athletics	2,587,356	2,607,368
Student Publications	139,730	153,351
Interest earned on loans to students	86,702	86,986
Other operating revenues	1,764,229	1,506,929
Total operating revenues	52,794,524	53,976,051
 <u>OPERATING EXPENSES</u>		
Educational and General		
Instruction	35,420,193	34,636,637
Research	1,755,184	2,023,330
Public Service	1,783,018	1,878,255
Academic support	9,888,227	10,220,555
Student services	8,876,439	9,537,674
Institutional support	7,567,946	5,942,882
Operations and maintenance of plant	9,330,404	10,286,023
Depreciation	5,480,838	4,893,905
Scholarships and fellowships	9,583,514	9,551,842
Auxiliary enterprises:		
Housing	5,778,413	5,358,595
Parking	217,441	182,616
Health Services	1,282,383	1,321,150
Student Center	1,201,162	1,267,813
Athletics	2,851,420	2,400,021
Student Publications	149,333	183,004
Other	281,728	439,024
Total operating expenses	101,447,643	100,123,326
Operating Income (Loss)	(48,653,119)	(46,147,275)

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
State appropriations	34,808,845	34,377,120
Gifts	2,356,841	2,253,916
Investment income	201,952	33,995
Interest expense	(2,536,405)	(1,495,662)
Student fees for capital projects	873,508	857,468
Other nonoperating revenues	17,193,734	13,876,606
Other nonoperating expenses	(1,413,174)	(993,587)
Net nonoperating revenues (expenses)	51,485,301	48,909,856
Income before other revenues, expenses, gains, or losses	2,832,182	2,762,581
Capital appropriations	1,644,994	1,795,957
Capital grants and gifts	5,189,819	935,665
	6,834,813	2,731,622
Increase In Net Position	9,666,995	5,494,203
Net position - beginning of year	113,325,022	107,830,819
Net position - end of year	\$ 122,992,017	\$ 113,325,022

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 36,994,836	\$ 34,456,070
Sales and services of educational activities	1,206,105	1,419,141
Auxiliary enterprises:		
Housing	8,669,400	4,485,803
Parking	578,068	480,855
Health Services	82,188	117,156
Student Center	4,504	129,116
Athletics	102,953	2,607,368
Student Publications	(9,140)	153,351
Grants and contracts	4,080,808	6,245,541
Payments to suppliers	(19,223,918)	(17,056,983)
Payments to utilities	(2,220,062)	(1,755,977)
Compensation & benefits	(60,662,406)	(59,703,752)
Payments for scholarships and fellowships	(14,393,140)	(14,198,808)
Loans issued to students and employees	(634,181)	(960,190)
Collections on loans issued to students and employees	555,249	777,858
Other receipts (payments)	1,259,878	1,374,124
	<u>(43,608,858)</u>	<u>(41,429,327)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	34,808,845	34,377,120
Gifts	2,356,841	2,253,916
Federal family education loan receipts	28,867,007	29,295,266
Federal family education loan disbursements	(28,867,007)	(29,295,266)
Student organization agency transactions	38,500	121,253
Other	853,271	662,701
	<u>38,057,457</u>	<u>37,414,990</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	8,998,205	-
Capital appropriations	2,583,000	1,107,000
Capital Grants and gifts	5,189,819	935,665
Student fees for capital projects	873,508	857,468
Purchases of capital assets	(11,558,439)	(10,059,965)
Principal paid on capital debt and leases	(2,022,207)	(1,664,758)
Interest paid on capital debt and leases	(1,928,751)	(1,703,137)
Disposal of asset	-	-
Other	11,814,377	9,829,168
	<u>13,949,512</u>	<u>(698,559)</u>
Net Cash Flows from Capital Financing Activities		

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	-	-
Investment income	201,952	33,995
Purchase of investments	-	-
	<u>201,952</u>	<u>33,995</u>
Net Cash Flows from Investing Activities		
	<u>201,952</u>	<u>33,995</u>
Net change in cash and cash equivalents	8,600,063	(4,678,901)
Cash and cash equivalents-beginning of year	29,721,034	34,399,935
Cash and cash equivalents-end of year	<u>\$ 38,321,097</u>	<u>\$ 29,721,034</u>
RECONCILIATION		
Operating income (loss)	\$ (48,653,119)	\$ (46,147,275)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	5,480,838	4,893,905
Changes in assets and liabilities:		
Accounts receivable, net	(575,768)	244,155
Loans to students, net	169,871	(63,626)
Inventories	(49,615)	(268)
Prepaid expenses	(5,276)	(14,795)
Accounts payable and accrued liabilities	(512,519)	134,070
Deferred revenue	415,269	(1,019,605)
Accrued compensated absences	(217,046)	107,884
Other postemployment healthcare benefits	365,000	314,000
Deposits held in custody for others	(26,493)	122,228
	<u>\$ (43,608,858)</u>	<u>\$ (41,429,327)</u>

See accompanying notes to financial statements

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

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 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. The financial activity and balances of the Pittsburg State University Foundation, Inc., Pittsburg State University Research Foundation, Inc., and Pittsburg State University Alumni Association, Inc. are not included in the financial statements of the University as they are separate legal entities and the University does not appoint a voting majority of the Association's governing body.

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

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

Cash Equivalents. For 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 Assets.

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

Inventories. Inventories are carried at cost.

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 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, 2013 and 2012

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

Deposits Held In Custody For Others. Deposits held in custody for others 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.

Net Position. The University's net position is 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 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.

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.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

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, 2013 and 2012 were \$38,321,097 and \$29,721,034 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, 2013 and 2012 were \$205,668 and \$205,668 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:

	<u>2013</u>	<u>2012</u>
Tuition and Fees	\$859,095	\$ 617,310
Auxiliary enterprises	122,900	71,338
Grants & Contracts	603,606	389,855
Other	92,089	23,419
Total	<u>\$ 1,677,690</u>	<u>\$ 1,101,922</u>

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, 2013 and 2012. 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, 2013 and 2012, the allowance for uncollectible loans was estimated to be \$670,997 and \$648,903, respectively.

NOTE 5 – Inventories

Inventories consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Physical Plant	\$ 185,938	\$ 223,853
Other	110,291	121,991
Total	<u>\$ 296,229</u>	<u>\$ 345,844</u>

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

NOTE 6 – Capital Assets

Capital asset activity for the year ended June 30, 2013 and June 30, 2012 are as follows:

	2013			
	Balance Remaining	Additions	Retirements	Ending Balance
Land	\$ 6,036,652	\$ 94,837	\$	\$ 6,131,489
Land Improvements	6,333,867	265,198		6,599,065
Works of Art	782,264			782,264
Buildings & Improvements	156,526,672	8,709,897		165,236,569
Equipment & Furnishings	16,933,836	1,578,165	1,096,682	17,415,319
Vehicles	1,953,765	209,035	61,542	2,101,258
Software	2,006,910		162,100	1,844,810
Total	\$190,573,966	\$ 10,857,132	\$ 1,320,324	\$ 200,110,774
Less accumulated depreciation:				
Land Improvements	\$ 2,747,937	\$ 232,493	\$	\$ 2,980,431
Buildings & Improvements	52,697,105	3,746,709		56,443,814
Equipment & Furnishings	12,830,058	1,230,735	882,140	13,178,653
Vehicles	1,677,772	115,553	59,946	1,733,379
Software	1,214,567	155,348	145,890	1,224,025
Total accumulated depreciation	\$ 71,167,439	\$ 5,480,838	\$ 1,087,976	\$ 75,560,301
Capital assets, net	\$ 119,406,528	\$ 5,376,293	\$ 232,348	\$ 124,550,473
Construction In Progress				10,016,800
				\$ 134,567,273

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, 2013 and 2012

	2012			
	Balance Remaining	Additions	Retirements	Ending Balance
Land	\$ 5,815,278	\$ 221,374	\$	\$ 6,036,652
Land Improvements	5,994,349	339,518		6,333,867
Works of Art	782,264			782,264
Buildings & Improvements	148,285,622	9,023,868	782,818	156,526,672
Equipment & Furnishings	16,096,453	938,555	101,172	16,933,836
Vehicles	1,801,572	249,541	97,348	1,953,765
Software	2,019,160		12,250	2,006,910
Total	\$ 180,794,698	\$ 10,772,856	\$ 993,588	\$ 190,573,966
Less accumulated depreciation:				
Land Improvements	\$ 2,524,677	\$ 223,260	\$	\$ 2,747,937
Buildings & Improvements	49,344,278	3,548,532	195,705	52,697,105
Equipment & Furnishings	11,783,762	1,147,467	101,172	12,830,057
Vehicles	1,572,793	198,127	93,148	1,677,772
Software	1,048,024	168,993	2,450	1,214,567
Total accumulated depreciation	\$ 66,273,534	\$ 5,286,379	\$ 392,475	\$ 71,167,438
Capital assets, net	\$ 114,521,164	\$ 5,486,477	\$ 601,113	\$ 119,406,528
Construction In Progress				6,729,038
				\$ 126,135,565

NOTE 7 – Deferred Revenue

Deferred revenues consisted of the following at June 30:

	2013	2012
Tuition and Fees	\$ 804,494	\$ 794,993
Grants & Contracts	951,991	813,939
Capital Appropriations*	1,156,731	218,725
Auxiliary enterprises	124,711	121,863
	\$ 3,037,927	\$ 1,949,520

*Deferred Revenue for Capital Appropriations is the unspent portion of the University's allocation from the Kansas Board of Regents from the Rehabilitation and Repair Projects Fund. The increase in deferred revenue is the result of the University reserving these funds for the Heckert Wells HVAC project.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

NOTE 8 - Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013 and June 30, 2012 was as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 33,400,000	\$ 0	\$ 1,565,000	\$ 31,835,000	\$ 1,635,000
Bond anticipation note payable	0	8,998,205	0	8,998,205	8,998,205
Lease obligations	<u>4,102,785</u>	<u>0</u>	<u>457,207</u>	<u>3,645,578</u>	<u>337,375</u>
Total long-term liabilities	<u>\$ 37,502,785</u>	<u>\$ 8,998,205</u>	<u>\$ 2,022,207</u>	<u>\$ 44,478,783</u>	<u>\$ 10,970,580</u>

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 34,935,000	\$ 0	\$ 1,535,000	\$ 33,400,000	\$ 1,565,000
Lease obligations	<u>4,671,646</u>	<u>0</u>	<u>568,861</u>	<u>4,102,785</u>	<u>457,207</u>
Total long-term liabilities	<u>\$ 39,606,646</u>	<u>\$ 0</u>	<u>\$ 2,103,861</u>	<u>\$ 37,502,785</u>	<u>\$ 2,022,207</u>

NOTE 9 - Revenue Bonds Outstanding

Revenue bonds payable consist of the following:

<p>Kansas Development Finance Authority Revenue Bonds - Series A-1 & A-2, 2003 (The Board of Regents - Pittsburg State University Overman Student Center Project) \$2,610,000 Due in annual installments of \$195,000 to \$205,000. Issued 1/28/03 with a final maturity on 4/1/2023. Interest ranging from 1.8% to 5.25% payable semi-annually.</p>	Principal Outstanding at 6/30/13 \$ 1,605,000
<p>Kansas Development Finance Authority Revenue Bonds – Series D, 2004 (The Board of Regents - Pittsburg State University Housing System Renovation Project – Bonita Terrace) \$1,195,000 Due in annual installments of \$50,000 to \$130,000. Issued 7/14/04 with a final maturity on 10/1/2019. Interest ranging from 3.0% to 4.75% payable semi-annually.</p>	705,000
<p>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.</p>	3,000,000

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

	Principal Outstanding at 6/30/13
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.	\$ 640,000
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.	4,055,000
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.	13,860,000
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.	7,970,000
Kansas Development Finance Authority Bond Anticipation Note – Series 2012-3 was issued December 2012 to be repaid by Bond Series 2014A to be issued January 2014. The purpose of this Anticipation Note is the renovation of student housing by Pittsburg State University.	8,998,205

NOTE 10 - Revenue Bonds Maturity Schedule

Maturities of principal and interest requirements on revenue bonds payable for the year ended June 30, 2013 are as follows:

Year Ending June 30:	Principal	Interest	Total
2014	1,635,000	1,697,813	3,332,813
2015	1,680,000	1,640,540	3,320,540
2016	1,735,000	1,579,136	3,314,136
2017	1,795,000	1,509,593	3,304,593
2018-2022	11,610,000	6,065,609	17,675,609
2023-2027	5,790,000	3,575,588	9,365,588
2028-2032	4,800,000	1,840,200	6,640,200
2033-2035	2,790,000	312,075	3,102,075
Total	\$31,835,000	\$18,220,554	\$50,055,554

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 \$3,645,579 and \$4,102,785 as of June 30, 2013 and 2012, 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.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

Payments to liquidate these obligations as of June 30, 2013 are scheduled as follows:

Year Ending June 30:	Total
2014	337,375
2015	352,519
2016	343,093
2017	358,605
2018 and thereafter	2,253,987
Total	\$ 3,645,579

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 \$1,033,654 and \$966,306 during fiscal years 2013 and 2012, respectively, and individual employees contributed \$477,117 and \$469,185. 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 \$2,908,354 and \$2,812,170 during fiscal years 2013 and 2012, respectively, and individual employees contributed \$1,843,496 and \$1,780,924.

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.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

Amortization of UAAL	\$ 272,000
Normal cost (with interest)	<u>324,000</u>
Annual OPEB cost (expense)	596,000
Interest on Net OPEB Obligation	92,000
Adjustment to the ARC	<u>(136,000)</u>
Increase in OPEB obligation	552,000
Net Employer Contributions	(187,000)
Net OPEB obligation July 1, 2012	<u>2,398,000</u>
Net OPEB obligation June 30, 2013	<u><u>\$ 2,763,000</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
2011	\$609,000	\$123,000	20%	\$2,084,000
2012	\$530,000	\$216,000	41%	\$2,398,000
2013	\$552,000	\$187,000	34%	\$2,763,000

Funded Status and Funding Progress. As of January 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,077,000. The University's policy is to fund the benefits implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,077,000. The covered payroll (annual payroll of active employees covered by the plan) was \$50,008,000, and the ratio of the UAAL to the covered payroll was 10 percent.

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

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
6/30/2011	\$0	\$5,684,000	\$5,684,000	0%	\$48,341,000	12%
6/30/2012	\$0	\$5,009,000	\$5,009,000	0%	\$49,317,000	10%
6/30/2013	\$0	\$5,077,000	\$5,077,000	0%	\$50,008,000	10%

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

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

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, 2013 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 5.5 to 10 percent in the first ten years and an ultimate rate of 5.0 percent after ten 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, 2013 and 2012 the University had outstanding commitments under construction contracts totaling \$31,190,028 and \$1,880,319, 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, 2013.

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, 2013 and 2012 Statement of Revenues, Expense, and Changes in Net Assets 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:

	2013	2012
Pell Grants	\$ 10,585,260	\$ 10,564,411
SEOG Grants	179,170	180,660
Regents Supplemental Grants	717,204	659,032
Total	\$ 11,481,634	\$ 11,404,103

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

NOTE 16 – Natural Classifications with Functional Classifications

The University's operating expenses by functional and natural classification as of June 30, 2013 and June 30, 2012 are as follows:

	2013					Total
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	
Educational and general						
Instruction	\$ 32,240,674	\$	\$ 137	\$ 3,179,382	\$	\$ 35,420,193
Research	1,355,634			399,550		1,755,184
Public service	1,320,458		768	461,792		1,783,018
Academic support	6,926,653			2,961,574		9,888,227
Student services	6,386,014			2,490,425		8,876,439
Institutional support	5,654,184		771	1,912,991		7,567,946
Operations and maintenance of plant	6,755,332		1,557,942	1,017,130		9,330,404
Depreciation					5,480,838	5,480,838
Scholarships and fellowships		9,583,514				9,583,514
Auxiliary enterprises:						
Housing	1,905,988		537,130	3,335,295		5,778,413
Parking	22,781			194,660		217,441
Health Services	1,040,070		17,308	225,005		1,282,383
Student Center	(689)		106,006	1,095,845		1,201,162
Athletics	394,218			2,457,202		2,851,420
Student Publications	463			148,870		149,333
Other				281,728		281,728
Total	\$ 64,001,780	\$ 9,583,514	\$ 2,220,062	\$20,161,449	\$ 5,480,838	\$101,447,643

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

	2012					Total
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	
Educational and general						
Instruction	\$ 31,841,879	\$	\$ 246	\$ 2,794,512	\$	\$ 34,636,637
Research	1,247,095		2,098	774,137		2,023,330
Public service	1,277,774		918	599,563		1,878,255
Academic support	6,865,425			3,355,130		10,220,555
Student services	6,463,512			3,074,162		9,537,674
Institutional support	5,346,234		11,028	585,620		5,942,882
Operations and maintenance of plant	6,768,623		1,729,242	1,788,158		10,286,023
Depreciation					4,893,905	4,893,905
Scholarships and fellowships		9,551,842				9,551,842
Auxiliary enterprises:						
Housing	1,867,180		636,415	2,855,000		5,358,595
Parking	42,429			140,187		182,616
Health Services	1,078,256		22,362	220,532		1,321,150
Student Center	(5,626)		143,308	1,130,131		1,267,813
Athletics	392,113		1,764	2,006,144		2,400,021
Student Publications	4,078		1,719	177,207		183,004
Other				439,024		439,024
Total	<u>\$ 63,188,972</u>	<u>\$ 9,551,842</u>	<u>\$ 2,549,100</u>	<u>\$19,939,507</u>	<u>\$ 4,893,905</u>	<u>\$100,123,326</u>

NOTE 17 – Prior Period Adjustments

Two errors were discovered in the 2012 Statement of Revenues, Expenses, and Changes in Net Position. Institutional Support Expenditures and Capital Grants and Gifts were understated by \$915,665. Also, Housing revenue was overstated by \$1,188,489 while Other operating revenues were understated by the same amount. There was no cumulative effect on Total Net Position.

NOTE 18 – Subsequent Event

Subsequent to June 30, 2013, the Kansas Board of Regents authorized the sale of revenue bonds not to exceed \$35 million. The purpose of this bond is to finance the construction of the Fine and Performing Arts and Indoor Event Centers along with the renovation of Overman Student Center. In addition, \$9 million will be used to refund the Housing renovation bond anticipation note. Bond proceeds in the amounts of \$1.195 million and \$615,000 will also be used to refund the 2003A-1 and 2004D bonds.