

# PITTSBURG STATE UNIVERSITY

Annual Financial Report  
For the Fiscal Year Ended June 30, 2004

## Kansas Board of Regents

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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, 2004 were \$96,011,773, an increase of \$1,738,498 (1.8%) compared to \$94,273,275 at June 30, 2003. Capital assets, net of depreciation, comprised 78%, or \$75,359,932 of the total assets.

Total liabilities were \$24,415,570 at June 30, 2004, a decrease of \$1,010,627 (4.1%) compared to \$25,426,197 at June 30, 2003. Noncurrent liabilities comprised 64.7%, or \$15,809,023 of the liabilities.

Total net assets at June 30, 2004 were \$71,596,203, a \$2,749,125 increase over the prior year of \$68,847,078, or a 3.8% increase in net assets. The breakout of net assets is shown below:

|   |                     |
|---|---------------------|
| Capital assets, net of related debt . . . . . | \$58,666,120        |
| Restricted net assets . . . . .               | 8,468,892           |
| Unrestricted net assets . . . . .             | 4,461,191           |
| <b>Total net assets . . . . .</b>             | <b>\$71,596,203</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, 2004 increased by 4.8% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$16.5 million in 2004, compared to \$15.2 million in 2003, a net increase of 7.5%. This is the result of a tuition rate increase of 11.5% for the 2004-2005 academic year.
- Auxiliary enterprise revenues, increased from \$7.1 million to \$7.3 million in 2004. Auxiliary enterprises include University Housing, Parking Services, Student Health Center, Athletics, and Student Publications.

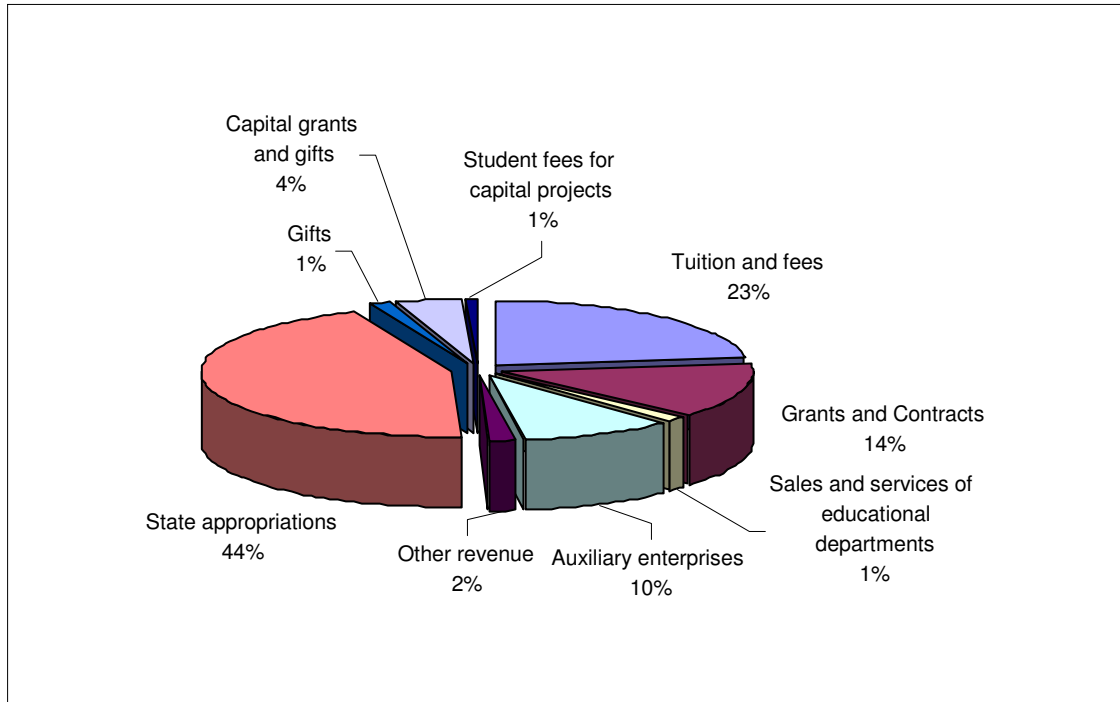
Total non-operating revenues were up 1% from the prior year from \$33.5 million to \$33.9 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from \$31.8 million to \$32.1 million, or .8%.
- Gifts increased 3.8% to \$1,037,060 in 2004. Gifts received consist primarily of support provided by the Pittsburg State University Foundation.
- Investment income decreased from \$106,982 to \$87,423 in 2004.
- Student fees for capital projects increased 5.8% from \$648,141 to \$688,612 in 2004. This increase is a result of the pledge of student fee revenue for repayment of Revenue Bonds, Series A-1 and A-2, 2003 for the Student Center Renovation, effective in January of 2003.

Other revenues included the following:

- Capital appropriations, gifts and grants increased 45% from \$2.1 million in 2003 to \$3.9 million in 2004. Capital gifts 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 to allow the University the opportunity to provide low-income housing for students as a part of the student housing facility.

Revenues for fiscal year 2004 are displayed in the following graph:



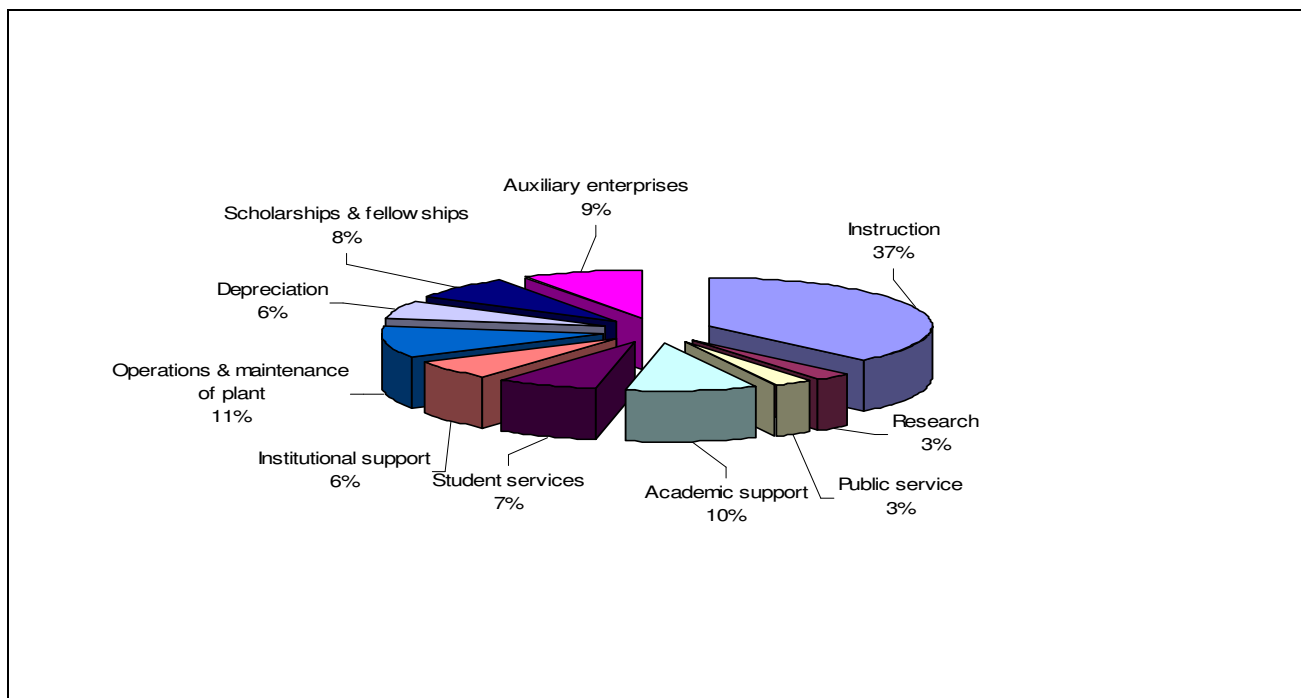
## Expenses

Operating expenses were \$70 million for the 2004 fiscal year compared to \$65.5 million for the 2003 fiscal year. This was an increase of \$4.5 million or 6.6%. The following is a brief summary of the significant changes:

- Institutional Support increased by 12.7% in fiscal year 2004 as a direct result of the completion of a software implementation project, which resulted in capital expenditures in fiscal year 2003 not included in operating expenses. The project provided the University Advancement Office the opportunity to more efficiently manage alumni and donor records.
- Research expenses increased by 9% in fiscal year 2004 as grant revenues received and considered deferred revenue in 2003 were expended for research.
- Academic Support increased by 8% in 2004 due to increased spending for faculty professional development due to the recovery of revenues from increased tuition and state appropriations.

Non-operating expenses are primarily interest expense. This amount decreased by 6.8% from the prior year.

Expenses for fiscal year 2004 are displayed in the following graph:



### Extraordinary Items

The University did not have any special and extraordinary items in 2004.

### 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 \$2.4 million and \$1 million in 2004 and 2003, 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 \$2.75 million over the previous fiscal year. This increase in net assets can be attributed to the increased level of student fee revenue plus capital and non-capital gifts received by the University during 2004.

## 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, 2004 and 2003:

|   | June 30, 2004        | June 30, 2003        |
|---|----------------------|----------------------|
| Net cash provided (used) by:                    |                      |                      |
| Operating activities                            | \$(29,932,835)       | \$(28,067,732)       |
| Non-capital financing activities                | 33,068,982           | 33,179,770           |
| Capital and related financing activities        | (3,865,702)          | (3,913,863)          |
| Investing activities                            | 113,622              | 113,063              |
| Net increase (decrease) in cash                 | (615,933)            | 1,311,238            |
|   |                      |                      |
| Beginning cash and cash equivalent balances     | 14,255,892           | 12,944,654           |
|   |                      |                      |
| <b>Ending cash and cash equivalent balances</b> | <b>\$ 13,639,959</b> | <b>\$ 14,255,892</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 2004 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 Family and Consumer Sciences Building was completed at a cost of \$1.86 million. The 17,399 square foot building replaced Chandler Hall, which was torn down due to structural problems. The project was funded by Crumbling Classroom funds through the State of Kansas.
- The Student Center Renovation Project completed in the fall of 2003 consisted of renovating the production kitchen, along with the retail and dining space. The electrical, plumbing, gas and HVAC infrastructure were also upgraded. The project was funded with Revenue Bonds, Series 2003A-2 for \$1,385,000 issued January 15, 2003.

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

- The Veterans Memorial Amphitheater was in progress and dedicated prior to June 30, 2004, with final construction completed in the fall of 2004. 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 Bonita Terrace Project began prior to June 30, 2004 with the final phases of construction to be completed in the spring 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.

## **DEBT ADMINISTRATION**

At June 30, 2004, the University had \$9.97 million in debt outstanding. No new debt was issued during fiscal year 2004. Subsequent to June 30, 2004, the Kansas Board of Regents authorized the sale of Revenue Bonds, Series 2004D for \$1,195,000 to be issued July 7, 2004. The proceeds from the sale of these bonds will be used to finance the cost of a housing system renovation project. The purpose of the project is to pay a portion of the costs of acquisition, construction and renovation of a 20-duplex housing facility known as Bonita Terrace that will become part of the student housing facility.

Recent bond issues 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, 10 and 15 to the financial statements.

## **ECONOMIC OUTLOOK**

The State of Kansas revenues appear to have stabilized for fiscal year 2005. The State of Kansas provides approximately 44% of the total resources for the University during a fiscal year. Appropriations for fiscal year 2005 are currently set at \$33.6 million, compared to \$32.1 million received for fiscal year 2004, an increase of 4.5%.

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 2005 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 2004-2005 year is expected to be relatively consistent with the academic 2003-2004 year.

**Pittsburg State University**  
**Statement of Net Assets**  
**As Of June 30, 2004 and 2003**

|  | <b>2004</b>  | <b>2003</b>  |
|--|--------------|--------------|
| <b><u>ASSETS</u></b>                     |              |              |
| Current Assets                           |              |              |
| Cash and cash equivalents                | \$ 9,619,915 | \$ 9,577,329 |
| Accounts receivable, net                 | 985,108      | 751,129      |
| Loans to students, net                   | 768,479      | 698,533      |
| Inventories                              | 399,214      | 451,457      |
| Prepaid expenses                         | 18,168       | 370,611      |
| Total current assets                     | 11,790,884   | 11,849,059   |
| Noncurrent Assets                        |              |              |
| Restricted cash and cash equivalents     | 4,020,044    | 4,678,563    |
| Restricted investments                   | 1,019,468    | 1,045,668    |
| Loans to students, net                   | 3,821,445    | 3,707,667    |
| Capital assets, net                      | 75,359,932   | 72,992,318   |
| Total noncurrent assets                  | 84,220,889   | 82,424,216   |
| Total Assets                             | 96,011,773   | 94,273,275   |
| <b><u>LIABILITIES</u></b>                |              |              |
| Current Liabilities                      |              |              |
| Accounts payable and accrued liabilities | 3,293,162    | 3,889,811    |
| Deferred revenue                         | 2,258,787    | 2,393,547    |
| Accrued compensated absences             | 1,767,907    | 1,666,345    |
| Revenue bonds payable - current portion  | 325,000      | 315,000      |
| Capital leases payable - current portion | 446,286      | 336,472      |
| Deposits held in custody for others      | 515,405      | 585,813      |
| Total current liabilities                | 8,606,547    | 9,186,988    |
| Noncurrent Liabilities                   |              |              |
| Capital leases payable                   | 6,169,023    | 6,274,209    |
| Revenue bonds payable                    | 9,640,000    | 9,965,000    |
| Total noncurrent liabilities             | 15,809,023   | 16,239,209   |
| Total Liabilities                        | 24,415,570   | 25,426,197   |
|  | <b>2004</b>  | <b>2003</b>  |

**Pittsburg State University**  
**Statement of Net Assets**  
**As Of June 30, 2004 and 2003**

**NET ASSETS**

|   |                                 |                                 |
|---|---------------------------------|---------------------------------|
| Invested in capital assets, net of related debt | 58,666,120                      | 55,985,581                      |
| Restricted for                                  |                                 |                                 |
| Expendable                                      |                                 |                                 |
| Scholarships and fellowships                    | 1,148                           | 2,945                           |
| Research  | 263,834                         | 225,930                         |
| Instructional department uses                   | 810,461                         | 371,011                         |
| Loans   | 5,138,791                       | 5,014,507                       |
| Capital projects                                | 149,946                         | 612,205                         |
| Debt services                                   | 2,124,532                       | 1,932,960                       |
| Other   | (19,820)                        | 145,203                         |
| Unrestricted                                    | <u>4,461,191</u>                | <u>4,556,736</u>                |
| <br>Total Net Assets                            | <br><u><u>\$ 71,596,203</u></u> | <br><u><u>\$ 68,847,078</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, 2004 and 2003**

|   | <b>2004</b>   | <b>2003</b>   |
|---|---------------|---------------|
| <b><u>OPERATING REVENUES</u></b>  |               |               |
| Tuition and fees (net of scholarship allowances of \$2,920,418<br>and \$2,563,558 in 2004 and 2003, respectively) | \$ 16,530,294 | \$ 15,281,641 |
| Federal grants and contracts  | 7,663,574     | 7,609,925     |
| State and local grants and contracts  | 1,221,897     | 1,442,571     |
| Nongovernmental grants and contracts  | 1,226,468     | 1,008,884     |
| Sales and services of educational departments   | 890,314       | 592,508       |
| Auxiliary enterprises:  |               |               |
| Housing   | 3,716,064     | 3,744,271     |
| Parking   | 373,236       | 368,489       |
| Health Center   | 701,097       | 666,064       |
| Student Center  | 1,063,947     | 1,004,728     |
| Athletics   | 1,269,983     | 1,167,519     |
| Student Publications  | 174,047       | 156,946       |
| Interest earned on loans to students  | 87,804        | 87,046        |
| Other operating revenues  | 936,180       | 983,560       |
| Total operating revenues  | 35,854,905    | 34,114,152    |
| <br><b><u>OPERATING EXPENSES</u></b>  |               |               |
| Educational and General   |               |               |
| Instruction   | 26,407,748    | 25,142,009    |
| Research  | 1,947,462     | 1,769,756     |
| Public Service  | 1,985,937     | 2,045,958     |
| Academic support  | 6,679,515     | 6,129,008     |
| Student services  | 5,245,476     | 4,908,273     |
| Institutional support   | 4,492,581     | 3,924,269     |
| Operations and maintenance of plant   | 7,470,760     | 6,988,638     |
| Depreciation  | 4,335,043     | 3,204,113     |
| Scholarships and fellowships  | 5,315,763     | 5,101,093     |
| Auxiliary enterprises:  |               |               |
| Housing   | 3,022,485     | 3,042,782     |
| Parking   | 146,815       | 128,254       |
| Health Center   | 775,374       | 731,788       |
| Student Center  | 980,765       | 888,129       |
| Athletics   | 1,079,765     | 1,283,689     |
| Student Publications  | 175,850       | 169,879       |
| Other   | 30,966        | -             |
| Total operating expenses  | 70,092,305    | 65,457,638    |
| Operating Income (Loss)   | (34,237,400)  | (31,343,486)  |

**Pittsburg State University**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2004 and 2003**

|  | <b>2004</b>   | <b>2003</b>   |
|--|---------------|---------------|
| <b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>          |               |               |
| State appropriations                                     | 32,105,401    | 31,820,249    |
| Gifts  | 1,037,060     | 997,053       |
| Investment income  | 87,423        | 106,982       |
| Interest expense   | (803,520)     | (876,377)     |
| Student fees for capital projects                        | 688,612       | 648,141       |
| Other nonoperating revenues                              | 126           | 2,082         |
| Other nonoperating expenses                              | (21,819)      | (5,000)       |
| Net nonoperating revenues (expenses)                     | 33,093,283    | 32,693,130    |
| Income before other revenues, expenses, gains, or losses | (1,144,117)   | 1,349,644     |
| Capital appropriations                                   | 913,564       | 1,480,204     |
| Capital grants and gifts                                 | 2,979,678     | 635,082       |
| Increase In Net Assets                                   | 2,749,125     | 3,464,930     |
| <b><u>NET ASSETS</u></b>                                 |               |               |
| Net assets - beginning of year                           | 68,847,078    | 65,382,148    |
| Net assets - end of year                                 | \$ 71,596,203 | \$ 68,847,078 |

See accompanying notes to financial statements

**Pittsburg State University**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2004 and 2003**

|  | <b>2004</b>         | <b>2003</b>         |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>            |                     |                     |
| Tuition and fees                                       | \$ 16,437,390       | \$ 15,194,436       |
| Sales and services of educational activities           | 894,911             | 582,394             |
| Auxiliary enterprises:                                 |                     |                     |
| Housing  | 3,725,165           | 3,749,456           |
| Parking  | 367,377             | 375,168             |
| Health Center  | 700,168             | 666,977             |
| Student Center   | 1,063,948           | 1,004,728           |
| Athletics  | 1,269,983           | 1,167,519           |
| Student Publications                                   | 174,022             | 156,946             |
| Grants and contracts                                   | 9,869,380           | 10,209,975          |
| Payments to suppliers                                  | (11,831,289)        | (9,155,827)         |
| Payments to utilities                                  | (1,808,032)         | (1,965,252)         |
| Compensation & benefits                                | (45,270,098)        | (44,976,924)        |
| Payments for scholarships and fellowships              | (6,169,714)         | (6,026,953)         |
| Loans issued to students and employees                 | (1,095,848)         | (950,468)           |
| Collections on loans issued to students and employees  | 856,283             | 785,532             |
| Other receipts (payments)                              | 883,519             | 1,114,561           |
|  | <b>(29,932,835)</b> | <b>(28,067,732)</b> |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b> |                     |                     |
| State appropriations                                   | 32,105,401          | 31,820,249          |
| Gifts  | 1,037,061           | 997,053             |
| Federal family education loan receipts                 | 13,957,994          | 13,139,261          |
| Federal family education loan disbursements            | (14,002,174)        | (13,112,109)        |
| Student organization agency transactions               | (29,300)            | 335,316             |
|  | <b>33,068,982</b>   | <b>33,179,770</b>   |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>    |                     |                     |
| Proceeds from capital debt                             | 266,374             | 7,133,034           |
| Capital appropriations                                 | 881,400             | 1,830,261           |
| Capital Grants and gifts                               | 2,979,676           | 635,082             |
| Student fees for capital projects                      | 688,612             | 648,141             |
| Purchases of capital assets                            | (7,299,078)         | (11,151,668)        |
| Principal paid on capital debt and leases              | (576,745)           | (1,746,800)         |
| Interest paid on capital debt and leases               | (806,073)           | (871,436)           |
| Disposal of asset                                      | -                   | (364,720)           |
| Other  | 132                 | (25,757)            |
|  | <b>(3,865,702)</b>  | <b>(3,913,863)</b>  |
| Net Cash Flows from Operating Activities               | <b>(29,932,835)</b> | <b>(28,067,732)</b> |
| Net Cash Flows from Noncapital Financing Activities    | <b>33,068,982</b>   | <b>33,179,770</b>   |
| Net Cash Flows from Capital Financing Activities       | <b>(3,865,702)</b>  | <b>(3,913,863)</b>  |

**Pittsburg State University**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2004 and 2003**

|   | 2004            | 2003            |
|---|-----------------|-----------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                 |                 |
| Proceeds from sales of investments  | 26,200          | 211,749         |
| Investment income   | 87,422          | 106,982         |
| Purchase of investments   | -               | (205,668)       |
|   | 113,622         | 113,063         |
| <br>  |                 |                 |
| Net change in cash and cash equivalents   | (615,933)       | 1,311,238       |
| Cash and cash equivalents-beginning of year   | 14,255,892      | 12,944,654      |
| Cash and cash equivalents-end of year   | \$ 13,639,959   | \$ 14,255,892   |
| <br>  |                 |                 |
| <b>RECONCILIATION</b>   |                 |                 |
| Operating income (loss)   | \$ (34,237,400) | \$ (31,343,486) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |                 |                 |
| Depreciation expense  | 4,335,043       | 3,204,113       |
| Changes in assets and liabilities:  |                 |                 |
| Accounts receivable, net  | (233,979)       | (13,601)        |
| Loans to students, net  | (183,724)       | (143,684)       |
| Inventories   | 52,243          | (96,627)        |
| Prepaid expenses  | 352,442         | 39,176          |
| Accounts payable and accrued liabilities  | (19,497)        | 268,072         |
| Deferred revenue  | (102,596)       | 52,426          |
| Accrued compensated absences  | 101,562         | (58,766)        |
| Deposits held in custody for others   | 3,071           | 24,645          |
|   | \$ (29,932,835) | \$ (28,067,732) |
| Net cash used in operating activities   | \$ (29,932,835) | \$ (28,067,732) |

*See accompanying notes to financial statements*

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2004**

**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, 2004**

**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, 2004**

**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, 2004 and 2003 were \$13,639,959 and \$14,255,892, 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, 2004 and 2003 of \$1,019,468 and \$1,045,668, respectively 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>2004</u>       | <u>2003</u>       |
|-----------------------|-------------------|-------------------|
| Tuition and Fees      | \$ 386,260        | \$ 329,791        |
| Auxiliary enterprises | 100,256           | 91,734            |
| Grants & Contracts    | 479,556           | 308,830           |
| Other                 | <u>19,036</u>     | <u>20,774</u>     |
| Total                 | <u>\$ 985,108</u> | <u>\$ 751,129</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, 2004 and 2003. 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, 2004 and 2003, the allowance for uncollectible loans was estimated to be \$516,603 and \$533,409, respectively.

**NOTE 5 – Inventories**

Inventories consisted of the following at June 30:

|                 | <u>2004</u>       | <u>2003</u>       |
|-----------------|-------------------|-------------------|
| Physical Plant  | \$ 292,034        | \$ 354,686        |
| Office Supplies | 65,857            | 57,071            |
| Other           | <u>41,323</u>     | <u>39,700</u>     |
| Total           | <u>\$ 399,214</u> | <u>\$ 451,457</u> |

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2004**

**NOTE 6 – Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

|                                   | Beginning<br>Balance  | Additions           | Retirements         | Ending Balance       |
|-----------------------------------|-----------------------|---------------------|---------------------|----------------------|
| Land                              | \$ 2,298,445          | \$ 311,005          | \$ 0                | \$ 2,609,450         |
| Land Improvements                 | 3,448,570             | 400                 | 0                   | 3,448,970            |
| Works of Art                      | 352,470               | 103,333             | 0                   | 455,803              |
| Buildings & Improvements          | 90,409,301            | 5,164,398           | 0                   | 95,573,699           |
| Equipment & Furnishings           | 10,660,394            | 1,058,151           | 884,996             | 10,833,549           |
| Vehicles                          | 1,328,528             | 129,978             | 129,164             | 1,329,342            |
| Software                          | 957,769               | 29,363              | 0                   | 987,132              |
| Total                             | <u>\$ 109,455,477</u> | <u>\$ 6,796,628</u> | <u>\$ 1,014,160</u> | <u>115,237,945</u>   |
| Less accumulated<br>depreciation: |                       |                     |                     |                      |
| Land Improvements                 | 1,373,853             | 118,118             | 0                   | 1,491,971            |
| Buildings & Improvements          | 28,187,122            | 3,200,952           | 0                   | 31,388,074           |
| Equipment & Furnishings           | 8,062,061             | 799,598             | 863,177             | 7,998,482            |
| Vehicles                          | 1,068,254             | 119,458             | 129,164             | 1,058,548            |
| Software                          | 503,062               | 96,917              | 0                   | 599,979              |
| Total accumulated<br>depreciation | <u>39,194,352</u>     | <u>4,335,043</u>    | <u>992,341</u>      | <u>42,537,054</u>    |
| Capital assets, net               | <u>\$ 70,261,125</u>  | <u>\$ 2,461,585</u> | <u>\$ 21,819</u>    | 72,700,891           |
| Construction In Progress          |                       |                     |                     | <u>2,659,041</u>     |
|                                   |                       |                     |                     | <u>\$ 75,359,932</u> |

**NOTE 7 – Deferred Revenue**

Deferred revenues consisted of the following at June 30:

|                        | 2004                | 2003                |
|------------------------|---------------------|---------------------|
| Tuition and Fees       | \$ 997,638          | \$ 1,040,981        |
| Grants & Contracts     | 481,741             | 553,575             |
| Capital Appropriations | 654,082             | 686,246             |
| Auxiliary enterprises  | 125,326             | 112,745             |
| Total                  | <u>\$ 2,258,787</u> | <u>\$ 2,393,547</u> |

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2004**

**NOTE 8 - Changes In Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2004 was as follows:

|                             | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|-----------------------------|------------------------------|-------------------|-------------------|-----------------------|------------------------|
| Revenue bonds payable       | \$ 9,965,000                 | \$ 0              | \$ 325,000        | \$ 9,640,000          | \$ 325,000             |
| Lease obligations           | <u>6,274,209</u>             | <u>177,395</u>    | <u>282,581</u>    | <u>6,169,023</u>      | <u>446,286</u>         |
| Total long-term liabilities | <u>\$ 16,239,209</u>         | <u>\$ 177,395</u> | <u>\$ 607,581</u> | <u>\$ 15,809,023</u>  | <u>\$ 771,286</u>      |

**NOTE 9 - Revenue Bonds Outstanding**

Revenue bonds payable consist of the following:

|  | <u>Principal Outstanding<br/>at 6/30/04</u> |
|--|---|
| Kansas Development Finance Authority Revenue Bonds - Series E, 1998<br>(The Board of Regents – Pittsburg State University Housing System Renovation<br>Project – Willard Hall) \$4,750,000 Due in annual installments of \$215,000<br>to \$340,000. Issued 12/1/98 with a final maturity on 10/1/23. Interest<br>ranging from 3.4% to 4.9% payable semi-annually.        | \$ 4,340,000                                |
| Kansas Development Finance Authority Revenue Bonds - Series P, 1998<br>(The Board of Regents – Pittsburg State University Horace Mann Administration<br>Building Renovation Project) \$3,650,000 Due in annual installments of \$250,000<br>to \$300,000. Issued 12/1/98 with a final maturity on 10/1/18. Interest<br>ranging from 3.0% to 4.85% payable semi-annually. | 3,100,000                                   |
| Kansas Development Finance Authority Revenue Bonds - Series A-1 & A-2, 2003<br>(The Board of Regents - Pittsburg State University Overman Student Center<br>Project) \$2,610,000 Due in annual installments of \$195,000<br>to \$205,000. Issued 1/28/03 with a final maturity on 4/1/23. Interest<br>ranging from 1.8% to 5.25% payable semi-annually.                  | 2,525,000                                   |

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2004**

**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                |
|----------------------|---------------------|---------------------|----------------------|
| 2005                 | \$ 325,000          | \$ 450,871          | \$ 775,871           |
| 2006                 | 335,000             | 439,066             | 774,066              |
| 2007                 | 365,000             | 425,906             | 790,906              |
| 2008                 | 375,000             | 411,403             | 786,403              |
| 2009                 | 385,000             | 395,905             | 780,905              |
| 2010                 | 410,000             | 379,105             | 789,105              |
| 2011-2015            | 2,390,000           | 1,587,234           | 3,977,234            |
| 2016-2020            | 3,205,000           | 914,156             | 4,119,156            |
| 2021-2024            | 2,175,000           | 237,668             | 2,412,668            |
| Total                | <u>\$ 9,965,000</u> | <u>\$ 5,241,314</u> | <u>\$ 15,206,314</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 \$6,615,309 and \$6,610,681 as of June 30, 2004 and 2003, 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 2005 Total          | \$ 446,286          |
| Fiscal Year 2006 Total          | 465,674             |
| Fiscal Year 2007 Total          | 485,953             |
| Fiscal Year 2008 Total          | 417,643             |
| Fiscal Year 2009 Total          | 433,827             |
| Fiscal Year 2010 and thereafter | 4,365,926           |
| Total                           | <u>\$ 6,615,309</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 \$383,936 and \$368,539 during fiscal years 2004 and 2003, respectively, and individual employees contributed \$341,507 and \$342,421. 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 \$2,064,298 and \$2,029,268 during fiscal years 2004 and 2003, respectively, and individual employees contributed \$1,308,734 and \$1,289,167. In addition, \$396,166 was contributed to KPERs by the University for prior service benefits in fiscal year 2003.

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2004**

**NOTE 13 - Commitments and Contingent Liabilities**

At June 30, 2004 and 2003 the University had outstanding commitments under construction contracts totaling \$1,338,864 and \$2,485,527, 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, 2004.

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 &<br>Benefits | Scholarships<br>& Fellowships | Utilities           | Supplies &<br>Other Services | Depreciation        | Other<br>Operating<br>Expense | Total                |
|-------------------------------------|----------------------------|-------------------------------|---------------------|------------------------------|---------------------|-------------------------------|----------------------|
| Educational and general             |                            |                               |                     |                              |                     |                               |                      |
| Instruction                         | \$ 23,699,402              | \$ 27,708                     | \$ 185              | \$ 2,680,453                 |                     | \$                            | \$ 26,407,748        |
| Research                            | 1,363,942                  | 80,031                        | 1,704               | 501,785                      |                     |                               | 1,947,462            |
| Public service                      | 1,178,371                  | 225,059                       | 479                 | 582,028                      |                     |                               | 1,985,937            |
| Academic support                    | 4,465,448                  | 15,266                        |                     | 2,198,801                    |                     |                               | 6,679,515            |
| Student services                    | 3,839,957                  | 36,218                        |                     | 1,369,301                    |                     |                               | 5,245,476            |
| Institutional support               | 3,630,166                  | 740                           | 239                 | 861,436                      |                     |                               | 4,492,581            |
| Operations and maintenance of plant | 5,114,901                  |                               | 1,303,156           | 1,052,703                    |                     |                               | 7,470,760            |
| Depreciation                        |                            |                               |                     |                              | 4,335,043           |                               | 4,335,043            |
| Scholarships and fellowships        | 35,964                     | 5,266,129                     |                     | 13,670                       |                     |                               | 5,315,763            |
| Auxiliary enterprises:              |                            |                               |                     |                              |                     |                               |                      |
| Housing                             | 1,249,954                  |                               | 369,641             | 1,402,890                    |                     |                               | 3,022,485            |
| Parking                             | 75,617                     |                               |                     | 71,198                       |                     |                               | 146,815              |
| Health Center                       | 616,327                    |                               | 3,950               | 155,097                      |                     |                               | 775,374              |
| Student Center                      | 450,174                    |                               | 128,220             | 402,371                      |                     |                               | 980,765              |
| Athletics                           | 81,985                     | 518,561                       |                     | 479,219                      |                     |                               | 1,079,765            |
| Student Publications                | 69,588                     |                               |                     | 106,262                      |                     |                               | 175,850              |
| Other                               |                            |                               |                     |                              |                     | 30,966                        | 30,966               |
| Total                               | <u>\$ 45,871,796</u>       | <u>\$ 6,169,712</u>           | <u>\$ 1,807,574</u> | <u>\$ 11,877,214</u>         | <u>\$ 4,335,043</u> | <u>\$ 30,966</u>              | <u>\$ 70,092,305</u> |

**PITTSBURG STATE UNIVERSITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2004**

**NOTE 15 – Subsequent Event**

Subsequent to June 30, 2004, The Kansas Board of Regents authorized the sale of Revenue Bonds, Series 2004D for \$1,195,000 to be issued on July 7, 2004. The proceeds from the sale of these bonds will be used to finance the cost of a Housing System Renovation Project. The purpose of the project is to pay a portion of the costs of acquisition, construction, renovation and equipping a 20-duplex housing facility know as Bonita Terrace that will become part of the student housing facility.