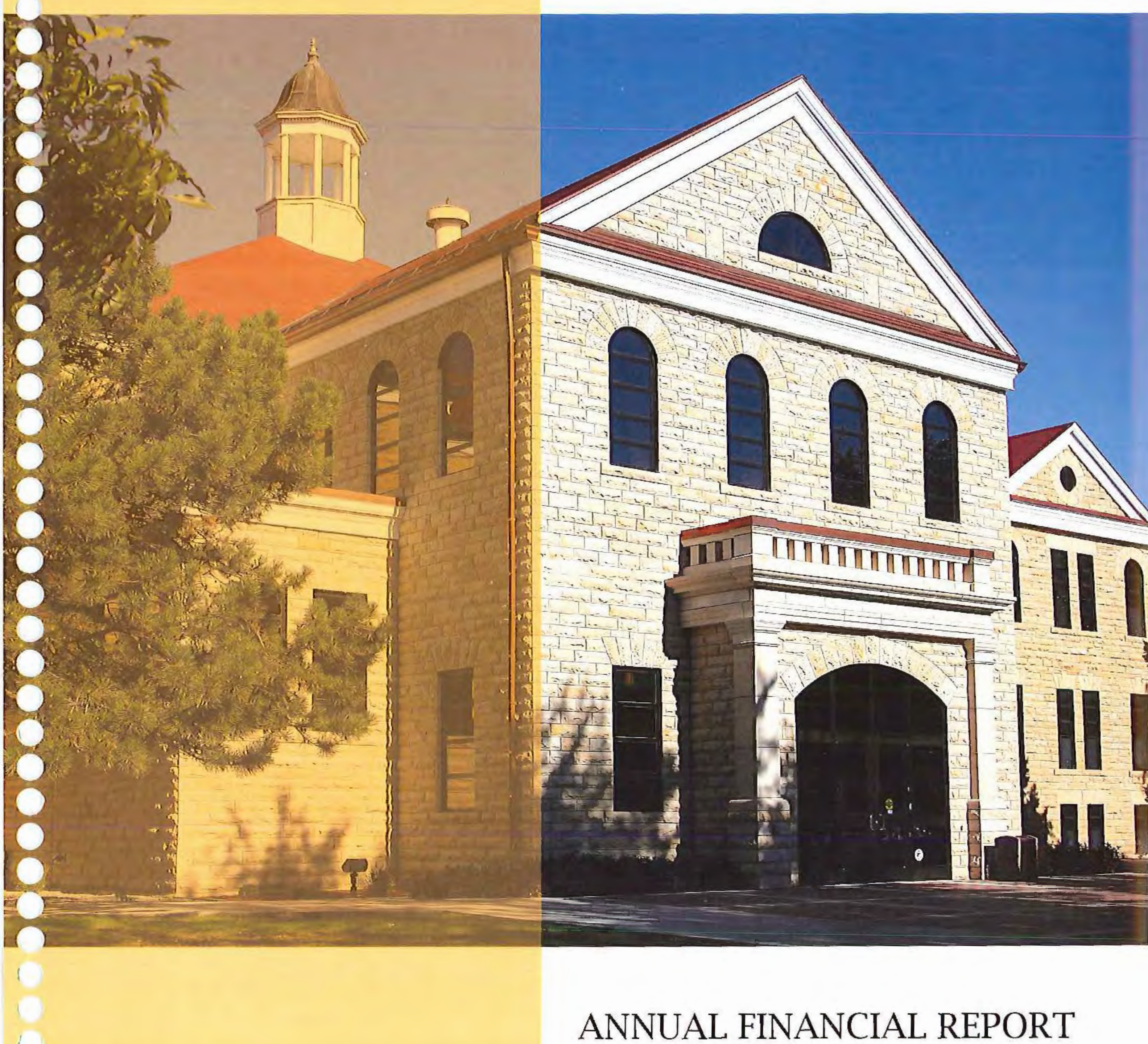
FORT HAYS STATE UNIVERSITY

Forward thinking. World ready.



ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2013 ENDED JUNE 30, 2013

FORT HAYS STATE
UNIVERSITY

Forward thinking. World ready.

FORT HAYS STATE UNIVERSITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

DR. EDWARD H. HAMMOND, PRESIDENT

UNIVERSITY FINANCIAL PERSONNEL REPORTING

MIKE BARNETT, VICE PRESIDENT FOR ADMINISTRATION AND FINANCE
PHILIP C. TOEPFER, CONTROLLER
MICHAEL J. DREES, DIRECTOR, ACCOUNTING SERVICES

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FORT HAYS STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2013

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of Fort Hays 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 Fort Hays State University Foundation, formerly the Fort Hays State University Endowment Association, within its unaudited financial statements. This discussion – along with the financial statements and related footnote disclosures – has been prepared by and is 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. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 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. The notes to the financial statements present additional information to further define the financial statements.

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

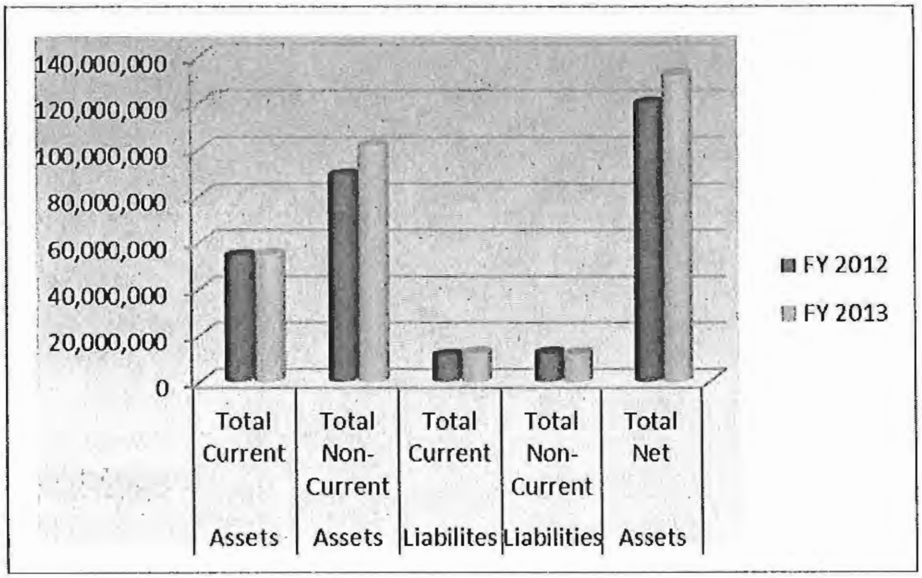
Total Assets at June 30, 2013, were \$156.6 million, an increase of \$13.0 million or 9.0%. Capital assets, net of depreciation, comprised 57.2 %, or \$89.7 million of the \$156.6 million in total assets.

Total Liabilities were \$24.4 million at June 30, 2013, a increase of \$.6 million or a 2.5% increase compared to \$23.8 million at June 30, 2012. Long-term liabilities comprised 49.2%, or \$12.0 million of the total liabilities.

Total net assets at June 30, 2013, were $132.3 million, a $12.4 million increase over the prior year, or a 10.3% increase in net assets. The breakout of net assets is shown below:

	June 30, 2013	June 30, 2012
Capital Assets, net of related debt.............	$80,004,909	$67,359,747
Restricted net assets	21,794,973	12,036,037
Unrestricted net assets	30,489,612	40,464,671
Total net assets.............................	$132,289,494	$119,860,455

The composition of current and non-current assets and liabilities and net assets is displayed below for both 2013 and 2012 fiscal year-ends.



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.

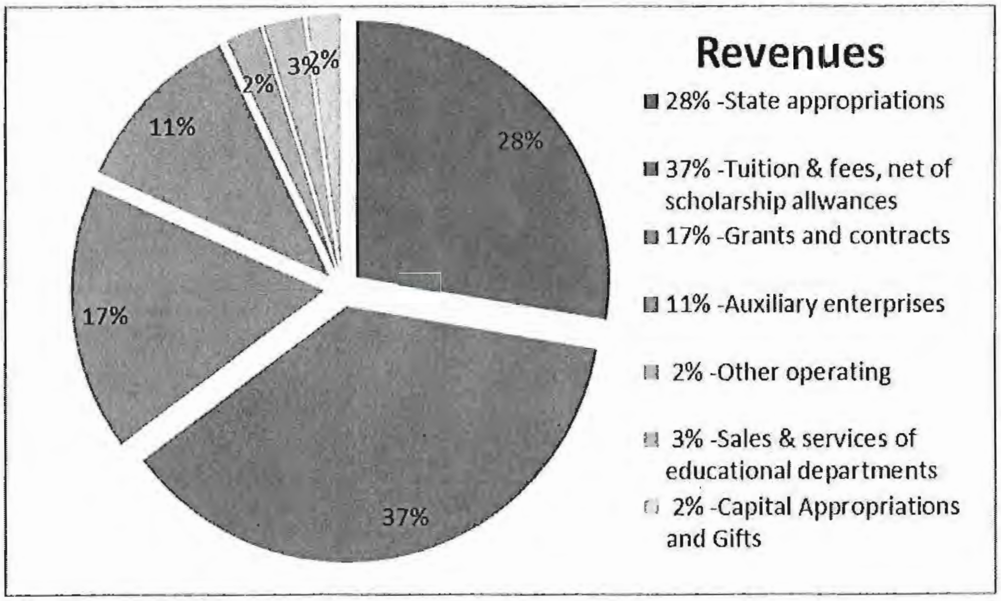
Revenues

Operating revenues at the University as of June 30, 2013, increased by 5.6% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were $44.8 million in 2013, compared to $42.3 million in 2012. This increase is in part a result of a 3.42% tuition increase approved by the Kansas Board of Regents for fiscal year 2013. 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 and services. Reasonable tuition charges and a continued effort to expand our Virtual College on the national and international level resulted in a 11.7% increase in Virtual College headcount from the Fall of 2011 to the Fall of 2012.

Total non-operating revenues increased by .2%, when comparing FY2013 $46.7million to FY2012 $46.6million. State appropriations increased .6% when comparing $33.2 million in FY2012 to $33.4 million in FY2013. Federal grants, specifically Pell Grants, increased 1.6% to $13.3 million from $13.1 million in FY2012.

In summary, total revenues increased by $5.5 million, from $115.2 million to $120.79 million, an overall increase of 4.0%. The composition of these revenues is displayed in the following graph:

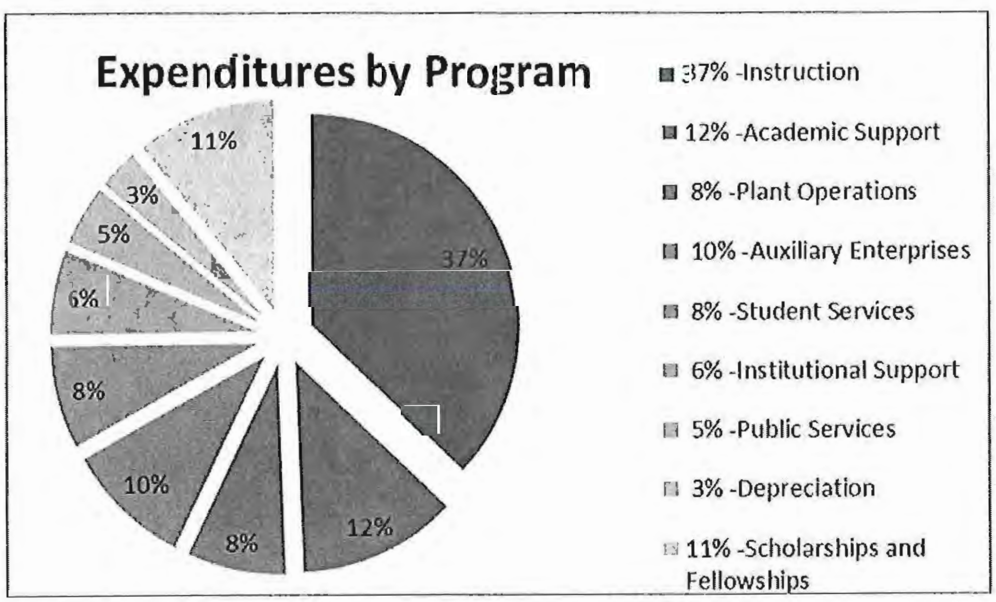


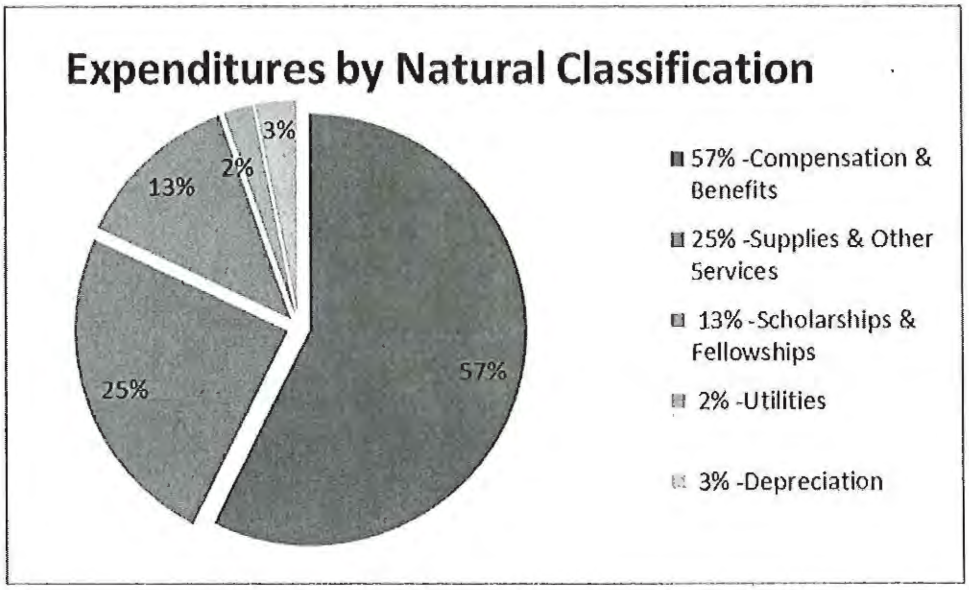
Expenses

Operating expenses were $107.9 million for the 2013 fiscal year compared to $103.4 million for the 2012 fiscal year. Instruction expenses increased $4.1 million; Auxiliary Enterprises increased $.9 million; Scholarships and fellowships increased $.4 million.

Non-operating expenses are comprised of the investment of bond reserve funds, bond interest expense, the student loan program, and other non capitalized expenditures.

The composition of total expenses, including operating and non-operating are displayed below:





Extraordinary Items

The University did not have any special and extraordinary items in 2013.

Foundation Expenses Paid On Behalf of University

The Fort Hays State University Foundation (FHSUF), a separate not-for-profit organization whose primary mission is to raise funds for the University, provides 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 FHSUF include expenses such as equipment, miscellaneous office expenses and travel. Total University support provided by FHSUF equaled approximately $17,678 and $37,602 in 2013 and 2012, respectively.

Net Assets

Net assets increased by $12.4 million over the previous fiscal year. This increase is primarily a result of an increase in capital assets, net of depreciation and an increase in tuition and fees mainly due to an increase in Virtual College enrollment.

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. Cash flows for the fiscal year-ends 2013 and 2012 are displayed below:

	June 30, 2013	**June 30, 2012**
Net cash provided (used) by:		
Operating activities	$(32,704,603)	$(33,449,830)
Non-capital financing activities	46,767,636	46,352,730
Capital and related financing activities	(13,115,615)	(9,199,026)
Investing activities	27,317	77,382
Net increase in cash	974,735	3,781,256
Beginning cash and cash equivalent balances	55,863,501	52,082,245
Ending cash and cash equivalent balances	**$ 56,838,236**	**$ 55,863,501**

Net cash provided/used by operating activities includes tuition and fees, grant and contract revenues, auxiliary enterprise revenues, sales of educational activities, and payments to employees and suppliers. 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 and 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 2013 fiscal year. Detailed financial information regarding capital asset additions, retirements & depreciation is available in Note 6 to the financial statements. The following is a brief summary of major capital projects currently in process:

The Wind Energy Project includes two wind turbines each reaching 400 feet in height being constructed about 3.5 miles west of campus. An underground transmission line will feed electricity to campus generating energy savings of $600,000 to $1 million dollars per year for the university. The total cost of this University funded project is $9.2 million.

Construction of The Center for Networked Learning academic building has begun. This building will house the Department of Informatics, the Virtual College, and the Center for Teaching Excellence and Learning Technologies. The total cost of this University funded project is $10.5 million.

The Schmidt/Bickle Indoor Training Facility is near completion at a cost of $4.2 million of University and private funds. The 50,400 sq. ft. premier facility is located adjacent to the Lewis Field football stadium.

DEBT ADMINISTRATION

At June 30, 2013, the University had $9.7 million in debt outstanding.

Debt in the amount of $4,887,055 was incurred during the 2005 fiscal year to finance the Energy Improvement Conservation Project. This project was part of a state wide energy endeavor to reduce energy and related costs for the Regent's system. Anticipated energy savings are expected to pay the semi-annual debt payments. The debt is setup on a 16.5 year payout terminating October 1, 2021.

Debt in the amount of $7,790,000 was incurred during the 2006 fiscal year to finance the Memorial Union Renovation Project. $7,205,000 in non-taxable Series 2005G-1 and $585,000 in taxable Series 2005G-2 Revenue Bonds were issued.

Standard and Poor's Ratings Services has assigned the Bonds an underlying rating of "A-". More detailed information about the University's long-term liabilities is available in Notes 8 and 9 to the financial statements.

ECONOMIC OUTLOOK

The State of Kansas provided approximately 28% of the total resources for the University during fiscal year 2013. Appropriations for fiscal year 2013 were set at $33.4 million. State of Kansas resources are expected to continue to decline due to changes in income tax policy The University's administration has developed a four step strategy of reducing operating costs by implementing efficiencies, making cuts in the budgets of offices and departments, generating new revenue through enrollment growth, and instituting marginal increases in tuition.

The University economic outlook is strong. Enrollment for the academic 2013-2014 year is expected to increase due to our continued efforts to maintain affordable tuition rates which continue to be the lowest in the Kansas Regent's system. Continued regional and international recruitment will show increases in headcount in our virtual college and on campus during the next several years.

FORT HAYS STATE UNIVERSITY
STATEMENT OF NET ASSETS
as of June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 50,290,778	$ 49,812,944
Investments	460,167	456,149
Accounts receivable, net	1,714,415	1,734,111
Loans to students, net - current portion	941,826	1,017,717
Inventories	123,962	168,324
Prepaid expenses	1,331,773	1,263,187
Total current assets	54,862,921	54,452,432
Noncurrent assets		
Restricted cash and cash equivalents	6,547,458	6,050,557
Investments, bond reserve	115,000	115,000
Loans to students, net	5,453,712	5,228,247
Capital assets, net	89,675,398	77,767,382
Total noncurrent assets	101,791,568	89,161,186
Total Assets	$ 156,654,489	$ 143,613,618
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 6,739,095	$ 6,080,423
Deferred revenue	2,563,076	2,467,663
Accrued compensated absences - current portion	1,911,839	1,697,021
Capital Leases Payable - current portion	348,689	328,957
Revenue bonds payable - current portion	430,000	410,000
Deposits held in custody for others	376,359	422,491
Total current liabilities	12,369,058	11,406,555
Noncurrent liabilities		
Accrued compensated absences	353,137	439,934
Capital leases payable	2,901,800	3,248,674
Other Postemployment Healthcare Benefits	2,751,000	2,238,000
Revenue bonds payable	5,990,000	6,420,000
Total noncurrent liabilities	11,995,937	12,346,608
Total Liabilities	$ 24,364,995	$ 23,753,163
NET ASSETS		
Invested in capital assets, net of related debt	$ 80,004,909	$ 67,359,747
Restricted for:		
Expendable:		
Loans	6,910,482	7,063,158
Debt service	893,691	115,002
Capital Projects	13,990,800	4,857,877
Unrestricted	30,489,612	40,464,671
Total Net Assets	$ 132,289,494	$ 119,860,455

See accompanying notes to financial statements.

FORT HAYS STATE UNIVERSITY
STATEMENT OF REVENUES,EXPENSES, AND CHANGES IN NET ASSETS
for the Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Tuition and fees (net of scholarship allowances of $7,275,229 and $6,238,581 in 2012 and 2011 respectively)	$ 44,845,662	$ 42,263,359
Federal grants and contracts	2,640,183	1,468,299
State and local grants and contracts	4,434,498	3,000,731
Sales and services of educational departments	3,067,650	6,748,441
Auxiliary enterprises:		
Residential Life	7,982,529	7,600,627
Athletics	2,836,243	2,602,150
Parking	225,063	268,593
Student Union	1,822,367	1,893,636
University Health Services	683,508	708,558
Interest earned on loans to students	100,038	107,833
Other operating revenues	2,321,596	509,884
Total operating revenues	70,959,337	67,172,111
OPERATING EXPENSES		
Educational and General		
Instruction	39,746,185	35,694,954
Research	291,525	475,900
Public service	4,996,796	5,769,590
Academic support	13,321,486	13,910,130
Student services	8,523,875	8,856,805
Institutional support	6,956,874	6,618,383
Operations and maintenance of plant	7,666,020	7,220,430
Depreciation	3,398,350	3,332,308
Scholarships and fellowships	11,772,510	11,361,280
Auxiliary enterprises:		
Residential Life	6,614,880	5,676,930
Athletics	2,363,454	2,441,963
Parking	41,145	28,332
Student Union	897,962	944,419
University Health Services	687,390	622,572
Other operating expenses	634,574	429,490
Total operating expenses	107,913,026	103,383,486
Operating Income (Loss)	(36,953,689)	(36,211,375)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	33,401,019	33,177,246
Other Federal Grants and Contracts	13,302,807	13,091,885
Gifts	17,678	37,602
Investment income	13,127	12,746
Other non-operating revenue (expenses)	399,529	578,294
Interest expense	(404,432)	(284,997)
Net nonoperating revenues (expenses)	46,729,728	46,612,776
Income before other revenues, expenses, gains, or losses	9,776,039	10,401,401
Capital appropriations	2,653,000	1,137,000
Increase (Decrease) In Net Assets	12,429,039	11,538,401
NET ASSETS		
Net assets - beginning of year	119,860,455	108,322,054
Net assets - end of year	$ 132,289,494	$ 119,860,455

See accompanying notes to financial statements

FORT HAYS STATE UNIVERSITY
STATEMENT OF CASH FLOWS
for the Years Ended June 30, 2013 and 2012

		2013		2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$	44,845,662	$	42,263,359
Sales and services of educational activities		3,067,650		6,748,441
Auxiliary enterprises:				
Residential Life		7,982,529		7,600,627
Athletics		2,836,243		2,602,150
Parking		225,063		268,593
Student union		1,822,367		1,893,636
University health services		683,508		708,558
Grants and contracts		7,074,681		4,469,030
Payments to suppliers		(26,437,742)		(27,704,031)
Payments to utilities		(2,434,745)		(2,106,044)
Compensation and benefits		(61,968,273)		(58,814,161)
Payments for scholarships and fellowships		(13,615,432)		(13,176,913)
Loans issued to students and employees		(149,574)		161,491
Collection of loans to students and employees		941,826		1,017,717
Other receipts (payments)		2,421,634		617,717
Net cash provided (used) by operating activities		(32,704,603)		(33,449,830)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations		33,401,019		33,177,246
Other Federal Grants and Contracts		13,302,807		13,091,885
Gifts		17,678		37,602
Deposits held in custody for others		46,132		45,997
Federal family education loan receipts		43,649,962		38,866,390
Federal family education loan disbursements		(43,649,962)		(38,866,390)
Net cash provided by noncapital financing activities		46,767,636		46,352,730
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Capital appropriations		2,653,000		1,137,000
Purchases of capital assets		(15,024,755)		(10,386,205)
Proceeds from issue of bonds		-		-
Principal paid on capital debt and leases		(738,957)		(243,118)
Interest paid on capital debt and leases		(404,432)		(284,997)
Other		399,529		578,294
Net cash used by capital financing activities		(13,115,615)		(9,199,026)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments		51,580		64,636
Investment Income		13,127		12,746
Purchase of investments		(37,390)		-
Net cash provided by investing activities		27,317		77,382
Net Increase (decrease) in cash		974,735		3,781,256
Cash - beginning of the year		55,863,501		52,082,245
Cash - end of year	$	56,838,236	$	55,863,501
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$	(36,953,689)	$	(36,211,375)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense		3,398,350		3,332,308
Changes in assets and liabilities:				
Accounts receivables, net		19,696		(297,917)
Loans to students, net		(149,574)		161,491
Inventories		44,362		(3,944)
Prepaid expenses		(68,586)		(151,207)
Accounts payable and accrued liabilities		658,672		(552,263)
Current Portion of Capital Leases Payable		19,732		(172,092)
Current Portion of Revenue Bonds Payable		(410,000)		(400,000)
Other Postemployment Healthcare Benefits		513,000		258,098
Deferred revenue		95,413		430,148
Accrued compensated absences		128,021		156,923
Net cash provided (used) by operating activities:	$	(32,704,603)	$	(33,449,830)

See accompanying notes to financial statements

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 with the exception of GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units. Fort Hays State University has made the decision not to include the Fort Hays State University Foundation, formerly the Fort Hays State University Endowment Association, within the University's 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. Fort Hays State University (University) is a regional university principally serving western Kansas. The University's primary emphasis is undergraduate liberal education, which includes the humanities, the fine arts, the social/behavioral sciences and the natural/physical sciences. The University, located in Hays, Kansas, has an undergraduate enrollment of approximately 11,433 and a graduate enrollment of approximately 2,008. The University is accredited by the North Central Association of Colleges and Schools, is governed by the Kansas Board of Regents and is an agency of the State of Kansas. As an agency of the State of Kansas, the University is included in the financial report of the State of Kansas.

Financial Reporting Entity. As required by accounting principles generally accepted in the United States of America, these financial statements present the combined financial position and financial activities of the University and the following blended component units: the Fort Hays State University Alumni Association, the Fort Hays Sate University Athletic Association and the Sternberg Museum Foundation.

A blended component unit is an entity that is legally separate from the University, but is so intertwined with the University that it is, in substance, part of the University. Such entities are reported as part of the University (i.e., they are blended into the statements of the University).

The financial activity and balances of the Fort Hays 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 Foundation'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 and auxiliary enterprise services provided to students. 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 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 $5,000 or more, and 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, 25 years for infrastructure and land improvements, 8 years for equipment, and 5 years for vehicles. Depreciation for buildings is computed using a componentized building depreciation study.

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 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 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' 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.

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. 35, 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.

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, 2013 and 2012 was $56,838,236 and $55,863,501, respectively.

Investments: Of Fort Hays State University's total investments of $575,167, $205,135 is administered by the Fort Hays State University Alumni Association and $255,032 is held in certificates of deposit for the student activity accounts. The Kansas Development Finance Authority invests $115,000 of the total. These monies represent bond reserve requirements.

NOTE 3 - Accounts Receivable

Accounts receivable net of estimated uncollectible amounts, consisted of the following at June 30, 2013:

Tuition & Fees	$	1,053,069
Auxiliary		47,079
Grants & Contracts		563,696
Other		50,571
	$	1,714,415

NOTE 4 – Inventories

Inventories consisted of the following at June 30, 2013:

Museum Store	$	49,777
Physical Plant		29,530
Office Supplies		30,259
Other		14,396
	$	123,962

NOTE 5 - Loans to Students

Student loans made through the Federal Perkins Loan Program comprise substantially all of the loans to students at June 30, 2013. 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, 2013, the allowance for uncollectible loans was estimated to be $336,607.

NOTE 6 - Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 304,456	-	-	$ 304,456
Bond Issuance Fees	519,563	-	-	519,563
Construction in Progress	4,857,877	13,464,366	4,331,443	13,990,800
Infrastructure	7,215,898	3,370,170	-	10,586,068
Buildings	114,501,879	1,976,647	-	116,478,526
Equipment	13,564.197	941,671	486,202	14,019,666
Total	140,963,870	19,752,854	4,817,645	155,899,079
Less accumulated depreciation:				
Bond Issuance Fees	190,655	21,996	-	212,651
Infrastructure	3,427,683	302,788	-	3,730,471
Buildings	52,225,879	2,481,597	-	54,707,476
Equipment	8,182,189	956,684	470,431	8,668,442
Total accumulated Depreciation	64,026,406	3,763,065	470,431	67,319,040
Capital assets, net (University)	$ 76,937,464	15,989,789	4,347,214	88,580,038
Fort Hays State University Alumni Association				0
Fort Hays State University Athletic Association				1,095,360
Capital assets, net (Total)				$ 89,675,398

NOTE 7 - Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Leases Payable	$ 3,577,631	1,815	328,957	$ 3,250,489	$ 348,689
Revenue bonds payable	6,830,000	-	410,000	6,420,000	430,000
Post Employment Benefits	2,238,000	513,000	-	2,751,000	-
Compensated absences	2,136,955	128,021	-	2,264,976	1,911,839
Total long-term liabilities	$ 14,782,586	642,836	738,957	$ 14,686,465	$ 2,690,528

NOTE 8 - Revenue Bonds Outstanding

Revenue bonds payable consist of the following:

	Principal Outstanding at 6/30/13
Kansas Development Finance Authority Lewis Field Stadium Renovation Revenue Bonds, Series 2003D-2. $1,150,000 due in annual installments of $55,000 to $200,000. Issued April 1, 2003, with a final maturity date of April 1, 2018. Interest ranging from 2.00% to 4.125%, payable semi-annually.	$ 515,000
Kansas Development Finance Authority Memorial Union Renovation Revenue Bonds, Series 2005G. $7,790,000 due in annual installments of $285,000 to $575,000. Issued November 15, 2005, with a final maturity date of October 1, 2025. Interest ranging from 3.30% to 4.60%, payable semi-annually.	$ 5,905,000

NOTE 9 - Revenue Bonds Maturity Schedule:

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

Year Ending June 30:	Principal	Interest	Total
2014-2017	1,815,000	981,426	2,796,426
2018-2022	2,445,000	740,649	3,185,649
2023-2028	2,160,000	195,894	2,355,894
Total	$ 6,420,000	1,917,969	$ 8,337,969

NOTE 10 - Lease Obligations

Fort Hays State University is obligated for the purchase of certain equipment funded through the Master Lease and Facilities Conservation Improvement Program in the amount of $3,703,715 as of June 30, 2013. Payments to liquidate these obligations are scheduled as follows:

Fiscal Year 2014 Total	403,578	Fiscal Year 2019 Total	446,553
Fiscal Year 2015 Total	411,826	Fiscal Year 2020 Total	455,686
Fiscal Year 2016 Total	420,244	Fiscal Year 2021 Total	465,008
Fiscal Year 2017 Total	428,836	Fiscal Year 2022 Total	234,380
Fiscal Year 2018 Total	437,604		

NOTE 11 - 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 $884,296 during fiscal year 2013 and individual employees contributed $405,654. Unclassified employees participate in the "Board of Regents Retirement Program". This defined contribution program is funded through contributions by the University and the individual employees. The University contributed $2,564,819 during fiscal year 2013 and individual employees contributed $1,655,896.

NOTE 12 - Commitments and Contingent Liabilities

The University, as a state educational institution 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 maintains specific insurance coverage as allowed by the State of Kansas and as required by outstanding revenue bond issues. Also, the University is self-insured relative to worker's compensation, medical and unemployment insurance.

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.

The University is currently a defendant in a lawsuit. However, University officials are of the opinion that the ultimate outcome of the litigation will not have a material effect on the future operations or financial position of the University.

NOTE 13 –Expenses by Natural and Functional Classifications

	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Educational and general						
Instruction	$ 33,541,505	528,947	69	5,675,664	-	$ 39,746,185
Research	163,146	23,858	-	104,521	-	291,525
Public service	2,443,445	-	-	2,553,351	-	4,996,796
Academic support	7,881,039	23,663	75,209	5,341,575	-	13,321,486
Student services	5,575,980	324,928	20,657	2,602,310	-	8,523,876
Institutional support	4,277,021	249,360	-	2,430,493	-	6,956,874
Operations and maintenance of plant	5,138,125	-	1,542,520	985,375	-	7,666,020
Depreciation	-	-	-	-	3,398,350	3,398,350
Scholarships and fellowships	36,244	11,736,266	-	-	-	11,772,510
Auxiliary enterprises:						
Housing	1,646,225	-	669,054	4,299,601	-	6,614,880
Athletics	-	728,410	-	1,635,044	-	2,363,454
Parking	21,599	-	-	19,546	-	41,145
Student unions	682,294	-	126,752	88,916	-	897,962
University health services	561,650	-	483	125,257	-	687,390
Other operating expenses	-	-	-	634,574	-	634,574
Total	$ 61,968,273	13,615,432	2,434,745	26,496,228	3,398,350	$ 107,913,027

NOTE 14 – Other Postemployment Healthcare Benefits

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

Funding Policy. The University provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs.

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

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB (Other Post Employment Benefits) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the University's annual OPEB cost for the year, the University's contribution to the plan, and changes in the University's net OPEB obligation.

Normal cost (with interest)	$	247,000
Amortization of UAAL		307,000
Annual OPEB cost (expense)		554,000
Adjustment to the ARC		(127,000)
Interest on Net OPEB Obligation		86,000
Increase in net OPEB obligation (related to implicit rate subsidy)		513,000
Net Employer Contribution		(122,000)
Net OPEB obligation July 1, 2012		2,238,000
Net OPEB obligation June 30, 2013	$	2,629,000

Schedule of Employer Contributions (for fiscal year ended)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2011	$570,000	$ 82,000	14%	$1,923,000
2012	$497,000	$182,000	37%	$2,238,000
2013	$513,000	$122,000	24%	$2,629,000

Funded Status and Funding Progress. As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $4,660,000. The University's policy is to fund the benefits that are paid implicitly through rate subsidization resulting in an unfunded actuarial accrued liability (UAAL) of $4,660,000. The covered payroll (annual payroll of active employees covered by the plan) was $59,406,000, and the ratio of the UAAL to the covered payroll was 8 percent.

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

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
6/30/2011	$0	$5,285,000	$5,285,000	0%	$44,002,000	12%
6/30/2012	$0	$4,683,000	$4,683,000	0%	$46,232,000	10%
6/30/2013	$0	$4,660,000	$4,660,000	0%	$48,431,000	10%

Actuarial Methods and Assumptions. Projections of benefits for reporting purposes are based on the substantive plan and include tbe types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013, actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 5.5 to 10 percent in the first ten years and an ultimate rate of 5.0 percent after ten years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over a 30 year open period in level dollar amounts.