

PITTSBURG STATE UNIVERSITY

Annual Financial Report
For the Fiscal Year Ended June 30, 2007

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, 2007 were \$114,816,577, an increase of \$8,197,632 (7.7%) compared to \$106,618,945 at June 30, 2006. Capital assets, net of depreciation, comprised 75%, or \$86,240,746 of the total assets.

Total liabilities were \$33,625,127 at June 30, 2007, an increase of \$5,397,009 (19.12%) compared to \$28,228,118 at June 30, 2006. Noncurrent liabilities comprised 68%, or \$23,015,318 of the liabilities.

Total net assets at June 30, 2007 were \$81,191,450, a \$2,800,623 increase over the prior year of \$78,390,827 or a 3.6% increase in net assets. The breakout of net assets is shown below:

Capital assets, net of related debt	\$61,912,670
Restricted net assets	9,488,142
Unrestricted net assets	9,790,638
Total net assets	\$81,191,450

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, 2007 increased by 6.7% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$21.6 million in 2007, compared to \$20.3 million in 2006, a net increase of 6%. This is the result of a tuition rate increase of 6% for the 2006-2007 academic year.
- State and local grants and contracts increased 19.4% from \$1.28 million in 2006 to \$1.5 million in 2007. This increase is primarily due to approximately \$500,000 awarded to the Department of Nursing, by the Kansas Board of Regents, to help address a critical nursing shortage. The grants allowed the addition of four full-time and two part-time nursing faculty positions, a patient simulation and learning resource center, and four Nurse Educator scholarships.
- Auxiliary enterprise revenues, increased from \$9.2 million to \$9.98 million in 2007. Auxiliary enterprises include University Housing, Parking Services, Student Health Center, Athletics, and Student Publications.

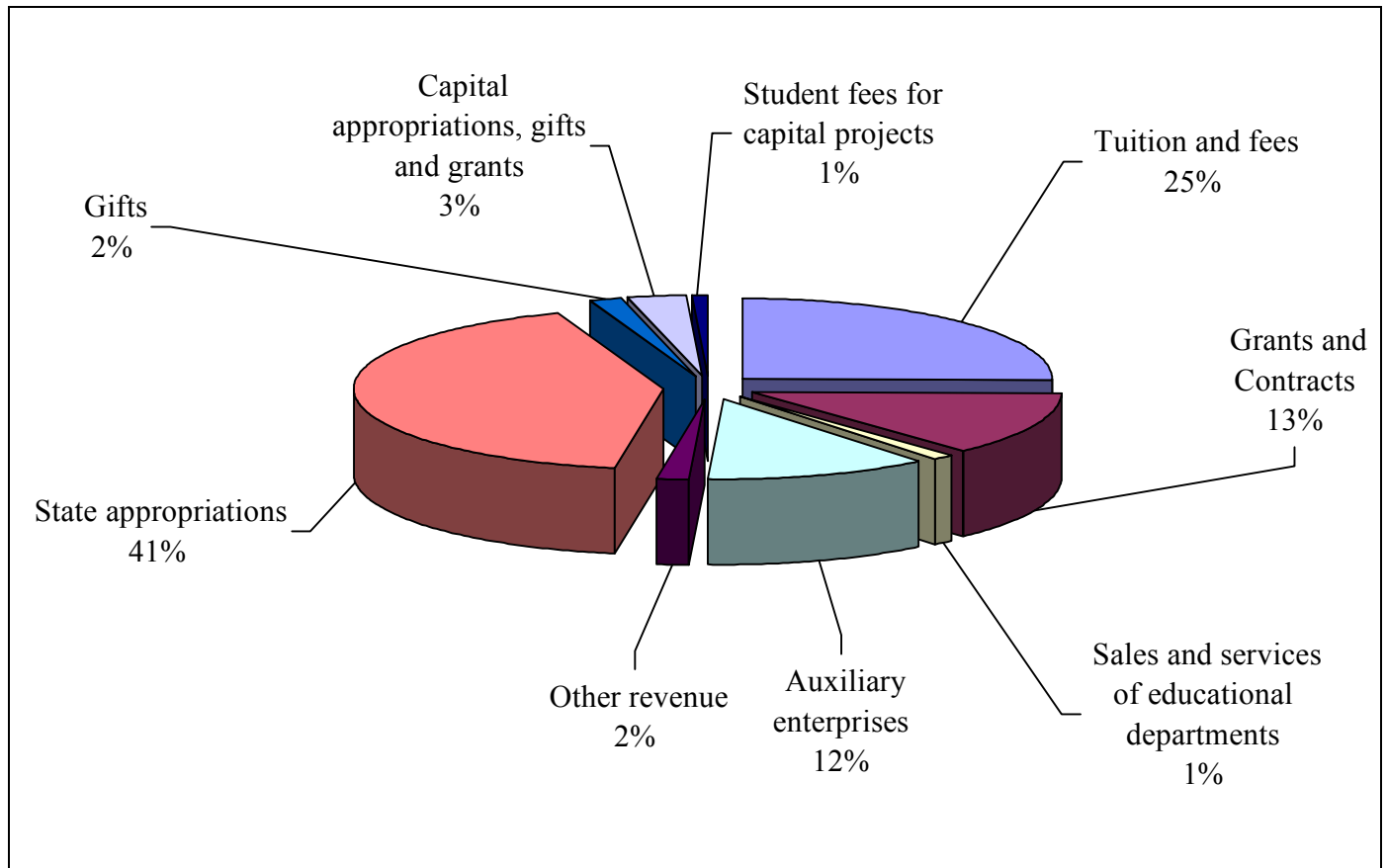
Total non-operating revenues were up 2.3% from the prior year from \$37.6 million to \$38.5 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from \$35.5 million to \$36 million, or 1.47%.
- Investment income increased from \$228,713 in 2006 to \$473,753 in 2007. This 107% increase is primarily due to the increase in investments, namely the Kansas Polymer Research Center and Army National Guard Armory/Recreation Center bonds.

Other revenues included the following:

- Capital appropriations, gifts and grants decreased 36% from \$4.1 million in 2006 to \$2.6 million in 2007. Capital gifts received in the prior year were primarily a result of private donations via the Pittsburg State University Foundation for the renovation of the Carnie Smith Stadium.

Revenues for fiscal year 2007 are displayed in the following graph:



Expenses

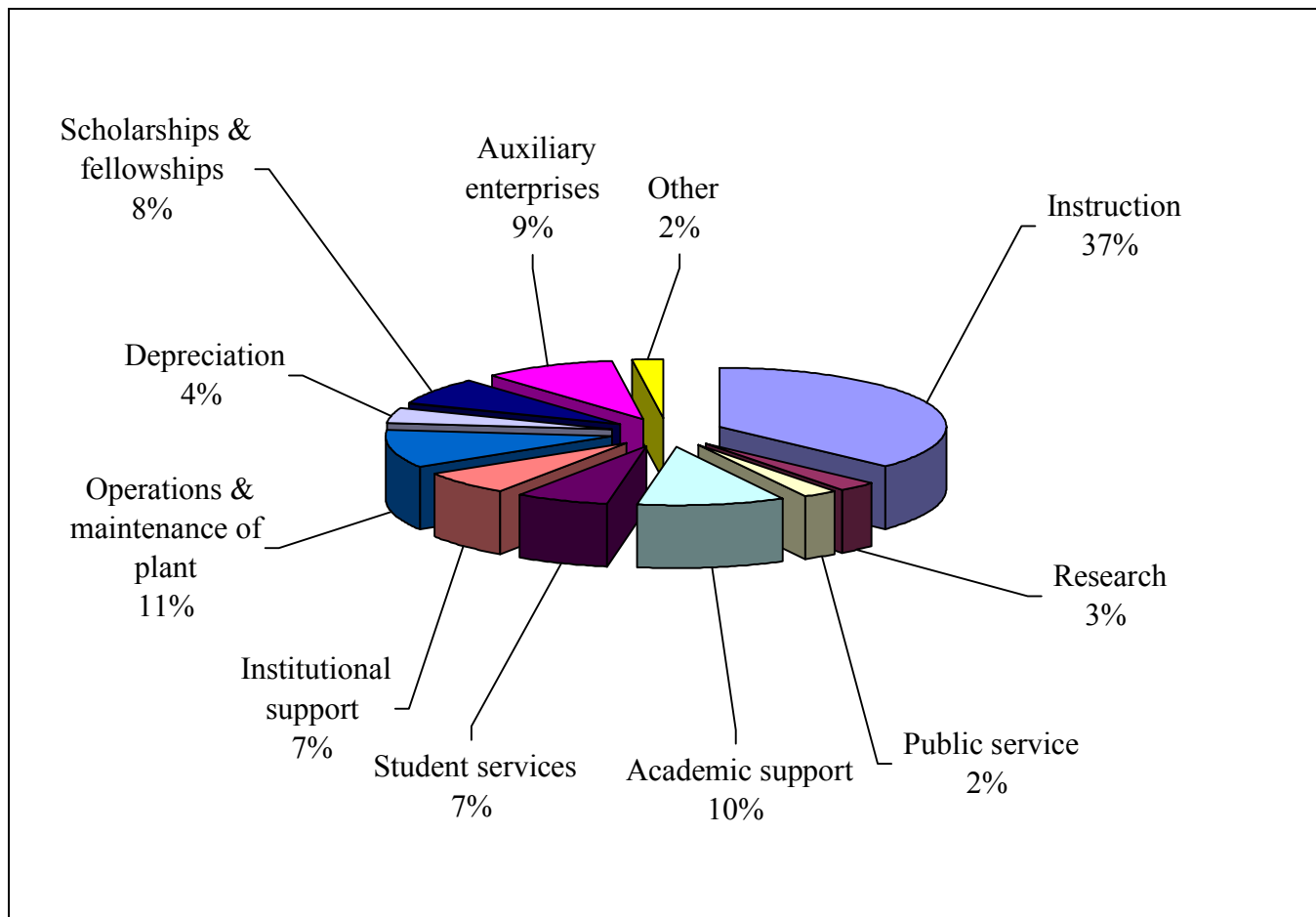
Operating expenses were \$81.5 million for the 2007 fiscal year compared to \$76.3 million for the 2006 fiscal year. This was an increase of \$5.2 million or 6.9%.

The following is a brief summary of the significant changes:

- Academic Support increased by 11.84% in fiscal year 2007 due primarily to increased expenses in the area of Information Services. In fiscal year 2005, the University began a four year plan to strengthen academic and administrative technology. The plan consisted of budget increases in each of the four years. Fiscal year 2007 was the third year of the plan. During that year three new staff positions were created and investments were made in academic technology support.
- Auxiliary enterprise expenses, which include University Housing, Parking Services, Student Health Center, Athletics, and Student Publications, increased 8.3% from \$7.2 million in 2006 to \$7.8 million in 2007.

Non-operating expenses are primarily interest expense. This amount increased by 24.5% from the prior year.

Expenses for fiscal year 2007 are displayed in the following graph:



Extraordinary Items

The University did not have any special and extraordinary items in 2007.

Endowment Expenses Paid On Behalf of the University

The Pittsburg State University Foundation, Inc. is an independent, not-for-profit organization, whose primary mission is to raise funds for the University, provide direct and indirect support to the University that is not entirely reflected in the University's Statement of Revenues, Expenses, and Changes in Net Assets. Expense items paid on behalf of the University by the Foundation include expenses such as travel, supplies, equipment, books, and construction. Total University support provided by the Foundation was approximately \$1.3 million and \$4 million in 2007 and 2006, respectively. During fiscal year 2006, approximately \$2.8 million is attributed to construction projects for the University, including approximately \$2 million in improvements for the second phase of the Carnie Smith Stadium renovation. The Foundation's financial statements are not included in the accompanying financial statements of the University.

Net Assets

Net assets increased by \$2.8 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, 2007 and 2006:

	June 30, 2007	June 30, 2006
Net cash provided (used) by:		
Operating activities	\$(32,440,285)	\$(32,242,230)
Non-capital financing activities	37,290,754	36,539,673
Capital and related financing activities	(4,715,110)	844,139
Investing activities	(505,259)	228,713
Net increase (decrease) in cash	(369,900)	5,370,295
Beginning cash and cash equivalent balances	20,579,545	15,209,250
Ending cash and cash equivalent balances	\$ 20,209,645	\$ 20,579,545

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 2007 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:

- Phase II of the Carnie Smith Stadium renovation was completed in the summer of 2006 at a cost of \$2.5 million. The project extended the west side of the stadium with an entirely new front entrance, provides eight new skyboxes, and an elevator and wheelchair ramp. The project was funded by private donations to the University via the Pittsburg State University Foundation.
- Gibson Dining Hall renovation was completed in the summer of 2006 at a cost of approximately \$660,000. The 9,200 square foot service distribution and dining space renovation included reconfiguration of existing cafeteria style service lines into an array of six foot-court stations and an extensive, built-in double salad bar. All surfaces and furnishings were upgraded to include a variety of seating options and improved service flow.

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

- The Tyler Research Center broke ground in the summer of 2005 and was completed for the fall of 2007. The 22,000 square foot facility is located in Pittsburg's Research and Development Park near the Kansas Technology Center. The facility will accommodate the scientists of the Kansas Polymer Research Center. The project is funded by Revenue Bonds, Series 2005D for \$3 million and private donations.

- The Kansas Army National Guard Armory/Recreation Center construction began in the fall of 2006 and is expected to take about 18 months. The \$15 million, 98,959 square foot building will provide academic offices and classrooms for the departments of Health, Physical Education and Recreation, and Military Science/ROTC, a recreation center for students, and an armory for the Kansas Army National Guard. Funding for this project includes state and federal funds and private donations.

DEBT ADMINISTRATION

At June 30, 2007, the University had \$17.4 million in debt outstanding. On November 1, 2006, the Kansas Board of Regents authorized the sale of Revenue Bonds, Series 2006 L-2 for \$4,215,000. The proceeds from the sales of these bonds were used to partially finance the cost of Kansas Army National Guard Armory/Student Recreation Center. The project is a joint effort with the Kansas Army National Guard and includes funding from state and federal funds and private donations.

Standard & Poor's Ratings Services rates the University "A-". More detailed information about the University's noncurrent liabilities is available in Notes 8, 9, and 10 to the financial statements.

ECONOMIC OUTLOOK

The State of Kansas revenues exceeded estimates in fiscal year 2007 while year-to-date fiscal year 2008 revenues are slightly down. Future increases in State funding are likely to be minimal. The State of Kansas provides approximately 42% of the total resources for the University during a fiscal year. Appropriations for fiscal year 2008 are currently set at \$35.9 million, compared to \$34.6 million received for fiscal year 2007, an increase of 3.9%.

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 2008 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 fall 2007 semester set a 104-year history record with 7,087 students enrolled. Enrollment increases are expected to continue for the spring semester.

Pittsburg State University
Statement of Net Assets
As Of June 30, 2007 and 2006

	2007	2006
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 14,429,392	\$ 12,003,947
Restricted cash and cash equivalents	5,780,253	8,575,598
Accounts receivable, net	1,194,029	947,600
Loans to students, net	716,414	851,361
Inventories	380,431	401,720
Prepaid expenses	376,480	372,557
Total current assets	22,876,999	23,152,783
Noncurrent Assets		
Restricted investments	1,998,480	1,019,468
Loans to students, net	3,700,352	3,647,806
Capital assets, net	86,240,746	78,798,888
Total noncurrent assets	91,939,578	83,466,162
Total Assets	114,816,577	106,618,945
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable and accrued liabilities	3,500,764	2,654,813
Deferred revenue	3,726,017	2,468,893
Accrued compensated absences	1,898,265	1,849,443
Revenue bonds payable - current portion	580,000	365,000
Capital leases payable - current portion	549,482	616,823
Deposits held in custody for others	355,281	379,887
Total current liabilities	10,609,809	8,334,859
Noncurrent Liabilities		
Capital leases payable	6,245,318	6,758,259
Revenue bonds payable	16,770,000	13,135,000
Total noncurrent liabilities	23,015,318	19,893,259
Total Liabilities	33,625,127	28,228,118

Pittsburg State University
Statement of Net Assets
As Of June 30, 2007 and 2006

	2007	2006
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	61,912,670	57,765,319
Restricted for		
Expendable		
Scholarships and fellowships	1,054	1,053
Research	151,287	43,302
Instructional department uses	726,338	752,910
Loans	5,348,312	5,367,689
Capital projects	590,965	3,574,972
Debt services	1,529,582	2,468,046
Other	1,140,604	5,860
Unrestricted	9,790,638	8,411,676
Total Net Assets	\$ 81,191,450	\$ 78,390,827

See accompanying notes to financial statements

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006

	2007	2006
<u>OPERATING REVENUES</u>		
Tuition and fees (net of scholarship allowances of \$4,058,976 and \$3,429,338 in 2007 and 2006, respectively)	\$ 21,578,177	\$ 20,350,396
Federal grants and contracts	7,991,799	7,676,429
State and local grants and contracts	1,530,898	1,282,600
Nongovernmental grants and contracts	1,349,784	1,383,743
Sales and services of educational departments	1,056,029	909,462
Auxiliary enterprises:		
Housing	5,339,037	4,811,406
Parking	425,167	379,666
Health Center	1,157,886	1,073,141
Student Center	1,257,968	1,152,914
Athletics	1,627,769	1,609,306
Student Publications	171,362	194,993
Interest earned on loans to students	76,629	72,240
Other operating revenues	829,967	708,914
Total operating revenues	44,392,472	41,605,210
 <u>OPERATING EXPENSES</u>		
Educational and General		
Instruction	30,479,377	28,429,293
Research	2,414,348	2,535,546
Public Service	2,021,689	2,054,672
Academic support	8,633,886	7,719,607
Student services	5,612,042	5,414,953
Institutional support	5,440,012	4,996,476
Operations and maintenance of plant	8,779,868	8,082,488
Depreciation	3,449,327	3,431,726
Scholarships and fellowships	6,248,663	5,670,708
Auxiliary enterprises:		
Housing	3,783,054	3,387,564
Parking	219,684	240,781
Health Center	1,024,916	1,015,928
Student Center	1,015,420	987,393
Athletics	1,639,425	1,424,167
Student Publications	162,715	187,431
Other	599,069	692,167
Total operating expenses	81,523,495	76,270,900
Operating Income (Loss)	(37,131,023)	(34,665,690)

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006

	2007	2006
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
State appropriations	36,009,399	35,488,269
Gifts	1,328,646	1,204,715
Investment income	473,753	228,713
Interest expense	(1,068,127)	(857,911)
Student fees for capital projects	719,086	698,233
Other nonoperating revenues	-	42,911
Other nonoperating expenses	(121,926)	(119,253)
Net nonoperating revenues (expenses)	37,340,831	36,685,677
Income before other revenues, expenses, gains, or losses	209,808	2,019,987
Capital appropriations	232,281	884,101
Capital grants and gifts	2,358,534	3,188,574
Increase In Net Assets	2,800,623	6,092,662
<u>NET ASSETS</u>		
Net assets - beginning of year	78,390,827	72,298,165
Net assets - end of year	\$ 81,191,450	\$ 78,390,827

See accompanying notes to financial statements

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 23,623,294	\$ 21,848,150
Sales and services of educational activities	1,048,913	914,887
Auxiliary enterprises:		
Housing	1,719,241	1,383,609
Parking	62,195	197,457
Health Center	22,983	9,016
Student Center	272,646	161,309
Athletics	(13,945)	97,021
Student Publications	9,260	2,586
Grants and contracts	10,665,545	10,904,654
Payments to suppliers	(10,793,313)	(10,385,051)
Payments to utilities	(1,670,331)	(1,538,649)
Compensation & benefits	(37,311,870)	(49,140,372)
Payments for scholarships and fellowships	(21,410,614)	(7,654,825)
Loans issued to students and employees	(872,562)	(895,657)
Collections on loans issued to students and employees	793,043	923,600
Other receipts (payments)	1,415,230	930,035
	<u>(32,440,285)</u>	<u>(32,242,230)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	36,009,399	35,488,269
Gifts	1,328,646	1,204,716
Federal family education loan receipts	17,522,268	17,349,374
Federal family education loan disbursements	(17,565,688)	(17,303,090)
Student organization agency transactions	(3,871)	(199,596)
	<u>37,290,754</u>	<u>36,539,673</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	4,254,879	3,234,797
Capital appropriations	994,000	995,960
Capital Grants and gifts	2,358,533	3,188,573
Student fees for capital projects	719,086	698,233
Purchases of capital assets	(10,920,758)	(5,550,715)
Principal paid on capital debt and leases	(982,280)	(932,989)
Interest paid on capital debt and leases	(1,043,337)	(827,567)
Disposal of asset	0	-
Other	(95,233)	37,847
	<u>(4,715,110)</u>	<u>844,139</u>

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	3,132,261	-
Investment income	473,753	228,713
Purchase of investments	<u>(4,111,273)</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>(505,259)</u>	<u>228,713</u>
Net change in cash and cash equivalents	(369,900)	5,370,295
Cash and cash equivalents-beginning of year	20,579,545	15,209,250
Cash and cash equivalents-end of year	<u>\$ 20,209,645</u>	<u>\$ 20,579,545</u>
RECONCILIATION		
Operating income (loss)	\$ (37,131,023)	\$ (34,665,690)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	3,449,327	3,431,726
Changes in assets and liabilities:		
Accounts receivable, net	(246,429)	(206)
Loans to students, net	82,400	126,923
Inventories	21,290	(24,357)
Prepaid expenses	(3,924)	(366,949)
Accounts payable and accrued liabilities	821,162	(1,164,618)
Deferred revenue	495,405	434,371
Accrued compensated absences	48,823	(28,398)
Deposits held in custody for others	<u>22,685</u>	<u>14,968</u>
Net cash used in operating activities	<u>\$ (32,440,284)</u>	<u>\$ (32,242,230)</u>

See accompanying notes to financial statements

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 1 – Summary of Significant Accounting Policies

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

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

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

Financial Reporting Entity. As required by accounting principles generally accepted in the United States of America, these financial statements present the combined financial position and financial activities of the University. The 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, 2007

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, 2007

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, 2007 and 2006 were \$20,209,645 and \$20,579,545, 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, 2007 and 2006 of \$1,998,480 and \$1,019,468 are 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>2007</u>	<u>2006</u>
Tuition and Fees	\$ 490,470	\$ 490,402
Auxiliary enterprises	126,764	113,102
Grants & Contracts	553,325	328,774
Other	<u>23,470</u>	<u>15,322</u>
Total	<u>\$ 1,194,029</u>	<u>\$ 947,600</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, 2007 and 2006. 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, 2007 and 2006, the allowance for uncollectible loans was estimated to be \$534,107 and \$482,697, respectively.

NOTE 5 – Inventories

Inventories consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Physical Plant	\$ 244,589	\$ 260,382
Office Supplies	56,867	54,081
Other	<u>78,975</u>	<u>87,257</u>
Total	<u>\$ 380,431</u>	<u>\$ 401,720</u>

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 6 – Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 3,095,828	\$ 0	\$ 0	\$ 3,095,828
Land Improvements	3,677,041	177,364	0	3,854,405
Works of Art	666,454	0	0	666,454
Buildings & Improvements	102,852,353	3,719,457	0	106,571,810
Equipment & Furnishings	11,245,076	614,774	544,896	11,314,954
Vehicles	1,311,935	151,400	88,075	1,375,259
Software	<u>870,912</u>	<u>210,234</u>	<u>38,200</u>	<u>1,042,946</u>
Total	<u>\$ 123,719,599</u>	<u>\$ 4,873,228</u>	<u>\$ 671,171</u>	<u>\$ 127,921,656</u>
Less accumulated depreciation:				
Land Improvements	1,761,704	143,127	0	1,904,831
Buildings & Improvements	36,035,961	2,389,030	0	38,424,991
Equipment & Furnishings	8,253,282	742,984	517,722	8,478,545
Vehicles	1,188,201	94,372	88,075	1,194,498
Software	<u>488,388</u>	<u>78,172</u>	<u>35,800</u>	<u>530,760</u>
Total accumulated depreciation	<u>47,727,537</u>	<u>3,447,685</u>	<u>641,597</u>	<u>50,533,624</u>
Capital assets, net	<u>\$ 75,992,062</u>	<u>\$ 1,425,543</u>	<u>\$ 29,574</u>	77,388,032
Construction In Progress				<u>8,852,714</u>
				<u>\$ 86,240,746</u>

NOTE 7 – Deferred Revenue

Deferred revenues consisted of the following at June 30:

	2007	2006
Tuition and Fees	\$ 1,578,925	\$ 1,106,967
Grants & Contracts	815,454	797,840
Capital Appropriations	1,179,566	417,847
Auxiliary enterprises	<u>152,072</u>	<u>146,239</u>
Total	<u>\$ 3,726,017</u>	<u>\$ 2,468,893</u>

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 8 - Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 13,500,000	\$ 4,215,000	\$ 365,000	\$ 17,350,000	\$ 580,000
Lease obligations	7,375,082	39,879	620,161	6,794,800	549,482
Total long-term liabilities	<u>\$ 20,875,082</u>	<u>\$ 4,254,879</u>	<u>\$ 985,161</u>	<u>\$ 24,144,800</u>	<u>\$ 1,129,482</u>

NOTE 9 - Revenue Bonds Outstanding

Revenue bonds payable consist of the following:

	Principal Outstanding at 6/30/07
Kansas Development Finance Authority Revenue Bonds - Series E, 1998 (The Board of Regents – Pittsburg State University Housing System Renovation Project – Willard Hall) \$4,750,000 Due in annual installments of \$215,000 to \$340,000. Issued 12/1/98 with a final maturity on 10/1/23. Interest ranging from 3.4% to 4.9% payable semi-annually.	\$ 3,980,000
Kansas Development Finance Authority Revenue Bonds - Series P, 1998 (The Board of Regents – Pittsburg State University Horace Mann Administration Building Renovation Project) \$3,650,000 Due in annual installments of \$250,000 to \$300,000. Issued 12/1/98 with a final maturity on 10/1/18. Interest ranging from 3.0% to 4.85% payable semi-annually.	2,705,000
Kansas Development Finance Authority Revenue Bonds - Series A-1 & A-2, 2003 (The Board of Regents - Pittsburg State University Overman Student Center Project) \$2,610,000 Due in annual installments of \$195,000 to \$205,000. Issued 1/28/03 with a final maturity on 4/1/23. Interest ranging from 1.8% to 5.25% payable semi-annually.	2,255,000
Kansas Development Finance Authority Revenue Bonds – Series D, 2004 (The Board of Regents - Pittsburg State University Housing System Renovation Project – Bonita Terrace) \$1,195,000 Due in annual installments of \$50,000 to \$130,000. Issued 7/14/04 with a final maturity on 10/1/19. Interest ranging from 3.0% to 4.75% payable semi-annually.	1,195,000
Kansas Development Finance Authority Revenue Bonds – Series D, 2005 (The Board of Regents – Pittsburg State University Kansas Polymer Research Center) \$3,000,000 Due in annual installments of \$155,000 to \$850,000. Issued 4/1/06 with a final maturity on 10/1/21. Interest is 5.18% payable semi-annually.	3,000,000
Kansas Development Finance Authority Revenue Bonds – 2006 L-2, (The Board of Regents – Pittsburg State University Army National Guard Recreation Center) \$4,215,000 Due in annual installments of \$86,000 to \$328,500. Issued 11/1/06 with a final maturity on 5/1/26. Interest ranging from 4.0% to 4.25% payable semi-annually.	4,215,000

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2007

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
2008	\$ 580,000	\$ 788,110	\$ 1,368,110
2009	630,000	764,449	1,394,449
2010	660,000	738,465	1,398,465
2011	690,000	710,384	1,400,384
2012	715,000	680,266	1,395,266
2013	750,000	648,204	1,398,204
2014-2018	4,325,000	2,685,009	7,010,009
2019-2023	7,315,000	1,164,290	8,479,290
2024-2026	1,685,000	97,008	1,782,008
Total	<u>\$ 17,350,000</u>	<u>\$ 8,276,185</u>	<u>\$ 25,626,185</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 \$6,794,799 and \$7,375,082 as of June 30, 2007 and 2006, 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 2008 Total	\$ 549,482
Fiscal Year 2009 Total	569,531
Fiscal Year 2010 Total	544,858
Fiscal Year 2011 Total	569,884
Fiscal Year 2012 Total	536,373
Fiscal Year 2013 and thereafter	4,024,672
Total	<u>\$ 6,794,800</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 \$547,141 and \$502,540 during fiscal years 2007 and 2006, respectively, and individual employees contributed \$369,758 and \$369,736. 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 \$2,419,974 and \$2,346,402 during fiscal years 2007 and 2006, respectively, and individual employees contributed \$1,531,706 and \$1,484,591.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 13 - Commitments and Contingent Liabilities

At June 30, 2007 and 2006 the University had outstanding commitments under construction contracts totaling \$6,357,214 and \$15,007,332, 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, 2007.

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:

	<u>Compensation & Benefits</u>	<u>Scholarships & Fellowships</u>	<u>Utilities</u>	<u>Supplies & Other Services</u>	<u>Depreciation</u>	<u>Other Operating Expense</u>	<u>Total</u>
Educational and general							
Instruction	\$ 27,521,599	\$ 118,592	\$ 32	\$ 2,839,154			\$ 30,479,377
Research	1,456,067	106,225	1,588	850,469			2,414,348
Public service	1,337,886	121,723	735	561,345			2,021,689
Academic support	5,916,303	28,363	146	2,689,074			8,633,886
Student services	4,139,043	11,198		1,461,801			5,612,042
Institutional support	4,266,938			1,173,073			5,440,012
Operations and maintenance of plant	5,909,039		1,674,893	1,195,936			8,779,868
Depreciation					3,449,327		3,449,327
Scholarships and fellowships	35,948	6,042,349		170,367			6,248,663
Auxiliary enterprises:							
Housing	1,439,793		510,420	1,832,840			3,783,054
Parking	101,629			118,054			219,684
Health Center	828,117		5,320	191,479			1,024,916
Student Center	520,779		144,246	350,395			1,015,420
Athletics	117,577	763,394		758,454			1,639,425
Student Publications	70,292			92,423			162,715
Other				536,583		62,486	599,069
Total	<u>\$ 53,661,010</u>	<u>\$ 7,191,844</u>	<u>\$ 2,337,380</u>	<u>\$ 14,821,447</u>	<u>\$ 3,449,327</u>	<u>\$ 62,486</u>	<u>\$ 81,523,495</u>