

# PITTSBURG STATE UNIVERSITY

Annual Financial Report  
For the Fiscal Year Ended June 30, 2005

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# **Pittsburg State University**

## **Management's Discussion and Analysis**

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 (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 who have placed time or purposes restrictions on the use of the assets.

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

Total assets at June 20, 2005 were \$98,979,265, an increase of \$2,967,492 (3%) compared to \$96,011,773 at June 30, 2004. Capital assets, net of depreciation, comprised 78%, or \$76,794,092 of the total assets.

Total liabilities were \$26,681,100 at June 30, 2005, an increase of \$2,265,530 (9.3%) compared to \$24,415,570 at June 30, 2004. Noncurrent liabilities comprised 66.3%, or \$17,692,050 of the liabilities.

Total net assets at June 30, 2005 were \$72,298,165, a \$701,962 increase over the prior year of \$71,596,203 or a 0.98% increase in net assets. The breakout of net assets is shown below:

Capital assets, net of related debt . . . . .	\$58,092,675
Restricted net assets . . . . .	8,893,204
Unrestricted net assets . . . . .	5,312,286
<b>Total net assets . . . . .</b>	<b>\$72,298,165</b>

### **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, 2005 increased by 6.95% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$18.1 million in 2005, compared to \$16.5 million in 2004, a net increase of 9.55%. This is the result of a tuition rate increase of 12% for the 2004-2005 academic year.
- Auxiliary enterprise revenues, increased from \$7.3 million to \$8.3 million in 2005. Auxiliary enterprises include University Housing, Parking Services, Student Health Center, Athletics, and Student Publications.

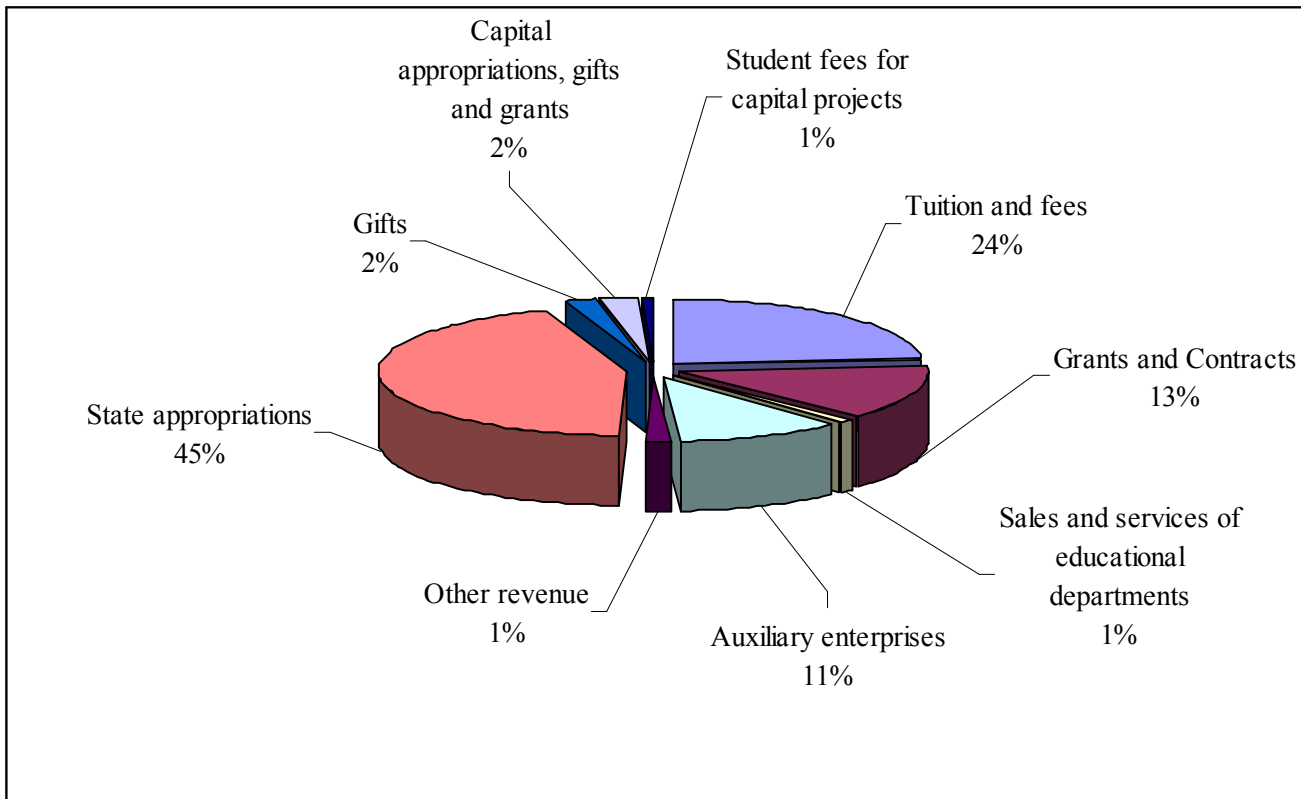
Total non-operating revenues were up 5.3% from the prior year from \$33.9 million to \$35.7 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from \$32.1 million to \$33.6 million, or 4.5%.
- Gifts increased 31% to \$1,359,449 in 2005. Gifts received consist primarily of support provided by the Pittsburg State University Foundation.
- Investment income increased from \$87,423 to \$111,711 in 2005.
- Student fees for capital projects increased .8% from \$688,612 to \$694,060 in 2005.

Other revenues included the following:

- Capital appropriations, gifts and grants decreased 52% from \$3.9 million in 2004 to \$1.8 in 2005. Capital gifts in the prior year were primarily received as a result of private donations via the Pittsburg State University Foundation for the construction of the Veterans Memorial. In addition the transfer of the Bonita Terrace Apartments from the City of Pittsburg to the University with an estimated value of \$1.5 million occurred in 2004.

Revenues for fiscal year 2005 are displayed in the following graph:



## Expenses

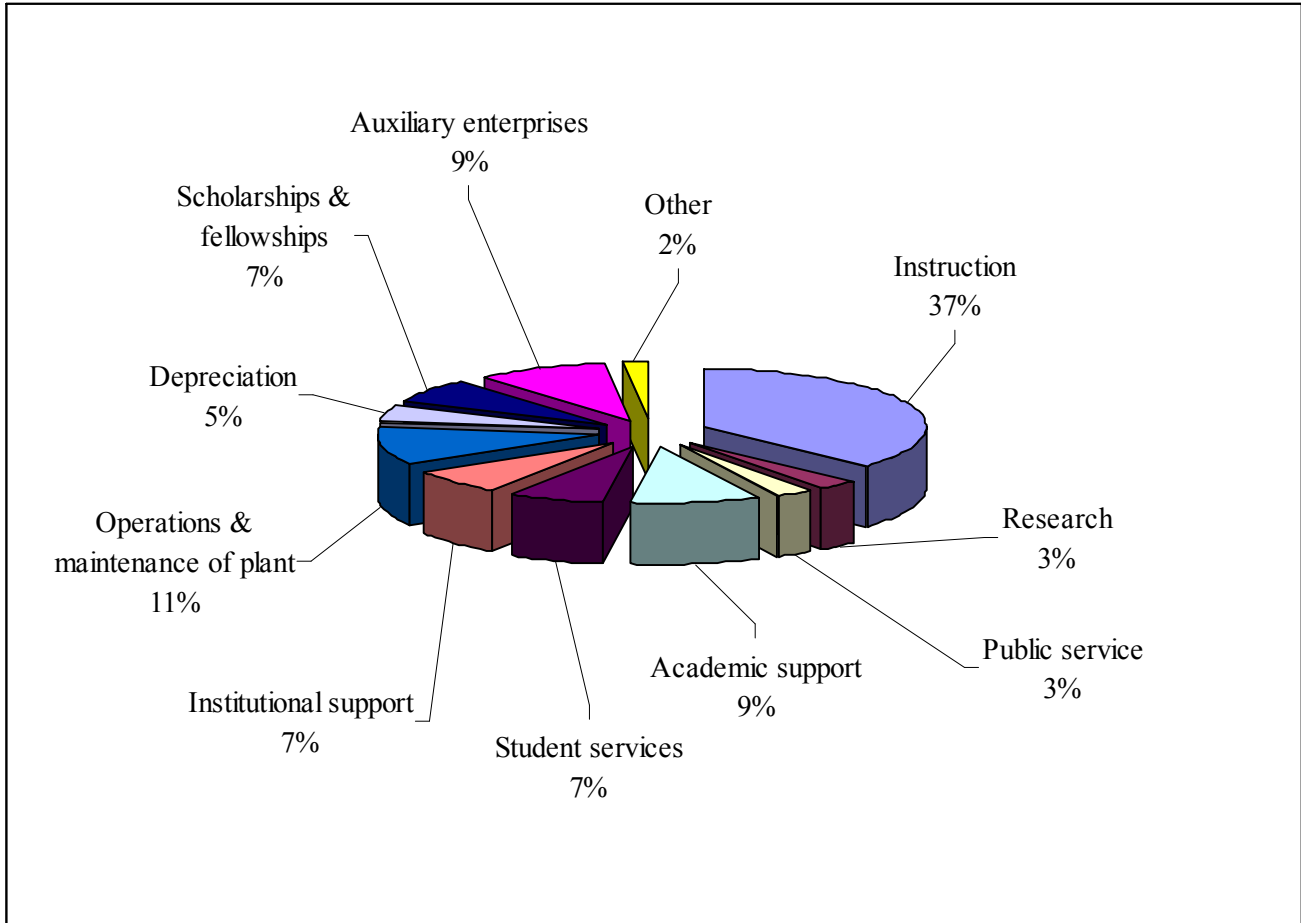
Operating expenses were \$74.3 million for the 2005 fiscal year compared to \$70.1 million for the 2004 fiscal year. This was an increase of \$4.2 million or 6%. The University experienced slight increases in all functional expenditure categories for fiscal year 2005 due to a 3% increase in classified and unclassified salaries.

The following is a brief summary of the significant changes:

- Research expenses increased by 21.17% in fiscal year 2005 as a result of additional grant funds awarded, specifically a \$1.6 million grant for research by the United States Navy. Additionally, the Business and Technology Institute received an increase in funding for research in polymer projects.
- Institutional Support increased by 21% in fiscal year 2005 due in large part to the BEST reduction of \$446,243, which was charged to Fiscal Operations.

Non-operating expenses are primarily interest expense. This amount increased by 4.8% from the prior year.

Expenses for fiscal year 2005 are displayed in the following graph:



### Extraordinary Items

The University did not have any special and extraordinary items in 2005.

### 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 \$1.1 million and \$2.4 million in 2005 and 2004, respectively. During fiscal year 2004, approximately \$1.4 million is attributed to construction costs for the Pittsburg State University Veterans Memorial and Brandenburg Stadium. The Foundation's financial statements are not included in the accompanying financial statements of the University.

### Net Assets

Net assets increased by \$701,962 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, 2005 and 2004:

	June 30, 2005	June 30, 2004
Net cash provided (used) by:		
Operating activities	\$(31,882,127)	\$(29,932,835)
Non-capital financing activities	34,938,531	33,068,982
Capital and related financing activities	(1,598,825)	(3,865,702)
Investing activities	111,712	113,622
Net increase (decrease) in cash	1,569,291	(615,933)
Beginning cash and cash equivalent balances	13,639,959	14,255,892
<b>Ending cash and cash equivalent balances</b>	<b>\$ 15,209,250</b>	<b>\$ 13,639,959</b>

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 since 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 2005 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 Veterans Memorial Amphitheater was completed at a cost of \$1.5 million. The memorial includes a 250-seat amphitheater, a memorial wall with an eternal flame, a reflecting pool, two bronze statues, two entry portals, an entry rampart with the five seals of the military branches and a half-scale replica of the Vietnam Memorial Wall in Washington, D.C. The memorial honors all veterans who have served this country during times of peace and war. The memorial was funded by private donations via the Pittsburg State University Foundation.
- The Whitesitt Hall - Center for Human Services was completed in the fall of 2004. The space located on the second floor of Whitesitt Hall was reconfigured in order to appropriately accommodate University Counseling Services and the Center for Human Services. The renovation project was funded by Crumbling Classroom funds through the State of Kansas.

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

- The Bonita Terrace Project began prior to June 30, 2004 with the final phases of construction to be completed in the summer of 2005. The 20-duplex housing facility previously owned by the City of Pittsburg was transferred to the University to provide low-income housing to students. The renovation project is funded by Revenue Bonds, Series 2004D for \$1,195,000 issued July 7, 2004.

- The 2005 Housing Facilities Conservation Improvement Project began in the spring of 2005 with improvements to be completed over the course of the summer, prior to students arriving in the fall 2005. The energy savings will be used to repay the lease obligation to the State of Kansas Facilities Conservation Improvement Program.
- The Whitesitt Hall - Communication Lab began initial construction in FY 04 and completed in the fall 2005. The space was renovated to include two studios, two offices and an area for the Graduate students, six editing bays, three storage areas for various parts of the operation, a Green Room, and Wardrobe and Makeup area.

## **DEBT ADMINISTRATION**

At June 30, 2005, the University had \$10.8 million in debt outstanding. On July 7, 2004, the Kansas Board of Regents authorized the sale of Revenue Bonds, Series 2004D for \$1,195,000. The proceeds from the sale of these bonds were used to finance the cost of a housing system renovation project. The purpose of the project was to pay a portion of the costs of acquisition, construction and renovation of a 20-duplex housing facility known as Bonita Terrace that has become part of the student housing facility.

The bonds have been assigned a rating of “A-“ by Standard & Poor’s Ratings Services. More detailed information about the University’s noncurrent liabilities is available in Notes 8, 9, and 10 to the financial statements.

## **ECONOMIC OUTLOOK**

The State of Kansas revenues continue to remain stable for fiscal year 2006. The State of Kansas provides approximately 45% of the total resources for the University during a fiscal year. Appropriations for fiscal year 2006 are currently set at \$34.6 million, compared to \$33.6 million received for fiscal year 2005, an increase of 3.0%.

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 2006 beyond those unknown variations having a global effect on virtually all types of business operations.

Overall the financial position of the University continues to be strong. Enrollment for the academic 2005-2006 year is expected to be relatively consistent with the academic 2004-2005 year.

**Pittsburg State University**  
**Statement of Net Assets**  
**As Of June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b><u>ASSETS</u></b>		
Current Assets		
Cash and cash equivalents	\$ 10,936,976	\$ 9,619,915
Restricted cash and cash equivalents	4,272,273	4,020,044
Accounts receivable, net	947,394	985,108
Loans to students, net	746,092	768,479
Inventories	377,366	399,214
Prepaid expenses	5,607	18,168
Total current assets	17,285,708	15,810,928
Noncurrent Assets		
Restricted investments	1,019,468	1,019,468
Loans to students, net	3,879,997	3,821,445
Capital assets, net	76,794,092	75,359,932
Total noncurrent assets	81,693,557	80,200,845
Total Assets	98,979,265	96,011,773
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts payable and accrued liabilities	3,789,088	3,293,162
Deferred revenue	1,922,663	2,258,787
Accrued compensated absences	1,877,841	1,767,907
Revenue bonds payable - current portion	335,000	325,000
Capital leases payable - current portion	546,225	446,286
Deposits held in custody for others	518,233	515,405
Total current liabilities	8,989,050	8,606,547
Noncurrent Liabilities		
Capital leases payable	7,192,050	6,169,023
Revenue bonds payable	10,500,000	9,640,000
Total noncurrent liabilities	17,692,050	15,809,023
Total Liabilities	26,681,100	24,415,570

**Pittsburg State University**  
**Statement of Net Assets**  
**As Of June 30, 2005 and 2004**

<b><u>NET ASSETS</u></b>	<u>2005</u>	<u>2004</u>
Invested in capital assets, net of related debt	58,092,675	58,666,120
Restricted for		
Expendable		
Scholarships and fellowships	1,053	1,148
Research	60,619	263,834
Instructional department uses	525,486	810,461
Loans	5,306,854	5,138,791
Capital projects	722,779	149,946
Debt services	2,248,105	2,124,532
Other	28,309	(19,820)
Unrestricted	<u>5,312,286</u>	<u>4,461,191</u>
 Total Net Assets	 <u>\$ 72,298,165</u>	 <u>\$ 71,596,203</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, 2005 and 2004**

	2005	2004
<b><u>OPERATING REVENUES</u></b>		
Tuition and fees (net of scholarship allowances of \$3,088,220 and \$2,920,418 in 2005 and 2004, respectively)	\$ 18,109,200	\$ 16,530,294
Federal grants and contracts	7,671,031	7,663,574
State and local grants and contracts	1,340,055	1,221,897
Nongovernmental grants and contracts	1,151,652	1,226,468
Sales and services of educational departments	781,890	890,314
Auxiliary enterprises:		
Housing	4,120,524	3,716,064
Parking	361,442	373,236
Health Center	943,440	701,097
Student Center	1,118,985	1,063,947
Athletics	1,544,339	1,269,983
Student Publications	184,045	174,047
Interest earned on loans to students	89,412	87,804
Other operating revenues	929,520	936,180
Total operating revenues	38,345,535	35,854,905
<b><u>OPERATING EXPENSES</u></b>		
Educational and General		
Instruction	27,831,872	26,407,748
Research	2,359,686	1,947,462
Public Service	1,989,479	1,985,937
Academic support	7,096,521	6,679,515
Student services	5,269,993	5,245,476
Institutional support	5,436,064	4,492,581
Operations and maintenance of plant	7,941,932	7,470,760
Depreciation	3,408,783	4,335,043
Scholarships and fellowships	5,427,248	5,315,763
Auxiliary enterprises:		
Housing	3,360,357	3,022,485
Parking	171,926	146,815
Health Center	930,319	775,374
Student Center	971,310	980,765
Athletics	1,487,219	1,079,765
Student Publications	180,316	175,850
Other	409,589	30,966
Total operating expenses	74,272,614	70,092,305
Operating Income (Loss)	(35,927,079)	(34,237,400)

**Pittsburg State University**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2005 and 2004**

	2005	2004
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
State appropriations	33,573,271	32,105,401
Gifts	1,359,449	1,037,060
Investment income	111,711	87,423
Interest expense	(842,562)	(803,520)
Student fees for capital projects	694,060	688,612
Other nonoperating revenues	90	126
Other nonoperating expenses	(114,957)	(21,819)
Net nonoperating revenues (expenses)	34,781,062	33,093,283
Income before other revenues, expenses, gains, or losses	(1,146,017)	(1,144,117)
Capital appropriations	887,242	913,564
Capital grants and gifts	960,737	2,979,678
Increase In Net Assets	701,962	2,749,125
<b><u>NET ASSETS</u></b>		
Net assets - beginning of year	71,596,203	68,847,078
Net assets - end of year	\$ 72,298,165	\$ 71,596,203

*See accompanying notes to financial statements*

**Pittsburg State University**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 19,845,412	\$ 16,437,390
Sales and services of educational activities	779,355	894,911
Auxiliary enterprises:		
Housing	864,609	3,725,165
Parking	183,567	367,377
Health Center	26,472	700,168
Student Center	216,098	1,063,948
Athletics	137,038	1,269,983
Student Publications	7,748	174,022
Grants and contracts	10,066,652	9,869,380
Payments to suppliers	(9,489,331)	(11,831,289)
Payments to utilities	(1,387,328)	(1,808,032)
Compensation & benefits	(46,312,679)	(45,270,098)
Payments for scholarships and fellowships	(7,338,542)	(6,169,714)
Loans issued to students and employees	(935,817)	(1,095,848)
Collections on loans issued to students and employees	835,504	856,283
Other receipts (payments)	619,115	883,519
	<b>(31,882,127)</b>	<b>(29,932,835)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	33,573,271	32,105,401
Gifts	1,359,449	1,037,061
Federal family education loan receipts	20,742,334	13,957,994
Federal family education loan disbursements	(20,742,334)	(14,002,174)
Student organization agency transactions	5,811	(29,300)
	<b>34,938,531</b>	<b>33,068,982</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from capital debt	1,195,000	266,374
Capital appropriations	539,148	881,400
Capital Grants and gifts	960,737	2,979,676
Student fees for capital projects	694,060	688,612
Purchases of capital assets	(3,828,013)	(7,299,078)
Principal paid on capital debt and leases	(325,000)	(576,745)
Interest paid on capital debt and leases	(827,923)	(806,073)
Disposal of asset	-	-
Other	(6,834)	132
	<b>(1,598,825)</b>	<b>(3,865,702)</b>
Net Cash Flows from Operating Activities	<b>(31,882,127)</b>	<b>(29,932,835)</b>
Net Cash Flows from Noncapital Financing Activities	<b>34,938,531</b>	<b>33,068,982</b>
Net Cash Flows from Capital Financing Activities	<b>(1,598,825)</b>	<b>(3,865,702)</b>

**Pittsburg State University**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	-	26,200
Investment income	111,712	87,422
Purchase of investments	-	-
	<hr/>	<hr/>
Net Cash Flows from Investing Activities	<u>111,712</u>	<u>113,622</u>
Net change in cash and cash equivalents	1,569,291	(615,933)
Cash and cash equivalents-beginning of year	13,639,959	14,255,892
Cash and cash equivalents-end of year	<u>\$ 15,209,250</u>	<u>\$ 13,639,959</u>
<b>RECONCILIATION</b>		
Operating income (loss)	\$ (35,927,079)	\$ (34,237,400)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	3,408,783	4,335,043
Changes in assets and liabilities:		
Accounts receivable, net	(56,193)	(233,979)
Loans to students, net	(36,165)	(183,724)
Inventories	21,848	52,243
Prepaid expenses	12,562	352,442
Accounts payable and accrued liabilities	481,286	(19,497)
Deferred revenue	105,877	(102,596)
Accrued compensated absences	109,934	101,562
Deposits held in custody for others	<u>(2,980)</u>	<u>3,071</u>
	<hr/>	<hr/>
Net cash used in operating activities	<u>\$ (31,882,127)</u>	<u>\$ (29,932,835)</u>

*See accompanying notes to financial statements*

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**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 6,500 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 university has no component units. The financial activity and balances of the Pittsburg State University Foundation are not included in the financial statements of the University as the Foundation is a legally separate entity 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**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**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**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**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, 2005 and 2004 were \$15,209,250 and \$13,639,959, 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, 2005 and 2004 of \$1,019,468 is administered by the Kansas Development Finance Authority. These monies represent bond proceeds and reserve requirements.

**NOTE 3 - Accounts Receivable**

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

	<u>2005</u>	<u>2004</u>
Tuition and Fees	\$ 372,845	\$ 386,260
Auxiliary enterprises	75,827	100,256
Grants & Contracts	480,650	479,556
Other	<u>18,072</u>	<u>19,036</u>
Total	<u>\$ 947,394</u>	<u>\$ 985,108</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, 2005 and 2004. 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 uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2005 and 2004, the allowance for uncollectible loans was estimated to be \$503,763 and \$516,603, respectively.

**NOTE 5 – Inventories**

Inventories consisted of the following at June 30:

	<u>2005</u>	<u>2004</u>
Physical Plant	\$ 305,405	\$ 292,034
Office Supplies	42,652	65,857
Other	<u>29,309</u>	<u>41,323</u>
Total	<u>\$ 377,366</u>	<u>\$ 399,214</u>

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**NOTE 6 – Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 2,609,450	\$ 9,000	\$ 0	\$ 2,618,450
Land Improvements	3,448,970	169,789	0	3,618,759
Works of Art	455,803	210,651	0	666,454
Buildings & Improvements	95,573,699	1,914,216	8,500	97,479,415
Equipment & Furnishings	10,833,549	675,590	1,061,715	10,447,424
Vehicles	1,329,342	11,876	32,616	1,308,602
Software	<u>987,132</u>	<u>248,865</u>	<u>126,230</u>	<u>1,109,767</u>
Total	<u>\$ 115,237,945</u>	<u>\$ 3,239,987</u>	<u>\$ 1,229,061</u>	<u>117,248,871</u>
Less accumulated depreciation:				
Land Improvements	1,491,971	133,701	0	1,625,672
Buildings & Improvements	31,388,074	2,300,620	212	33,688,482
Equipment & Furnishings	7,998,482	761,558	1,002,605	7,757,435
Vehicles	1,058,548	112,005	32,616	1,137,937
Software	<u>599,979</u>	<u>100,899</u>	<u>77,092</u>	<u>623,786</u>
Total accumulated depreciation	<u>42,537,054</u>	<u>3,408,783</u>	<u>1,112,525</u>	<u>44,833,312</u>
Capital assets, net	<u>\$ 72,700,891</u>	<u>\$ -168,796</u>	<u>\$ 116,536</u>	72,415,559
Construction In Progress				<u>4,378,533</u>
				<u>\$ 76,794,092</u>

**NOTE 7 – Deferred Revenue**

Deferred revenues consisted of the following at June 30:

	<u>2005</u>	<u>2004</u>
Tuition and Fees	\$ 1,092,710	\$ 997,638
Grants & Contracts	387,834	481,741
Capital Appropriations	305,988	654,082
Auxiliary enterprises	<u>136,131</u>	<u>125,326</u>
Total	<u>\$ 1,922,663</u>	<u>\$ 2,258,787</u>

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
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**NOTE 8 - Changes In Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue bonds payable	\$ 9,965,000	\$ 1,195,000	\$ 325,000	\$ 10,835,000	\$ 335,000
Lease obligations	<u>6,615,309</u>	<u>1,579,176</u>	<u>456,210</u>	<u>7,738,275</u>	<u>546,225</u>
Total long-term liabilities	<u>\$ 16,580,309</u>	<u>\$ 2,774,176</u>	<u>\$ 781,210</u>	<u>\$ 18,573,275</u>	<u>\$ 881,225</u>

**NOTE 9 - Revenue Bonds Outstanding**

Revenue bonds payable consist of the following:

	<u>Principal Outstanding at 6/30/05</u>
Kansas Development Finance Authority Revenue Bonds - Series E, 1998 (The Board of Regents – Pittsburg State University Housing System Renovation Project – Willard Hall) \$4,750,000 Due in annual installments of \$215,000 to \$340,000. Issued 12/1/98 with a final maturity on 10/1/23. Interest ranging from 3.4% to 4.9% payable semi-annually.	\$ 4,225,000
Kansas Development Finance Authority Revenue Bonds - Series P, 1998 (The Board of Regents – Pittsburg State University Horace Mann Administration Building Renovation Project) \$3,650,000 Due in annual installments of \$250,000 to \$300,000. Issued 12/1/98 with a final maturity on 10/1/18. Interest ranging from 3.0% to 4.85% payable semi-annually.	2,975,000
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 4/1/23. Interest ranging from 1.8% to 5.25% payable semi-annually.	2,440,000
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 10/1/19. Interest ranging from 3.0% to 4.75% payable semi-annually.	1,195,000

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
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**NOTE 10 - Revenue Bonds Maturity Schedule**

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

Year Ending June 30:	Principal	Interest	Total
2006	\$ 335,000	\$ 488,200	\$ 823,200
2007	365,000	475,040	840,040
2008	430,000	459,711	889,711
2009	470,000	442,050	912,050
2010	495,000	422,466	917,466
2011	520,000	400,986	920,986
2012-2016	2,980,000	1,618,647	4,598,647
2017-2021	3,505,000	804,788	4,309,788
2022-2025	1,735,000	142,813	1,877,813
Total	<u>\$ 10,835,000</u>	<u>\$ 5,254,701</u>	<u>\$ 16,089,701</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 \$7,738,275 and \$6,615,309 as of June 30, 2005 and 2004, 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.

Payments to liquidate these obligations are scheduled as follows:

Fiscal Year 2006 Total	\$ 546,225
Fiscal Year 2007 Total	560,920
Fiscal Year 2008 Total	485,911
Fiscal Year 2009 Total	504,738
Fiscal Year 2010 Total	529,226
Fiscal Year 2011 and thereafter	5,111,255
Total	<u>\$ 7,738,275</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 \$430,629 and \$383,936 during fiscal years 2005 and 2004, respectively, and individual employees contributed \$347,464 and \$341,507. 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 \$2,211,141 and \$2,064,298 during fiscal years 2005 and 2004, respectively, and individual employees contributed \$1,404,607 and \$1,308,734.

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2005**

**NOTE 13 - Commitments and Contingent Liabilities**

At June 30, 2005 and 2004 the University had outstanding commitments under construction contracts totaling \$1,101,186 and \$1,338,864, respectively.

The University is a defendant in several lawsuits. However, University officials are of the opinion, based on advice of in-house legal counsel, that the ultimate outcome of all litigation will not have a material effect on the future operations or financial position of the University.

The University maintains specific insurance coverage as allowed by the State of Kansas and as required by outstanding bond issues. To a large extent, the State follows a policy of self-insurance; therefore, most claims against the University require legislative approval (and potential funding) prior to settlement. The University is not aware of any significant outstanding claims as of June 30, 2005.

The State does not insure buildings and contents valued under \$0.5 million (except where separate coverage is required by bond covenant), and does not insure State-owned automobiles for bodily injury and property damages of State employees. State buildings valued over \$0.5 million are insured against catastrophic loss with a \$5.0 million deductible per occurrence and a maximum annual liability of \$100 million per occurrence.

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

**NOTE 14 – Natural Classifications With Functional Classifications**

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

	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Other Operating Expense	Total
Educational and general							
Instruction	\$ 25,440,629	\$ 53,153	\$ 218	\$ 2,337,872			\$ 27,831,872
Research	1,617,001	66,056	1,893	673,237		1500	2,359,686
Public service	1,243,216	162,780	575	582,908			1,989,479
Academic support	4,821,956	14,818		2,259,746			7,096,521
Student services	3,937,328	35,756		1,296,910			5,269,993
Institutional support	4,019,983		45	969,794		446,243	5,436,064
Operations and maintenance of plant	5,516,209		1,385,094	1,040,629			7,941,932
Depreciation					3,408,783		3,408,783
Scholarships and fellowships	35,989	5,376,357		14,902			5,427,248
Auxiliary enterprises:							
Housing	1,300,614		363,612	1,581,835		114,296	3,360,357
Parking	90,016		168	81,741			171,926
Health Center	729,879		3,945	190,770		5,725	930,319
Student Center	488,727		134,378	348,205			971,310
Athletics	108,933	615,751	105	762,429			1,487,219
Student Publications	76,354	50		103,912			180,316
Other				373,692		35,897	409,589
<b>Total</b>	<b>\$ 49,426,834</b>	<b>\$ 6,324,721</b>	<b>\$ 1,890,033</b>	<b>\$ 12,618,582</b>	<b>\$ 3,408,783</b>	<b>\$ 603,661</b>	<b>\$ 74,272,614</b>

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
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**NOTE 15 – Prior Year Adjustment**

The June 30, 2004 Statement of Net Assets has been restated to correctly reflect restricted cash and cash equivalents. The previous reporting listed restricted cash and cash equivalents as noncurrent assets. The cash balance stated may be used to pay current liabilities and is therefore a current asset.