

The background of the cover features a photograph of a modern university building. On the left, a prominent brick pillar with a circular seal at the top stands next to a glass-enclosed walkway or bridge that spans across the frame. The building's architecture is contemporary, with large glass windows and metal structural elements. The overall scene is brightly lit, suggesting a sunny day.

# Pittsburg State University Annual Financial Report

For the Fiscal Year ended June 30, 2012

Pittsburg, Kansas

# PITTSBURG STATE UNIVERSITY

## Annual Financial Report

For the Fiscal Year Ended June 30, 2012

### Kansas Board of Regents

Jarold Boettcher .....	Manhattan
Christine Downey-Schmidt.....	Inman
Mildred Edwards.....	Topeka
Tim Emert .....	Independence
Richard Hedges.....	Fort Scott
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### 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, 2012**

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 Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The notes to the financial statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. As noted above, the University implemented new accounting standards issued by GASB during fiscal year 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 ASSETS**

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

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

Net assets are divided into three categories:

1. **Invested in capital assets, net of debt**, indicates the university's equity in property, plant, and equipment owned by the University.
2. **Restricted net assets** are further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as

determined by donors and/or external entities that have placed time or purposes restrictions on the use of the assets.

3. **Unrestricted net assets** are available to the University for any lawful purpose of the institution.

Total assets at June 30, 2012 were \$162.6 million, an increase of \$2.65 million or 1.7% compared to \$159.9 million at June 30, 2011. Capital assets, net of depreciation, comprised 77.6%, or \$126.1 million of the total assets.

Total liabilities were \$49.3 million at June 30, 2012, a decrease of \$2.8 million or 5.4% compared to \$52.1 million at June 30, 2011. Noncurrent liabilities comprised 76.9%, or \$37.9 million of the liabilities.

Total net assets at June 30, 2012 were \$113.3 million, a \$5.5 million increase over the prior year of \$107.8 million or a 5.1% increase in net assets. The breakout of net assets is shown below:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Capital assets, net of related debt	\$ 88,189,221	\$ 78,585,111
Restricted net assets	12,970,512	14,610,154
Unrestricted net assets	<u>12,165,289</u>	<u>14,635,554</u>
<b>Total net assets</b>	<u><u>\$113,325,022</u></u>	<u><u>\$107,830,819</u></u>

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

### Revenues

Operating revenues at the University as of June 30, 2012 increased by 2.0% over the previous fiscal year. The following is a brief summary of the significant changes:

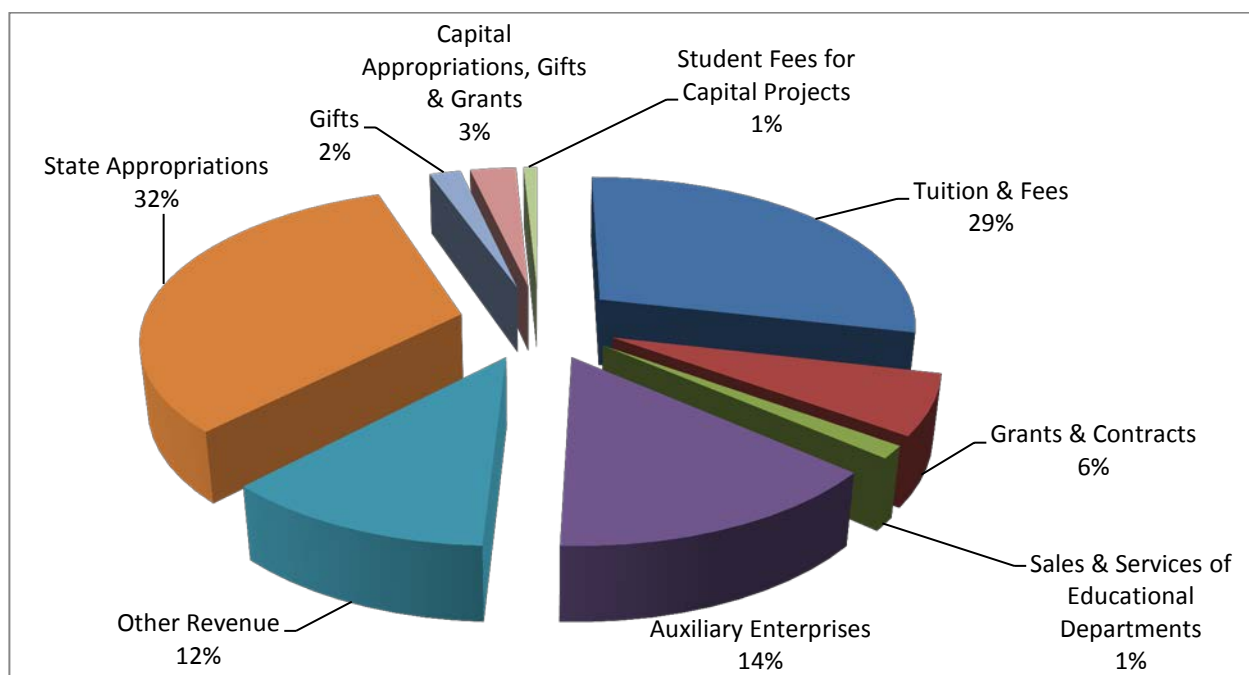
- Student tuition and fee revenues, after scholarship allowances, were \$30.4 million in 2012, compared to \$28.7 million in 2011, a net increase of 6%.
- Federal grants and contracts decreased 30% from \$7.1 million in 2011 to \$5.0 million in 2012. The conclusion of the Federal Stimulus program accounted for a \$3.1 million decrease.
- Auxiliary enterprise revenues, increased 18.6% from \$12.9 million to \$15.3 million in 2012. Auxiliary enterprises include University Housing, Parking Services, Health Services, Student Center, Athletics, and Student Publications. Auxiliary enterprise revenues are 28.3% of total operating revenue.

Total non-operating revenues were up 2.1% from \$50.3 million to \$51.4 million. The following is a brief summary of the significant changes:

- Gifts decreased \$1.1 million in 2012 to \$2.3 million, a 32.7% drop.
- Other non-operating revenues increased from \$11.5 million in 2011 to \$13.9 million, a 20.9% increase.



Revenues for fiscal year 2012 are displayed in the following graph:



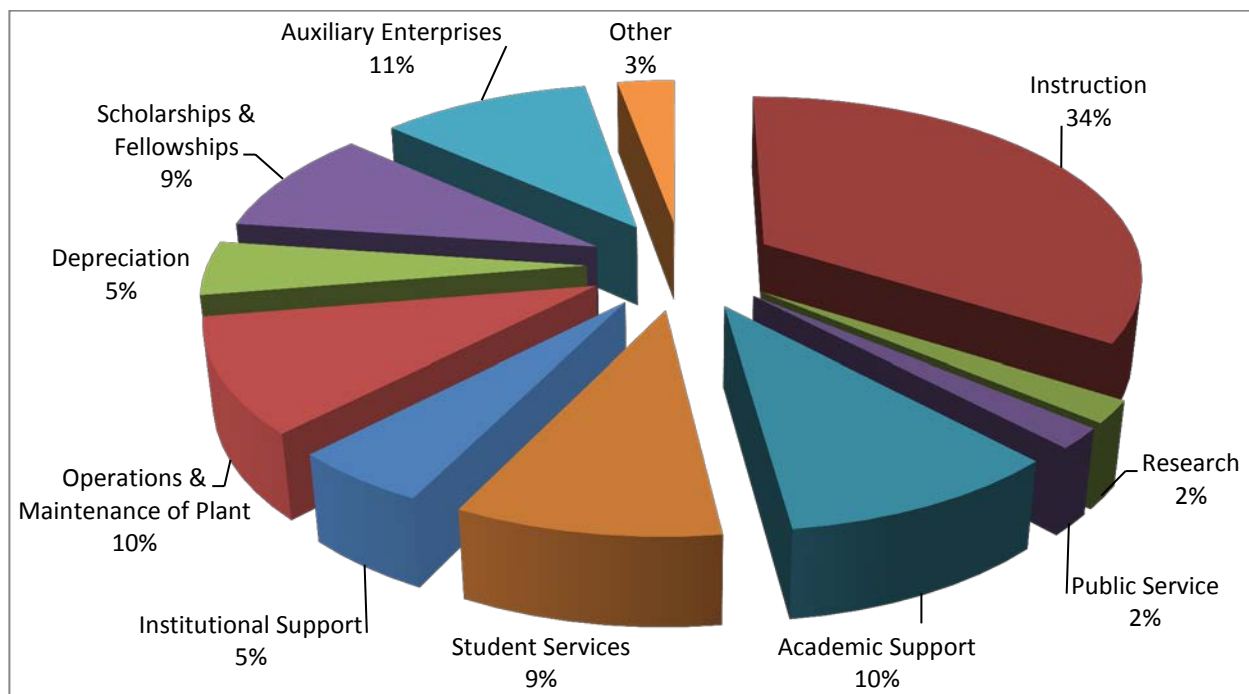
## Expenses

Operating expenses increased \$1.8 million, from \$97.4 million for the 2011 fiscal year to \$99.2 million for the 2012 fiscal year. The following is a brief summary of the significant changes:

- Instruction expenses, which comprise 34.9% of total operating expenses, were \$34.6 million in 2012, an increase of \$1.6 million or 4.95%, compared to \$33.0 million in 2011. Instruction includes expenses from academic departments campus wide.
- Institutional Support decreased \$2.0 million, or 27.9%, from \$7.0 million to \$5.0 million. The majority of this decrease is due to the expenditure of funds associated with the Federal Stimulus program which ended in 2011.
- Scholarships and fellowships decreased 7.7% from \$10.4 million in 2011 to \$9.6 million in 2012. This decrease is primarily a result of the end of the Federal Stimulus Tuition Abatement, which was \$375,146 in 2011. Also contributing to the decrease is the conclusion of the SMART grant program which ended June 30, 2011. This was a decrease of \$192,240 from last year.
- Auxiliary enterprise expenses, which include University Housing, Parking Services, Health Services, Student Center, Athletics, and Student Publications, increased 6.2% from \$10.1 million in 2011 to \$10.7 million in 2012. The largest contributor to the increase was Athletics, which rose from \$1.7 million in 2011 to \$2.4 million in 2012, a 42.1% increase.

Non-operating expenses consist of interest expense and other non-operating expenses. Interest expense decreased 24.2%, from \$2.0 million to \$1.5 million.

Expenses for fiscal year 2012 are displayed in the following graph:



### Extraordinary Items

The University did not have any special and extraordinary items in 2012.

### 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 Assets. 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 \$2.3 million and \$3.4 million in 2012 and 2011, respectively. The Foundation's financial statements are not included in the accompanying financial statements of the University.

### Net Assets

Net assets increased by \$5.5 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, 2012 and 2011:

	June 30, 2012	June 30, 2011
Net Cash provided (used) by:		
Operating activities	\$(40,513,650)	\$(39,023,825)
Non-capital financing activities	37,414,990	38,335,591
Capital and related financing activities	(1,614,224)	1,745,333
Investing activities	33,995	1,180,284
Net increase (decrease) in cash	(4,678,889)	2,237,383
Beginning cash and cash equivalent balances	34,399,935	32,162,550
Ending cash and cash equivalent balances	<u>\$ 29,721,046</u>	<u>\$ 34,399,935</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 2012 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:

- Pittsburg State University received \$1,417,194 for fiscal year 2011 of ARRA Funding in July of 2010 for deferred maintenance projects. These projects consist of new windows, masonry restoration and HVAC upgrades for Hughes Hall, as well as, plumbing and gas valve shut-off modifications for Heckert-Wells Hall which completed in August of 2011.

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 two phase, \$22 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 complete in August 2011. Tanner Hall Annex, the 4<sup>th</sup> dorm renovation, was started in May of 2012 with a completion date of August 2012. These projects are financed by revenue bonds to be repaid from housing revenues.
- 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 was completed

in June 2011. Construction began in August 2011 with a completion date in July 2012. This project is funded with private donations.

- 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 were completed and bidding is scheduled for October 2012. 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 for a much needed campus activities center complex including student organization offices and provide more student gathering, lounge space and meeting rooms. This project is currently in the planning phase with the Design team scheduled to be hired in Winter of 2012. This project is funded with student fees.
- The Indoor Event Center includes an expansion to the Weede Facility to provide a new multi-use facility including 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 planning phase. This project is funded with private donations and student fees.

## **DEBT ADMINISTRATION**

At June 30, 2012, the University had \$33.4 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.

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

## **ECONOMIC OUTLOOK**

While the State of Kansas revenues increased during 2012, forecasts for 2013 revenues are not optimistic. Projections include a decrease in revenue of nearly 4% below 2012 numbers, mainly due to aggressive tax reductions passed by the legislature for 2013. The Kansas Legislative Research Department indicates continuing recovery for the state, although economic uncertainties at the Federal level and abroad have slowed growth during 2012. The Department projects modest growth for 2013, expecting that those uncertainties continue. State appropriations made up 32.4% of the University's total operating revenues during fiscal year 2012, down 1% from 2011.

Enrollment for the academic fall 2012 semester was 7,289, the highest in the University's history. With the enactment of the Gorilla Edge program along with significant capital improvements slated to begin in 2013, 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 2012 beyond those unknown variations having a global effect on all types of business operations.



**Pittsburg State University**  
**Statement of Net Assets**  
**As Of June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>ASSETS</u></b>		
Current Assets		
Cash and cash equivalents	\$ 20,524,960	\$ 22,572,489
Restricted cash and cash equivalents	9,196,086	11,827,446
Accounts receivable, net	1,101,922	1,346,077
Loans to students, net	690,873	623,285
Inventories	345,844	346,112
Prepaid expenses	462,977	448,182
Total current assets	<u>32,322,662</u>	<u>37,163,591</u>
Noncurrent Assets		
Restricted investments	205,668	205,668
Loans to students, net	3,922,877	3,926,839
Capital assets, net	126,135,565	118,639,392
Total noncurrent assets	<u>130,264,110</u>	<u>122,771,899</u>
Total Assets	<u>162,586,772</u>	<u>159,935,490</u>
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts payable and accrued liabilities	4,260,018	4,476,875
Deferred revenue	1,949,520	2,928,616
Accrued compensated absences	2,583,827	2,475,943
Revenue bonds payable - current portion	1,565,000	1,535,000
Capital leases payable - current portion	457,207	568,861
Deposits held in custody for others	567,588	445,360
Total current liabilities	<u>11,383,160</u>	<u>12,430,655</u>
Noncurrent Liabilities		
Other postemployment healthcare benefits	2,398,000	2,084,000
Capital leases payable	3,645,578	4,102,785
Revenue bonds payable	31,835,000	33,400,000
Total noncurrent liabilities	<u>37,878,578</u>	<u>39,674,016</u>
Total Liabilities	<u>49,261,738</u>	<u>52,104,671</u>

**Pittsburg State University**  
**Statement of Net Assets**  
**As Of June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	88,189,221	78,585,111
Restricted for		
Expendable		
Scholarships and fellowships	11,271	(373,090)
Research	368,792	91,293
Instructional department uses	749,689	608,706
Loans	5,130,792	5,316,547
Capital projects	3,488,294	6,295,794
Debt services	3,172,316	2,941,959
Other	49,358	(271,055)
Unrestricted	<u>12,165,289</u>	<u>14,635,554</u>
Total Net Assets	<u><u>\$ 113,325,022</u></u>	<u><u>\$ 107,830,819</u></u>

*See accompanying notes to financial statements*

**Pittsburg State University**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>OPERATING REVENUES</u></b>		
Tuition and fees (net of scholarship allowances of \$7,490,858 and \$7,019,643 in 2012 and 2011, respectively)	\$ 30,399,510	\$ 28,659,016
Federal grants and contracts	4,972,145	7,137,380
State and local grants and contracts	721,923	801,264
Nongovernmental grants and contracts	791,756	355,780
Sales and services of educational departments	1,419,141	1,650,915
Auxiliary enterprises:		
Housing	9,185,655	7,380,440
Parking	559,776	550,763
Health Services	1,431,349	1,369,689
Student Center	1,328,651	1,275,090
Athletics	2,607,368	2,129,334
Student Publications	153,351	163,335
Interest earned on loans to students	86,986	88,137
Other operating revenues	318,440	1,338,352
Total operating revenues	<u>53,976,051</u>	<u>52,899,495</u>
<b><u>OPERATING EXPENSES</u></b>		
Educational and General		
Instruction	34,636,637	33,002,402
Research	2,023,330	2,088,318
Public Service	1,878,255	1,815,347
Academic support	10,220,555	9,589,656
Student services	9,537,674	8,803,238
Institutional support	5,027,217	6,972,157
Operations and maintenance of plant	10,286,023	10,224,471
Depreciation	4,893,905	5,039,341
Scholarships and fellowships	9,551,842	10,352,274
Auxiliary enterprises:		
Housing	5,358,595	5,261,614
Parking	182,616	247,720
Health Services	1,321,150	1,322,910
Student Center	1,267,813	1,403,104
Athletics	2,400,021	1,688,454
Student Publications	183,004	160,843
Other	439,024	(553,879)
Total operating expenses	<u>99,207,661</u>	<u>97,417,970</u>
Operating Income (Loss)	<u>(45,231,610)</u>	<u>(44,518,475)</u>

**Pittsburg State University**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
State appropriations	34,377,120	34,294,217
Gifts	2,253,916	3,352,563
Investment income	33,995	366,484
Interest expense	(1,495,662)	(1,977,245)
Student fees for capital projects	857,468	849,568
Other nonoperating revenues	13,876,606	11,471,933
Other nonoperating expenses	(993,587)	(591,111)
Net nonoperating revenues (expenses)	<u>48,909,856</u>	<u>47,766,409</u>
Income before other revenues, expenses, gains, or losses	3,678,246	3,247,934
Capital appropriations	1,795,957	759,339
Capital grants and gifts	20,000	277,675
	<u>1,815,957</u>	<u>1,037,014</u>
Increase In Net Assets	5,494,203	4,284,948
Net assets - beginning of year	107,830,819	103,545,871
Net assets - end of year	<u>\$ 113,325,022</u>	<u>\$ 107,830,819</u>

**Pittsburg State University**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 34,456,070	\$ 32,759,913
Sales and services of educational activities	1,419,141	1,650,849
Auxiliary enterprises:		
Housing	4,485,803	2,713,111
Parking	480,855	473,824
Health Services	117,156	59,559
Student Center	129,116	(52,603)
Athletics	2,607,368	415,622
Student Publications	153,351	3,711
Grants and contracts	6,245,541	8,389,225
Payments to suppliers	(16,141,306)	(13,112,441)
Payments to utilities	(1,755,977)	(1,832,445)
Compensation & benefits	(59,703,752)	(57,254,523)
Payments for scholarships and fellowships	(14,198,808)	(14,650,979)
Loans issued to students and employees	(960,190)	(676,933)
Collections on loans issued to students and employees	777,858	707,958
Other receipts (payments)	1,374,124	1,382,327
	<u>(40,513,650)</u>	<u>(39,023,825)</u>
Net Cash Flows from Operating Activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	34,377,120	34,294,217
Gifts	2,253,916	3,352,563
Federal family education loan receipts	991,836	1,259,025
Federal family education loan disbursements	(988,162)	(1,263,095)
Student organization agency transactions	121,253	36,019
Other	659,027	656,862
	<u>37,414,990</u>	<u>38,335,591</u>
Net Cash Flows from Noncapital Financing Activities		
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from capital debt	-	9,465,000
Capital appropriations	1,107,000	1,107,000
Capital Grants and gifts	20,000	277,675
Student fees for capital projects	857,468	849,568
Purchases of capital assets	(10,059,965)	(11,382,088)
Principal paid on capital debt and leases	(1,664,758)	(6,824,367)
Interest paid on capital debt and leases	(1,703,137)	(1,978,642)
Disposal of asset	-	-
Other	9,829,168	10,231,187
	<u>(1,614,224)</u>	<u>1,745,333</u>
Net Cash Flows from Capital Financing Activities		



**Pittsburg State University**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	-	813,800
Investment income	33,995	366,484
Purchase of investments	-	-
	<u>33,995</u>	<u>1,180,284</u>
Net Cash Flows from Investing Activities		
	<u>33,995</u>	<u>1,180,284</u>
Net change in cash and cash equivalents	(4,678,889)	2,237,383
Cash and cash equivalents-beginning of year	34,399,935	32,162,552
Cash and cash equivalents-end of year	<u>\$ 29,721,046</u>	<u>\$ 34,399,935</u>
<b>RECONCILIATION</b>		
Operating income (loss)	\$ (45,231,610)	\$ (44,518,475)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	4,893,905	5,039,341
Changes in assets and liabilities:		
Accounts receivable, net	244,155	(203,668)
Loans to students, net	(63,626)	185,749
Inventories	(268)	(3,570)
Prepaid expenses	(14,795)	(37,329)
Accounts payable and accrued liabilities	134,070	368,299
Deferred revenue	(1,019,593)	(525,535)
Accrued compensated absences	107,884	86,002
Other postemployment healthcare benefits	314,000	573,814
Deposits held in custody for others	122,228	11,547
	<u>\$ (40,513,650)</u>	<u>\$ (39,023,825)</u>
Net cash used in operating activities		
	<u>\$ (40,513,650)</u>	<u>\$ (39,023,825)</u>

*See accompanying notes to financial statements*

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Years Ended June 30, 2012 and 2011**

**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, and 5 years for vehicles.

**PITTSBURG STATE UNIVERSITY**  
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**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 Assets.** The University's net assets are classified as follows:

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

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

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

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

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

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

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

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

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

**PITTSBURG STATE UNIVERSITY**  
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**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, 2012 and 2011 were \$29,721,046 and \$34,399,935 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, 2012 and 2011 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>2012</u>	<u>2011</u>
Tuition and Fees	\$ 617,310	\$ 829,850
Auxiliary enterprises	71,338	70,829
Grants & Contracts	389,855	424,136
Other	23,419	21,262
Total	<u>\$ 1,101,922</u>	<u>\$ 1,346,077</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, 2012 and 2011. 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, 2012 and 2011, the allowance for uncollectible loans was estimated to be \$648,903 and \$628,867, respectively.

**NOTE 5 – Inventories**

Inventories consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Physical Plant	\$ 223,853	\$ 265,161
Other	121,991	80,951
Total	<u>\$ 345,844</u>	<u>\$ 346,112</u>

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**NOTE 6 – Capital Assets**

Capital asset activity for the year ended June 30, 2012 and June 30, 2011 are as follows:

	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	<u>\$ 180,794,698</u>	<u>\$ 10,772,856</u>	<u>\$ 993,588</u>	<u>\$ 190,573,966</u>
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	12,830,058
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	<u>\$ 66,273,534</u>	<u>\$ 5,286,379</u>	<u>\$ 392,475</u>	<u>\$ 71,167,439</u>
Capital assets, net	<u>\$ 114,521,164</u>	<u>\$ 2,486,477</u>	<u>\$ 601,113</u>	119,406,527
Construction In Progress				<u>6,729,038</u>
				<u>\$ 126,135,565</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.



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	2011			
	Balance Remaining	Additions	Retirements	Ending Balance
Land	\$ 5,787,796	\$ 27,482	\$	\$ 5,815,278
Land Improvements	5,871,019	123,330		5,994,349
Works of Art	782,264			782,264
Buildings & Improvements	131,413,332	16,880,791	8,500	148,285,622
Equipment & Furnishings	15,792,803	627,150	323,501	16,096,453
Vehicles	1,741,584	88,577	28,589	1,801,572
Software	1,985,294	33,866		2,019,160
Total	<u>\$163,374,094</u>	<u>\$ 17,781,196</u>	<u>\$ 360,590</u>	<u>\$ 180,794,698</u>
Less accumulated depreciation:				
Land Improvements	\$ 2,314,998	\$ 209,680	\$	\$ 2,524,678
Buildings & Improvements	46,022,406	3,323,147	1,275	49,344,278
Equipment & Furnishings	10,948,240	1,159,023	323,501	11,783,762
Vehicles	1,422,884	178,499	28,591	1,572,793
Software	879,030	168,993		1,048,024
Total accumulated depreciation	<u>\$ 61,587,557</u>	<u>\$ 5,039,341</u>	<u>\$ 353,367</u>	<u>\$ 66,273,534</u>
Capital assets, net	<u>\$ 101,786,535</u>	<u>\$ 12,741,855</u>	<u>\$ 7,223</u>	114,521,164
Construction In Progress				4,118,229
				<u>\$ 118,639,392</u>

**NOTE 7 – Deferred Revenue**

Deferred revenues consisted of the following at June 30:

	2012	2011
Tuition and Fees	\$ 794,993	\$ 881,330
Grants & Contracts	813,939	1,014,211
Capital Appropriations	218,725	907,682
Auxiliary enterprises	121,863	125,393
Total	<u>\$ 1,949,520</u>	<u>\$ 2,928,616</u>

**PITTSBURG STATE UNIVERSITY**  
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**NOTE 8 - Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2012 and June 30, 2011 was as follows:

	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	4,671,646	0	568,861	4,102,785	457,207
Total long-term liabilities	<u>\$ 39,606,646</u>	<u>\$ 0</u>	<u>\$ 2,103,861</u>	<u>\$ 37,505,324</u>	<u>\$ 2,022,207</u>

	2011				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 31,690,000	\$ 9,465,000	\$ 6,220,000	\$ 34,935,000	\$ 1,535,000
Lease obligations	5,276,013	0	604,367	4,671,646	568,861
Total long-term liabilities	<u>\$ 36,966,013</u>	<u>\$ 9,465,000</u>	<u>\$ 6,824,367</u>	<u>\$ 39,606,646</u>	<u>\$ 2,103,861</u>

**NOTE 9 - Revenue Bonds Outstanding**

Revenue bonds payable consist of the following:

	Principal Outstanding at 6/30/12
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.	\$ 1,725,000
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.	795,000
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.	3,000,000

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	Principal Outstanding at 6/30/12
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.	\$ 685,000
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.	4,220,000
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.	14,250,000
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.	8,725,000

**NOTE 10 - Revenue Bonds Maturity Schedule**

Maturities of principal and interest requirements on revenue bonds payable for the year ended June 30, 2012 are as follows:

Year Ending June 30:	Principal	Interest	Total
2013	1,565,000	1,476,549	3,041,549
2014	1,635,000	1,448,202	3,083,202
2015	1,680,000	1,412,805	3,092,805
2016	1,735,000	1,369,951	3,104,951
2017-2021	10,925,000	5,920,964	16,845,964
2022-2026	7,315,000	3,864,835	11,179,835
2027-2031	4,910,000	2,186,335	7,096,335
2032-2035	3,635,000	546,587	4,181,587
Total	<u>\$33,400,000</u>	<u>\$18,226,228</u>	<u>\$51,626,228</u>

**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 \$4,102,785 and \$4,671,646 as of June 30, 2012 and 2011, 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.

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Payments to liquidate these obligations as of June 30, 2012 are scheduled as follows:

Year Ending June 30:	Total
2013	457,207
2014	337,374
2015	352,519
2016	343,093
2017 and thereafter	<u>2,612,592</u>
Total	<u>\$ 4,102,785</u>

**NOTE 12 - Retirement Plans**

University employees participate in two separate retirement programs. Classified employees participate in the "Kansas Public Employees Retirement System" (KPERs). This defined benefit program is funded through contributions by the University and the individual employees. The University contributed \$966,306 and \$916,989 during fiscal years 2012 and 2011, respectively, and individual employees contributed \$469,185 and \$463,920. 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 \$2,812,170 and \$2,700,852 during fiscal years 2012 and 2011, respectively, and individual employees contributed \$1,780,924 and \$1,716,186.

**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	\$ 271,000
Normal cost (with interest)	<u>297,000</u>
Annual OPEB cost (expense)	568,000
Interest on Net OPEB Obligation	80,000
Adjustment to the ARC	<u>(118,000)</u>
Increase in OPEB obligation	530,000
Net Employer Contributions	(216,000)
Net OPEB obligation July 1, 2011	<u>2,084,000</u>
Net OPEB obligation June 30, 2012	<u><u>\$ 2,398,000</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
2010	\$539,000	\$0	0%	\$1,597,000
2011	\$609,000	\$123,000	20%	\$2,084,000
2012	\$530,000	\$216,000	41%	\$2,398,000

**Funded Status and Funding Progress.** As of January 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,009,000. The University's policy is to fund the benefits implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,009,000. The covered payroll (annual payroll of active employees covered by the plan) was \$49,317,000, 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)
6/30/2010	\$0	\$4,680,000	\$4,680,000	0%	\$47,946,000	10%
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%

**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, 2012 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, 2012 and 2011 the University had outstanding commitments under construction contracts totaling \$1,880,319 and \$1,402,388, 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, 2012.

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, 2012 and 2011 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:

	2012	2011
Pell Grants	\$ 10,564,411	\$ 10,301,014
SEOG Grants	180,660	179,845
Regents Supplemental Grants	659,032	656,862
Total	<u>\$ 11,404,103</u>	<u>\$ 11,137,721</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, 2012 and June 30, 2011 are as follows:

	2012					
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
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	(330,045)		5,027,217
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	1,130,132		1,267,813
Athletics	392,113		1,764	2,006,143		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>\$19,023,842</u>	<u>\$ 4,893,905</u>	<u>\$ 99,207,661</u>

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Years Ended June 30, 2012 and 2011**

	2011					
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Educational and general						
Instruction	\$ 30,566,019	\$	\$ 128	\$ 2,436,255	\$	\$ 33,002,402
Research	1,329,884			758,434		2,088,318
Public service	1,272,464		1,104	541,779		1,815,347
Academic support	6,618,185			2,971,471		9,589,656
Student services	6,346,556			2,456,682		8,803,238
Institutional support	5,206,065		8,948	1,757,144		6,972,157
Operations and maintenance of plant	6,618,567		1,824,240	1,781,664		10,224,471
Depreciation					5,039,341	5,039,341
Scholarships and fellowships		10,352,274				10,352,274
Auxiliary enterprises:						
Housing	1,783,604		623,077	2,854,933		5,261,614
Parking	51,502			196,218		247,720
Health Services	1,098,842		23,320	200,748		1,322,910
Student Center	306,647		149,484	946,973		1,403,104
Athletics	123,702			1,564,752		1,688,454
Student Publications	39,473			121,370		160,843
Other				-553,879		-553,879
Total	<u>\$ 61,361,510</u>	<u>\$ 10,352,274</u>	<u>\$ 2,630,301</u>	<u>\$18,034,544</u>	<u>\$ 5,039,341</u>	<u>\$97,417,970</u>



*Nearly 200 students took the Teacher's Oath at ceremonies prior to each commencement ceremony during the 2011/2012 school year and were welcomed into their new profession.*



*The PSU Opera Workshop, in conjunction with the PSU Department of Music performed Mozart's "The Magic Flute" during the Fall 2011 semester.*



*The Senior walk, which is located in front of Russ Hall, was refurbished thanks to funding from the Student Government Association. The walk, which was designed and built by university staff, features the names of Outstanding Senior Awards recipients.*