

Pittsburg State University Annual Financial Report

For the Fiscal Year ended June 30, 2016

Pittsburg, Kansas

PITTSBURG STATE UNIVERSITY

Annual Financial Report

For the Fiscal Year Ended June 30, 2016

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More than 1,000 freshmen gathered on Brandenburg Field for the 2015 class photo.



Outstanding Faculty 2016 (l to r): John Thompson (Automotive Technology), Xiaolu Wu (Biology), and Clark Shaver (Electronics Engineering Technology).



For the first time in PSU history, the Gorilla women are DII Outdoor Track and Field National Champions.

Pittsburg State University

Management's Discussion and Analysis

For the Year Ended June 30, 2016

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

USING THIS ANNUAL REPORT

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

STATEMENT OF NET POSITION

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

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

Net Position is divided into three categories:

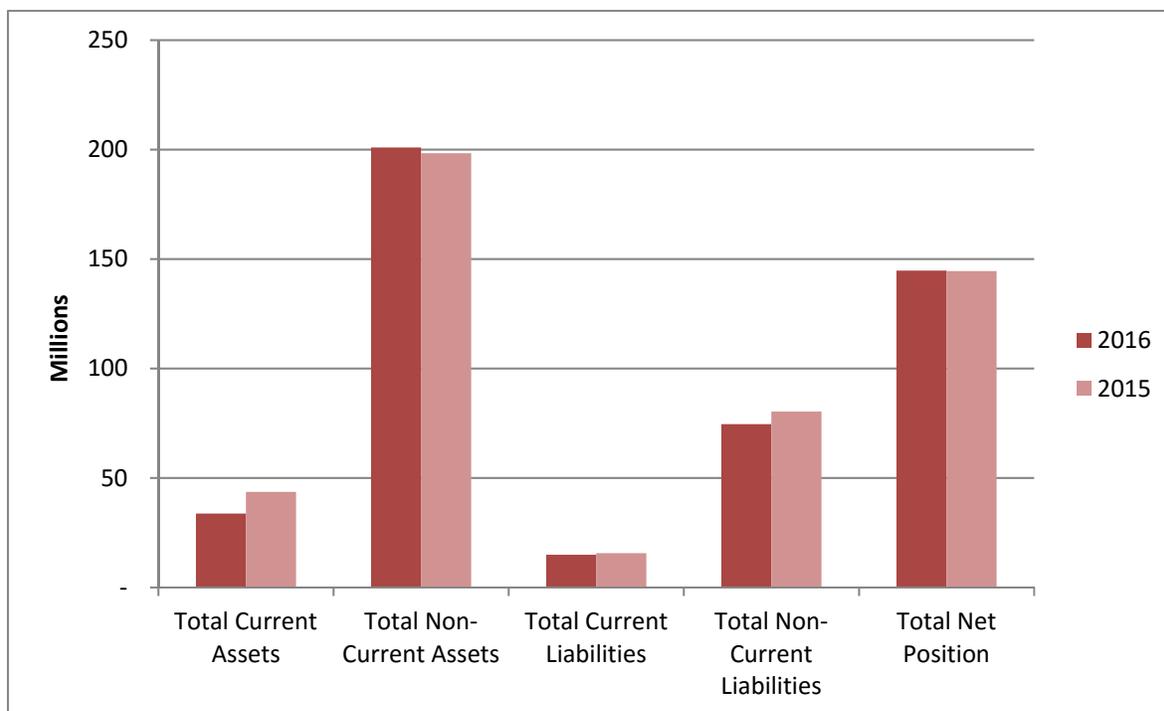
1. **Net investment in capital assets**, indicates the university's equity in property, plant, and equipment owned by the University.
2. **Restricted net position** is further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is only available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

Total assets at June 30, 2016 were \$234.7 million, a decrease of \$7.3 million or 3.0% compared to \$242.0 million at June 30, 2015. Capital assets, net of depreciation, comprised 84.1%, or \$197.4 million of the total assets.

Total liabilities were \$89.5 million at June 30, 2016, a decrease of \$6.5 million or 7.3% compared to \$96.0 million at June 30, 2015. Noncurrent liabilities comprised 83.4%, or \$74.6 million of the liabilities.

Total net position at June 30, 2016 was \$144.7 million, a \$0.2 million increase over the prior year of \$144.5 million. The breakout of net position is shown below:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Net investment in capital assets	\$135,688,766	\$ 129,235,378
Restricted net position	10,653 311	14,690,615
Unrestricted net position	<u>(1,643,331)</u>	<u>540,782</u>
Total net position	<u><u>\$144,698,746</u></u>	<u><u>\$ 144,466,775</u></u>



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

Revenues

Operating revenues at the University as of June 30, 2016 decreased by 1.5% over the previous fiscal year. The following is a brief summary of the significant changes:

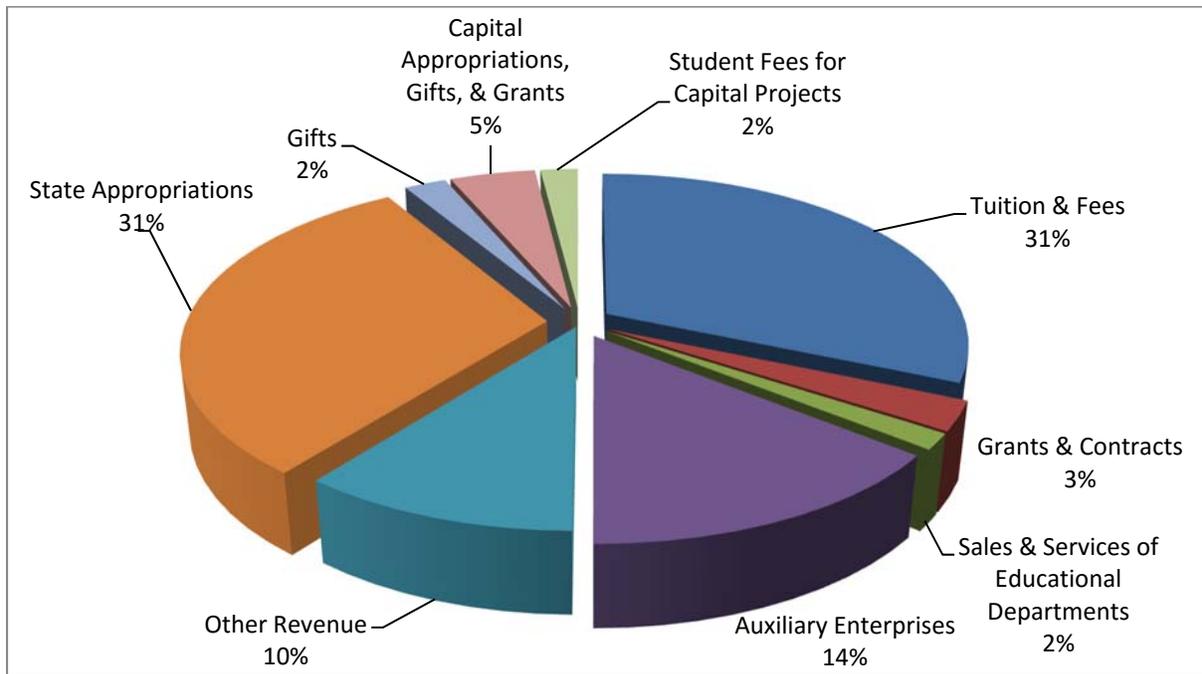
- Student tuition and fee revenues, after scholarship allowances, were \$34.7 million in 2016, compared to \$35.7 million in 2015, a net decrease of 2.8%.
- Sales and services of educational departments increased \$0.3 million, or 21.4% from \$1.4 million in 2015 to \$1.7 million in 2016.

- Auxiliary enterprise revenues increased from \$15.7 million to \$15.9 million in 2016. Auxiliary enterprises include University Housing, Parking Services, Health Services, Student Center, Athletics, and Student Publications. Auxiliary enterprise revenues are 27.0% of total operating revenue.

Total non-operating revenues (expenses) decreased \$2.0 million from \$47.9 million to \$45.9 million. The following is a brief summary of the significant changes:

- State appropriations decreased \$1.6 million from \$35.5 million in 2015 to \$33.9 in 2016.
- Gifts increased \$0.2 million in 2016 from \$2.2 million to \$2.4 million.
- Other non-operating revenues (expenses) decreased from \$11.0 million in 2015 to \$10.0 million in 2016.

Revenues for fiscal year 2016 are displayed in the following graph:

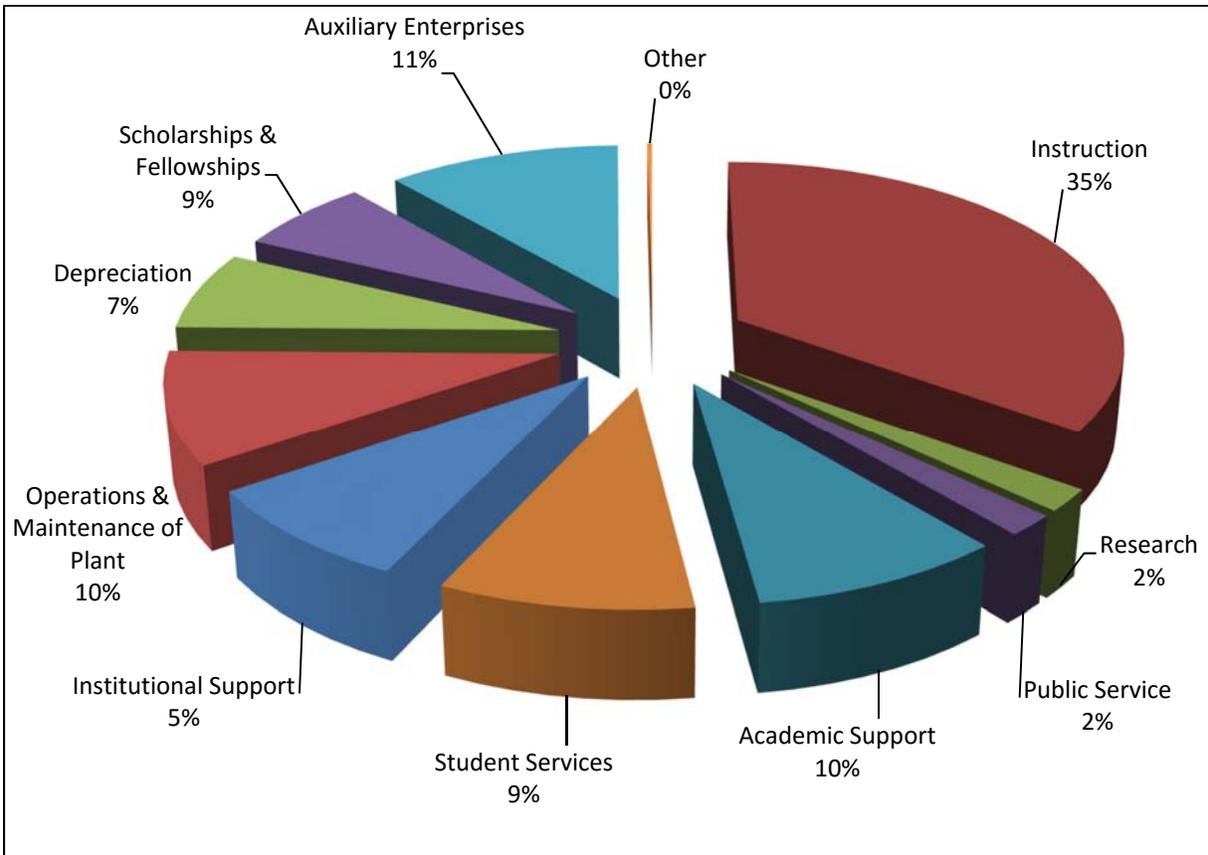


Expenses

Operating expenses increased \$3.7 million, from \$103.8 million for the 2015 fiscal year to \$107.5 million for the 2016 fiscal year. The following is a brief summary of the significant changes:

- Institutional support expenses increased \$1.1 million, or 11.9%, from \$8.0 million in 2015 to \$9.1 million in 2016. Institutional support includes administrative services.
- Student service expenses increased \$0.7 million from \$9.1 million to \$9.8 million in 2016.
- Depreciation expense increased \$0.8 million from \$6.5 million in 2015 to \$7.3 million in 2016.
- Auxiliary enterprise expenses, which include University Housing, Parking Services, Health Services, Student Center, Athletics, and Student Publications, increased from \$10.7 million in 2015 to \$12.1 million in 2016.

Expenses for fiscal year 2016 are displayed in the following graph:



Extraordinary Items

The University did not have any special and extraordinary items in 2016.

Endowment Expenses Paid On Behalf of the University

The Pittsburg State University Foundation, Inc. is an independent, not-for-profit organization, whose primary mission is to raise funds for the University, provide direct and indirect support to the University that is not entirely reflected in the University's Statement of Revenues, Expenses, and Changes in Net Position. Expense items paid on behalf of the University by the Foundation include expenses such as travel, supplies, equipment, books, and construction. Total University support provided by the Foundation was approximately \$2.4 and \$2.2 million in 2016 and 2015, respectively. Capital Gifts from the Foundation was approximately \$1.8 and \$16.8 million in 2016 and 2015. The substantial decrease is largely due to capital projects using private donations completed during fiscal year 2015. The Foundation's financial statements are included following the University's financial statements in this Annual Financial Report.

Net Position

Net position increased by \$0.2 million over the previous fiscal year.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments of the University during a period of time. Its purpose is to assess the University's ability to generate future net cash flows and meet its obligations as they come due. The following is a condensed statement of cash flows for the years ended June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
Net Cash provided (used) by:		
Operating activities	\$(43,853,632)	\$(38,778,573)
Non-capital financing activities	36,998,943	38,378,770
Capital and related financing activities	(2,655,790)	(11,392,987)
Investing activities	32,666	72,865
Net increase (decrease) in cash	(9,477,813)	(11,719,925)
Beginning cash and cash equivalent balances	40,385,848	52,105,773
Ending cash and cash equivalent balances	<u>\$ 30,908,035</u>	<u>\$ 40,385,848</u>

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

CAPITAL ASSETS

The University continued to invest in capital assets during the 2016 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 Housing System Maintenance and Improvement project was started in the summer of 2009. The \$16 million project includes improvements to seven existing student housing facilities. The renovations will provide new exterior windows; student room doors; exterior entrance, corridor access, and stairwell doors; floor coverings; ceiling and lights; and all new surface finishes. It also includes renovation of restroom and shower/bath facilities and upgrades to two dorms' HVAC distribution systems. Bowen Hall, the first of seven existing dorms, was started in May of 2009 and completed in August 2009. Trout Hall, the second dorm renovation, was started in May 2010 and completed in August 2010. Tanner Hall, the third dorm renovation, was started in May of 2011 and completed in August 2011. Tanner Hall Annex, the fourth dorm renovation, was started in May of 2012 and completed in August of 2012. Dellinger Hall, the fifth dorm renovation, was started in May of 2013 and completed in August 2013. Nation Hall West, the sixth dorm renovation, was started in May of 2014 and was completed in August of 2014. Nation Hall East, the final dorm renovation, started in May of 2015 and completed in August of 2015. These projects were financed by revenue bonds to be repaid from housing revenues.
- The JHO Student Center Expansion provides an expanded ballroom with improved site line and audio visual capabilities. This expansion includes an addition to the east which provides a much needed campus activities center complex that includes student organization offices, more student gathering spaces, lounge space, and meeting rooms. Construction began in May of 2014 and completed July of 2015. This project was funded with student fees.

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

- The Weede Physical Education Building Renovation will provide renovated locker rooms, added air conditioning, corridor and restroom remodel, addition of a tiered lecture and video classroom, and expanding and remodeling the athletic training room. The Weede building locker room renovation and remodel of the athletic training room is the first project completed in September of 2015. The corridor and restroom remodel and addition of a tiered lecture and video classroom were completed in August of 2016. These projects are funded with student fees and private donations.
- The Kelce College of Business Expansion will include new construction as well as total renovation of the existing building. This project will provide appropriate sized and shaped learning labs and centralize faculty in one location. Also included, will be student collaboration spaces, small group study rooms, and student lounges which will provide an academic home for the Kelce College of Business students. The Planning and Design phase began in January 2016.

DEBT ADMINISTRATION

At June 30, 2016, the University had \$60.1 million in debt outstanding.

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

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

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

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

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

Debt was issued in fiscal year 2016 to refinance Lease Revenue Bonds Series 2005D, which was used to finance the Polymer Research Center project. Series 2005D was originally issued for a total of \$3.0 million and was assigned a rating of “AA” by Standard & Poor’s. Revenue Bonds Series 2015K was issued for a total of \$1.5 million. In addition to Series 2015K, Refunding Revenue Bonds Series 2015M was also issued during fiscal year

2016 for a total of \$2.1 million. The purpose of Series 2015M was to refinance the 2002 Energy Conservation Lease Purchase agreement.

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

ECONOMIC OUTLOOK

According to the Kansas Legislative Research Department and the Kansas Division of the Budget, economic indicators point to slow or no growth for the State of Kansas in 2017. Projections for the real Kansas Gross State Product (GSP) growth for 2016 has been revised downward from 2% to 0% while the 2017 GSP is projected at 1.9% in 2017 and 2.0% in 2018. The Kansas Personal Income growth estimate for 2016 is 3.9 percent, or 0.9 percent lower than the national average. The latest 12 month employment figures for the State show an unemployment rate of 4.1 percent expected for 2016 compared to the national average of 4.8 percent. Significant concerns persist regarding the uncertainty of Federal Government fiscal policies and State General Fund income. Current State General Fund projections for fiscal year 2017 indicate total receipts approximately \$93.4 million, or 1.5%, below actual fiscal year 2016 receipts. State appropriations made up 30.7% of the University's total revenue during fiscal year 2016.

Enrollment at Pittsburg State fell for the academic fall 2016 semester. With enrollment of 7,102, the University reported a decrease of 142 students from the fall 2015 figure of 7,244. University officials indicate growth in graduate and out-of-state programs, as well as the largest graduating classes in the history of the University for two consecutive years. While total enrollment dropped, enrollment in the graduate programs rose 4% in the fall 2016 semester. Long term enrollment projections remain positive.

The University is not aware of any additional currently known facts, decisions, or conditions that are expected to have significant effect on the financial position or results of operations during fiscal year 2016 beyond unknown variations having a global effect on all types of business operations.

Pittsburg State University
Statement of Net Position
As Of June 30, 2016 and 2015

	2016	2015
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 22,985,321	\$ 25,226,072
Restricted cash and cash equivalents	7,922,714	15,075,283
Accounts receivable, net	1,711,530	1,626,239
Loans to students, net	681,246	889,477
Inventories	328,092	344,413
Prepaid expenses	99,306	486,430
Total current assets	33,728,209	43,647,914
Noncurrent Assets		
Restricted investments	-	84,493
Loans to students, net	3,579,929	3,356,263
Capital assets, net	197,352,956	194,912,855
Total noncurrent assets	200,932,885	198,353,611
Total Assets	234,661,094	242,001,525
<u>DEFERRED OUTFLOWS</u>		
Pension Contributions	905,357	1,118,391
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable and accrued liabilities	6,421,836	8,080,019
Deferred revenue	1,785,276	1,477,774
Accrued compensated absences	2,760,565	2,693,501
Revenue bonds payable	3,548,057	2,598,452
Capital leases payable	145,437	357,562
Deposits held in custody for others	291,056	492,705
Total current liabilities	14,952,227	15,700,013
Noncurrent Liabilities		
Other postemployment healthcare benefits	81,278	3,404,000
Capital leases payable	755,709	2,621,008
Pension Liability	17,176,326	14,883,214
Revenue bonds payable	56,550,375	59,419,319
Total noncurrent liabilities	74,563,688	80,327,541
Total Liabilities	89,515,915	96,027,554
<u>DEFERRED INFLOWS</u>		
Deferred Pension Inflows	1,351,790	2,625,587

Pittsburg State University
Statement of Net Position
As Of June 30, 2016 and 2015

<u>NET POSITION</u>	<u>2016</u>	<u>2015</u>
Net investment in capital assets	135,688,766	129,235,378
Restricted for		
Expendable		
Scholarships and fellowships	-	-
Research	24,808	321,037
Instructional department uses	91,192	816,522
Loans	4,698,906	4,885,938
Capital projects	1,659,178	5,016,194
Debt services	4,242,744	3,734,681
Other	(63,517)	(83,757)
Unrestricted	<u>(1,643,331)</u>	<u>540,782</u>
 Total Net Position	 <u>\$ 144,698,746</u>	 <u>\$ 144,466,775</u>

See accompanying notes to financial statements

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015
<u>OPERATING REVENUES</u>		
Tuition and fees (net of scholarship allowances of \$9,128,405 and \$9,322,940 in 2016 and 2015 respectively)	\$ 34,684,234	\$ 35,717,653
Federal grants and contracts	1,726,203	1,902,857
State and local grants and contracts	640,579	826,931
Nongovernmental grants and contracts	686,671	484,638
Sales and services of educational departments	1,653,892	1,350,525
Auxiliary enterprises:		
Housing	9,153,351	9,178,895
Parking	663,793	661,504
Health Services	1,472,629	1,559,880
Student Center	1,294,201	1,235,194
Athletics	3,174,151	2,916,863
Student Publications	160,870	138,847
Interest earned on loans to students	89,080	98,019
Other operating revenues	1,476,696	1,644,290
Total operating revenues	56,876,350	57,716,096
 <u>OPERATING EXPENSES</u>		
Educational and General		
Instruction	37,567,033	37,024,418
Research	2,091,756	1,938,636
Public Service	1,979,447	2,011,537
Academic support	9,832,150	9,723,966
Student services	9,838,453	9,069,232
Institutional support	9,070,942	7,993,618
Operations and maintenance of plant	10,501,806	10,614,491
Depreciation	7,341,761	6,533,300
Scholarships and fellowships	6,963,099	7,958,523
Auxiliary enterprises:		
Housing	5,737,347	5,370,160
Parking	226,484	157,542
Health Services	1,424,876	1,304,003
Student Center	1,688,737	1,038,241
Athletics	2,838,630	2,751,092
Student Publications	134,729	118,923
Other	243,045	197,822
Total operating expenses	107,480,295	103,805,504
Operating Income (Loss)	(50,603,945)	(46,089,408)

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
State appropriations	33,916,901	35,473,176
Gifts	2,431,933	2,165,387
Investment income	32,666	72,865
Interest expense	(2,658,122)	(2,835,941)
Student fees for capital projects	2,174,349	2,046,646
Other nonoperating revenues (expenses)	9,960,931	10,974,473
Net nonoperating revenues (expenses)	45,858,658	47,896,606
Income before other revenues, expenses, gains, or losses	(4,745,287)	1,807,198
Capital appropriations	3,200,655	1,670,810
Capital grants and gifts	1,776,603	16,761,119
	4,977,258	18,431,929
Increase In Net Position	231,971	20,239,127
Net position - beginning of year	144,466,775	124,227,648
Net position - end of year	\$ 144,698,746	\$ 144,466,775

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 42,219,361	\$ 41,745,540
Sales and services of educational activities	1,654,592	1,359,611
Auxiliary enterprises:		
Housing	3,983,236	3,873,253
Parking	556,480	591,018
Health Services	33,788	272,990
Student Center	(410,203)	424,525
Athletics	384,298	158,945
Student Publications	27,885	18,339
Grants and contracts	2,785,555	3,358,716
Payments to suppliers	(16,163,240)	(14,515,500)
Payments to utilities	(2,006,670)	(2,098,458)
Compensation & benefits	(64,596,972)	(61,232,144)
Payments for scholarships and fellowships	(13,695,501)	(14,395,858)
State Appropriations Receivable	75,337	-
Loans issued to students and employees	(798,333)	(853,346)
Collections on loans issued to students and employees	765,332	968,761
Other receipts (payments)	1,331,423	1,545,035
	<u>(43,853,632)</u>	<u>(38,778,573)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	33,916,901	35,473,176
Gifts	2,431,933	2,165,387
Federal family education loan receipts	29,940,659	35,664,777
Federal family education loan disbursements	(29,940,659)	(35,664,777)
Student organization agency transactions	12,949	(58,497)
Other	637,160	798,704
	<u>36,998,943</u>	<u>38,378,770</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	-	-
Capital appropriations	2,625,978	2,583,000
Capital Grants and gifts	1,776,603	16,761,119
Student fees for capital projects	2,174,349	2,046,646
Purchases of capital assets	(11,675,873)	(37,419,870)
Principal paid on capital debt and leases	(4,353,057)	(2,336,469)
Interest paid on capital debt and leases	(2,674,646)	(2,951,421)
Disposal of asset	-	-
Other	9,386,363	9,924,008
	<u>(2,740,283)</u>	<u>(11,392,987)</u>
Net Cash Flows from Capital Financing Activities		

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	84,493	-
Investment income	32,666	72,865
Purchase of investments	-	-
Net Cash Flows from Investing Activities	117,159	72,865
Net change in cash and cash equivalents	(9,477,813)	(11,719,925)
Cash and cash equivalents-beginning of year	40,385,848	52,105,773
Cash and cash equivalents-end of year	\$ 30,908,035	\$ 40,385,848
RECONCILIATION		
Operating income (loss)	\$ (50,603,945)	\$ (46,089,408)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	7,341,761	6,533,300
Changes in assets and liabilities:		
Accounts receivable, net	(85,291)	460,132
Loans to students, net	(15,435)	133,778
Inventories	16,321	(30,160)
Prepaid expenses	387,124	(4,057)
Accounts payable and accrued liabilities	461,553	900,724
Deferred revenue	882,188	(888,805)
Accrued compensated absences	67,064	6,574
Other postemployment healthcare benefits	(2,090,374)	294,000
Deposits held in custody for others	(214,598)	(94,651)
Net cash used in operating activities	\$ (43,853,632)	\$ (38,778,573)

See accompanying notes to financial statements

Pittsburg State University Foundation, Inc.
Annual Financial Report
Statement of Financial Position
Year Ended June 30, 2016 and 2015

	2016	2015
<u>Assets</u>		
Cash	\$ 801,319.46	\$ 618,821.31
Interest Receivable	29,132.04	24,812.18
Student Loans Receivable	534.00	534.00
Allowance for Doubtful Loan Accounts	(534.00)	(534.00)
Contributions Receivable	10,520,570.56	10,212,894.16
Specific Investments	150,349.73	157,767.25
Pooled Investments	70,238,781.32	73,323,056.15
Beneficial Interest Trusts held by Others	3,368,200.25	3,600,511.58
Fixed Assets - Net of Depreciation	1,125,712.51	793,979.21
Advances for Loan Matching	183,134.76	183,134.76
Total Asset	\$ 86,417,200.63	\$ 88,914,976.60
 <u>Liabilities, Reserves and Net Assets</u>		
Liabilities		
Accounts Payable	\$ 1,001,551.79	\$ 788,163.75
Interest Payable	28,638.45	33,389.14
Agency Funds - Nine Pay Twelve	259,753.47	313,709.96
Note Payable	8,410,734.60	8,985,920.21
Annuity Liabilities	261,694.00	306,027.00
Total Liabilities	\$ 9,962,372.31	\$ 10,427,210.06
 Net Assets and Reserves		
Unrestricted Net Assets	22,802,625.57	21,943,027.46
Temporarily Restricted Net Assets	9,739,838.83	15,566,062.05
Permanently Restricted Net Assets	43,912,363.92	40,978,677.03
Net Assets	\$ 76,454,828.32	\$ 78,487,766.54
Total Liabilities, Reserves and Net Assets	\$ 86,417,200.63	\$ 88,914,976.60

The accompanying notes are an integral part of these financial statements

Pittsburg State University Foundation, Inc.
Annual Financial Report
Statement of Activities
Year Ended June 30, 2016 and 2015

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2016 Totals	2015 Totals
Revenues, gains and other support					
Contributions	\$ 4,769,270.75	\$ 1,506,328.93	\$ 950,129.96	\$ 7,225,729.64	\$ 7,460,910.63
Investment Income	1,654,710.23		-	1,654,710.23	1,365,083.52
Net realized gain on investments	1,432,466.91	(982.33)	-	1,431,484.58	2,376,983.69
Net unrealized gain on investments reported at fair value	(906,237.75)	(63,944.26)	(3,356,341.81)	(4,326,523.82)	(1,086,098.71)
Change in value of beneficial interest trusts held by others	-	(100,443.05)	(131,868.28)	(232,311.33)	-
Interest and service charges on student loans			290.00	290.00	293.63
Recover expenditures	3,734.19			3,734.19	-
Other miscellaneous revenue	1,270,530.24			1,270,530.24	1,152,061.91
Net assets released from restrictions	1,695,705.49	(7,167,182.51)	5,471,477.02	-	-
Total revenues, gains and other support	<u>\$ 9,920,180.06</u>	<u>\$ (5,826,223.22)</u>	<u>\$ 2,933,686.89</u>	<u>\$ 7,027,643.73</u>	<u>\$ 11,269,234.67</u>
Expenses					
Program services					
Scholarships, grants & awards	\$ 3,286,917.51	\$ -	\$ -	\$ 3,286,917.51	\$ 3,000,796.05
Marketing	9,000.00	-	-	9,000.00	7,200.00
Classroom instruction aids & other Univ. expenses	1,726,376.42	-	-	1,726,376.42	1,340,672.78
Faculty/professional development	129,031.24	-	-	129,031.24	116,308.39
Student loan bad debt allowance	-	-	-	-	179.00
Student loan collection expense	-	-	-	-	13.43
Other special Univ. projects	2,809,162.80	-	-	2,809,162.80	2,023,399.81
Total program services	<u>\$ 7,960,487.97</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,960,487.97</u>	<u>\$ 6,488,569.46</u>
Support services					
Salaries	\$ 340,392.23			\$ 340,392.23	\$ 318,497.34
Promotion	17,362.05			17,362.05	3,720.80
Auditing & investment counsel	73,159.00			73,159.00	48,299.00
Investment management fees	138,288.47			138,288.47	135,379.23
Equipment, service contracts and repairs	40,184.58			40,184.58	35,913.75
Postage	24,975.43			24,975.43	26,242.97
Insurance	12,667.32			12,667.32	12,661.84
Repairs and maintenance building and grounds	16,163.63			16,163.63	62,575.30
Publications	15,868.09			15,868.09	15,188.99
Planned Giving	15,655.42			15,655.42	20,308.47
Telephone	22,891.86			22,891.86	24,453.97
Utilities	12,200.46			12,200.46	12,578.41
Depreciation	50,672.52			50,672.52	52,157.78
General operating	207,239.35			207,239.35	190,841.75
Alumni activities	73,348.05			73,348.05	51,894.02
Travel	24,577.43			24,577.43	22,766.44
Miscellaneous	14,448.09			14,448.09	12,767.64
Total support services	<u>\$ 1,100,093.98</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,100,093.98</u>	<u>\$ 1,046,247.70</u>
Total expenses	<u>\$ 9,060,581.95</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,060,581.95</u>	<u>\$ 7,534,817.16</u>
Increase (decrease) in net assets	<u>\$ 859,598.11</u>	<u>\$ (5,826,223.22)</u>	<u>\$ 2,933,686.89</u>	<u>\$ (2,032,938.22)</u>	<u>\$ 3,734,417.51</u>
Net assets at beginning of year	<u>\$21,943,027.46</u>	<u>\$15,566,062.05</u>	<u>\$40,978,677.03</u>	<u>\$78,487,766.54</u>	<u>\$74,753,349.03</u>
Net assets at end of year	<u>\$22,802,625.57</u>	<u>\$ 9,739,838.83</u>	<u>\$43,912,363.92</u>	<u>\$76,454,828.32</u>	<u>\$78,487,766.54</u>

The accompanying notes are an integral part of these financial statements

Pittsburg State University Foundation, Inc.
Annual Financial Report
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015

Exhibit C

	2016	2015
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ (2,032,938)	\$ 3,561,376
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	50,673	52,158
Realized (Gain) Loss on Sales of Investments	(1,431,485)	(2,376,983)
Unrealized (Gain) Loss on Investments	4,326,524	(1,086,098)
(Increase) Decrease in:		
Interest Receivable	(4,320)	(1,880)
Student Loans Receivable	-	267
Contributions Receivable	(307,677)	2,132,348
Increase (Decrease) in:		
Accounts Payable	213,388	(16,233,589)
Interest Payable	(4,751)	25,080
Agency Liabilities	(53,956)	7,784
Present value of annuities	(44,333)	(18,277)
Net Cash Provided (Used) by Operating Activities	711,125	(13,937,814)
Cash Flows from Investing Activities:		
Purchases of Fixed Assets	(382,407)	(20,740)
Proceeds from Sales of Investments	9,637,700	15,356,355
Purchases of Investments	(9,208,735)	(8,000,000)
Net Cash Provided (Used) by Investing Activities	46,558	7,335,615
Cash Flows from Financing Activities:		
Loan Proceeds	-	6,628,009
Principal payments on loan	(575,185)	-
Net Cash Provided (Used) by Financing Activities	(575,185)	709,311
Net Increase(Decrease) in Cash and Cash Equivalents	182,498	25,810
Cash and Cash Equivalents, beginning of year	618,821	593,011
Cash and Cash Equivalents, end of year	\$ 801,319	\$ 618,821
Cash Paid for Interest on Note Payable	\$ 404,270	\$ 259,903

The accompanying notes are an integral part of these financial statements.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 1 – Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

Inventories. Inventories are carried at cost.

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

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

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

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

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

NOTE 2 – Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents. The carrying amount of the University's deposits with the State Treasurer and other financial institutions at June 30, 2016 and 2015 were \$30,908,035 and \$40,301,355 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, 2016 and 2015 were \$0 and \$84,493 respectively and are administered by the Kansas Development Finance Authority. The fiscal year 2015 total represents bond reserve requirements.

NOTE 3 - Accounts Receivable

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

	2016	2015
Tuition and Fees	\$850,182	\$ 694,573
Auxiliary enterprises	156,359	190,510
Grants & Contracts	473,455	286,466
State Appropriations	216,668	292,005
Other	14,866	162,685
Total	\$ 1,711,530	\$ 1,626,239

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, 2016 and 2015. The Perkins Loan Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectable and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2016 and 2015, the allowance for uncollectible loans was estimated to be \$744,752 and \$745,707, respectively.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 5 – Inventories

Inventories consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Physical Plant	\$ 206,472	\$ 234,406
Other	121,620	110,007
Total	<u>\$ 328,092</u>	<u>\$ 344,413</u>

NOTE 6 – Capital Assets

Capital asset activity for the year ended June 30, 2016 and June 30, 2015 are as follows:

	<u>2016</u>			
	<u>Balance Remaining</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 6,210,415	\$ 379,293	\$	\$ 6,589,708
Land Improvements	7,599,517	92,567		7,692,084
Works of Art	982,264			982,264
Buildings & Improvements	213,419,236	36,650,892		250,070,128
Equipment & Furnishings	19,618,920	2,215,500	418,661	21,415,759
Vehicles	2,371,668	175,460	57,383	2,489,745
Software	2,098,051			2,098,051
Total	<u>\$ 252,300,071</u>	<u>\$ 39,513,712</u>	<u>\$ 476,044</u>	<u>\$ 291,337,739</u>
Less accumulated depreciation:				
Land Improvements	\$ 3,465,677	\$ 259,850	\$	\$ 3,725,527
Buildings & Improvements	65,209,834	5,819,135		71,028,969
Equipment & Furnishings	15,478,865	1,213,787	245,081	16,447,571
Vehicles	1,936,652	206,366	57,383	2,085,635
Software	1,519,283	145,086		1,664,369
Total accumulated depreciation	<u>\$ 87,610,311</u>	<u>\$ 7,644,224</u>	<u>\$ 302,464</u>	<u>\$ 94,952,071</u>
Capital assets, net	<u>\$ 164,689,760</u>	<u>\$ 31,869,488</u>	<u>\$ 173,580</u>	\$ 196,385,668
Construction In Progress				<u>967,288</u>
				<u>\$ 197,352,956</u>

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

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

NOTE 7 – Deferred Revenue

Deferred revenues consisted of the following at June 30:

	2016	2015
Tuition and Fees	\$ 722,751	\$ (236,878)
Grants & Contracts	397,086	477,995
Capital Appropriations	546,709	1,121,387
Auxiliary enterprises	118,730	115,270
	\$ 1,785,276	\$ 1,477,774

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 8 - Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016 and June 30, 2015 was as follows:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable*	\$ 62,017,771	\$ 3,636,416	\$ 5,555,755	\$ 60,098,432	\$ 3,548,057
Lease obligations	<u>2,978,570</u>	<u>209,200</u>	<u>2,286,624</u>	<u>901,146</u>	<u>145,437</u>
Total long-term liabilities	<u>\$ 64,996,341</u>	<u>\$ 3,845,616</u>	<u>\$ 7,842,379</u>	<u>\$ 60,999,578</u>	<u>\$ 3,693,494</u>

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

*Includes unamortized bond premiums/discounts in balance totals which is not included in other debt-related Notes.

NOTE 9 - Revenue Bonds Outstanding

Revenue bonds payable consist of the following:

	Principal Outstanding at 6/30/16
Kansas Development Finance Authority Revenue Bonds – Series K, 2015 (The Board of Regents -- Pittsburg State University – Refunding Revenue Bonds) \$1,500,000 Due in annual installments from \$246,215 to \$253,816. Issued 9/30/15 with a final maturity on 10/1/2021. Interest rate at 1.04% payable semi-annually.	1,500,000
Kansas Development Finance Authority Refinance 2002 Lease – Series M, 2015 (The Board of Regents – Pittsburg State University Refinancing Energy Lease) \$2,135,766 Due in annual installments from \$298,389 to \$311,978. Issued 12/03/15 with a final maturity on 12/01/2022. Interest rate at 1.04% payable semi-annually.	2,135,766

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

	Principal Outstanding at 6/30/16
Kansas Development Finance Authority Revenue Bonds – Series A, 2014 (The Board of Regents - Pittsburg State University Projects) \$35,175,000 Due in annual installments of \$385,000 to \$2,345,000. Issued 4/1/2014 with a final maturity on 10/1/2034. Interest ranging from 3.0% to 4.25% payable semi-annually.	33,840,000
Kansas Development Finance Authority Revenue Bonds – Series D, 2011 (The Board of Regents - Pittsburg State University Refinance & New Energy Conservation) \$9,465,000 Due in annual installments of \$435,000 to \$895,000. Issued 4/14/2011 with a final maturity on 4/1/2024. Interest ranging from 2.0% to 4.4% payable semi-annually.	5,535,000
Kansas Development Finance Authority Revenue Bonds – Series H-1 & H-2, 2009 (The Board of Regents – Pittsburg State University Housing System Improvement Project) \$14,630,000 Due in annual installments of \$380,000 to \$975,000. Issued 6/17/09 with a final maturity on 10/1/2034. Interest ranging from 2.5% to 7.3% payable semi-annually.	12,625,000
Kansas Development Finance Authority Revenue Bonds – Series G, 2009 (The Board of Regents – Pittsburg State University Bryant Student Health Center) \$825,000 Due in annual installments of \$50,000 to \$70,000. Issued 6/17/09 with a final maturity on 10/1/2023. Interest ranging from 2.5% to 4.75% payable semi-annually.	490,000
Kansas Development Finance Authority Revenue Bonds – Series J-1 & J-2, 2009 (The Board of Regents – Pittsburg State University Parking System Project) \$4,545,000 Due in annual installments of \$160,000 to \$330,000. Issued 6/17/09 with a final maturity on 10/1/2029. Interest ranging from 2.5% to 7.0% payable semi-annually.	3,515,000

NOTE 10 - Revenue Bonds Maturity Schedule

Maturities of principal and interest requirements on revenue bonds payable for the year ended June 30, 2016 are as follows:

Year Ending June 30:	Principal	Interest	Total
2017	\$ 3,514,604	\$ 2,478,397	\$ 5,993,001
2018	3,613,254	2,365,608	5,978,862
2019	3,447,020	2,251,530	5,698,551
2020	3,540,811	2,134,803	5,675,615
2021-2025	16,120,077	8,765,966	24,886,043
2026-2030	14,325,000	5,602,911	19,927,911
2031-2035	15,080,000	1,918,918	16,998,918
Total	\$ 59,640,766	\$ 25,518,133	\$ 85,158,899

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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 \$901,146 and \$2,978,570 as of June 30, 2016 and 2015, respectively. Included in the Fiscal Year 2015 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 was responsible for repaying the State for the 20-year term of the lease. The Energy Performance contract was refinanced in fiscal year 2016. Payments to liquidate these obligations as of June 30, 2016 are scheduled as follows:

Year Ending June 30:	Total
2017	\$ 145,437
2018	141,064
2019	145,615
2020	150,327
2021 and thereafter	318,703
Total	\$ 901,146

NOTE 12 - Retirement Plans

University employees participate in two separate retirement programs. Classified employees participate in the "Kansas Public Employees Retirement System" (KPERS). This defined benefit program is funded through contributions by the University and the individual employees. The University contributed \$1,230,011 and \$1,155,647 during fiscal years 2016 and 2015, respectively, and individual employees contributed \$649,301 and \$609,167. Unclassified employees participate in the "Board of Regents Retirement Plan". This defined contribution program is funded through contributions by the University and the individual employees. The University contributed \$3,153,315 and \$3,089,006 during fiscal years 2016 and 2015, respectively, and individual employees contributed \$1,987,795 and \$1,951,546.

NOTE 13 – Other Postemployment Healthcare Benefits

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

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

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

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

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Annual Required Contribution (ARC)	\$	123,836
Interest on Net OPEB Obligation		131,054
Adjustments to the ARC		<u>(3,423,202)</u>
Annual OPEB cost (expense)		(3,168,312)
Claims + Admin Paid on Behalf of Retirees		316,399
Retiree Contributions		<u>(161,989)</u>
Net Employer Contributions		154,410
Net Obligations at July 1, 2015		3,404,000
Annual OPEB Cost		<u>(3,168,312)</u>
Net Employer Contributions		<u>154,410</u>
Net OPEB obligation June 30, 2016	\$	<u>81,278</u>

Schedule of Employer Contributions (for fiscal year ended)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2014	\$547,000	\$200,000	37%	\$3,110,000
2015	\$492,000	\$198,000	40%	\$3,404,000
2016	\$(3,168,312)	\$154,410	0%	\$81,278

Funded Status and Funding Progress. As of June 30, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$81,278. The University's policy is to fund the benefits implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$81,278. The covered payroll (annual payroll of active employees covered by the plan) was \$54,300,865, and the ratio of the UAAL to the covered payroll was 0 percent.

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

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
6/30/2014	\$0	\$5,265,000	\$5,265,000	0%	\$49,931,000	11%
6/30/2015	\$0	\$4,770,000	\$4,770,000	0%	\$51,049,000	9%
6/30/2016	\$0	\$81,278	\$81,278	0%	\$54,300,865	0%

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

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

In the June 30, 2016, actuarial valuation, the entry age normal, level dollar method, was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. Since the plan is becoming employee-pay-all in 2017, the trend rates for Medical, Prescription Drug and Administrative costs was assumed to be -100% in 2017 and 0% thereafter. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. As the subsidy ends December 31, 2016, the amortization is set to equal the benefit payments for the period.

Subsequent Event Related to OPEB. The State subsidy expires in December 31, 2016 (except for 10 Bridge Participants). This produced several changes impacting the Unfunded Actuarial Accrued Liability.

- The Normal Cost went to \$0
- The Actuarial Accrued Liability includes an adjustment for lagging benefit payments of 8.5% of gross payments. This is not needed in an ongoing valuation, but significant when the subsidy is ending.
- The fiscal 2016 Annual Required Contribution (ARC) was set to the expected benefit payments for that fiscal year.
- The fiscal 2017 ARC will be \$0. Subsequently, the Net OPEB Obligation (NOO) as of June 30, 2016 less the benefit payments, less interest on the NOO should result in an NOO of \$0 as of June 30, 2017. To the extent there is a difference between the benefit payments from expected, this will result in an ARC adjustment.
- The Annual OPEB Cost for 2013 was increased to produce an NOO as of June 30, 2016 that equals the UAAL.
- The NOO for the year ending June 30, 2016 was set to the UAAL.
- The Health Care Reform Excise Tax is not projected to have any impact on the UAAL

NOTE 14 - Commitments and Contingent Liabilities

At June 30, 2016 and 2015 the University had outstanding commitments under construction contracts totaling \$720,406 and \$6,401,680, respectively.

The University is a defendant in a lawsuit. However, University officials are of the opinion, based on advice from 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 University follows a policy of self-insurance. Certain claims against the University would require legislative approval (and potential funding) prior to settlement. The University is not aware of any significant outstanding claims as of June 30, 2016.

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

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

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

NOTE 15 – Other Grants

The June 30, 2007 edition of GASB's *Comprehensive Implementation Guide* instructed that "Because of public institutions' administrative involvement with Pell grant requirements and because Pell grants are non-exchange transactions, public institutions should record Pell grant receipts as nonoperating revenues in their financial statements and any amounts applied to student receivable accounts should be recorded as scholarship discounts or allowances". Therefore the June 30, 2016 and 2015 Statement of Revenues, Expense, and Changes in Net Position reflect the Pell grant reclassification from Federal grants and contracts to other nonoperating revenues.

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

	2016	2015
Pell Grants	\$ 9,524,108	\$ 10,171,646
SEOG Grants	178,945	178,945
Regents Supplemental Grants	567,733	746,226
Total	\$ 10,270,786	\$ 11,096,817

NOTE 16 – Natural Classifications with Functional Classifications

The University's operating expenses by functional and natural classification as of June 30, 2016 and June 30, 2015 are as follows:

	2016					
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Educational and general						
Instruction	\$ 34,002,149	\$	\$ 42	\$ 3,564,842	\$	\$ 37,567,033
Research	1,534,939		1,299	555,518		2,091,756
Public service	1,403,026		547	575,874		1,979,447
Academic support	7,112,401			2,719,749		9,832,150
Student services	6,801,230			3,037,223		9,838,453
Institutional support	5,615,252		5,713	3,449,977		9,070,942
Operations and maintenance of plant	6,799,034		2,023,807	1,678,965		10,501,806
Depreciation					7,341,761	7,341,761
Scholarships and fellowships		6,963,099				6,963,099
Auxiliary enterprises:						
Housing	1,899,298		695,031	3,143,018		5,737,347
Parking	70,077			156,407		226,484
Health Services	1,219,679		21,517	183,680		1,424,876
Student Center	24,103		203,281	1,461,353		1,688,737
Athletics	319,552			2,519,078		2,838,630
Student Publications	1,744			132,985		134,729
Other				243,045		243,045
Total	\$ 66,802,484	\$ 6,963,099	\$ 2,951,237	\$23,421,714	\$ 7,341,761	\$107,480,295

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

NOTE 17 - GASB 68 KPERS Pittsburg State University

For the year ended June 30, 2016, Pittsburg State University applied the provisions of GASB 68, Accounting and Financial Reporting for Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

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

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

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

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

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

State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rate was 15.41% and 11.27%, respectively, for the fiscal year ended June 30, 2015. The actuarially determined employer contribution rate was 15.41% for the fiscal year ended June 30, 2015. The statutory contribution rate was 11.27% from July 1, 2014 to December 31, 2014 and 8.65% from January 1, 2015 to June 30, 2015. Contributions to the pension plan from PSU was \$905,357 for the year ended June 30, 2015.

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

At June 30, 2016, PSU reported a liability of \$17,176,326 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. PSU's proportion of the net pension liability was based on the ratio of PSU's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the State/School subgroup within KPERS for the fiscal year ended June 30, 2015. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2015 PSU's State Employer proportion was 0.235% which was a decrease of 0.014% from its proportion measured as of June 30, 2014. At June 30, 2015 PSU's Kansas Police & Fire Group proportion was 0.122%, which was an increase of 0.003% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, PSU recognized pension expense of \$1,261,650. At June 30, 2016, PSU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred inflows of Resources</u>
Difference between expected and actual experience	\$ 8,137	\$ 502,940
Net difference between projected and actual earnings on pension plan investments	-	452,553
Changes in proportion	897,220	351,139
PSU contributions subsequent to measurement date	905,357	-
Total	<u>\$ 1,810,714</u>	<u>\$ 1,306,632</u>

\$905,357 reported as deferred outflows of resources related to pensions resulting from "state agency" contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Year ended June 30:

2016	(266,088)
2017	(266,088)
2018	(266,088)
2019	254,411
2020	97,418
Total	<u>(446,435)</u>

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	4.00 percent
Salary increases, including wage increases	4.00 to 16.00 percent, including inflation
Long-term rate of return net of investment expense, and including price inflation	8.00 percent

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted for the three year period ending December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	13	0.80
Yield driven	8	4.20
Real return	11	1.70
Real estate	11	5.40
Alternatives	8	9.40
Short-term investments	2	(0.50)
Total	100%	

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

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
PSU proportionate share of the net pension liability	\$ 22,258,375	\$ 17,176,326	\$ 12,861,696

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