

Annual Financial Report

Fiscal Year 2006



Emporia State University
Emporia, Kansas

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Dedication to John A. Blaufuss

The preparation of the Annual Financial Report is dedicated to the fond memory of John A. Blaufuss – Alumnus, University Controller, Interim Executive Director of the ESU Foundation, esteemed colleague and dear friend. Though taken from us, he lives for all time in our hearts and memories.



EMPORIA STATE UNIVERSITY

Management's Discussion and Analysis

The following Management's Discussion and Analysis provides an overview of the financial performance of Emporia 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 with the exception of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The University has made the decision not to include the Emporia State University Foundation, Inc. (the Foundation) within its unaudited financial statements. 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

The financial statements segment of this report consists of the three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements 37 and 38. These new standards changed the focus of our financial statements to a comprehensive one-look at the University as a whole as opposed to the traditional presentation of fund groups. The notes to the financial statements present additional information to support the financial statements.

STATEMENTS OF NET ASSETS

The Statements of Net Assets present 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 Statements 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 Statements of Net Assets, assets and liabilities are further classified as current or noncurrent. 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, nonexpendable and expendable. The corpus of nonexpendable 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 purpose restrictions on the use of the assets.
3. **Unrestricted net assets** are available to the University for any lawful purpose of the institution.

Total assets at June 30, 2006, were \$77,525,153 an increase of \$9,785,693 (14.4%) compared to \$67,739,460 at June 30, 2005. Capital assets, net of depreciation, comprised 59.1%, or \$45,789,682 of the total assets in 2006 as compared to 62.3%, or \$42,214,988 of the total assets in 2005.

Total liabilities were \$20,845,792 at June 30, 2006, an increase of \$8,352,575 (66.9%) compared to \$12,493,217 at June 30, 2005. Noncurrent liabilities comprised 57.8%, or \$12,049,920 of total liabilities in 2006 as compared to 29.7%, or 3,706,771 of total liabilities in 2005.

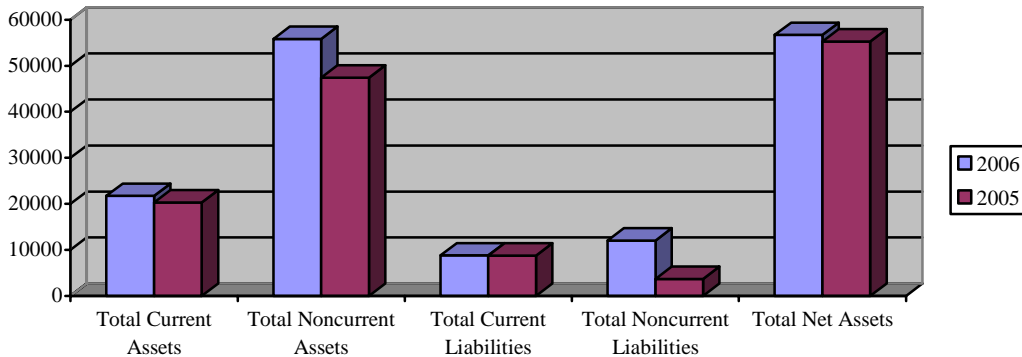
Total net assets at June 30, 2006, were \$56,679,361 a \$1,433,118 increase over the previous fiscal year amount of \$55,246,243, or a 2.6% increase in net assets. The breakout of net assets is shown below:

	<u>2006</u>	<u>2005</u>
Capital assets, net of related debt.....	\$ 33,369,332	\$ 38,251,477
Restricted net assets	12,864,085	8,680,419
Unrestricted net assets	<u>10,445,944</u>	<u>8,314,347</u>
Total Net Assets	<u>\$ 56,679,361</u>	<u>\$ 55,246,243</u>

EMPORIA STATE UNIVERSITY

Management's Discussion and Analysis

The composition of current and noncurrent assets and liabilities and net assets is displayed below for both the 2006 and 2005 fiscal year ends (in thousands):



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Revenues

Operating revenues were \$34.6 million for the 2006 fiscal year. This was an increase of \$2.3 million or 7.0% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$19.3 million in 2006, compared to \$17.0 million in 2005, an overall increase of 13.6%. This increase is a direct result of an 8.5% tuition increase approved by the Kansas Board of Regents for fiscal year 2006. The goal of the tuition increase, which was the result of collaboration between University administration & University students, was to provide additional funds to the University to improve or enhance student education. A 5.0% increase was used to support the base general use operating budget of the University. A 3.5% increase was used to fund enhancements for items in the University Strategic Plan as follows: 1) enhancement of certain staff and faculty salaries, beyond totals approved in the Legislative appropriations and 2) partial support for a faculty position in the Engraving Arts.
- Grants and contracts (federal, state and local, and nongovernmental) overall decreased over the previous year. Individual grants received by the University increased over the previous year in the areas of instruction, research and technology.
- Auxiliary enterprise revenues of the University increased for Assessments and Residential life and decreased for Athletics, Parking services and Student health services.
- Sales and services of educational departments increased by approximately \$246,000 over the previous year.
- Interest earnings on loans and other operating revenues both decreased over the prior year.

Total nonoperating revenues (expenses) increased 5.1% from the previous year from \$30.5 million to \$32.0 million. The following is a brief summary of the significant changes:

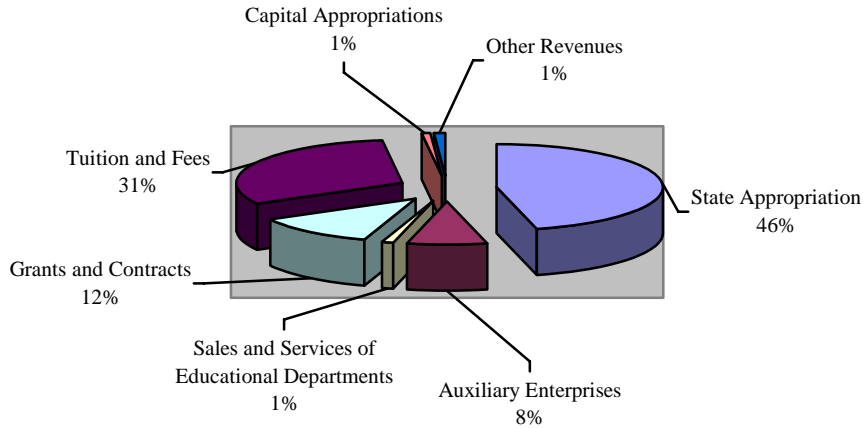
- State appropriations, the largest single source of revenue at the University, increased from \$31.0 million to \$32.7 million. An approximate 5.5% increase.
- Investment earnings increased from \$103,872 in 2005 to \$270,046 in 2006. An increase of 166,174 is the result of additional earnings on bond proceeds.

Other revenue that showed an increase was capital appropriations. Capital appropriations increased from \$462,652 in 2005 to \$855,000 in 2006 or an increase of \$392,348. Funding from the State for capital projects varies from year to year.

EMPORIA STATE UNIVERSITY

Management's Discussion and Analysis

In summary, total revenues and nonoperating revenues increased by \$4.1 million, from \$63.5 million to \$67.6, an overall increase of 6.5%. The composition of these revenues is displayed in the following graph:

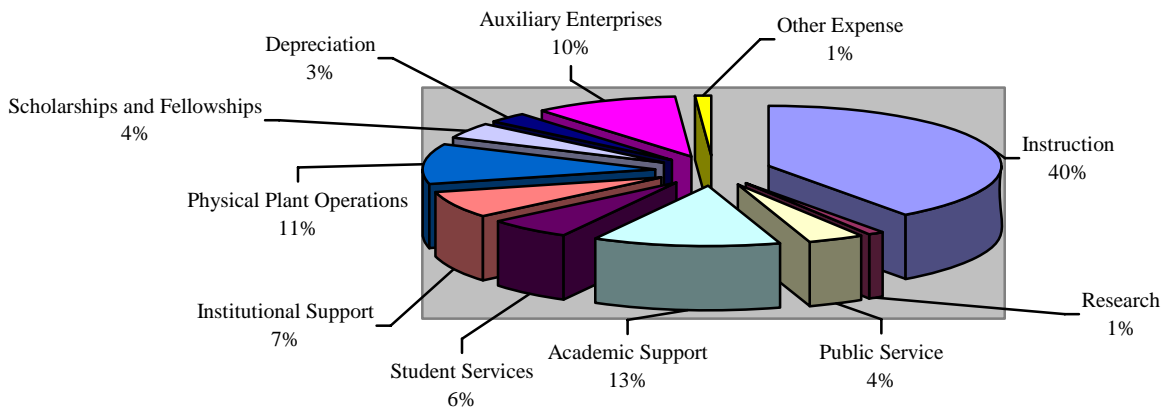


Expenses

Operating expenses were \$66.0 million for the 2006 fiscal year. This was an increase over the previous year of \$3.1 million or 4.9%. The following is a brief summary of the significant changes:

- Expenses directly related to the University's mission for instruction and academic support increased \$1,798,922 or approximately 5.3% from 2005 to 2006. Additionally, scholarships increased approximately 11% from 2005 to 2006.
- Expenses for the operations and maintenance of plant increased approximately \$819,377 from 2005 to 2006. Much of the increase can be attributed to increases in energy costs.
- Auxiliary enterprise expenses increased by 5.4%, resulting from an increase in athletic expenditures and assessment expenditures.
- Nonoperating interest expense increased from (\$212,320) to (\$440,272) in 2006. Additional interest expense was paid on the new bond issue.

The composition of total expenses, including operating and nonoperating is displayed below:



EMPORIA STATE UNIVERSITY

Management's Discussion and Analysis

Extraordinary Items

The University did not have any special and extraordinary items in 2006 or 2005.

Endowment Expenses Paid On Behalf of University

The Foundation is an independent, not-for-profit organization. The purpose of the Foundation is to aid, foster, and promote the development and welfare of the University, and the education and welfare of its students, faculty and alumni, and to acquire property of all kinds for purposes stated above. All personnel of the Foundation are considered employees of the State of Kansas. The personnel positions at the Foundation are either funded by the State or are the responsibility of the Foundation. The Foundation reimburses the University for the payroll and related costs of personnel positions not funded by the State. Not only does the Foundation purchase services, supplies, and materials from the University, but also from outside vendors. During the year ended June 30, 2006, and June 30, 2005, the Foundation made payments to the University of \$883,845 and \$1,154,887, respectively. Detail payment types for year ended June 30, 2006, were \$679,804 for personal services and \$204,041 for supplies and services.

Net Assets

Net assets increased by \$1,433,118 compared to the previous fiscal year. This increase in net assets can be attributed to the annual depreciation expense being smaller than capitalized asset purchases during the year. Capital asset purchases and capital construction projects increased during fiscal year 2006 with the issuance of bonds for a major construction project on the residence halls.

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present 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. Condensed Statements of Cash Flows for the years ended June 30, 2006 and 2005 follows:

	June 30, 2006	June 30, 2005
Net Cash Provided (Used) by:		
Operating activities	\$ (29,535,108)	\$ (29,097,257)
Noncapital financing activities	32,248,595	30,883,507
Capital and related financing activities	2,619,720	(4,180,843)
Investing activities	(4,348,724)	130,009
Net Increase (Decrease) in Cash	984,483	(2,264,584)
Beginning Cash and Cash Equivalent Balances	15,106,886	17,371,470
Ending Cash and Cash Equivalent Balances	\$ 16,091,369	\$ 15,106,886

Cash provided by operating activities includes tuition and fees, grant and contract revenues, sales and services 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 noncapital financing activities. Cash used in operating activities includes payments to employees and suppliers.

Cash provided by noncapital financing includes state appropriations and the receipt and disbursement of the federal direct student loan program. Cash used in capital and related financing activities represents proceeds from debt, the principal and interest payments towards debt, capital appropriations and grants, and the purchase and construction of capital assets. Cash provided by investing activities includes purchases and sales of investments as well as investment income earnings and losses realized.

The overall net increase in cash is due primarily to the issuance of bonds for the residence halls project.

EMPORIA STATE UNIVERSITY

Management's Discussion and Analysis

CAPITAL ASSETS

The University continued to invest in capital assets during the 2006 fiscal year. Detailed information regarding capital asset additions, retirements and depreciation is available in Note 7 of the financial statements.

The following is a brief summary of the construction projects that were completed during the current fiscal year:

- Throughout various buildings on campus, renovations and repairs were made to corridors, floors, teaching labs, ADA and life safety projects, lighting, utility projects and roofs. Additionally, various parking lots were improved and major repairs to the residence halls were made.
- Major renovations from issuance of bonds began on the Twin Towers residence hall buildings during fiscal year 2006.
- Major renovation to King Hall and the Butcher Education Center were the two construction projects completed during fiscal year 2006.

DEBT ADMINISTRATION

At June 30, 2006, the University had \$12.4 million in debt outstanding. In 2006, the University issued new debt in the amount of \$8.9 million to finance the renovation of the Twin Towers Residence Hall project.

The University paid \$818,160 in principal and interest payments related to all outstanding revenue bonds in 2006.

The bonds have been assigned a rating of "A" by Standard & Poor's Ratings Services. More detailed information about the University's noncurrent liabilities is available in Notes 9, 10 and 11 to the financial statements.

ECONOMIC OUTLOOK

The State of Kansas revenues are expected to experience moderate growth in state general fund collections for fiscal year 2007. Future increases in State funding are likely to be moderate. The State of Kansas provides approximately 46% of the total resources for the University during a fiscal year. Appropriations for fiscal year 2007 are currently set at \$34.0 million. The State's capital fund appropriation of \$852,000 is included in the \$34.0 million. This compares to \$33.6 million received for fiscal year 2006, an increase of 1.4%. The State's capital fund appropriation of \$855,000 is included in the \$33.6 million received in 2006. Also, included in the \$33.6 million is \$776,779 which was for funding of the 27th pay period.

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 2007 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 2006-2007 year is expected to be relatively consistent with the academic 2005-2006 year.



EMPORIA STATE UNIVERSITY

**STATEMENTS OF NET ASSETS
June 30, 2006 and 2005**

	University Funds		Component Unit Memorial Union Corporation	
	2006	2005	2006	2005
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 10,793,775	\$ 9,583,460	\$ 463,463	\$ 921,573
Restricted cash and cash equivalents	5,297,594	5,523,426	0	0
Investments	0	0	494,000	0
Accounts receivable, net	1,275,857	1,311,881	185,503	167,535
Loans to students, net - current portion	2,592,840	2,451,926	4,641	207
Inventories	351,999	353,612	11,982	15,098
Prepaid expenses	1,416,237	1,089,296	1,665	7,061
Total Current Assets	<u>21,728,302</u>	<u>20,313,601</u>	<u>1,161,254</u>	<u>1,111,474</u>
Noncurrent Assets				
Investments	5,848,493	962,668	100,164	4,951
Loans to students, net	4,158,676	4,248,203	0	0
Other assets, net	0	0	0	766
Capital assets, net	45,789,682	42,214,988	1,393,181	1,348,126
Total Noncurrent Assets	<u>55,796,851</u>	<u>47,425,859</u>	<u>1,493,345</u>	<u>1,353,843</u>
TOTAL ASSETS	<u>77,525,153</u>	<u>67,739,460</u>	<u>2,654,599</u>	<u>2,465,317</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	4,032,739	4,332,143	218,299	239,347
Accrued compensated absences - current portion	1,089,314	943,827	43,721	51,674
Deferred revenue	2,167,563	2,107,497	30,355	45,465
Other liabilities	135,143	49,910	7,956	3,133
Capital leases payable - current portion	4,653	4,354	0	0
Revenue bonds payable - current portion	490,714	468,775	0	21,461
Due to ESU Foundation	133,112	132,583	0	0
Deposits held in custody for others	742,634	747,357	49,384	52,837
Total Current Liabilities	<u>8,795,872</u>	<u>8,786,446</u>	<u>349,715</u>	<u>413,917</u>
Noncurrent Liabilities, Net of Current Portion				
Accrued compensated absences	124,936	216,419	0	0
Capital leases payable	0	4,653	0	0
Revenue bonds payable	11,924,984	3,485,699	0	0
Total Noncurrent Liabilities	<u>12,049,920</u>	<u>3,706,771</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>20,845,792</u>	<u>12,493,217</u>	<u>349,715</u>	<u>413,917</u>
NET ASSETS				
Invested in capital assets, net of related debt	33,369,332	38,251,477	1,393,181	1,326,665
Restricted for				
Nonexpendable				
Scholarships and fellowships	324,799	312,142	0	0
Expendable				
Capital	3,318,051	0	58,330	103,385
Loans	7,740,155	7,690,873	0	0
Debt service	1,481,080	677,404	0	0
Other	0	0	100,164	4,951
Unrestricted	10,445,944	8,314,347	753,209	616,399
TOTAL NET ASSETS	<u>\$ 56,679,361</u>	<u>\$ 55,246,243</u>	<u>\$ 2,304,884</u>	<u>\$ 2,051,400</u>

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2006 and 2005

	University Funds		Component Unit	
	2006	2005	Memorial Union Corporation	2005
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Operating Revenues				
Tuition and fees (net of scholarship allowances of \$3,094,245 and \$3,075,251) \$	19,357,845	\$ 17,038,359	\$ 0	\$ 0
Federal grants and contracts	7,402,357	7,475,445	0	0
State and local grants and contracts	833,343	789,526	0	0
Nongovernmental grants and contracts	242,450	301,380	0	0
Sales and services of educational departments	1,017,769	771,446	0	0
Auxiliary enterprises				
Athletics	1,760,787	1,854,795	0	0
Assessment	25,107	19,789	0	0
Parking services	269,692	283,222	0	0
Residential life	2,843,778	2,816,950	0	0
Student health services	679,704	690,826	0	0
Student unions	0	0	2,710,371	2,586,666
Interest earned on loans to students	133,575	153,817	0	0
Other operating revenues	38,941	146,604	0	0
	<u>34,605,348</u>	<u>32,342,159</u>	<u>2,710,371</u>	<u>2,586,666</u>
Total Operating Revenues				
Operating Expenses				
Education and General				
Instruction	27,108,807	26,188,716	0	0
Research	383,822	464,303	0	0
Public service	2,457,916	2,481,121	0	0
Academic support	8,445,939	7,567,108	0	0
Student services	3,929,322	4,198,523	0	0
Institutional support	4,743,572	4,684,619	0	0
Operations and maintenance of plant	7,431,039	6,611,662	0	0
Scholarships and fellowships	2,417,960	2,177,059	0	0
Depreciation	2,386,242	2,167,419	127,863	144,414
Auxiliary Enterprises				
Athletics	3,994,827	3,463,216	0	0
Assessment	36,824	30,076	0	0
Parking services	161,467	173,325	0	0
Residential life	1,988,714	2,083,006	0	0
Student health services	599,984	683,373	0	0
Student unions	0	0	2,448,106	2,436,230
	<u>66,086,435</u>	<u>62,973,526</u>	<u>2,575,969</u>	<u>2,580,644</u>
Total Operating Expenses				
Operating Income (Loss)	<u>(31,481,087)</u>	<u>(30,631,367)</u>	<u>134,402</u>	<u>6,022</u>
Nonoperating Revenues (Expenses)				
State appropriations	32,711,999	31,018,640	0	0
Gifts	0	0	0	43,898
Investment income	270,046	103,872	25,188	7,770
Interest expenses	(440,272)	(212,320)	(553)	(1,617)
Other nonoperating revenue (expenses)	(464,819)	(323,775)	95,213	2,894
Gain/(loss) on assets	(16,757)	(84,622)	0	(93)
Amortization of premium on bonds	(992)	(1,650)	(766)	(836)
	<u>32,059,205</u>	<u>30,500,145</u>	<u>119,082</u>	<u>52,016</u>
Net Nonoperating Revenues (Expenses)				

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2006 and 2005

	University Funds		Component Unit	
	2006	2005	Memorial Union Corporation	2005
Income (Loss) Before Other Revenues	\$ 578,118	\$ (131,222)	\$ 253,484	\$ 58,038
Other Revenues				
Capital appropriations	855,000	462,652	0	0
Increase (Decrease) in Net Assets	1,433,118	331,430	253,484	58,038
Net Assets				
Net Assets, Beginning of Year	55,246,243	54,782,613	2,051,400	1,993,362
Restatement	0	132,200	0	0
Net Assets, Beginning of Year, as Restated	55,246,243	54,914,813	2,051,400	1,993,362
Net Assets, End of Year	\$ 56,679,361	\$ 55,246,243	\$ 2,304,884	\$ 2,051,400

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005

	University Funds		Component Unit		
	2006	2005	Memorial Union Corporation	2006	2005
Cash Flows From Operating Activities					
Tuition and fees	\$ 19,470,444	\$ 17,088,824	\$ 0	\$ 0	
Grants and contracts	8,506,815	8,399,883	0	0	
Sales and services of educational activities	975,929	741,476	0	0	
Auxiliary enterprises					
Athletics	1,760,787	1,854,795	0	0	
Assessment	25,457	19,359	0	0	
Parking services	259,585	272,217	0	0	
Residential life	2,826,018	2,720,482	0	0	
Student health services	680,564	692,612	0	0	
Student unions	0	0	2,689,974	2,545,185	
Payments to suppliers	(11,384,079)	(10,983,625)	(2,479,699)	(2,413,183)	
Payments to utilities	(1,897,053)	(1,705,724)	0	0	
Compensation and benefits	(46,856,933)	(44,096,531)	0	0	
Payments for scholarships and fellowships	(4,132,857)	(4,159,522)	0	0	
Loans issued to students and employees	(1,676,637)	(1,511,534)	0	0	
Collection of loans to students and employees	1,868,870	1,428,786	0	0	
Other receipts (payments)	37,982	141,245	0	0	
Net Cash Provided by (Used in) Operating Activities	<u>(29,535,108)</u>	<u>(29,097,257)</u>	<u>210,275</u>	<u>132,002</u>	
Cash Flows From Noncapital Financing Activities					
State appropriations	32,711,999	31,018,640	0	0	
Gifts	0	0	0	46,792	
Other	(443,541)	(346,681)	0	0	
Deposits held in custody for others	(4,723)	(139,283)	0	0	
Federal family education loan receipts	21,405,272	16,682,610	0	0	
Federal family education loan disbursements	(21,420,412)	(16,678,460)	0	0	
Net Cash Provided by Noncapital Financing Activities	<u>32,248,595</u>	<u>30,536,826</u>	<u>0</u>	<u>46,792</u>	
Cash Flows From Capital Financing Activities					
Proceeds from sale of capital assets	0	99,576	0	0	
Capital appropriations	855,000	462,652	0	0	
Purchases of capital assets	(5,974,694)	(3,738,576)	(172,918)	(146,021)	
Proceeds from issue of bonds	8,567,582	0	0	0	
Principal paid on capital debt and leases	(473,129)	(441,596)	(21,461)	(20,254)	
Interest paid on capital debt and leases	(355,039)	(216,218)	(553)	(1,617)	
Net Cash Provided by (Used in) Capital Financing Activities	<u>2,619,720</u>	<u>(3,834,162)</u>	<u>(194,932)</u>	<u>(167,892)</u>	
Cash Flows From Investing Activities					
Purchase of investments	(8,188,555)	0	0	(4,951)	
Proceeds from sale of investments	3,569,785	26,137	(494,000)	286,936	
Investment income	270,046	103,872	20,547	7,770	
Net Cash Provided by (Used in) Investing Activities	<u>(4,348,724)</u>	<u>130,009</u>	<u>(473,453)</u>	<u>289,755</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	984,483	(2,264,584)	(458,110)	300,657	
Cash and Cash Equivalents, Beginning of Year	<u>15,106,886</u>	<u>17,371,470</u>	<u>921,573</u>	<u>620,916</u>	
Cash and Cash Equivalents, End of Year	<u>\$ 16,091,369</u>	<u>\$ 15,106,886</u>	<u>\$ 463,463</u>	<u>\$ 921,573</u>	

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005

	University Funds		Component Unit	
	2006	2005	Memorial Union Corporation	2005
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ (31,481,087)	\$ (30,631,367)	\$ 134,402	\$ 6,022
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation expense	2,386,242	2,167,419	127,863	144,414
Changes in assets and liabilities (Increase)/decrease in				
Accounts receivables, net	36,024	(258,055)	(17,761)	(40,228)
Loans to students, net	(51,387)	(133,286)	0	0
Inventories	1,613	50,669	3,116	(6,639)
Prepaid expenses	(326,941)	(381,641)	5,396	(3,710)
Increase/(decrease) in				
Accounts payable and accrued liabilities	(299,404)	161,176	16,060	28,662
Deferred revenue	60,066	(100,452)	0	0
Accrued compensated absences	54,004	31,595	0	0
Other liabilities	85,233	(3,898)	(58,801)	3,481
Due to ESU Foundation	529	583	0	0
Net Cash Provided by (Used in) Operating Activities	\$ <u>(29,535,108)</u>	\$ <u>(29,097,257)</u>	\$ <u>210,275</u>	\$ <u>132,002</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets				
Cash and cash equivalents	\$ 10,793,775	\$ 9,583,460	\$ 463,463	\$ 921,573
Restricted cash and cash equivalents	<u>5,297,594</u>	<u>5,523,426</u>	<u>0</u>	<u>0</u>
Cash and Cash Equivalents, End of Year	\$ <u><u>16,091,369</u></u>	\$ <u><u>15,106,886</u></u>	\$ <u><u>463,463</u></u>	\$ <u><u>921,573</u></u>

The accompanying notes are an integral part of these statements.



EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 – ORGANIZATION AND 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, with the exception of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The University has made the decision not to include the Emporia State University Foundation, Inc. within its financial statements. 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. Emporia State University is a comprehensive Regents University primarily serving residents of Kansas. The University is accredited by the Higher Learning Commission, a Commission of the North Central Association of Colleges and Schools. The University 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 audited financial report of the State of Kansas.

The University is grouped into four major colleges/schools, i.e., the School of Business, the Teacher's College, the College of Liberal Arts and Sciences, and the School of Library and Information Management. The University, located in Emporia, Kansas, has an undergraduate enrollment of approximately 4,458 and a graduate enrollment of approximately 2,015. .

Financial Reporting Entity. As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University and its discretely presented component unit: The Memorial Union Corporation.

While the Foundation is a legally separate entity and the University does not appoint a voting majority of the Foundation's governing body, the Foundation is considered a component unit of the University. Emporia State University has made the decision not to include the financial activity and balances of the Foundation within the financial statements of the University.

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 Statements of Cash Flows, the University considers all highly liquid investments, whether restricted or not, 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 Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain or unrealized loss on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Assets.

Accounts Receivable. Accounts receivable consist of tuition and fee charges to students, auxiliary enterprise services provided to students, faculty and staff, and sales and services of the University. Accounts receivable also include amounts due from the Federal government, state and local governments, and 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.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Noncurrent Investments. 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 Statements 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 of \$5,000 or more and an estimated useful life 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 is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 years for buildings; 25 years for infrastructure and land improvements; 8 years for equipment; and 5 years for vehicles. Costs incurred during construction of noncurrent assets are recorded as construction in progress and are not depreciated until placed in service.

Deferred Revenues. Deferred revenues include amounts received for tuition and fees and grants and contracts prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues include summer school tuition not earned during the current year and amounts received from grant and contract sponsors that have not yet been earned.

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 Statements of Net Assets and as an expense in the Statements of Revenues, Expenses and Changes in Net Assets.

Deposits Held in Custody for Others. Deposits held in custody for others consist primarily of student organizations' monies 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.

EMPORIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS June 30, 2006 and 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 educational departments and 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 Statements 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.

Summer Session. Revenues received prior to the fiscal year end for the summer session are reported as deferred revenues in the Statements of Net Assets while expenses paid prior to the fiscal year end for the summer session are reported as prepaid expenses. Kansas Board of Regents officials determined this methodology and believe the departure from generally accepted accounting principles will not have a material effect on the University's financial position.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on the change in net assets.

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, 2006 and 2005 were \$16,091,369 and \$15,106,886, 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 amount of Emporia State University's total investments is \$5,848,493 of which \$324,799 is administered by the Emporia State University Foundation, Inc. The Kansas Development Finance Authority invests \$5,365,615 of the total. The remaining \$158,079 is invested in the State of Kansas Municipal Investment Pool. These monies represent bond proceeds and funds used to meet bond reserve requirements.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>2006</u>	<u>2005</u>
Student tuition and fees	\$ 563,361	\$ 496,044
Employees and students	75,023	99,306
Auxiliary enterprises and other operating activities	635,596	576,631
Federal, state, and private grants and contracts	390,764	512,353
Other	<u>108,583</u>	<u>54,202</u>
	1,773,327	1,738,536
Less allowance for doubtful accounts	<u>497,470</u>	<u>426,655</u>
Net Accounts Receivable	<u>\$ 1,275,857</u>	<u>\$ 1,311,881</u>

NOTE 4 – INVENTORIES

Inventories consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
Physical plant	\$ 39,004	\$ 31,650
Office supplies	301,632	295,213
Technology and computing services	6,280	20,224
Health services	<u>5,083</u>	<u>6,525</u>
Total Inventories	<u>\$ 351,999</u>	<u>\$ 353,612</u>

NOTE 5 – DEFERRED REVENUE

Deferred revenues consist primarily of summer session tuition and fees and advance collections on grants and contracts. The breakdown of deferred revenues is as follows at June 30:

	<u>2006</u>	<u>2005</u>
Tuition and fees	\$ 1,568,784	\$ 1,415,795
Grants and contracts	<u>598,779</u>	<u>691,702</u>
Total Deferred Revenue	<u>\$ 2,167,563</u>	<u>\$ 2,107,497</u>

NOTE 6 – LOANS TO STUDENTS

Student loans made through the Federal Perkins Loan Program comprise substantially all of the loans to students at June 30, 2006 and 2005. The 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, 2006 and 2005, the allowance for uncollectible loans was estimated to be \$1,099,084 and \$1,090,719 respectively.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets (Not being depreciated)				
Land and improvements	\$ 1,047,215	\$ 0	\$ 0	\$ 1,047,215
Construction in progress	861,692	4,488,071	366,592	4,983,171
Capital Assets (Being depreciated)				
Buildings and improvements	64,725,932	641,493	0	65,367,425
Equipment and furnishings	8,165,955	986,696	84,504	9,068,148
Vehicles	795,735	225,025	11,897	1,008,863
Infrastructure	4,776,008	0	0	4,776,008
Total Capital Assets	80,372,537	6,341,285	462,993	86,250,830
Less Accumulated Depreciation				
Buildings and improvements	32,115,624	1,341,262	0	33,456,886
Equipment and furnishings	3,800,627	811,886	70,746	4,541,767
Vehicles	759,543	42,053	11,897	789,699
Infrastructure	1,481,755	191,041	0	1,672,796
Total Accumulated Depreciation	38,157,549	2,386,242	82,643	40,461,148
Capital Assets, Net	\$ 42,214,988	\$ 3,955,043	\$ 380,350	\$ 45,789,682

NOTE 8 – DEPOSITS HELD IN CUSTODY FOR OTHERS

Deposits held in custody for others consist primarily of student organizations' monies administered by the University. A breakdown of such deposits is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Student organizations	\$ 743,752	\$ 10,436,270	\$ 10,456,133	\$ 723,889
Stafford loan	3,605	21,420,412	21,405,272	18,745
Total Deposits Held for Others	\$ 747,357	\$ 31,856,682	\$ 31,861,405	\$ 742,634

NOTE 9 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006 follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 3,954,474	\$ 8,964,417	\$ 503,193	\$ 12,415,698	\$ 490,714
Lease obligations	9,007	0	4,354	4,653	4,653
Compensated absences	1,160,246	1,143,318	1,089,314	1,214,250	1,089,314
Total Long-Term Liabilities	\$ 5,123,727	\$ 10,107,735	\$ 1,596,861	\$ 13,634,601	\$ 1,584,681

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 10 – REVENUE BONDS OUTSTANDING

Revenue bonds payable consist of the following:

	Principal Outstanding <u>6/30/06</u>
Men’s Dorm #3 Revenue Bonds—Series 1969A issued on April 1, 1969 in the original amount of \$1,100,000. Due in annual installments of \$30,000 to \$ 50,000 with final maturity on 4/1/2009. Interest rate is 3.0%.	\$125,000
Kansas Development Finance Authority Memorial Union Improvement Revenue Bonds—Series E, 1989 issued on November 1, 1989 in the original amount of \$1,401,332. Due in annual installments of \$131,000 with final maturity on 11/1/2009. Interest ranges from 6.0% to 7.25%.	\$461,570
Kansas Development Finance Authority Student Recreation Facility Revenue Bonds—Series B, 2001 issued on January 15, 2001 in the amount of \$2,805,000. Due in annual installments of \$95,000 to \$215,000 with final maturity on 3/1/2021. Interest ranges from 3.65% to 5.2%.	\$2,330,000
Kansas Development Finance Authority Residence Hall Refunding Revenue Bonds—Series G-3, 2001 issued on May 14, 2001 in the original amount of \$1,585,000. Due in annual installments of \$195,000 to \$ 335,000 with final maturity on 4/1/2008. Interest ranges from 4.25% to 5.0%.	\$565,000
Kansas Development Finance Authority Residence Hall Revenue Bonds—Series F, 2005 issued on October 5, 2005 in the original amount of \$8,930,000. Due in annual installments of \$350,000 to \$ 685,000 with final maturity on 4/1/2024. Interest ranges from 3.25% to 4.35%.	\$8,930,000
Kansas Development Finance Authority Central Morse Hall Energy Conservation Bonds—Series J, 1996 issued on November 1, 1996 in the original amount of \$20,769. Due in annual installments of \$1,935 to \$2,193 with final maturity on 6/30/2008.	<u>\$4,128</u>
	<u>\$ 12,415,698</u>

NOTE 11 – REVENUE BONDS MATURITY SCHEDULE

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

Year Ending June 30:	Principal	Interest	Total
2007	490,714	502,792	993,506
2008	612,953	485,156	1,098,109
2009	619,129	462,640	1,081,769
2010	627,902	445,025	1,072,927
2011	510,000	427,150	937,150
2012	540,000	408,185	948,185
2013-2019	4,365,000	2,204,990	6,569,990
2020-2025	3,965,000	769,310	4,734,310
2026	685,000	30,140	715,140
Total Principal and Interest	\$ 12,415,698	\$ 5,735,388	\$ 18,151,086

NOTE 12 – LEASE OBLIGATIONS

Emporia State University is obligated for the purchase of certain equipment funded through the issuance of blanket financing agreements in the amount of \$4,653 as of June 30, 2006. Payment to liquidate this obligation is scheduled as follows:

Fiscal year 2007 Total	<u>\$ 4,653</u>
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EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 13 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the years ended June 30, 2006 and June 30, 2005 follows:

	Compensation and Benefits	Contractual Services	Supplies and Materials	Utilities	Scholarships and fellowships	Other Operating expense	Depreciation	FY 2006 Total	FY 2005 Total
Educational and General:									
Instruction	\$ 23,737,035	\$ 1,849,799	\$ 1,180,079	\$ 0	\$ 336,463	\$ 5,431	\$ 0	\$ 27,108,807	\$ 26,188,716
Research	258,758	22,122	77,440	0	25,502	0	0	383,822	464,303
Public service	1,551,963	434,873	129,308	0	341,772	0	0	2,457,916	2,481,121
Academic support	5,452,922	2,069,728	904,853	0	576	17,860	0	8,445,939	7,567,108
Student services	2,778,461	661,594	434,137	0	51,135	3,995	0	3,929,322	4,198,523
Institutional support	3,808,350	790,835	142,280	0	1,975	132	0	4,743,572	4,684,619
Physical plant operations	4,405,909	590,401	880,360	1,553,616	0	753	0	7,431,039	6,611,662
Scholarships & fellowships	0	0	0	0	2,417,960	0	0	2,417,960	2,177,059
Depreciation	0	0	0	0	0	0	2,386,242	2,386,242	2,167,419
Auxiliary Enterprises:									
Athletics	1,885,009	1,164,444	0	0	945,374	0	0	3,994,827	3,463,216
Other	8,773	16,555	11,496	0	0	0	0	36,824	30,076
Parking	135,869	9,976	15,622	0	0	0	0	161,467	173,325
Residential life	1,286,723	375,858	274	313,759	12,100	0	0	1,988,714	2,083,006
Student health services	509,292	37,384	53,308	0	0	0	0	599,984	683,373
Total Operating Expenses									
FY 2006	\$ 45,819,064	\$ 8,023,569	\$ 3,829,157	\$ 1,867,375	\$ 4,132,857	\$ 28,171	\$ 2,386,242	\$ 66,086,435	
Total Operating Expenses									
FY 2005	\$ 44,476,868	\$ 6,959,446	\$ 3,420,923	\$ 1,714,687	\$ 4,159,522	\$ 74,661	\$ 2,167,419		\$ 62,973,526

NOTE 14 – RETIREMENT PLANS

University employees participate in two separate programs. Classified employees participate in the "Kansas Public Employees Retirement System" (KPERS). This defined benefit program is funded through contributions by the University and individual employees. For the years ended June 30, 2006 and 2005, active KPERS members were required by statute to contribute 4% and the University to contribute 4.87% of the employees' covered payroll. The University contributed \$520,828 and \$457,736 during fiscal years 2006 and 2005, respectively, and individual employees contributed \$349,056 and \$345,069 respectively.

Unclassified employees participate in the "Board of Regents Retirement Program." This defined contribution program is funded through contributions by the University and individual employees. For the years ended June 30, 2006 and 2005, active members were required by statute to contribute 5.5% and the University to contribute 8.5% of the employees' covered payroll. The University contributed \$1,963,228 and \$1,844,632 during fiscal years 2006 and 2005, respectively, and individual employees contributed \$1,275,077 and \$1,172,678, respectively.

NOTE 15 – COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2006 and 2005 the University had outstanding commitments on various construction projects and contracts for repairs and renovation of facilities of approximately \$861,692.

As a result of legislation, the University, as an agency of the State of Kansas, is subject to the state of Kansas' self-insurance program with regard to comprehensive general liability and personal injury insurance. The University is covered by the State's umbrella insurance policies for automobile liability and property insurance. The University is also self-insured relative to workers' compensation, medical, and unemployment insurance. These areas include stop-loss provisions that limit the University's exposure.

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.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were made on the June 30, 2006 and 2005 statements to correct beginning balances for the following accounts:

	<u>2006</u>	<u>2005</u>
Due to the ESU Foundation	<u>\$ 0</u>	<u>\$ 132,200</u>

