

2002 – 2003 FINANCIAL REPORT

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Southwest Missouri State University

# 2002 – 2003 FINANCIAL REPORT

Southwest Missouri State University

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Southwest Missouri State University is a multi-campus metropolitan university system with a statewide mission in public affairs, whose purpose is to develop educated persons while focusing on five themes: professional education, health, creative arts, business and economic development, and science and the environment.

## Management’s Discussion and Analysis



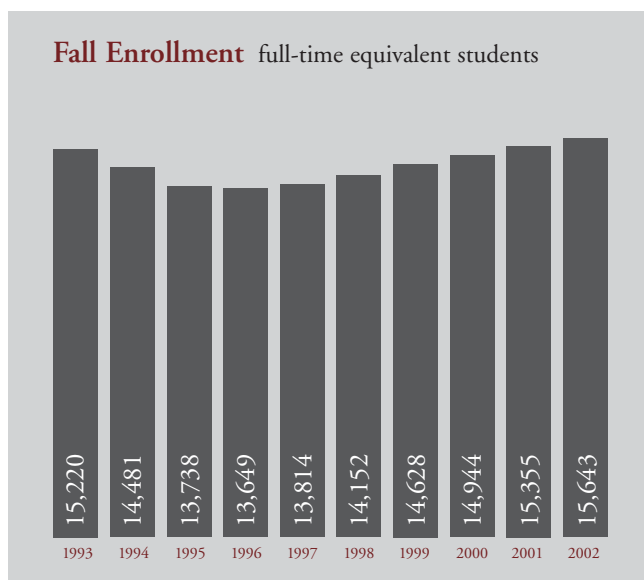
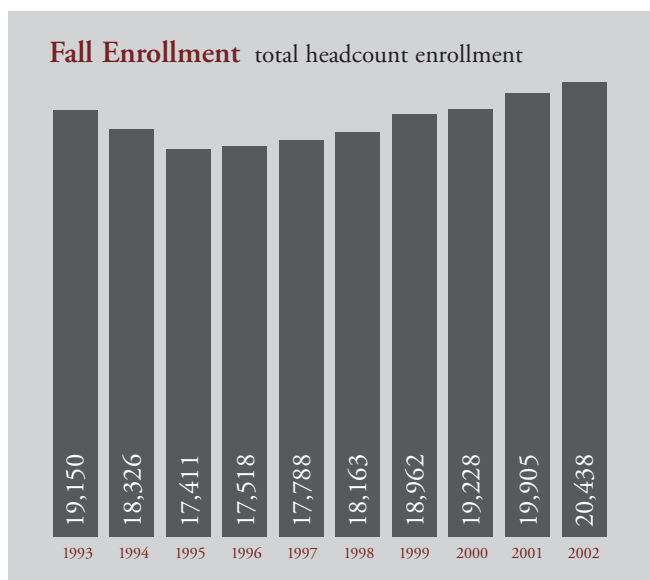
*Dr. John Keiser, SMSU President*

### Introduction

The purpose of this section of Southwest Missouri State University’s (the University) financial statements is to present a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2003, and its financial position at that date. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and current known facts. A comparative analysis of financial data is presented to provide information for the past two years. The financial statements, footnotes and this discussion are the responsibility of management.

The fiscal year ended June 30, 2003, was a year in which the University faced a number of challenges as well as a number of triumphs. As in FY02, the major challenge came from the State of Missouri and a withholding of the University’s state appropriation in addition to the normal 3% amount. This caused the University to take a number of actions to counter the loss of state funds. To address this shortfall the University raised student fees, curtailed expenditures, including not filling a number of vacant positions, and dipped into reserve accounts. In FY03 the amount of extra withholdings amounted to \$2,703,689, and the 3% totaled \$2,408,838. The total withholding of State appropriations totaled \$5,112,527 for FY03. This compares to \$15,308,893 for FY02. The Statement of Net Assets gives the current financial condition of the University after these actions were implemented.

The triumphs of the University came from continued enrollment growth even in the face of student fee increases enacted to help offset the state fund shortfall. The enrollment growth has continued even as the University has increased its admission standards. The University has also been able to implement a number of new programs during this and previous periods, which were outlined in its long-range plan, “*Countdown to the SMSU Centennial.*” These new programs also helped fuel the enrollment growth experienced by the University.



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Student fees have increased over the past several years in order to help the University meet the increasing costs of providing a quality educational experience for students as well as to help offset the reduction in state revenue. While the increased costs are significant they have not placed the University in an unfavorable pricing position when compared to the other institutions of higher education in Missouri, as well as those in the Midwest. Each of the other institutions has also increased their fees in order to meet the same funding problems faced by the University. The following table sets forth for select Missouri state universities the total charges for tuition and required fees for residents of Missouri for a regular school year consisting of two semesters for a full-time student as of August 2002, as well as a comparison with the fees that were charged for the previous year:

University	August, 2002 Fees	August, 2001 Fees
University of Missouri, St. Louis	\$5,813	\$5,116
University of Missouri, Rolla	\$5,661	\$4,975
University of Missouri, Kansas City	\$5,573	\$5,036
University of Missouri, Columbia	\$5,552	\$4,887
Truman State University	\$4,300	\$3,832
Southwest Missouri State University	\$4,274	\$3,748
Northwest Missouri State University	\$4,110	\$3,600
Central Missouri State University	\$4,110	\$3,510
Missouri Western State College	\$4,064	\$3,224
Southeast Missouri State University	\$4,035	\$3,525
Lincoln University	\$3,968	\$3,638
Missouri Southern State University	\$3,886	\$2,866

*Source: Missouri Coordinating Board for Higher Education*

### New Accounting Standards

In June 1999 the Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, that applied the same new reporting standards to public colleges and universities.

The financial statements presented under these rules differ significantly, in both the form and the accounting principles utilized from financial statements presented prior to June 2002. The financial statements presented before June 2002 focused on the accountability of funds, while the current statements focus on the financial condition of the University, the results of operations and cash flows of the University as a whole. The major reconciling items are tuition discounting, depreciation of capital assets, including infrastructure, and the allocation of summer school revenues and expenses between fiscal years.

The primary statements have been changed as the result of the new reporting requirements. The Statement of Net Assets has replaced the Balance Sheet that was presented under previous rules. The purpose of The Statement of Net Assets is to report the financial condition of the University at a point in time, the report date. The statement is presented

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in a single column format for the entire University with comparative numbers from the prior year. Material differences between the amounts of the two fiscal years are explained in the discussion in the Statement of Net Assets section. The statement prior to June 2002 had required multiple columns focusing on the different funds of the University. Now, the current statement divides the assets and liabilities between current and noncurrent items. Capital assets are presented at cost, less accumulated depreciation. Accumulated depreciation includes the amount of depreciation which would have been recorded had depreciation been recorded from the time the asset was placed in service. The Net Assets section (previously Fund Balance section) is broken down between investments in capital assets, restricted and unrestricted for presentation on the statement.

The Statement of Revenues, Expenses, and Changes in Net Assets replaced both the Statement of Changes in Fund Balances and the Statement of Current Funds Revenues, Expenditures and Other Changes beginning June 30, 2002. The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to show the results of the operation of the University for the previous accounting period for the institution as a whole. The current statement is presented in single columnar format with comparative amounts for the previous year. Material differences between the amounts of the two fiscal years are discussed in the Statement of Revenues, Expenses and Changes in Net Assets section. This compares to the multi-column statement that was required prior to June 30, 2002, which highlighted the results of the different funds. The new statement is divided between operating and non-operating sections. For purposes of reporting, according to this GASB statement, state appropriations are considered to be non-operating revenue. In addition, equipment purchases are no longer considered an expense but are capitalized and depreciation is recorded.

The Statement of Cash Flows is a statement required by the new reporting requirements. This statement breaks down the flow of cash between operating activities, noncapital financing activities, capital financing activities and investing activities. The direct method is used in the presentation of this statement. The Statement of Cash Flows presents information about the University's ability to meet its financial obligations as they mature.

The condensed statements are presented with comparative numbers from the prior fiscal year, along with the differences between those two years. An explanation of material differences are discussed in this Management's Discussion and Analysis.

### **Financial Highlights**

The financial highlights of the University are contained in this section. Comparative information provides additional information about the financial condition of the University.

### **Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities and net assets of the University at the close of business on June 30. The presentation is based on the accrual basis of accounting. The capital assets are presented net of depreciation accumulated from date of acquisition. The statement also presents all of the University's assets, liabilities and net assets in one column. This allows the reader to determine the University's total position at the report date. Both assets and liabilities are grouped into current and noncurrent categories to show the reader the availability of the assets and the time of maturity of the liabilities.

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<b>Condensed Statement</b>			
	<b>FY03</b>	<b>FY02 Restated</b>	<b>Change</b>
<b>Current assets</b>			
Cash and short-term investments	\$ 41,996,196	\$ 40,450,531	\$ 1,545,665
Receivables, net	7,120,441	7,690,128	(569,687)
Inventory, prepaid expenses and other	3,820,326	3,630,973	189,353
<b>Total current assets</b>	<b>52,936,963</b>	<b>51,771,632</b>	<b>1,165,331</b>
<b>Noncurrent assets</b>			
Cash and long-term investments	4,831,568	8,605,039	(3,773,471)
Long-term receivables	6,512,834	7,567,203	(1,054,369)
Deferred costs and discounts	1,117,115	1,070,159	46,956
Construction in progress	5,386,513	1,753,140	3,633,373
Capital assets, net of depreciation	252,683,124	259,317,738	(6,634,614)
<b>Total noncurrent assets</b>	<b>270,531,154</b>	<b>278,313,279</b>	<b>(7,782,125)</b>
<b>Total assets</b>	<b>323,468,117</b>	<b>330,084,911</b>	<b>(6,616,794)</b>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	14,081,335	12,622,842	1,458,493
Deferred revenue	5,769,693	5,541,184	228,509
Long-term liabilities – current portion	8,661,042	8,232,983	428,059
<b>Total current liabilities</b>	<b>28,512,070</b>	<b>26,397,009</b>	<b>2,115,061</b>
<b>Noncurrent liabilities</b>			
Long-term liabilities	56,857,583	65,539,467	(8,681,884)
<b>Total liabilities</b>	<b>85,369,653</b>	<b>91,936,476</b>	<b>(6,566,823)</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	201,566,409	201,866,867	(300,458)
Restricted	11,378,630	11,419,580	(40,950)
Unrestricted	25,153,425	24,861,988	291,437
<b>Total net assets</b>	<b>\$238,098,464</b>	<b>\$ 238,148,435</b>	<b>\$ (49,971)</b>

The assets section of The Statement of Net Assets has two basic sections, current and noncurrent. They include the following:

### **Current Assets**

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in the University bank accounts and investments in term investments with original maturities of three months or less from the date of acquisition. The investments are recorded at fair value.

#### **Short-term Investments**

The University invests its money not needed immediately for current operation in certificates of deposit, U.S. government obligations, U.S. government agency obligations, commercial paper and bankers acceptances according to the policy approved by the Board of Governors. The amounts listed here represent investments, currently held, that will mature within the next fiscal year. Short-term investments increased during the year as the maturity length on investments was shortened to prepare the University to meet the State of Missouri's withholdings.

#### **Accounts Receivable, Net**

Accounts receivable relate to several transactions including student fees, auxiliary enterprise revenue, such as food service, bookstore, residence halls, student health center, parking fees and

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finances and library fines. In addition, receivables arise from grant awards, financial aid, state appropriations and other miscellaneous activities. The receivables are shown net of allowance for doubtful accounts in the amount of \$714,000 for FY03 and \$644,000 for FY02.

### Inventories

The University maintains inventories of resale merchandise as well as items for internal consumption. Books, student supplies, consumer products, institutional memorabilia and medical supplies and drugs make up the majority of the resale inventory and total \$3,331,604 for FY03 and \$3,083,408 for FY02. An inventory is also maintained for office supplies and mechanical maintenance items that are for internal use.

### Other Assets

Prepaid expenses are costs that relate to activities applicable to future periods. The miscellaneous items reported in this category will be converted to the use of the University within the next fiscal year.

### Noncurrent Assets

#### Loans Receivable, net

Loans receivable relate primarily to student loans from the Federal Perkins Loan program. As payments are collected the funds become available to be loaned to new students. This receivable is reported net of the allowance for doubtful accounts in the amount of \$1,265,522 for FY03 and \$1,218,594 for FY02. In addition, the University has a small short-term loan program available to students. The amount of loans outstanding at June 30, 2003, in the short-term loan program was \$100,343, which compares to \$130,749 at June 30, 2002. The total loans to students at June 30, 2003 net is shown as \$539,025 (compared to \$512,210 at June 30, 2002) in current assets and \$2,173,481 (compared to \$2,459,315 at June 30, 2003) in noncurrent assets.

#### Long-term Receivables

The appropriations due from the State of Missouri for the tunnel renovation and repair project is down by \$768,535 because the funds were spent during FY03. Loans to students are down from \$2,459,313 to \$2,173,481, or \$285,834.

#### Long-term Investments

Investments with maturities that exceed one year are reported in this category. The majority of the funds represented by these securities are used to fund the debt service reserves required by the debt instruments. These investments are reported at fair value. These long-term investments decreased by \$3,468,783 during 2003 with the refunding of the Auxiliary System Enterprise bonds series 1993A and 1993B. The bond reserves required were liquidated and used to refund these issues.

#### Construction In Progress

Construction in progress consists of capital projects that are still under construction as of June 30. These projects will be capitalized into capital assets when they are completed. The expenditures accumulated for the construction in progress at the end of fiscal year 2003 were the digital conversion of the public television station at \$1,180,148, the design and study for a park and ride garage at \$839,688, the upgrade of the Springfield campus tunnel system at \$1,359,047, the renovation of the Forsythe Athletic Center at \$1,052,928, the upgrade of the Viticulture and Enology Center in Mountain Grove at \$314,352, mechanical upgrades in various buildings at \$301,837, and other miscellaneous projects at \$338,513 for a total of \$5,386,513. During fiscal year 2002, the expenditures for the construction in progress were \$771,268 for the design and study for a park and ride garage; \$314,352 for the upgrade of the Viticulture and Enology Center in Mountain Grove, \$203,745 for the upgrade at the Darr Agriculture Center and other miscellaneous projects at \$463,775.

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### Capital Assets, net

Capital assets, net consists of land, infrastructure, buildings, equipment, collections, library holdings and construction in progress net of accumulated depreciation.

The net value of these capital assets at June 30, 2003, was \$258,069,637 after deducting \$150,063,578 of accumulated depreciation.

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 28,350,614	\$ 89,468	\$	\$ 19,311	\$ 28,459,393
Infrastructure	13,553,449				13,553,449
Buildings	274,453,279	108,768		1,915,872	276,477,919
Furniture, fixtures, and equipment	49,668,718	4,899,595	4,091,286	105,583	50,582,610
Library materials	31,667,945	1,885,494			33,553,439
Capitalized collections	119,892				119,892
Construction in progress	1,753,140	5,674,139		(2,040,766)	5,386,513
<b>Total</b>	<b>399,567,037</b>	<b>12,657,464</b>	<b>4,091,286</b>		<b>408,133,215</b>
Less accumulated depreciation:					
Infrastructure	5,393,972	549,665			5,943,637
Buildings	75,464,056	7,112,108			82,576,164
Furniture, fixtures, and equipment	36,162,744	6,075,061	4,043,678		38,194,127
Library materials	21,451,409	1,862,274			23,313,683
Capitalized collections	23,978	11,989			35,967
<b>Total accumulated depreciation</b>	<b>138,496,159</b>	<b>15,611,097</b>	<b>4,043,678</b>		<b>150,063,578</b>
<b>Capital assets, net</b>	<b>\$261,070,878</b>	<b>\$ (2,953,633)</b>	<b>\$ 47,608</b>	<b>\$</b>	<b>\$ 258,069,637</b>

The net value of these capital assets at June 30, 2002, restated was \$261,070,878 after deducting \$138,496,159 of accumulated depreciation.

	Beginning Balance, as Restated	Additions	Retirements	Transfers	Ending Balance
Land	\$ 27,618,922	\$ 472,459	\$	\$ 259,233	\$ 28,350,614
Infrastructure	12,305,446	1,088,801		159,202	13,553,449
Buildings	234,559,536	1,237,613		38,656,130	274,453,279
Furniture, fixtures, and equipment	43,084,735	6,891,579	2,405,046	2,097,450	49,668,718
Library materials	29,823,113	1,844,832			31,667,945
Capitalized collections	119,892				119,892
Construction in progress	31,493,873	11,431,282		(41,172,015)	1,753,140
<b>Total</b>	<b>379,005,517</b>	<b>22,966,566</b>	<b>2,405,046</b>		<b>399,567,037</b>
Less accumulated depreciation:					
Infrastructure	4,888,144	505,828			5,393,972
Buildings	69,322,985	6,141,071			75,464,056
Furniture, fixtures, and equipment	33,128,931	5,363,840	2,330,027		36,162,744
Library materials	19,647,618	1,803,791			21,451,409
Capitalized collections		23,978			23,978
<b>Total accumulated depreciation</b>	<b>126,987,678</b>	<b>13,838,508</b>	<b>2,330,027</b>		<b>138,496,159</b>
<b>Capital assets, net</b>	<b>\$252,017,839</b>	<b>\$ 9,128,058</b>	<b>\$ 75,019</b>	<b>\$</b>	<b>\$ 261,070,878</b>

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## Other Noncurrent Assets

These assets include unamortized discounts and issuing costs on bonds issued, deposits that will not be recovered within the next year and receivables due from related corporations.

The liabilities section of the Statement of Net Assets has two sections, current and noncurrent. They include the following:

## Current Liabilities

### Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts that were due at June 30, 2003 for goods and services received prior to the end of the fiscal year. They include regular trade payables in the process of payment, accrued interest on bonds payable and accrued payroll. The accrued payroll included salaries earned but not paid at June 30, as well as an accrual for accumulated vacation and sick pay.

### Deferred Revenue

Deferred revenue represents payments received for services, goods, fees or room and board relating to a future period. These revenues will be applied during the next accounting period.

### Deposits

Deposits represent money received from individuals to secure services in the future. Examples of this type of activity include money placed on deposit in the ZipCard (debit card) System and deposits made by students to hold dormitory rooms for the fall semester.

### Current Portion of Debt Obligations

The University has issued long-term debt from time to time to finance capital expenditures. This amount represents the amount of that long-term debt that will mature within the next fiscal year.

### Other Current Liabilities

The University operates an employee insurance plan for health and dental insurance. The University pays into the plan to cover employees' policies and the employee pays into the plan to cover dependents. A third-party administrator handles payments from the plan. The claims incurred but not reported or paid are shown as a liability of the University.

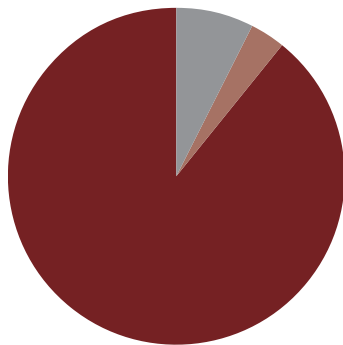
## Noncurrent Liabilities

### Long-Term Debt

Long-term debt consists of bonds issued by the University and capital lease obligations where the principal is due more than one year from the Statement of Net Assets date. The total debt at June 30, 2003 for these kinds of instruments was \$59,345,025. The amount shown as long-term revenue bonds payable is \$52,787,811 and as capital lease obligations is \$1,153,604 with the current portion of \$5,403,610 reported in the current liabilities section. The total debt for these kinds of instruments was \$67,696,790 at June 30, 2002. The amount shown as long-term revenue bonds payable was \$60,605,038 and as capital lease obligations was \$1,984,612 with the current portions of \$5,107,140 reported in the current liabilities section. During the year the University was able to take advantage of favorable interest rates and refinance some of its existing bonds. This transaction not only reduced the amount of debt but also reduced the amount of interest the University will be required to pay in the future.

### Net Assets

Net assets represent the difference between University assets and liabilities. The total net assets at June 30, 2003 are \$238,098,464. The total net assets decreased by \$49,971 during the year. This loss consisted of an increase in unrestricted net assets of \$291,437 with decreases in restricted net assets of \$40,950 and invested in capital assets, net of related debt of \$300,458.



### Net Assets June 30, 2003

■ Invested in capital assets	\$201,566,409
■ Restricted	\$11,378,630
■ Unrestricted	\$25,153,425

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### Analysis of Net Assets

Net assets are broken down by net capital assets, restricted-nonexpendable, restricted-expendable and unrestricted.

Restricted net assets are those assets whose purpose has been determined by an outside party. The unexpendable portion represents the amount of the federal portion of the Federal Perkins Loan program and the endowment given to the University before the organization of the Southwest Missouri State University Foundation (Foundation). The Foundation manages this money as well as the contributions it has received since its formation. The expendable amount represents grants and contracts from third party agencies with expenditure restrictions and certain loan funds.

Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to the University such as granting agencies. This includes funds that have been designated by the governing board for specific purposes as well as amounts that have been contractually committed for goods and services that have not yet been received.

### Statement of Revenues, Expenses and Changes in Net Assets

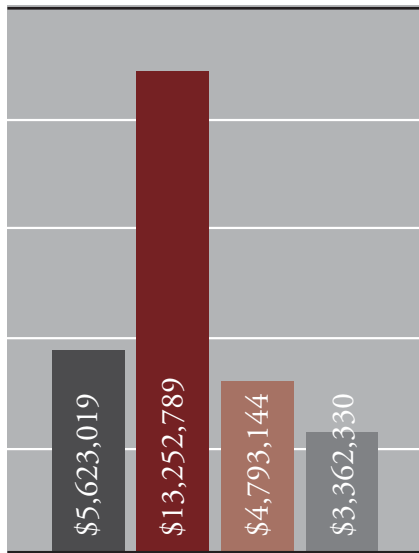
The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the University, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

#### Condensed Statement

	FY03	FY02 Restated	Change
<b>Operating revenues:</b>			
Net tuition and fees	\$ 49,225,879	\$ 43,138,165	\$ 6,087,714
Sales and services of educational departments	9,581,792	10,310,658	(728,866)
Grants and contracts	27,031,282	26,746,147	285,135
Auxiliary	25,774,958	24,472,559	1,302,399
Other	6,241,619	6,118,540	123,079
<b>Total</b>	<b>117,855,530</b>	<b>110,786,069</b>	<b>7,069,461</b>
Operating expenses	195,313,910	186,965,917	8,347,993
<b>Net operating loss</b>	<b>(77,458,380)</b>	<b>(76,179,848)</b>	<b>(1,278,532)</b>
<b>Nonoperating revenues (expenses):</b>			
State appropriations	75,228,005	73,949,654	1,278,351
Gifts	2,245,431	2,330,843	(85,412)
Investment income	1,036,038	1,706,334	(670,296)
Other income and expense	(2,814,815)	(2,801,382)	(13,433)
Gain (loss) on disposal of fixed assets	32,918	(34,644)	67,562
<b>Total</b>	<b>75,727,577</b>	<b>75,150,805</b>	<b>576,772</b>
Loss before other revenues, expenses, gains or losses	(1,730,803)	(1,029,043)	(701,760)
Capital gifts	623,895	3,116,460	(2,492,565)
Capital grants and contracts	1,056,937	1,232,253	(175,316)
Loss of State capital appropriation		(7,757,431)	7,757,431
<b>Decrease in net assets</b>	<b>(49,971)</b>	<b>(4,437,761)</b>	<b>4,387,790</b>
Net assets – beginning of year, restated	238,148,435	242,586,196	(4,437,761)
<b>Net assets – end of year</b>	<b>\$238,098,464</b>	<b>\$238,148,435</b>	<b>\$ (49,971)</b>

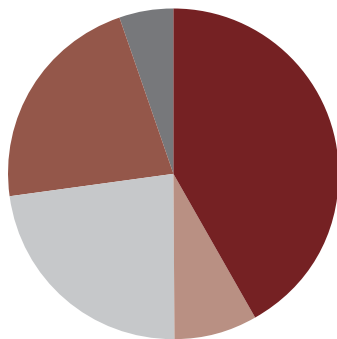
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Sources of Grant Revenue

- Federal
- Federal student aid
- State
- Private & Other



Sources of Operating Revenue FY 03

■ Student tuition and fees	\$49,225,879
■ Sales and services of educational departments	\$9,581,792
■ Grants and contracts	\$27,031,282
■ Auxiliary enterprises	\$25,774,958
■ Other operating revenues	\$6,241,619

## Operating Revenues and Expenses

### Student Fee Revenues

This category includes all student fees assessed for educational purposes as well as the special student fees assessed to support student activities, student services and the support of buildings that are primarily for the benefit of students. The total of \$71,785,371 in student fees was reduced by \$22,559,492 in scholarship allowances and presented as a net amount of \$49,225,879. This compares to \$63,966,909 in fees reduced by \$20,828,744 in scholarships for a net amount of \$43,138,165 for FY02. The additional revenue resulted from the increase in the student fee rate as well as an increased number of students who attended the University in FY03. In addition, housing revenue, bookstore sales, parking fines and fees and student health center charges were reduced by the amount of scholarship money used to pay for those items. Those reductions are shown in their respective sections of the Statements of Revenues, Expenses and Changes in Net Assets.

### Auxiliary Enterprises Revenues

Auxiliary enterprises consist of various entities that exist predominantly to furnish goods and/or services to students, faculty, staff or the general public. They charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting. Auxiliary enterprises include residence halls, apartments, food services, intercollegiate athletics, University bookstore, parking services, recreational facilities and student union in Springfield, and bookstore, residence hall and food service in West Plains.

Gross auxiliary enterprises revenue was reduced by scholarship funds, which were used to pay for services for the benefit of students covered by the scholarships. Housing revenue was reduced by \$2,398,994, bookstore sales by \$412,878 and parking fines and fees by \$197,076. This compares to \$2,482,483 for housing, \$379,038 for bookstore and \$189,112 for parking for FY02. The increased revenue occurred because of increased rates for dormitories and parking and increased sales in the bookstore.

### Other Operating Revenues

This section includes all other operating revenues of the University. This includes all restricted and unrestricted revenues from exchange transactions made available by government agencies as well as private agencies that meet certain criteria, the revenue raised from the operation of the laboratory school, child development laboratory, student health clinic, theater events, athletic income at West Plains, performing arts center, student newspaper, application fees, finance charges on accounts receivable balances and other miscellaneous revenue.

### Operating Expenses

Operating expenses are reported showing the natural classifications of the expenses. Depreciation was included in the operating costs. The current year's amount of depreciation that was charged to expense was \$15,611,097, compared to the \$13,838,508 which was recorded in FY02.

There was an increase in operating expenses in FY03 of \$8,347,993. Salaries and benefits increased with a 2.5% "across-the-board" salary adjustment which represented a \$2.97 million change in this category. Supplies and other services were up in FY03 by \$3.57 million. Most of this increase was in the Auxiliary Enterprise Funds. Depreciation expense for FY03 was \$1.77 million more than in FY02.

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## Operating Expenses by Natural Classification

	FY03	FY02	Change
Salaries and benefits	\$129,417,617	\$126,445,096	\$ 2,972,521
Scholarships and fellowships	6,723,883	6,828,724	(104,841)
Utilities	4,666,823	4,529,065	137,758
Supplies and other services	38,894,490	35,324,524	3,569,966
Depreciation	15,611,097	13,838,508	1,772,589
	<u>\$195,313,910</u>	<u>\$186,965,917</u>	<u>\$ 8,347,993</u>

In addition to the natural classification of expenses it is also necessary to report those same expenses using the functional classification.

## Operating Expenses by Functional Classification

	FY03	FY02 Restated	Change
Instruction	\$ 72,049,129	\$ 71,742,149	\$ 306,980
Research	5,262,240	5,140,426	121,814
Public Service	8,186,924	8,475,266	(288,342)
Academic Support	17,570,440	18,639,142	(1,068,702)
Student Services	11,867,406	15,465,072	(3,597,666)
Institutional Support	15,625,268	14,275,990	1,349,278
Operation and Maintenance of Plant	12,525,187	12,382,573	142,614
Scholarships and Fellowships	5,305,898	5,645,062	(339,164)
Depreciation	15,611,097	13,838,508	1,772,589
Auxiliary Enterprises	25,845,814	20,626,803	5,219,011
Other	5,464,507	734,926	4,729,581
	<u>\$195,313,910</u>	<u>\$186,965,917</u>	<u>\$ 8,347,993</u>

## Nonoperating Revenues (Expenses)

### State Appropriations

The State of Missouri appropriates funding for the annual operation of the University. For the 2002–2003 fiscal year the state appropriated \$80,294,626, compared to \$89,216,251 in FY02. However, because of a shortfall in state revenue, the State withheld \$5,112,527 from the University. The actual amount of appropriation received by the University was \$75,182,099. In FY02 a reduction of \$15,308,893 from the original appropriation left \$73,907,358 that was received by the University. The University received no capital appropriation for fiscal year 2002–2003.

## 2002–2003 FINANCIAL REPORT

Southwest Missouri State University

The net amount of state appropriation increased in FY03. This increase occurred even though the original amount of the appropriation was reduced by 10%. In FY02 the state withheld \$15,308,893 while in FY03 the withholding was reduced to \$5,112,527. The decreased withholding provided the University with an increased amount for FY03.

### Gift Revenue

This includes amounts given to the University through the Foundation. Southwest Missouri State University Foundation has been designated as the gift-receiving arm of the University and all gifts are made to the Foundation. Money is transferred to the University as specified in gift documents and recorded as gifts on the University books when received by the University.

### Investment Income

Included in investment income are the earnings from cash placed with investment institutions. The proceeds from those investments have been adjusted to reflect unrealized gains and losses on those investments to adjust the values to bring them in line with the fair value.

The reduced amount of investment income was caused by two factors: A lower rate that could be achieved on the money, as well as a lesser amount to invest caused by the need to use some of the University's reserves. The need to use reserves was caused by the withholding of money that had been appropriated by the State of Missouri.

### Capital Gifts

The University received some gifts of property and equipment in FY02 that were not duplicated in FY03. For example, a tower was donated to Ozarks Public Television. Plus, \$1.37 million was donated for the renovation of various buildings and construction projects, such as the Meyer Library and Darr Agriculture Center.

### Loss of Capital Appropriations

In FY02 the State of Missouri withdrew an appropriation of capital repairs. No capital appropriations were withdrawn in FY03.

### Statement of Cash Flows

The Statement of Cash Flows provides another way to assess the financial health of the University. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the University during the fiscal year. It helps the user of the statement assess the University's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing. The Statement of Cash Flows is presented using the direct method.

#### Condensed Statement

	FY03	FY02 Restated	Change
Cash Provided By (Used In):			
Operating activities	\$ (59,344,631)	\$ (62,203,460)	\$ 2,858,829
Noncapital financing activities	77,479,094	76,420,438	1,058,656
Capital and related financing activities	(21,500,650)	(22,776,495)	1,275,845
Investing activities	(2,257,991)	18,663,951	(20,921,942)
Net increase (decrease) in cash	(5,624,178)	10,104,434	(15,728,612)
Cash – beginning of year	18,151,391	8,046,957	10,104,434
Cash – end of year	\$ 12,527,213	\$ 18,151,391	\$ (5,624,178)

## 2002–2003 FINANCIAL REPORT

Southwest Missouri State University

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Major sources of funds included in operating activities this year are student fees, \$49,971,473 and auxiliary enterprises \$25,774,958. Major uses of funds were payments to employees, \$129,322,069 and to suppliers, \$49,066,804. In FY02 student fees were \$43,389,605 and auxiliary enterprises were \$24,472,559. Payments to employees were \$126,118,528 and \$47,167,499 was paid to suppliers.

The largest inflow of cash in the noncapital financing activities group was the state appropriations of \$75,228,005. In FY02 the amount was \$73,949,654.

### **Other Information**

The economic position of Southwest Missouri State University is very closely tied the financial health of the State of Missouri. Approximately 38.9% of the University's funding comes from the state (compared to 39.7% in FY02). The past year has not been a good year for Missouri finances. The state has endured several budget cuts during the year. The ability of the University to expand its programs, undertake new initiatives, properly maintain its buildings and improve compensation for its employees will be very dependent on the University's ability to receive additional resources from the state. The ability of the state to provide that additional money will be, in many ways, dependent on the state's ability to raise additional revenue. The revenue could either come through additional taxes or the reallocation of state revenue.

The ability of the University to raise large amounts of money from student fees is limited. Over the past few years fees have risen on an annual basis. The increases of the past fiscal year, due to the state's holdback, limit the ability of the University to make significant increases in the near future. This will also curtail the ability of the University to make improvements in its programs, buildings and compensation. ■

# 2002–2003 FINANCIAL REPORT

Southwest Missouri State University



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## Independent Accountants' Report on Financial Statements and Supplementary Information

The Board of Governors  
Southwest Missouri State University  
Springfield, Missouri

We have audited the accompanying statements of net assets of SOUTHWEST MISSOURI STATE UNIVERSITY (University), a component unit of the state of Missouri, as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SOUTHWEST MISSOURI STATE UNIVERSITY as of June 30, 2003 and 2002, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2003, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*BKD, LLP*

September 8, 2003

**Solutions  
for  
Success**

# 2002–2003 FINANCIAL REPORT

Southwest Missouri State University

## Statements of Net Assets

June 30, 2003 and 2002

	2003	2002, Restated
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,934,100	\$ 17,202,683
Restricted cash and cash equivalents	593,113	328,308
Short-term investments	26,648,389	20,195,299
Restricted short-term investments	2,820,594	2,724,241
Accounts receivable, net	5,248,141	5,815,687
Grants receivable	1,179,574	1,106,187
Accrued interest receivable-unrestricted	84,393	159,622
Accrued interest receivable-restricted	45,808	72,922
Inventories	3,331,604	3,083,408
Loans to students, net	539,025	512,210
Deposits recoverable	23,500	23,500
Prepaid expenses	488,722	547,565
<b>Total current assets</b>	<b>52,936,963</b>	<b>51,771,632</b>
Noncurrent assets:		
Restricted cash and cash equivalents		620,400
Restricted long-term investments	351,569	
Investments restricted for bonds	3,947,163	7,529,464
Other long-term investments	532,836	455,175
Appropriations due from State of Missouri	4,139,591	4,908,126
Deferred bond issue costs and discounts	1,117,115	1,070,159
Loans to students, net	2,173,481	2,459,315
Due from related corporation	199,762	199,762
Construction in progress	5,386,513	1,753,140
Capital assets, net	252,683,124	259,317,738
<b>Total noncurrent assets</b>	<b>270,531,154</b>	<b>278,313,279</b>
<b>Total assets</b>	<b>323,468,117</b>	<b>330,084,911</b>
<b>Liabilities</b>		
Current liabilities:		
Account payable and accrued expenses	4,544,140	3,109,865
Accrued compensated absences	3,257,432	3,125,843
Accrued payroll	7,547,608	7,550,000
Deferred revenue	5,769,693	5,541,184
Deposits	513,160	514,543
Accrued interest payable	567,021	796,514
Long-term liabilities-current portion	5,403,610	5,107,140
Insurance claims payable	909,406	651,920
<b>Total current liabilities</b>	<b>28,512,070</b>	<b>26,397,009</b>
Noncurrent liabilities:		
Accrued compensated absences	2,916,168	2,949,817
Capital lease obligations	1,153,604	1,984,612
Revenue bonds payable	52,787,811	60,605,038
<b>Total noncurrent liabilities</b>	<b>56,857,583</b>	<b>65,539,467</b>
<b>Total liabilities</b>	<b>85,369,653</b>	<b>91,936,476</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	201,566,409	201,866,867
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	199,762	199,762
Loans	3,346,335	3,394,854
Expendable:		
Research	718,556	
Scholarships and fellowships	53,771	22,555
Loans	203,289	206,745
Capital projects	4,751,917	5,613,164
Debt service	2,105,000	1,982,500
Unrestricted	25,153,425	24,861,988
<b>Total net assets</b>	<b>\$238,098,464</b>	<b>\$238,148,435</b>

See Notes to Financial Statements

## 2002–2003 FINANCIAL REPORT

Southwest Missouri State University

# Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2003 and 2002

	2003	2002, Restated
<b>Operating Revenues</b>		
Student tuition and fees	\$ 71,785,371	\$ 63,966,909
less scholarship allowances	(22,559,492)	(20,828,744)
Total student tuition and fees	49,225,879	43,138,165
Sales and services of educational departments	9,581,792	10,310,658
Federal grants and contracts	18,875,808	17,338,151
State and local grants and contracts	4,793,144	5,959,910
Nongovernmental grants and contracts	3,362,330	3,448,086
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$2,398,994 in 2003 and \$2,482,483 in 2002)	16,118,202	14,821,100
Bookstore (net of scholarship allowances of \$412,878 in 2003 and \$379,038 in 2002)	1,685,804	1,934,154
Parking (net of scholarship allowances of \$197,076 in 2003 and \$189,112 in 2002)	2,468,959	2,398,598
Athletics	4,269,313	4,374,747
Recreational facilities	597,102	280,389
Student Union	635,578	663,571
Other operating revenues	6,241,619	6,118,540
Total operating revenues	117,855,530	110,786,069
<b>Operating Expenses</b>		
Salaries	100,719,023	98,546,146
Benefits	28,698,594	27,898,950
Scholarships and fellowships	6,723,883	6,828,724
Utilities	4,666,823	4,529,065
Supplies and other services	38,894,490	35,324,524
Depreciation	15,611,097	13,838,508
Total operating expenses	195,313,910	186,965,917
Operating loss	(77,458,380)	(76,179,848)
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	75,228,005	73,949,654
Gifts	2,245,431	2,330,843
Investment income	1,036,038	1,706,334
Interest on capital asset-related debt	(2,820,473)	(2,941,323)
Other nonoperating revenues	5,658	179,139
Other nonoperating expenses		(39,198)
Gain (loss) on disposal of fixed assets	32,918	(34,644)
Net nonoperating revenues	75,727,577	75,150,805
Loss before other revenues, expenses, gains, or losses	(1,730,803)	(1,029,043)
Capital gifts	623,895	3,116,460
Capital grants and contracts	1,056,937	1,232,253
Loss of State capital appropriation		(7,757,431)
Decrease in net assets	(49,971)	(4,437,761)
<b>Net Assets</b>		
Net assets — beginning of year	238,148,435	242,358,288
Adjustment applicable to prior year		227,908
Net assets — beginning of year, restated	238,148,435	242,586,196
Net assets — end of year	\$ 238,098,464	\$ 238,148,435

See Notes to Financial Statements

## 2002–2003 FINANCIAL REPORT

Southwest Missouri State University

# Statements of Cash Flows

For the Years Ended June 30, 2003 and 2002

	2003	2002, Restated
<b>Cash Flows From Operating Activities</b>		
Tuition and fees	\$ 49,971,473	\$ 43,389,605
Sales and services of educational departments	9,581,792	10,310,658
Federal grants and contracts	18,802,421	17,007,647
State grants and contracts	4,793,144	5,959,910
Nongovernmental grants and contracts	3,362,330	3,448,086
Payments to suppliers	(49,066,804)	(47,167,499)
Payments to employees	(129,322,069)	(126,118,528)
Loans issued to students	(575,571)	(715,761)
Collection of loans to students	834,590	1,028,464
Auxiliary enterprise charges:		
Residential life	16,118,202	14,821,100
Bookstore	1,685,804	1,934,154
Parking	2,468,959	2,398,598
Athletics	4,269,313	4,374,747
Recreational facilities	597,102	280,389
Student Union	635,578	663,571
Other receipts	6,499,105	6,181,399
Net cash provided (used) by operating activities	(59,344,631)	(62,203,460)
<b>Cash Flows From Noncapital Financing Activities</b>		
State appropriations	75,228,005	73,949,654
Gifts and grants received for other than capital purposes	2,245,431	2,330,843
Other nonoperating revenues	5,658	179,139
Other nonoperating expenses		(39,198)
Net cash flows provided by noncapital financing activities	77,479,094	76,420,438
<b>Cash Flows From Capital and Related Financing Activities</b>		
Cash received from disposal of fixed assets	80,526	40,375
Purchase of capital assets	(12,588,883)	(22,927,497)
Capital appropriation	817,613	5,297,289
Capital grants and contracts	1,056,937	1,232,253
Gifts of cash	588,270	1,997,659
Proceeds from capital debt	21,955,000	
Principal paid on capital debt and lease	(5,106,869)	(4,923,635)
Cash paid to defease outstanding debt	(24,685,000)	
Interest paid on capital debt and lease	(2,898,246)	(3,492,939)
Loss on defeased debt	(192,387)	
Deferred bond issuing expense	(527,611)	
Net cash used by capital and related financing activities	(21,500,650)	(22,776,495)
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	73,762,021	69,935,398
Purchase of investments	(77,063,995)	(53,424,577)
Interest on investments	1,043,983	2,153,130
Net cash provided (used) by investing activities	(2,257,991)	18,663,951
Net increase (decrease) in cash	(5,624,178)	10,104,434
Cash and cash equivalents—beginning of year	18,151,391	8,046,957
Cash and cash equivalents—end of year	\$ 12,527,213	\$ 18,151,391

## 2002–2003 FINANCIAL REPORT

Southwest Missouri State University

### Statements of Cash Flows (continued)

For the Years Ended June 30, 2003 and 2002

<b>Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:</b>	Operating loss	\$ (77,458,380)	\$ (76,179,848)
	Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
	Depreciation expense	15,611,097	13,838,508
	Change in operating assets and liabilities		
	Accounts receivable	567,546	(766,031)
	Loans to students	259,019	312,703
	Appropriations due from State	(49,078)	(22,587)
	Federal and state grant receivable	(73,387)	69,552
	Inventories	(248,196)	(750,757)
	Prepaid expenses	58,843	252,260
	Accounts payable and accrued expenses	1,407,745	196,397
	Accrued compensated absences	97,940	355,906
	Accrued payroll	(2,392)	(29,338)
	Deferred revenue	228,509	609,436
	Funds held in custody for others		(183,086)
	Deposits	(1,383)	30,566
	Insurance claims payable	257,486	62,859
	<b>Net cash used by operating activities</b>	<b>\$ (59,344,631)</b>	<b>\$ (62,203,460)</b>
<b>Supplemental Cash Flows Information</b>	Increase (Decrease) in accounts payable incurred for capital asset purchases	\$ 26,530	\$ (2,555,452)
	Loss of State capital appropriation		7,757,431
	Gifts in kind of capital assets	35,625	1,118,801

*See Notes to Financial Statements*

## Notes to Financial Statements June 30, 2003 and 2002

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### **Nature of Institution**

Southwest Missouri State University (the University) is a state assisted University with campuses in Springfield, West Plains and Mountain Grove, Missouri. An eight-member Board of Governors, appointed by the Governor and confirmed by the Senate of the State of Missouri, governs the University, a component unit of the State of Missouri. No component units are required to be reported in the University's financial statements. The financial statements of the SMSU Foundation, Inc., which is affiliated with but not controlled by the University, is not included in the University's financial statements.

#### **Basis of Presentation**

The financial statements have been prepared to incorporate all fund groups utilized internally by Southwest Missouri State University. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB. Pursuant to GASB Statement No. 20, these reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

#### **Measurement Focus and Basis of Accounting**

The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place while those from government-mandated nonexchange transactions (principally state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Government-mandated nonexchange transactions that are not program specific such as state appropriations, gifts, investment income, and interest on capital asset-related debt are included in nonoperating revenues and expenses. Revenues for nonexchange transactions are recognized when all eligibility requirements have been satisfied. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating revenues of the University consist of student fees, sales and services of educational activities, grants and contracts that are exchange transactions and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities and state appropriations are components of nonoperating income.

## 2002–2003 FINANCIAL REPORT

Southwest Missouri State University

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### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents.

### Investments

The University accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net assets.

### Student Accounts and Notes Receivable

Student accounts receivable consists of fees charged to students and charges for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts of \$714,000 and \$644,000 at June 30, 2003 and 2002, respectively.

Student accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Required student fees and residence hall charges are due at the beginning of the semester unless the student is enrolled in the Deferred Payment Plan. Fee payment deadlines vary depending upon when the student registers. If the required student fees are not paid in full by that date, a finance charge is assessed on the remaining balance. Miscellaneous charges are due when billed. A finance charge is assessed on the next statement date after a miscellaneous charge is first billed. Charges that are past due without payments for one year and have had no response to the due diligence process are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist of amounts due under the Federal Perkins Loan Program and institutional loan programs and are stated at their outstanding principal amount, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need for both Perkins and institutional loans and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. Principal and interest payments on Federal Perkins Loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for doubtful notes which is based upon a review of outstanding loans, historical collection information and existing economic conditions. Interest income is recorded as received

## Notes to Financial Statements June 30, 2003 and 2002

which is not materially different from the amount that would have been recognized on the accrual basis. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent institutional loans are written off based on individual credit evaluation and specific circumstances of the student. Loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$1,265,522 and \$1,218,594 at June 30, 2003, and 2002, respectively.

### Inventories

Nonauxiliary inventories consist of supplies for use by the University and merchandise available for sale consisting of art supplies and pharmacy stock. These inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Auxiliary enterprises inventories consist of merchandise available for sale at the bookstore, student union, recreation facilities and vending machines. These inventories are stated at the lower of cost, determined using the first-in, first-out and retail methods, or market.

### Capital Assets

Land is stated at cost. Buildings and improvements are stated at June 30, 1953, replacement costs with subsequent additions stated at cost. Library books are stated at June 30, 1978, estimated historical cost, with subsequent additions stated at cost. Building additions and improvements with a cost in excess of \$200,000 are capitalized if the life of the building is extended. Equipment with a cost in excess of \$1,000 with a useful life greater than one year is capitalized. Donated assets are transferred from the SMSU Foundation and are recorded at the fair value at the date of donation. Infrastructure assets are included in the financial statements and are depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. Expenditures for construction in progress are capitalized when the project is completed. The following estimated useful lives are being used by the University:

Land improvements	20 years
Buildings and improvements	7–40 years
Furniture, fixtures and equipment	3–15 years
Infrastructure	20 years
Library materials	10 years

The University capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Interest expense is capitalized net of interest income earned on resources set aside for this purpose. Total interest capitalized for the year ended June 30, 2003 was \$25,562 and for the year ended June 30, 2002 was \$666,206.

### Deferred Revenue

Deferred revenue represents unearned student fees and advances on program tickets.

### Compensated Absences

It is the University's policy to permit employees to accumulate earned but unused sick and vacation pay benefits using the vesting method. Accrued vacation is the amount earned by all eligible employees through June 30. All eligible employees can accrue an unlimited amount of sick leave. Employees who retire under one of the University's public retirement plans will be paid for 40 percent of any accumulated unused sick leave rounded up or down to the nearest full day (up to a maximum of 48 days) and the remaining unused sick leave will be reported to Missouri State Employees' Retirement System (MOSERS) for inclusion as creditable service in accordance with MOSERS' policies regarding the reporting of unused sick leave. Accrued sick leave is based on a historic factor with these policies taken into consideration.

### Deferred Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method. Total amortization for the year ended June 30, 2003 was \$177,284 and for the year ended June 30, 2002, was \$154,387.

### Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences and other liabilities 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 - nonexpendable* — Nonexpendable restricted net assets consist of the federal portion of the Federal Perkins Loan program and 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. The endowment funds represent the amount of endowment given to the University before the organization of the Southwest Missouri State University Foundation.

*Restricted net assets - expendable* — Restricted expendable net assets include resources in which the University is legally and contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Unrestricted net assets* — Unrestricted net assets represent resources derived from student fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. 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. Auxiliary enterprises, which are substantially self-supporting activities, provide services for students, faculty and staff.

# Notes to Financial Statements June 30, 2003 and 2002

### 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 fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) interest on student loans, and (4) grants and contracts meeting certain criteria.

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

### Federal Financial Assistance Programs

The University participates in the following federal student financial aid programs: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan, and Federal Perkins Loan Programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U. S. Office of Management and Budget Revised Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

Student tuition and fees and auxiliary enterprise revenues, presented net of scholarships and fellowships of \$25,568,440, and \$23,879,877 at June 30, 2003 and 2002, respectively, are applied to student accounts, while stipends and other payments made directly to students are reported as scholarships and fellowships expense. Net tuition and fees, except for summer session, are recognized as revenues as they are assessed. The portion of summer session tuition and fees applicable to the following fiscal year is deferred.

### Foundation

The University is the beneficiary of a foundation that is a separate legal entity with its own board of directors. The Foundation has legal title to all of the Foundation assets. The Foundation is not a component unit of the University and thus, is not reflected in the accompanying financial statements.

### Income Taxes

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).

### Reclassification

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 financial statement presentation. These reclassifications had no effect on net earnings.

## Note 2: Deposits and Investments

### Deposits

At June 30, 2003 and 2002, all of the University's deposits were covered by federal depository insurance and/or collateralized by investment securities subject to joint custody safekeeping receipts issued by the custodial financial institution which was not the pledging institution. State law requires collateralization of all deposits with federal depository insurance, U.S. Treasury securities or other securities listed in the State of Missouri statute having an aggregate value at least equal to the amount of the deposits. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

For 2002, Certificates of Deposit, which are reported as investments per GASB Statement No. 9, totaled \$5,300,000 and were covered by federal depository insurance or collateral held by an agent in the University's name.

### Investments

The University may invest in certificates of deposit, United States Treasury and Federal Agency securities, repurchase agreements, corporate bonds, commercial paper, and bankers acceptances.

The University has invested in guaranteed loan pools of the Small Business Administration (SBA's) to maximize yields. The SBA's are based on cash flows from principle and interest payments on underlying loans. Therefore, they are sensitive to prepayments by borrowers, which may result from a decline in interest rates. For example, if interest rates decline and borrowers refinance loans, thereby prepaying the loans underlying the SBA's, the cash flows from interest payments are reduced as the principal is repaid. Changes in prevailing rates of interest and other factors also may affect the marketability and value of these SBA's.

Investments are carried at fair value, except for certificates of deposit that are carried at cost. Fair value is determined using quoted market prices.

The University's investments are categorized to give an indication of the level of custodial credit risk assumed by the University. Category 1 includes investments that are registered or held by the University's agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker-dealer but not in the University's name.

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### Notes to Financial Statements June 30, 2003 and 2002

The University's investments at June 30, 2003, consisted of:

Category		Carrying Value	Fair Value
1	3		
U.S. Treasury obligations			
\$ 512,293	\$	\$ 512,293	\$ 512,293
U.S. Agency obligations			
29,700,122	5,385,840	35,085,962	35,085,962
<u>\$ 30,212,415</u>	<u>\$ 5,385,840</u>	<u>\$ 35,598,255</u>	<u>\$ 35,598,255</u>
Accrued investment income		130,202	
		<u>\$ 35,728,457</u>	

The University's investments at June 30, 2002 consisted of:

Category		Carrying Value	Fair Value
1	3		
U.S. Treasury obligations			
\$ 455,175	\$	\$ 455,175	\$ 455,175
U.S. Agency obligations			
31,029,091	2,259,404	33,288,495	33,288,495
Bankers Acceptance			
1,006,685		1,006,685	1,006,685
<u>\$ 32,490,951</u>	<u>\$ 2,259,404</u>	<u>\$ 34,750,355</u>	<u>\$ 34,750,355</u>
Accrued investment income		232,544	
		<u>\$ 34,982,899</u>	

#### Summary of Carrying Values

The carrying values of cash and cash equivalents and investments shown above are included in the statements of net assets as follows:

	2003	2002
Carrying Value:		
Accrued interest	\$ 84,393	\$ 159,622
Restricted accrued interest	45,808	72,922
Cash and cash equivalents	11,934,100	17,202,683
Restricted cash and cash equivalents	593,113	948,708
Short-term investments	26,648,389	20,195,299
Restricted short-term investments	2,820,594	2,724,241
Restricted long-term investments	351,569	
Investments restricted for bonds	3,947,163	7,529,464
Long-term investments	532,836	455,175
<u>Cash, cash equivalents and investments total</u>	<u>\$ 46,957,965</u>	<u>\$ 49,288,114</u>

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### Investment Income

Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Investment income for the years ended June 30, 2003 and 2002, consisted of:

	2003	2002
Interest	\$ 1,046,694	\$ 1,506,675
Net increase (decrease) in fair value of investments	(10,656)	199,659
	<u>\$ 1,036,038</u>	<u>\$ 1,706,334</u>

### Note 3: Related Party Transactions

The University and Southwest Missouri State University Foundation (Foundation) are related parties that are not financially interrelated organizations. The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University.

In 1982, the University's Board of Regents authorized the transfer of its endowment fund of \$199,762 to the Foundation for management purposes. This balance is shown on the University's statements of net assets as noncurrent assets, due from related corporation. All investment earnings from these funds have been recorded in the accounting records of the Foundation and are not shown on the University's financial statements. All endowment additions since 1982, including gifts and other income, have been recorded in the Foundation's accounting records. The total endowment fund managed by the Foundation at June 30, 2003, is \$32,238,317 and at June 30, 2002 was \$30,785,110.

Additionally, the Foundation owes the University approximately \$42,000 and \$165,000 at June 30, 2003 and 2002, respectively for expenses paid by the University for costs to be funded by the Foundation. The balance is shown on the University's statements of net assets as current assets, and is included in accounts receivable.

### Note 4: Pension and Post-Retirement Plan

The University participates in the Missouri State Employees' Retirement System (MOSERS), a cost-sharing, multiple-employer, defined-benefit, public employee retirement system. MOSERS is administered by an 11-member Board of Trustees. A publicly available financial report that includes the financial statements and required supplemental information is issued. This report may be obtained by writing to P.O. Box 209, Jefferson City, MO 65102, or calling (573) 751-2342.

MOSERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute which may be changed by the Missouri legislature with concurrence of the Governor.

# Notes to Financial Statements June 30, 2003 and 2002

The University was required to contribute 8.81, 11.59 and 11.59 percent of eligible salaries for the years ended June 30, 2003, 2002 and 2001, respectively. No employee contributions are required or permitted. Contributions, which equaled the contribution requirements for years ended June 30, 2003, 2002, and 2001 were \$7,318,245, \$9,662,237, and \$9,526,706, respectively.

Beginning July 1, 2002, all faculty on full-time, regular appointment are enrolled in the College and University Retirement Plan (CURP) if they have not previously been enrolled in MOSERS. CURP is a non-contributory 401(a) defined contribution retirement plan which uses TIAA-CREF as its third party administrator. The University contributes 7.22% of the participant's salary to CURP each month. The total contributed for fiscal year 2003 was \$199,097. CURP provides a retirement program which offers interstate portability, immediate vesting, and no minimum service requirement. Contributions made by the University are self-directed by participants into their selected individual accounts. After participating in CURP for at least six years, a faculty member may elect to become a member of the Missouri State Employees' Retirement System (MOSERS).

In addition to the pension benefits described above, the Board of Governors has authorized the University to provide post-retirement health care benefits to enrolled employees who are eligible for normal retirement under either MOSERS or the Public School Retirement System (PSR), who have applied for and have been accepted to the program, and who have retired by a specified date. Currently, a limited number of retirees meet those eligibility requirements. The University pays the retirees' health insurance premiums through the month of their 65th birthday. Expenditures for post-retirement health care benefits are recognized as the premiums are paid and are not considered material. This program is currently closed to additional participants.

In May 2000, the Board of Governors approved a retirement incentive plan for current employees eligible for retirement from either MOSERS or PSR who have worked for the University for at least 10 years. Those who accepted the offer will receive a cash payment equal to 36 percent of their base salary. The cash payment will be paid in three installments over three years. The plan went into effect July 1, 2000, and remained in effect until December 31, 2002. Expenditures under this retirement incentive plan are recognized as the benefits are paid and are not considered material.

### Note 5: Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to general liability, workers' compensation, natural disasters and employee health benefits.

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Settled claims have not exceeded this commercial coverage in any of the three preceding years. Additional coverage is provided through the State Self Insurance program, through the Risk Management Division of the Department of Administration Services, in Jefferson City. The State of Missouri self-insures the workers' compensation benefits for all state employees, including University employees. Claims are administered by the Missouri Office of Administration, Risk Management Section.

Liabilities for employee health and dental benefits are included in liabilities for claims incurred but not yet reported or paid. The liability is estimated based on subsequent payments and historical information. Changes in the balance of claims liabilities for the years ended June 30, 2003 and 2002, is summarized as follows:

	2003	2002
Balance at beginning of year	\$ 651,920	\$ 589,061
Health and dental claims	10,019,873	7,682,413
Health insurance payments	(9,762,387)	(7,619,554)
Balance at end of year	\$ 909,406	\$ 651,920

### Note 6: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2003 and 2002 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2003 Total	2002 restated Total
Instruction	\$ 52,698,838	\$ 12,423,956	\$ 38,326	\$	\$ 6,888,009	\$	\$ 72,049,129	\$ 71,742,149
Research	3,117,794	649,312	46,819	576	1,447,739		5,262,240	5,140,426
Public service	3,357,380	774,774	269,628	73,484	3,711,658		8,186,924	8,475,266
Academic support	11,043,819	2,808,638	149,267	118,065	3,450,651		17,570,440	18,639,142
Student services	6,461,089	1,568,776	86,334		3,751,207		11,867,406	15,465,072
Institutional support	10,481,808	2,619,211	29,460	2,057	2,492,732		15,625,268	14,275,990
Operation and maintenance of plant	4,340,284	1,261,062	3,667	2,688,799	4,231,375		12,525,187	12,382,573
Scholarships and fellowships	64,709	4,719	5,215,867		20,603		5,305,898	5,645,062
Auxiliary Enterprises	9,153,302	2,269,648	884,515	1,783,842	11,754,507		25,845,814	20,626,803
Depreciation						15,611,097	15,611,097	13,838,508
Other		4,318,498			1,146,009		5,464,507	734,926
Total operating expenses for fiscal year 2003	\$ 100,719,023	\$ 28,698,594	\$ 6,723,883	\$ 4,666,823	\$ 38,894,490	\$ 15,611,097	\$ 195,313,910	\$ 186,965,917
Total operating expenses for fiscal year 2002	\$ 98,546,146	\$ 27,898,950	\$ 6,828,724	\$ 4,529,065	\$ 35,324,524	\$ 13,838,508	\$ 186,965,917	

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Southwest Missouri State University

# Notes to Financial Statements June 30, 2003 and 2002

### Note 7: Long-term Liabilities

Long-term debt and other obligations consist of the following as of June 30, 2003:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	\$ 2,344,720	\$	\$ 116,117	\$ 2,228,603	\$ 119,627
1993	A	4.45 to 4.9%	2007	6,425,000		6,425,000		
1993	B	4.7 to 5.25%	2012	15,550,000		15,550,000		
1997	A	4.2 to 5.1%	2018	16,740,000		890,000	15,850,000	930,000
1999	A	4.0 to 5.2%	2020	18,800,000		630,000	18,170,000	655,000
2002	A	1.45 to 3.2%	2010		16,510,000		16,510,000	2,625,000
				59,859,720	16,510,000	23,611,117	52,758,603	4,329,627
Classroom Building 1996		4.625 to 5.625%	2017	5,405,000		5,405,000		
Classroom Building 2002		1.35 to 4.35%	2016		5,445,000		5,445,000	355,000
Total Bonds Payable				65,264,720	21,955,000	29,016,117	58,203,603	4,684,627
Unamortized loss on prior bond defeasance				(328,565)	(588,918)	(93,159)	(824,324)	(93,159)
Total Bonds Payable less unamortized loss				64,936,155	21,366,082	28,922,958	57,379,279	4,591,468
Compensated absences				6,075,660	3,825,913	3,727,973	6,173,600	3,257,432
Capital lease obligations		5.9%		2,760,635		794,889	1,965,746	812,142
Total other obligations				8,836,295	3,825,913	4,522,862	8,139,346	4,069,574
Total long-term debt and other obligations				\$73,772,450	\$25,191,995	\$33,445,820	\$65,518,625	\$8,661,042

Long-term debt and other obligations consist of the following as of June 30, 2002:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	\$ 2,457,430	\$	\$ 112,710	\$ 2,344,720	\$ 116,117
1993	A	4.45 to 4.9%	2007	7,505,000		1,080,000	6,425,000	1,130,000
1993	B	4.7 to 5.25%	2012	16,810,000		1,260,000	15,550,000	1,315,000
1997	A	4.2 to 5.1%	2018	17,605,000		865,000	16,740,000	890,000
1999	A	4.0 to 5.2%	2020	19,410,000		610,000	18,800,000	630,000
				63,787,430		3,927,710	59,859,720	4,081,117
Classroom Building 1996		4.625 to 5.625%	2017	5,645,000		240,000	5,405,000	250,000
Total Bonds Payable				69,432,430		4,167,710	65,264,720	4,331,117
Unamortized loss on prior bond defeasance				(328,565)			(328,565)	
Total Bonds Payable less unamortized loss				69,103,865		4,167,710	64,936,155	4,331,117
Compensated absences				5,719,754	3,787,783	3,431,877	6,075,660	3,125,843
Capital lease obligations		0.0 to 17.0%		3,720,467	48,760	1,008,592	2,760,635	776,023
Total other obligations				9,440,221	3,836,543	4,440,469	8,836,295	3,901,866
Total long-term debt and other obligations				\$78,544,086	\$3,836,543	\$8,608,179	\$73,772,450	\$8,232,983

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The University has bonds, notes and capital lease obligations due in the total amount of \$59,345,025 and \$67,696,790 as of June 30, 2003 and 2002, respectively. These bonds and notes bear interest at rates ranging from 1.35 percent to 5.9 percent annually, and mature at various dates through fiscal year 2020. The revenue bonds are payable, both as to principal and interest, solely and only out of net income arising from the operation of the various revenue funds.

The revenue bond issues and the 1988 Housing System note payable require the University to establish and fund various Debt Service Reserve Funds. At June 30, 2003 and 2002, all Debt Service Reserve Funds have been fully funded. The University also is required to maintain certain rate covenants related to the Auxiliary Enterprise System bonds.

During 1991, revenue bonds totaling \$8,106,000 were defeased. At June 30, 2003 and 2002, the current outstanding balance of these defeased bonds was \$750,000, and \$1,070,000, respectively.

During 1998, Recreation Building 1991 bonds of \$4,475,000 and Parking System 1993 bonds of \$2,990,000 were defeased. At June 30, 2003 and 2002, the current outstanding balance of these defeased bonds was \$5,035,000 and \$5,495,000, respectively.

During 2003, Auxiliary System bonds, series 1993A and 1993B of \$5,295,000 and \$14,235,000 respectively and Classroom Building 1996 bonds of \$5,155,000 were defeased. At June 30, 2003, the current outstanding balance of these defeased bonds was \$24,685,000. In accordance with accounting principles generally accepted in the United States of America, the outstanding balances of the defeased bonds are not reflected on the statement of net assets of the University. The difference in cash flows required to service the old debt and those required to service the new debt were \$1,940,669 for the Auxiliary System bonds and \$488,989 for the Classroom Building bonds. The net present value savings of the aggregate decreased debt service payments for the Auxiliary System Revenue bonds was \$1,787,134 and for the Classroom Building bonds was \$379,173.

The principal and interest requirements on notes and bonds payable to maturity at June 30, 2003 are as follows:

	Principal	Interest	Total
2004	\$ 4,684,627	\$ 2,212,345	\$ 6,896,972
2005	4,773,242	2,094,909	6,868,151
2006	4,921,968	1,966,205	6,888,173
2007	4,675,805	1,829,520	6,505,325
2008	3,109,759	1,708,081	4,817,840
2009–2012	11,816,016	5,665,413	17,481,429
2013–2017	17,530,685	3,907,616	21,438,301
2018–2020	6,691,501	430,156	7,121,657
	\$ 58,203,603	\$ 19,814,245	\$ 78,017,848

Present value of future minimum lease payments at June 30, 2003 are as follows:

2004	\$ 906,478
2005	944,831
2006	255,413
Total minimum lease payments	\$ 2,106,722
Less amount representing interest	(140,976)
	\$ 1,965,746

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Southwest Missouri State University

# Notes to Financial Statements June 30, 2003 and 2002

### Note 8: Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 28,350,614	\$ 89,468	\$	\$ 19,311	\$ 28,459,393
Infrastructure	13,553,449				13,553,449
Buildings	274,453,279	108,768		1,915,872	276,477,919
Furniture, fixtures, and equipment	49,668,718	4,899,595	4,091,286	105,583	50,582,610
Library materials	31,667,945	1,885,494			33,553,439
Capitalized collections	119,892				119,892
Construction in progress	1,753,140	5,674,139		(2,040,766)	5,386,513
<b>Total</b>	<b>399,567,037</b>	<b>12,657,464</b>	<b>4,091,286</b>		<b>408,133,215</b>
Less accumulated depreciation:					
Infrastructure	5,393,972	549,665			5,943,637
Buildings	75,464,056	7,112,108			82,576,164
Furniture, fixtures, and equipment	36,162,744	6,075,061	4,043,678		38,194,127
Library materials	21,451,409	1,862,274			23,313,683
Capitalized collections	23,978	11,989			35,967
<b>Total accumulated depreciation</b>	<b>138,496,159</b>	<b>15,611,097</b>	<b>4,043,678</b>		<b>150,063,578</b>
<b>Capital assets, net</b>	<b>\$ 261,070,878</b>	<b>\$ (2,953,633)</b>	<b>\$ 47,608</b>		<b>\$ 258,069,637</b>

Capital asset activity for the year ended June 30, 2002 restated was as follows:

	Beginning Balance, As Restated	Additions	Retirements	Transfers	Ending Balance
Land	\$ 27,618,922	\$ 472,459	\$	\$ 259,233	\$ 28,350,614
Infrastructure	12,305,446	1,088,801		159,202	13,553,449
Buildings	234,559,536	1,237,613		38,656,130	274,453,279
Furniture, fixtures, and equipment	43,084,735	6,891,579	2,405,046	2,097,450	49,668,718
Library materials	29,823,113	1,844,832			31,667,945
Capitalized collections	119,892				119,892
Construction in progress	31,493,873	11,431,282		(41,172,015)	1,753,140
<b>Total</b>	<b>379,005,517</b>	<b>22,966,566</b>	<b>2,405,046</b>		<b>399,567,037</b>
Less accumulated depreciation:					
Infrastructure	4,888,144	505,828			5,393,972
Buildings	69,322,985	6,141,071			75,464,056
Furniture, fixtures, and equipment	33,128,931	5,363,840	2,330,027		36,162,744
Library materials	19,647,618	1,803,791			21,451,409
Capitalized collections		23,978			23,978
<b>Total accumulated depreciation</b>	<b>126,987,678</b>	<b>13,838,508</b>	<b>2,330,027</b>		<b>138,496,159</b>
<b>Capital assets, net</b>	<b>\$ 252,017,839</b>	<b>\$ 9,128,058</b>	<b>\$ 75,019</b>		<b>\$ 261,070,878</b>

## Note 9: Commitments and Contingencies

### Claims and Litigation

As is common with most large governmental entities, various parties have asserted claims against the University through litigation and by other means. The University is vigorously defending each of these matters, the eventual outcomes of which management presently believes will not be material.

### Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

## Note 10: Future Changes in Accounting Principle

The Governmental Accounting Standards Board recently issued its Statement No. 39 (GASB No. 39), *Determining Whether Certain Organizations Are Component Units*. The Statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units in the University's financial statements based on the nature and significance of their relationship with the University. GASB No. 39 generally requires reporting, as discretely presented component units, organizations that raise and hold economic resources for the direct benefit of the University or one or more of its component units. The University expects to first apply GASB No. 39 during the year ending June 30, 2004, by retroactively restating prior years' financial statements. The impact of applying the Statement has not yet been determined. The Organization to be evaluated for inclusion in the University's reporting entity under GASB No. 39 is Southwest Missouri State University Foundation.

The Governmental Accounting Standards Board recently issued its Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosures*. GASB No. 40 is designed to provide users of a government's financial statements with information to assess the most common risks inherent in deposit and investment transactions. It provides for comprehensive disclosures regarding the risks to which the government's deposits and investments are exposed and revises the disclosures regarding custodial credit risk for deposits and investments currently required by GASB 3. The new standard is effective for periods beginning after June 15, 2004.

## Note 11: Restatement of Prior Years Financial Statements

Fiscal year 2002 has been restated for an error of \$1,252,666 for amounts charged to expense that should have been capitalized as a part of capital assets. This restatement reduced previously reported 2002 decrease in net assets by \$1,024,758 and increased previously reported net assets at July 1, 2001 by \$227,908. ■

### Private Giving

The loyalty of alumni and previous donors was evident during the fiscal year July 1, 2002, through June 30, 2003. A record number of 34,992 gifts were given, totaling \$7,061,031 (cash basis). As part of that number, the Annual Fund, which supports academic and other programs, received the highest gift amount ever: \$4,468,546. The other approximately \$2.5 million were designated for special campaigns or were one-time gifts.

Many donors choose to support scholarships. Indeed, 551 endowed funds (or 78 percent of all endowments) are designated for scholarships. There are also 354 restricted, i.e., not endowed, funds for scholarships. Because of the generosity of scholarship donors, in the past academic year, students received \$1,180,963 in scholarships from private sources.

Endowed funds are critical to ongoing institutional planning and support. At the end of the fiscal year, the total endowment pool assets stood at \$29,063,121. In addition to providing scholarship support, endowments provide critical program support, fund ongoing maintenance and equipment needs, bring in guest artists and lecturers, and fund faculty growth and development. Continued growth in the endowment parallels continued progress for the University.

Deferred gifts continue to be important for the future of SMSU. The 21 deferred gift commitments established in FY02-03 assist a variety of areas. Paul Connery, for the tenth consecutive year, established a trust for capital purposes of the College of Business Administration. Other trusts will ultimately benefit scholarships and academic departments, the Juanita K. Hammons Hall for the Performing Arts and Ozarks Public Television.

Other deferred gift commitments were in the form of bequests, for a variety of capital projects, Public Broadcasting, and the area of greatest need. Two gifts of life insurance policies will benefit the Grizzly Volleyball program and the Jane A. Meyer Carillon Fund. And charitable gift annuities established will benefit several scholarships, as well as intercollegiate athletics. Charitable gift annuities are life income gifts, providing income for the life of the donor and/or the donor's spouse. Part of the annuity income is taxable and part of it is not.

Whether gifts are made for immediate use, designated for permanent needs by funding endowments or planned through a deferred gift vehicle, all gifts are important to SMSU, both now and in the future. Across the University, many giving opportunities exist along with a range of giving vehicles, from cash to stock to real estate. All gifts advance the opportunities for SMSU students and enhance the University.

Fiscal Year 2003 was an exceptional year in which alumni, parents and friends of SMSU demonstrated their loyalty to the University, its students, faculty, facilities and programs with their gifts. ■

# 2002–2003 FINANCIAL REPORT

Southwest Missouri State University

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## Financial Services Staff

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**Wendell Northrip**, *Director of ZipCard Services*

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Southwest Missouri State University is a community of people with respect for diversity. The University emphasizes the dignity and equality common to all persons and adheres to a strict nondiscrimination policy regarding the treatment of individual faculty, staff, and students. In accord with federal law and applicable Missouri statutes, the University does not discriminate on the basis of race, color, religion, sex, national origin, ancestry, age, disability, or veteran status in employment or in any program or activity offered or sponsored by the University. In addition, the University does not discriminate on any basis not related to the applicable educational requirements for students or the applicable job requirements for employees. The University maintains a grievance procedure incorporating due process available to any person who believes he or she has been discriminated against. Southwest Missouri State University is an Equal Opportunity/Affirmative Action employer. Inquiries concerning the grievance procedure, Affirmative Action Plan, or compliance with federal and state laws and guidelines should be addressed to Jana Estergard, Equal Opportunity Officer, Siceluff Hall 296, 901 South National Avenue, Springfield, Missouri 65804, 417-836-4252.

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