

# 2004–2005 Financial Report




**Southwest Missouri State University**



# Contents

3	Management's Discussion and Analysis	16	Notes to Financial Statements
11	Independent Accountants' Report	36	Private Giving
12	Financial Statements	37	Officers and Directors



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. Michael T. Nietzel  
SMSU President

We are providing Southwest Missouri State University's (the University) discussion and analysis of our financial statements and related notes as of June 30, 2005 and 2004, and for the fiscal years then ended. Three statements are described in the following discussion and analysis: The Statement of Net Assets, which presents the assets, liabilities, and net assets of the institution as of the end of the fiscal year; the Statement of Revenues, Expenses, and Changes in Net Assets, which reflects revenues and expenses recognized during the fiscal year; and the Statement of Cash Flows, which provides information on all of the cash inflows and outflows for the institution by major category during the fiscal year.

We hope this information will assist you as you seek to understand the University's financial position and operating activities, accomplishments and challenges. We are also presenting financial information of the SMSU Foundation, Inc. (the Foundation). The Foundation is a legally separate support organization that raises and holds funds to support the University and its public affairs mission. As you read through the next few pages, please review and refer to the Statements of Net Assets, Revenues, Expenses and Changes in Net Assets, and Cash Flows in addition to the Notes to the Financial Statements that we have described above.

### Financial Overview

In the fiscal year ended June 30, 2005, student enrollment was slightly more than the previous year. Combined with an increase in required student fee charges, the University's net student tuition and fees increased in fiscal year 2005 by \$6 million or 10.95%. This is the second year of substantial increases in required student fees. The University received all of the \$77.9 million State of Missouri appropriations. This modest 3.27% growth in state support totals \$2.5 million, but is still \$6.8 million less than the \$84.7 million the State of Missouri invested in higher education at the University in fiscal year 2001.

Comparing FY 2005 with FY 2004, operating revenues increased approximately \$13.9 million. Last year's increase was slightly less than \$10 million. Operating expenses increased by approximately \$7 million. Increases in salaries, fringe benefits and supplies and services of grants and contracts activities account for the change. Net non-operating revenues and capital gifts, grants and contracts increased by approximately \$7.5 million, \$6.5 million more than last year's increase. Most of the current year increase comes from Federal Transportation Administration grants to construct an intermodal transfer facility. Net assets increased \$21.6 million for the year ended June 30, 2005, compared to slightly more than \$7 million for the previous year. Net assets decreased during the year ending June 30, 2003.

	University			Foundation		
	2005	2004	2003	2005	2004	2003
Total operating revenues	\$ 139,527,475	\$ 125,617,248	\$ 115,675,384	\$ 8,652,506	\$ 7,758,222	\$ 6,520,872
Total operating expenses	203,992,700	196,859,433	193,133,764	4,056,219	4,697,300	5,028,898
Net operating income (loss)	(64,465,225)	(71,242,185)	(77,458,380)	4,596,287	3,060,922	1,491,974
Total nonoperating revenues (expenses) and capital endowment activities	86,146,141	78,574,760	77,408,409	1,467,315	3,167,180	(229,015)
Increase (decrease) in net assets	\$ 21,680,916	\$ 7,332,575	\$ (49,971)	\$ 6,063,602	\$ 6,228,102	\$ 1,262,959

Net assets on June 30, 2005, totaled \$267.1 million compared to \$245.4 million on June 30, 2004 and \$238.1 million on June 30, 2003. From June 30, 2003 to June 30, 2005, net assets increased \$29 million. \$16.7 million of the increase is unrestricted. Restricted net assets increased \$6.5 million. Finally, the University's investment in capital assets, net of related debt is \$5.8 million more on June 30, 2005 than June 30, 2003.

The Foundation completed its first comprehensive fund-raising campaign with the attainment of the \$50 million goal for *The Campaign for SMS: Imagine the Possibilities*. The Foundation announced that \$51,340,744 was received or committed for the campaign. The strengthening equity markets resulted in substantial investment gains and other investment income totaling \$4.6 million during fiscal year June 30, 2005 and \$5.5 million during fiscal year June 30, 2004 compared to slightly less than \$1.0 million for fiscal year June 30, 2003. Net assets increased more than \$6 million during this fiscal year to more than \$57 million on June 30, 2005.

Current assets on June 30, 2005 for the University increased 58% when compared to the same date in 2004. This change reflects the short-term nature of current investments and the expectation of completing several capital projects in progress at the end of the year. Current assets on June 30, 2004 totaled approximately the same amount on June 30, 2003. The value of non-current assets on June 30, 2005 and 2004 was approximately the same. Non-current assets on June 30, 2004 exceed non-current assets on June 30, 2003 by more than \$2.5 million. Current liabilities on June 30, 2005 were just over \$4 million more than on June 30, 2004. Non-current liabilities at June 30, 2005, reflecting a capital lease payable for a utility system upgrade, increased \$5.5 million from \$51.7 to \$57.2 million. Total liabilities on June 30, 2005, were approximate \$9.6 million more than the amount on June 30, 2004. From June 30, 2003 to June 30, 2004 non-current liabilities were reduced by almost \$5.2 million. Total liabilities were reduced \$3.1 million over the same period.

Total assets of the Foundation increased more than \$5.3 million from June 30, 2004 to June 30, 2005. Foundation assets on June 30, 2004, totaled \$53.6 million, almost \$7.2 million more than the same day in 2003.

	University			Foundation		
	2005	2004	2003	2005	2004	2003
Current assets	\$ 86,312,969	\$ 54,592,705	\$ 52,936,963	\$ 12,247,008	\$ 11,482,785	\$ 9,841,687
Noncurrent assets						
Endowment and other investments	618,178	12,108,130	5,031,330	45,305,192	40,634,580	34,959,992
Capital assets, net	268,824,888	256,919,415	258,069,637	1,388,098	1,467,342	1,594,966
Other	3,246,721	4,046,252	7,430,187	622	2,045	4,282
<b>Total assets</b>	<b>359,002,756</b>	<b>327,666,502</b>	<b>323,468,117</b>	<b>58,940,920</b>	<b>53,586,752</b>	<b>46,400,927</b>
Current liabilities	34,648,507	30,548,131	28,512,070	1,051,659	1,558,076	365,510
Noncurrent liabilities	57,242,294	51,687,332	56,857,583	711,804	914,821	1,149,664
<b>Total liabilities</b>	<b>91,890,801</b>	<b>82,235,463</b>	<b>85,369,653</b>	<b>1,763,463</b>	<b>2,472,897</b>	<b>1,515,174</b>
<b>Net assets</b>	<b>\$ 267,111,955</b>	<b>\$ 245,431,039</b>	<b>\$ 238,098,464</b>	<b>\$ 57,177,457</b>	<b>\$ 51,113,855</b>	<b>\$ 44,885,753</b>

**Statement of Net Assets**

Comparing the current assets on June 30, 2005 with current assets as of June 30, 2004, cash and investments are \$73.3 million, an increase of \$31 million. Cash and investments on June 30, 2003 were approximately \$42 million. Accounts receivable, net of related allowances for uncollectible accounts decreased only a little less than \$300 thousand and inventories increased approximately \$500 thousand. Non-current investments decreased in 2005 by approximately \$11.5 million, appropriations receivable from the State of Missouri for capital

projects totaled only \$6 thousand, more than \$1 million less than a year before, reflecting the completion of capital projects approved and funded several years ago. The amount of non-current assets at June 30, 2004 was \$2.5 million more than the amount at June 30, 2003.

Construction in progress at the end of fiscal year 2005 totaled \$31 million, an increase of approximately \$21 million over the same date in 2004.

The following table shows the breakdown of net assets at June 30, 2005, 2004 and 2003 for both the University and Foundation.

Amounts in \$ millions	University			Foundation		
	2005	2004	2003	2005	2004	2003
Invested in Capital Assets, Net of Related Debt	\$ 207.3	\$ 205.5	\$ 201.5	\$ 1.2	\$ 1.0	\$ 0.9
Restricted						
Unexpendable	3.6	3.6	3.6	22.5	20.6	18.3
Expendable	14.3	4.8	7.8	30.2	27.3	22.5
Unrestricted	41.9	31.5	25.2	3.3	2.2	3.2
<b>Total Net Assets</b>	<b>\$ 267.1</b>	<b>\$ 245.4</b>	<b>\$ 238.1</b>	<b>\$ 57.2</b>	<b>\$ 51.1</b>	<b>\$ 44.9</b>

**Capital and Debt Activities**

During the fiscal year ended June 30, 2005, the University acquired capital assets totaling approximately \$32.8 million, including \$706 thousand in land, infrastructure, and buildings, \$4.9 million of furniture, fixtures and equipment, \$2 million in library materials, and \$25.2 million of construction. During the fiscal year 2005, assets that cost \$31.1 million with an undepreciated value of \$5.5 million were sold, abandoned or otherwise retired. This reflects a change in the University's capitalization policy for furniture, fixtures and equipment from \$1,000 to \$5,000 effective June 30, 2005. As of June 30, 2005, assets which cost less than \$5,000 were written off at a total cost of \$27.1 million (out of the \$31.1 million noted above). The undepreciated value of these assets was \$5.1 million. Construction projects with a cost totaling approximately \$4 million were capitalized. Note 10, Capital Assets, shows the capital asset changes for the fiscal years ended June 30, 2005 and 2004.

During the year, depreciation expense, the systematic allocation of a capital assets cost over its estimated useful life, totaling \$15.5 million was recorded in the financial statements. This is almost the same amount recorded during the fiscal years ended June 30, 2004 and 2003.

On June 30, 2005, the University had 18 construction projects in progress with costs totaling approximately \$31 million incurred to date. The remaining project costs budgeted for these projects totals \$20.8 million. These projects are being funded by restricted net assets of \$17.1 million and unrestricted net assets of \$3.7 million. A table of the construction projects is provided at the bottom of this page for your analysis.

During 2005, the University issued bonds that refunded the 1997 and 1999 bonds and provided an additional \$3.85 million for the construction of an intermodal transfer facility discussed previously. Total bonds payable decreased \$4.4 million from 2004 as a result of bond payments and the refunding. Note 8, Long-term Liabilities, illustrates the changes in long-term liabilities for the fiscal years ended June 30, 2005 and 2004.

At the August 2004, Board of Governors' meeting, the Board approved a contract for the installation of energy savings improvements in various locations throughout the University's Springfield campus. A capital lease purchase agreement provided the necessary financing of \$10.9 million. Annual payments of a little more the \$1 million will begin on August 30, 2006, or the date on which a Certificate of Substantial Completion is executed, whichever is earlier.

<b>Project Name</b>	<b>Project Budget (Not Previously Capitalized)</b>	<b>Amount Expended (Construction in Progress)</b>	<b>Project Balance</b>
Tunnel Renovation	\$ 3,395,301	\$ 3,302,362	\$ 92,939
Intermodal Transfer Facility II	15,273,842	10,817,780	4,456,062
Darr Agriculture Center Phase I	628,624	577,417	51,207
Parking Lot Improvements	1,083,198	871,631	211,567
Blair-Shannon Hall Renovation	2,334,368	2,329,434	4,934
Woods Hall Renovation	2,261,145	2,087,708	173,437
Temple Hall Laboratory	567,291	567,559	(268)
Jim D. Morris Center Renovation	1,413,480	1,396,815	16,665
Jordan Valley Innovation Center	7,792,440	355,300	7,437,140
McDonald Arena Pool/Tunnel Repair	2,118,162	1,885,365	232,797
Artificial Turf Installation - Rec Field West	317,319	303,193	14,126
Energy Project - Phase III	11,191,952	5,457,035	5,734,917
Freudenburger Hall Renovation	1,268,019	599,481	668,538
Darr Agriculture Center Phase II	878,548	135,752	742,796
Kemper 116 Phase I Renovation	133,000	94,480	38,520
Kemper 116 Phase II Renovation	453,650	220,184	233,466
Pummill Hall Exterior Repair	696,394	305,185	391,209
Hammons Student Center Locker Rooms	356,000	2,892	353,108
<b>Total</b>	<b>\$ 52,162,733</b>	<b>\$ 31,309,573</b>	<b>\$ 20,853,160</b>

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

The statement of revenues, expenses, and changes in net assets presents the University's results of operations, as well as the non-operating revenues and expenses. State appropriations are classified as non-operating revenues as required by the Governmental Accounting Standards Board accounting principles even though these revenues are used to support the operations of the University.

Revenues from operating and non-operating sources (total revenues) totaled \$231.7 million for the year ended June 30, 2005, \$206.8 million for June 30, 2004, and \$195.9 million for June 30, 2003. State Appropriations, Student Fees net of scholarships and Sales and Services of Educational and Auxiliary Activities make up the lion's share of our sources of funds. Student Fees, after subtracting \$25.8 million of scholarship allowances, were \$6 million more in FY 2005 than FY 2004 and generated 26.29% of these revenues. When comparing the same amounts to FY 2003, the increase is \$11.7 million. Increases in Net

Student Fees made up 24% of the \$24.9 million increase in total revenues from FY 2004 to FY 2005. The State of Missouri provided 33.62% of total revenues (down from 36.47% in FY 2004 and 38.40% in FY 2003). Sales and services (residence hall, intercollegiate athletics, student union, parking, bookstore) revenues made up 18.02% of the funds in FY 2005. Our grants and contracts revenue for FY 2005 totals more than 14% of our total revenues. Approximately \$10.6 million of the \$33.8 million grants and contracts revenue in FY 2005 was generated from Pell grants. More than \$5 million of the grants and contracts revenue resulted from research and development grants and contracts.

**Statement of Cash Flows**

The Statement of Cash Flows reports the major sources and uses of cash and reveals further information for assessing the University's ability to meet financial obligations as they become due. Inflows and outflows of cash are summarized by operating, non-capital financing, capital and related financing, and investing activities.

<b>Year Ended June 30, 2005</b>			
	<b>Operating</b>	<b>Nonoperating</b>	<b>Total</b>
<b>Revenues</b>			
Net student tuition and fees	\$ 60,917,422		\$ 60,917,422
State appropriations		\$ 77,909,024	77,909,024
Grants and contracts	33,844,179		33,844,179
Sales and services	41,760,930		41,760,930
Gifts		4,150,553	4,150,553
Investment income		1,375,883	1,375,883
Other	3,004,944		3,004,944
Revenues supporting core activities	139,527,475	83,435,460	222,962,935
<b>Expenses</b>			
Compensation and benefits	132,712,981		132,712,981
Scholarships and benefits	6,212,675		6,212,675
Supplies and services	43,948,502		43,948,502
Utilities	5,661,230		5,661,230
Interest expense		1,479,059	1,479,059
Depreciation	15,457,312		15,457,312
Expenses associated with core activities	203,992,700	1,479,059	205,471,759
Income (loss) from core activities	(64,465,225)	81,956,401	17,491,176
<b>Other Nonoperating Activities and Changes in Net Assets</b>			
Gain (loss) on disposal of fixed assets		(4,570,550)	(4,570,550)
Capital gifts		575,542	575,542
Capital grants and contracts		8,184,748	8,184,748
Increase in net assets	\$ (64,465,225)	\$ 86,146,141	21,680,916
<b>Net assets</b>			
Beginning of Year			245,431,039
End of Year			\$ 267,111,955

<b>Year Ended June 30, 2004</b>			
	<b>Operating</b>	<b>Nonoperating</b>	<b>Total</b>
<b>Revenues</b>			
Net student tuition and fees	\$ 54,901,269		\$ 54,901,269
State appropriations		\$ 75,441,324	75,441,324
Grants and contracts	29,627,857		29,627,857
Sales and services	38,325,866		38,325,866
Gifts		2,655,775	2,655,775
Investment income		630,935	630,935
Other	2,762,256		2,762,256
Revenues supporting core activities	125,617,248	78,728,034	204,345,282
<b>Expenses</b>			
Compensation and benefits	128,761,914		128,761,914
Scholarships and benefits	6,947,508		6,947,508
Supplies and services	40,783,156		40,783,156
Utilities	5,081,510		5,081,510
Interest expense		2,565,871	2,565,871
Depreciation	15,285,345		15,285,345
Expenses associated with core activities	196,859,433	2,565,871	199,425,304
Income (loss) from core activities	(71,242,185)	76,162,163	4,919,978
<b>Other Nonoperating Activities and Changes in Net Assets</b>			
Gain (loss) on disposal of fixed assets		(79,895)	(79,895)
Capital gifts		1,738,241	1,738,241
Capital grants and contracts		754,251	754,251
Increase in net assets	\$ (71,242,185)	\$ 78,574,760	7,332,575
<b>Net assets</b>			
Beginning of Year			238,098,464
End of Year			\$ 245,431,039

<b>Year Ended June 30, 2003</b>			
	<b>Operating</b>	<b>Nonoperating</b>	<b>Total</b>
<b>Revenues</b>			
Net student tuition and fees	\$ 49,225,879		\$ 49,225,879
State appropriations		\$ 75,228,005	75,228,005
Grants and contracts	27,031,282		27,031,282
Sales and services	36,648,405		36,648,405
Gifts		2,245,431	2,245,431
Investment income		1,036,038	1,036,038
Other	2,769,818		2,769,818
Revenues supporting core activities	115,675,384	78,509,474	194,184,858
<b>Expenses</b>			
Compensation and benefits	126,013,323		126,013,323
Scholarships and benefits	6,723,883		6,723,883
Supplies and services	40,118,638		40,118,638
Utilities	4,666,823		4,666,823
Interest expense		2,820,473	2,820,473
Depreciation	15,611,097		15,611,097
Expenses associated with core activities	193,133,764	2,820,473	195,954,237
Income (loss) from core activities	(77,458,380)	75,689,001	(1,769,379)
<b>Other Nonoperating Activities and Changes in Net Assets</b>			
Gain (loss) on disposal of fixed assets		32,918	32,918
Capital gifts		623,895	623,895
Capital grants and contracts		1,056,937	1,056,937
Other nonoperating revenues		5,658	5,658
Increase in net assets	\$ (77,458,380)	\$ 77,408,409	(49,971)
<b>Net assets</b>			
Beginning of Year			238,148,435
End of Year			\$ 238,098,464



### Economic Factors That Will Affect The Future

The University's statewide mission in public affairs is to develop educated persons. In order to effectively accomplish our mission, we must employ and retain excellent educators, researchers, and public servants. Consequently, we are people helping people and we face economic pressures attracting and retaining the individuals necessary to accomplish our mission. Health care costs are expected to continue an upward movement resulting in an anticipated increase in health care insurance premiums of approximate 5%. In fiscal year ending June 30, 2005, retirement contributions increased more than 18%. The University's average faculty and staff salaries are below our benchmarks and remain a point of emphasis within our funding discussions.

On July 1, 2005, Michael T. Nietzel, Ph.D., began his tenure as the tenth president of the University. From the president's leadership, the University has established the following five goals it intends to achieve:

- Democratize society
- Incubate new ideas
- Imagine Missouri's future
- Help make Missouri's future
- Model ethical behavior

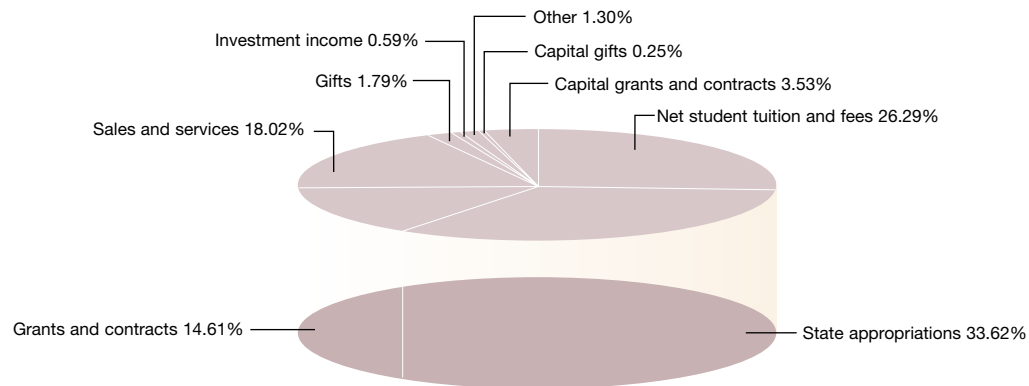
In order to accomplish these five goals, the University will focus on eight priorities:

- Improving faculty and staff salaries
- Implementing the statewide mission in public affairs
- Acquiring instructional and research equipment
- Increasing current operating expense budgets
- Developing affordable distance learning and instructional technology
- Improving finances of the West Plains campus
- Expanding library resources
- Strengthening the graduate program

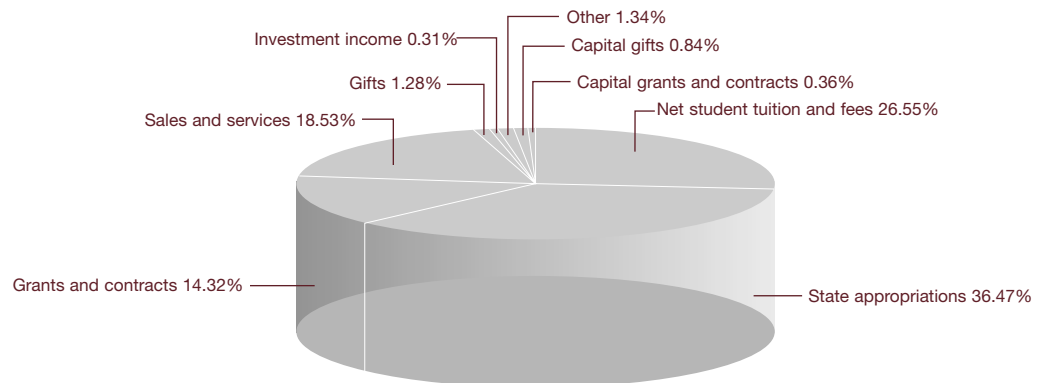
On August 28, 2005, Southwest Missouri State University became Missouri State University by an act of the Legislature passed during the 2005 legislative term. This new name reflects the statewide, national and international impact the University has on the education of Missouri, the United States of America and the world's citizenry. The University believes being known as Missouri State will enhance its ability to continue to attract highly qualified students and faculty.

The State of Missouri appropriates funds each year to the University for operating costs and capital expenditures. For the year ending June 30, 2006, the University was appropriated the same amount as the previous year. This level of state appropriations for fiscal year 2006 (\$77.9 million) is still \$6.8 million less than the amount received in fiscal year 2001. The fiscal year 1998 appropriation was larger than the amount appropriated for fiscal year 2006. As in prior years, there is also the possibility that state funding will fall short. When this happens, the state withholds payments to institutions of higher education and state agencies as directed by the governor. If the state were to withhold state appropriations, the University would implement various cost-saving measures to balance its budget.

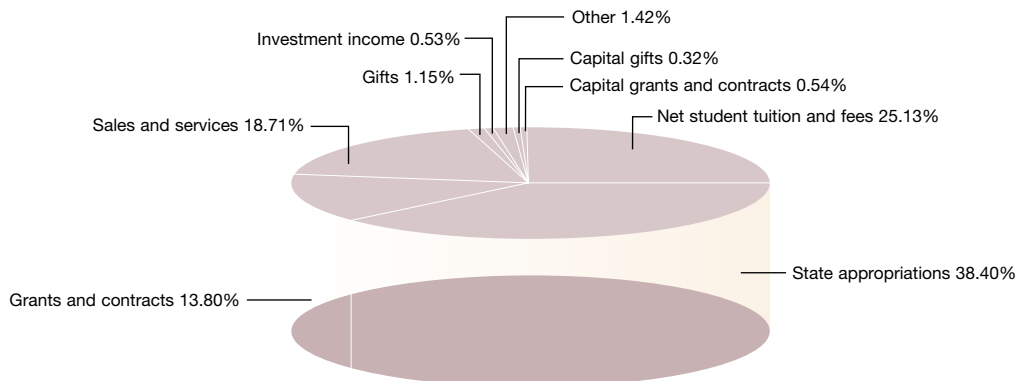
**FY 2005 Operating and Nonoperating Revenues**



**FY 2004 Operating and Nonoperating Revenues**



**FY 2003 Operating and Nonoperating Revenues**





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

The Board of Governors  
Southwest Missouri State University  
Springfield, Missouri

We have audited the accompanying basic financial statements of Southwest Missouri State University (University) and its discretely presented component unit, collectively a component unit of the State of Missouri, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audit 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. The financial statements of Southwest Missouri State University Foundation, which comprises the financial statements of the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southwest Missouri State University and of its discretely presented component unit as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows thereof 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 6, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries 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 6, 2005

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# Statements of Net Assets

June 30, 2005 and 2004

	University 2005	University 2004	Component Unit Foundation 2005	Component Unit Foundation 2004
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 43,465,563	\$ 29,204,511	\$ 7,241,605	\$ 6,217,425
Restricted cash and cash equivalents	6,144,680	454,369	98,774	96,657
Short-term investments	21,116,750	12,336,640	2,851,001	2,862,205
Restricted short-term investments	2,580,241			
Funds held in trust	247,270			
Accounts receivable, net	5,707,757	5,979,278	38,909	31,736
Pledges receivable, net			1,629,316	1,323,510
Grants receivable	895,624	1,541,443		
Accrued interest receivable-unrestricted	23,302	67,094	44,896	29,752
Accrued interest receivable-restricted	56,857	21,611	249	104
Inventories	4,284,430	3,775,427		
Loans to students, net	602,504	575,088		
Deposits recoverable	23,500	23,500		
Prepaid expenses	1,164,491	613,744		
Assets for resale			342,258	921,396
<b>Total current assets</b>	<b>86,312,969</b>	<b>54,592,705</b>	<b>12,247,008</b>	<b>11,482,785</b>
Noncurrent assets:				
Restricted cash and cash equivalents			1,986,063	1,478,502
Pledges receivable, net			3,452,401	3,548,405
Restricted long-term investments		348,906	38,288,586	34,075,467
Investments restricted for bonds		6,074,146		
Investments held in trust			1,132,126	1,105,177
Other long-term investments	418,416	5,485,316	446,016	427,029
Appropriations due from State of Missouri	6,419	1,061,207		
Deferred bond issue costs and discounts	997,231	934,595	622	2,045
Loans to students, net	2,243,071	2,050,450		
Due from Foundation	199,762	199,762		
Construction in progress	31,309,573	10,056,566		
Capital assets, net	237,515,315	246,862,849	1,388,098	1,467,342
<b>Total noncurrent assets</b>	<b>272,689,787</b>	<b>273,073,797</b>	<b>46,693,912</b>	<b>42,103,967</b>
<b>Total assets</b>	<b>359,002,756</b>	<b>327,666,502</b>	<b>58,940,920</b>	<b>53,586,752</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	7,611,394	5,537,930	806,543	1,264,308
Accrued compensated absences	3,484,033	3,264,288		
Accrued payroll	7,639,408	7,453,991		
Deferred revenue	7,828,466	6,316,411		
Deposits	527,680	527,181		
Accrued interest payable	816,631	538,699	583	1,283
Long-term liabilities-current portion	5,699,831	5,580,863	244,533	292,485
Insurance claims payable	1,041,064	1,328,768		
<b>Total current liabilities</b>	<b>34,648,507</b>	<b>30,548,131</b>	<b>1,051,659</b>	<b>1,558,076</b>
Noncurrent liabilities:				
Accrued compensated absences	3,448,558	3,326,780		
Annuity obligations			512,042	515,059
Capital lease obligations	10,902,115	252,825		
Revenue bonds payable	42,891,621	48,107,727		200,000
Due to SMSU			199,762	199,762
<b>Total noncurrent liabilities</b>	<b>57,242,294</b>	<b>51,687,332</b>	<b>711,804</b>	<b>914,821</b>
<b>Total liabilities</b>	<b>91,890,801</b>	<b>82,235,463</b>	<b>1,763,463</b>	<b>2,472,897</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	207,329,203	205,484,863	1,188,098	1,027,342
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	199,762	199,762	15,087,048	13,423,733
Loans	3,372,229	3,349,926		
Other			7,375,364	7,138,783
Expendable:				
Research	331,838	6,393		
Scholarships and fellowships	53,771	53,771	12,348,792	10,136,480
Loans	208,274	187,242		
Capital projects	11,115,843	2,023,087		
Debt service	2,600,000	2,580,093		
Other			17,868,684	17,180,933
Unrestricted	41,901,035	31,545,902	3,309,471	2,206,584
<b>Total net assets</b>	<b>\$ 267,111,955</b>	<b>\$ 245,431,039</b>	<b>\$ 57,177,457</b>	<b>\$ 51,113,855</b>

# Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2005 and 2004

	University 2005	University 2004	Component Unit Foundation 2005	Component Unit Foundation 2004
<b>Operating Revenues</b>				
Student tuition and fees	\$ 86,742,074	\$ 79,631,358	\$	\$
less scholarship allowances	(25,824,652)	(24,730,089)		
Total student tuition and fees	60,917,422	54,901,269		
Sales and services of educational departments	12,554,939	10,904,146		
Federal grants and contracts	24,079,148	20,343,480		
State and local grants and contracts	2,595,058	4,838,503		
Nongovernmental grants and contracts	7,169,973	4,445,874		
Gifts and contributions			7,579,650	6,663,409
Auxiliary enterprises:				
Residential life (net of scholarship allowances of \$2,563,003 in 2005 and \$2,534,469 in 2004)	18,550,247	16,927,193		
Bookstore (net of scholarship allowances of \$391,885 in 2005 and \$420,390 in 2004)	2,187,857	2,334,626		
Parking (net of scholarship allowances of \$202,440 in 2005 and \$208,844 in 2004)	2,674,227	2,545,819		
Athletics	4,871,582	4,773,542		
Recreational facilities	190,112	185,595		
Student Union	731,966	654,945		
Other operating revenues	3,004,944	2,762,256	1,072,856	1,094,813
<b>Total operating revenues</b>	<b>139,527,475</b>	<b>125,617,248</b>	<b>8,652,506</b>	<b>7,758,222</b>
<b>Operating Expenses</b>				
Salaries	104,123,489	101,191,899		
Benefits	28,589,492	27,570,015		
Scholarships and fellowships	6,212,675	6,947,508	1,052,456	1,139,308
Utilities	5,661,230	5,081,510	127,706	111,688
Supplies and other services	43,948,502	40,783,156	2,787,813	3,318,680
Depreciation	15,457,312	15,285,345	88,244	127,624
<b>Total operating expenses</b>	<b>203,992,700</b>	<b>196,859,433</b>	<b>4,056,219</b>	<b>4,697,300</b>
Operating income	(64,465,225)	(71,242,185)	4,596,287	3,060,922
<b>Nonoperating Revenues (Expenses)</b>				
State appropriations	77,909,024	75,441,324		
Gifts	4,150,553	2,655,775		
Investment income	1,375,883	630,935	4,550,643	5,492,721
Interest on capital asset-related debt	(1,479,059)	(2,565,871)	(10,850)	(19,250)
Other nonoperating revenues				
Other nonoperating expenses and losses			(246,279)	(148,980)
Expenditures to SMSU			(4,150,553)	(2,655,775)
Loss on disposal of fixed assets	(4,570,550)	(79,895)		
<b>Net nonoperating revenues</b>	<b>77,385,851</b>	<b>76,082,268</b>	<b>142,961</b>	<b>2,668,716</b>
Income before other revenues, expenses, gains, or losses	12,920,626	4,840,083	4,739,248	5,729,638
Capital gifts	575,542	1,738,241		
Capital projects to SMSU			(575,542)	(1,738,241)
Capital grants and contracts	8,184,748	754,251		
Additions to permanent endowments			1,899,896	2,236,705
<b>Increase in net assets</b>	<b>21,680,916</b>	<b>7,332,575</b>	<b>6,063,602</b>	<b>6,228,102</b>
<b>Net Assets</b>				
Net assets — beginning of year	245,431,039	238,098,464	51,113,855	44,885,753
<b>Net assets — end of year</b>	<b>\$ 267,111,955</b>	<b>\$ 245,431,039</b>	<b>\$ 57,177,457</b>	<b>\$ 51,113,855</b>

See Notes to Financial Statements

# Statements of Cash Flows

For the Years Ended June 30, 2005 and 2004

	2005	2004
<b>Cash Flows From Operating Activities</b>		
Tuition and fees	\$ 62,447,808	\$ 54,713,983
Sales and services of educational departments	12,554,939	10,904,146
Federal grants and contracts	24,724,967	20,025,903
State grants and contracts	2,595,058	4,838,503
Nongovernmental grants and contracts	7,169,973	4,445,874
Payments to suppliers	(56,698,557)	(52,966,973)
Payments to employees	(132,186,041)	(128,438,063)
Loans issued to students	(883,500)	(648,733)
Collection of loans to students	663,463	735,701
Auxiliary enterprise charges:		
Residential life	18,550,247	16,927,193
Bookstore	2,187,857	2,334,626
Parking	2,674,227	2,545,819
Athletics	4,871,582	4,773,542
Recreational facilities	190,112	185,595
Student Union	731,966	654,945
Other receipts	2,717,240	3,137,326
Net cash used by operating activities	(47,688,659)	(55,830,613)
<b>Cash Flows From Noncapital Financing Activities</b>		
State appropriations	77,909,024	75,441,324
Gifts and grants received for other than capital purposes	4,150,553	2,655,775
Net cash flows provided by noncapital financing activities	82,059,577	78,097,099
<b>Cash Flows From Capital and Related Financing Activities</b>		
Cash received from disposal of fixed assets	893,417	80,078
Purchase of capital assets	(6,943,960)	(6,785,244)
Construction in progress	(23,268,735)	(6,914,618)
Capital appropriation	1,061,207	3,095,272
Capital grants and contracts	8,184,748	754,251
Gifts of cash	286,582	1,738,241
Proceeds from capital debt	32,850,000	
Cash paid to defease outstanding debt	(30,795,000)	
Cash paid for debt defeasance escrow	(1,416,102)	
Proceeds from capital lease financing	10,902,115	
Principal paid on capital debt and lease	(5,674,022)	(5,496,769)
Interest paid on capital debt and lease	(1,301,842)	(2,334,004)
Deferred bond issuing expense	(711,993)	
Net cash used by capital and related financing activities	(15,933,585)	(15,862,793)
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	27,865,580	73,483,342
Purchase of investments	(27,784,530)	(63,452,469)
Interest on investments	1,432,980	697,101
Net cash provided by investing activities	1,514,030	10,727,974
Net increase in cash and cash equivalents	19,951,363	17,131,667
Cash and cash equivalents—beginning of year	29,658,880	12,527,213
Cash and cash equivalents—end of year	\$ 49,610,243	\$ 29,658,880

## Statements of Cash Flows (continued)

For the Years Ended June 30, 2005 and 2004

	<b>2005</b>	<b>2004</b>
<b>Reconciliation of net operating revenues (expenses) to net cash used by operating activities:</b>		
Operating loss	\$ (64,465,225)	\$ (71,242,185)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	15,457,312	15,285,345
Change in operating assets and liabilities		
Accounts receivable	271,521	(731,137)
Loans to students	(220,037)	86,968
Funds held in trust	(247,270)	
Appropriations due from State of Missouri	(6,419)	(16,888)
Federal and state grant receivable	645,819	(361,869)
Inventories	(509,003)	(443,823)
Prepaid expenses	(550,747)	(125,022)
Accounts payable and accrued expenses	183,600	414,046
Accrued compensated absences	341,523	417,468
Accrued payroll	185,417	(93,617)
Deferred revenue	1,512,055	546,718
Deposits	499	14,021
Insurance claims payable	(287,704)	419,362
<b>Net cash used by operating activities</b>	<b>\$ (47,688,659)</b>	<b>\$ (55,830,613)</b>
<b>Supplemental Cash Flows Information</b>		
Increase in accounts payable incurred for capital asset purchases	\$ 1,889,864	\$ 579,744
Gifts in kind of capital assets	\$ 288,960	

*See Notes to Financial Statements*

## Notes to Financial Statements June 30, 2005 and 2004

### 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.

#### **Component Unit**

The SMSU Foundation Inc. (the Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation's primary function is to raise and hold funds to support the University and its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the University.

Although the University does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the years ended June 30, 2005 and 2004, the Foundation provided \$4,726,095 and \$4,394,016, respectively, of support to the University. Complete financial statements of the Foundation may be obtained from its Administrative Office at the following address: 901 S. National, Springfield, MO 65897.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the University's financial reporting entity for these differences.

#### **Basis of Presentation**

The financial statements have been prepared to incorporate all fund groups utilized internally by the University. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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.

**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.

## Notes to Financial Statements June 30, 2005 and 2004

### **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 \$1,998,713 and \$899,311 at June 30, 2005 and 2004, respectively. The University increased the uncollectible accounts more aggressively during 2005 by writing off accounts that had no activity within the last year and were at least 90 days past due.

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 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 \$1,343,284 and \$1,295,848 at June 30, 2005, and 2004, 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 method, 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. As of June 30, 2004, equipment with a cost in excess of \$1,000 with a useful life greater than one year was capitalized. As of June 30, 2005, equipment with a cost in excess of \$5,000 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 to the Foundation. 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 either the weighted-average rates paid for long-term borrowing or the rates associated with specific debt. 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, 2005 was \$435,233 and for the year ended June 30, 2004 was \$15,490.

**Foundation Real Estate and Equipment**

Buildings, improvements and equipment are depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method. Real estate and equipment includes tenant remodeling improvements of \$74,695 and \$235,269 and equipment of \$442,208 and \$445,848 as of June 30, 2005 and 2004, respectively. Depreciation for the tenant remodeling totaled \$11,437 and \$18,215 for the years ended June 30, 2005 and 2004, respectively. Real estate and equipment also includes \$220,000 for a residence on the West Plains campus used to house administration. Depreciation for the residence for the years ended June 30, 2005 and 2004, totaled \$5,263.

**Foundation Valuation of Gifts of Property**

Gifts of real and personal property are reported at their estimated fair value as of the date the property is received. Fair value is determined either by a staff member of the university with expertise in the valuation of the particular property, or by appropriate documentation furnished by the donor.

## Notes to Financial Statements June 30, 2005 and 2004

### **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, 2005 was \$334,519 and for the year ended June 30, 2004, was \$275,679.

### **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.

The Foundation's net assets, which under FASB standards are reported as either unrestricted, temporarily restricted, or permanently restricted based on the presence or absence of donor restrictions, have been presented based on the GASB classifications with like characteristics.

### **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.

### **Scholarship Allowances**

Student tuition and fees and auxiliary enterprise revenues, presented net of scholarships and fellowships of \$28,981,980, and \$27,893,792 at June 30, 2005 and 2004, 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.

## Notes to Financial Statements June 30, 2005 and 2004

### Bad Debt Expense

Bad debt expense is \$1,591,340 and \$522,631 for the years ended June 30, 2005 and 2004, respectively, and is shown as a reduction of tuition and other fee revenues.

### 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).

### Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 financial statement presentation. These reclassifications had no effect on net earnings.

## Note 2: Deposits and Investments

### Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The University's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Missouri; bonds of any city, county, school district or special road district of the state of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2005 and 2004, none of the University's bank balances held by the current depository, a United States financial institution, were exposed to custodial credit risk. All of these domestic deposits were fully collateralized at the end of fiscal year 2005 and 2004. The funds held by international banks for the University's foreign education activities were not collateralized. The University is exposed to custodial credit risk for these deposits as follows:

	2005	2004
Uninsured and uncollateralized	\$ 295,456	\$ 319,914

*Foreign Currency Risk.* This risk relates to adverse affects on the fair value of a deposit from changes in exchange rates. The University does not have any policies related to foreign currency risk. The University has \$295,456 and \$319,914 of foreign deposits denominated in Chinese Yuan and the Hong Kong Dollar at June 30, 2005 and 2004, respectively.

**Investments**

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

At June 30, 2005 and 2004, the University had the following investments and maturities:

<b>June 30, 2005</b>					
<b>Maturities in Years</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Less than 1</b>	<b>1–5</b>	<b>6–10</b>	<b>More than 10</b>
U.S. Treasury obligations	\$ 418,416	\$	\$ 103,108	\$ 315,308	
U.S. agencies obligations	28,658,990	28,658,990			
	<b>\$ 29,077,406</b>	<b>\$ 28,658,990</b>	<b>\$ 103,108</b>	<b>\$ 315,308</b>	

<b>June 30, 2004</b>					
<b>Maturities in Years</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Less than 1</b>	<b>1–5</b>	<b>6–10</b>	<b>More than 10</b>
U.S. Treasury obligations	\$ 462,563	\$	\$ 121,681	\$ 241,229	\$ 99,653
U.S. agencies obligations	21,782,960	12,494,032	9,288,928		
Bankers acceptance	1,999,485	1,999,485			
	<b>\$ 24,245,008</b>	<b>\$ 14,493,517</b>	<b>\$ 9,410,609</b>	<b>\$ 241,229</b>	<b>\$ 99,653</b>

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses, the University's investment policy limits the type of investments to those which are not exposed to fair value losses arising from increasing interest rates. The maturities are structured to meet the cash flow needs of the University. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk. Investment trading in response to changes in market value or market direction is warranted under active portfolio managements. Interest rate risk is not specifically discussed in the University's investment policy.

*Credit Risk.* Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the University's policy to limit its investment in bankers acceptances to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2004, the University's investment in bankers acceptances was rated A1 by Standard & Poor's and P1 by Moody's Investors Service. At June 30, 2005 and 2004, the University's investments not directly guaranteed by the U.S. government were rated either A1+ or Aaa by Standard & Poor's and/or either P1 or Aaa by Moody's Investors Service and/or F1+ or Aaa by Fitch Investors Service.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The University had no investments exposed to custodial credit risk at the end of June 30, 2005 or 2004.

*Concentration of Credit Risk.* The University's investment places maximum percentages on the total investment funds held in each type of instrument. The type of investments that can be held in the University's portfolio include U.S. Treasury and Federal Agency Securities, repurchase agreements, corporate bonds, commercial paper and bankers acceptance. It is the University's policy that no more than 15% of the total portfolio will be held in any one bank. There are no restrictions on direct obligations of the U.S. Government, U.S. Government Agency issues or U.S. Government guaranteed securities.

## Notes to Financial Statements June 30, 2005 and 2004

There are no restrictions for repurchase agreements which are fully collateralized by U.S. Government securities. No more than 20% of the portfolio will be held in corporate bonds or bankers acceptances with no more than 5% of the portfolio to be held with any one issuer. No more than 30% of the portfolio will be held in commercial paper, with no more than 5% of the portfolio to be held with any one issuer.

*Foreign Currency Risk.* This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. The University's exposure to foreign currency risk did not exist at June 30, 2005 or 2004 because there were no foreign investments in the University's investment portfolio at any time during these two fiscal years.

### Summary of Carrying Values

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

	2005	2004
Carrying Value:		
Deposits	\$ 44,648,244	\$ 29,658,880
Investments	29,077,406	24,245,008
	\$ 73,725,650	\$ 53,903,888

Included in the following statements of net assets captions

	2005	2004
Cash and cash equivalents	\$ 43,465,563	\$ 29,204,511
Restricted cash and cash equivalents	6,144,680	454,369
Short-term investments	21,116,750	12,336,640
Restricted short-term investments	2,580,241	
Investments restricted for bonds		6,074,146
Long-term investments	418,416	5,485,316
Restricted long-term investments		348,906
Cash, cash equivalents and investments total	\$ 73,725,650	\$ 53,903,888

### Investment Income

Investment income for the years ended June 30, 2005 and 2004, consisted of:

	2005	2004
Interest and dividend income	\$ 1,424,183	\$ 651,792
Net decrease in fair value of investments	(48,300)	(20,857)
	\$ 1,375,883	\$ 630,935



**Foundation Pooled Investments**

Funds treated as endowment by the Foundation are managed as a pooled investment fund. The various subsidiary accounts purchase shares in the investment pool when additions are received. The investment pool is operated on a unit market basis. The following schedule summarizes data related to the investment pool for the years ended June 30:

	<b>2005</b>	<b>2004</b>
Pooled investment at market value	\$ 39,965,318	\$ 35,288,588
Number of pool shares	162,898	153,576
Market value per pool share	\$ 245.34	\$ 229.78
Time weighted total return	12.0%	18.3%
Interest and dividend earnings	\$ 357,394	\$ 312,342
Net gains	\$ 3,926,702	\$ 5,075,506

Endowment assets consist of the following as of June 30, 2005 and 2004:

Pooled assets from above	\$ 39,965,318	\$ 35,288,588
Non-pooled endowment assets	2,744,645	2,947,634
<b>Total endowment assets</b>	<b>\$ 42,709,963</b>	<b>\$ 38,236,222</b>

**Foundation Investments and Investment Return**

Investments in equity securities and debt securities are carried at fair value.

While the Foundation does not invest directly in derivative securities, it may, through investment holdings with various money managers and through its investment in a limited partnership, indirectly hold these securities. The Foundation has significant investments in marketable securities, which are subject to price fluctuation. These instruments could potentially subject the Foundation to significant concentrations of market risk. This risk is controlled through a diversified portfolio and regular monitoring procedures.

## Notes to Financial Statements June 30, 2005 and 2004

Investments are summarized as follows at June 30:

	2005	2004
Accrued income	\$ 69,285	\$ 42,127
The Common Fund		
Money market accounts	4,960,178	4,804,539
Intermediate cash fund	2,851,001	2,862,205
International fund	3,308,469	1,992,175
Multi-strategy bond fund	2,167,402	1,194,332
Endowment Realty Investors, Inc.	188,871	234,841
Charles Schwab		
Money market fund	16,030	306,450
Vanguard Value Index	2,781,660	2,132,276
Vanguard 500 Index Admiral	5,860,850	3,233,076
Vanguard Mid Cap Index	1,722,021	759,730
DFA U.S. 4-10 Value Portfolio	1,638,716	1,793,903
MSDW Institutional International Small Cap	2,646,609	2,053,774
SSgA Emerging Markets	2,837,437	2,253,882
PIMCO	2,605,876	2,366,779
Scudder Rreef Real Estate	2,179,917	1,632,291
Laudus U.S. Small Cap	1,369,173	1,611,487
Harris Aurora Offshore Limited Fund	1,600,013	1,470,073
Lotosoff Capital Management Small Cap	1,387,456	1,572,458
Cadogan Alternative Strategies Fund	1,402,602	1,346,018
Rreff America REIT	318,327	
Highland Investors L.P. — equities	109,858	1,629,956
Springfield Trust Company		
Money market accounts	87,274	39,270
Fixed income	1,997,263	3,345,383
Rorer Asset Management — equities		1,943,282
Rorer Asset Management — balanced fund		235,667
A. G. Edwards — balanced fund	241,079	
Trust Company of the Ozarks		
Money market accounts	166,040	57,988
Fixed income	1,924,988	1,270,585
Other	3,500	3,500
	<u>\$ 46,441,895</u>	<u>\$ 42,188,047</u>
Investment return consists of the following:		
Investment income	\$ 601,333	\$ 466,402
Net realized and unrealized gains on investments reported at fair value	3,914,308	5,048,308
	<u>\$ 4,515,641</u>	<u>\$ 5,514,710</u>

Investments held in trust are deposited with A. G. Edwards' balanced fund or are in municipal bonds and other investments.

Investment expenses incurred for the years ended June 30, 2005 and 2004 totaled \$120,363 and \$120,620, respectively.

Note 3: Foundation Pledges Receivable

Pledges receivable for the Foundation are a credit risk to the extent donors choose not to complete their pledge payments. Pledges receivable consist of the following unconditional promises to give at June 30:

	<b>2005</b>	<b>2004</b>
Due in less than one year	\$ 2,509,160	\$ 2,054,944
Due in one to five years	2,379,241	2,601,681
Due in more than five years	732,036	727,562
	<hr/> 5,620,437	<hr/> 5,384,187
Less: Allowance for doubtful accounts	155,839	141,186
Unamortized discount	382,881	371,086
	<hr/> 538,720	<hr/> 512,272
	<hr/> <b>\$ 5,081,717</b>	<hr/> <b>\$ 4,871,915</b>

Note 4: Related Party Transactions

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. 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, 2005, is \$42,709,963 and at June 30, 2004 was \$38,236,222.

Additionally, the Foundation owed the University approximately \$784,000 and \$1,110,000 at June 30, 2005 and 2004, respectively for pledges receivable and 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 5: 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, 2005 and 2004

The University was required to contribute 10.64, 9.35 and 8.81 percent of eligible salaries for the years ended June 30, 2005, 2004 and 2003, respectively. No employee contributions are required or permitted. Contributions, which equaled the contribution requirements for years ended June 30, 2005, 2004, and 2003 were \$9,057,228, \$7,843,524, and \$7,318,245, 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 was required to contribute 7.57% and 7.47% of the participants salary to CURP for the years ended June 30, 2005 and 2004 respectively. The total contributed for years ended June 30, 2005, 2004 and 2003 was \$490,395, \$354,272 and \$199,097, respectively. 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 had 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 6: 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.

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, 2005 and 2004, is summarized as follows:

	2005	2004
Balance at beginning of year	\$ 1,328,768	\$ 909,406
Health and dental claims	10,902,996	11,540,792
Health insurance payments	(11,190,700)	(11,121,430)
Balance at end of year	\$ 1,041,064	\$ 1,328,768

#### Note 7: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2005 and 2004 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2005 Total	2004 Total
Instruction	\$ 52,690,819	\$ 14,483,308	\$ 135,643	\$ 23,099	\$ 7,037,945	\$	\$ 74,370,814	\$ 72,275,561
Research	3,673,283	922,747	9,893	1,243	4,643,271		9,250,437	6,151,527
Public service	3,460,818	952,652	133,924	110,968	3,785,296		8,443,658	7,286,151
Academic support	12,314,573	3,589,121	127,100	130,890	5,581,640		21,743,324	20,285,020
Student services	6,613,439	1,904,257	261,213		3,789,790		12,568,699	11,868,849
Institutional support	11,152,114	2,378,170	29,681	11,217	2,496,641		16,067,823	16,740,590
Operation and maintenance of plant	4,783,554	1,574,302	2,835	3,269,428	1,970,937		11,601,056	13,682,548
Scholarships and fellowships	65,604	5,807	4,351,579		39,799		4,462,789	5,228,414
Auxiliary Enterprises	9,369,285	2,779,128	1,160,807	2,114,385	14,603,183		30,026,788	28,055,428
Depreciation						15,457,312	15,457,312	15,285,345
Total operating expenses for fiscal year 2005	\$ 104,123,489	\$ 28,589,492	\$ 6,212,675	\$ 5,661,230	\$ 43,948,502	\$ 15,457,312	\$ 203,992,700	
Total operating expenses for fiscal year 2004	\$ 101,191,899	\$ 27,570,015	\$ 6,947,508	\$ 5,081,510	\$ 40,783,156	\$ 15,285,345		\$ 196,859,433

## Notes to Financial Statements June 30, 2005 and 2004

### Note 8: Long-term Liabilities

Long-term debt and other obligations consist of the following as of June 30, 2005:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	\$ 2,108,976	\$	\$ 123,243	\$ 1,985,733	\$ 126,968
1997	A	4.2 to 5.1%	2018	14,920,000		14,920,000		
1999	A	4.0 to 5.2%	2020	17,515,000		17,515,000		
2002	A	1.45 to 3.2%	2010	13,885,000		2,685,000	11,200,000	2,740,000
2005	A	2.00 to 4.05%	2025		32,850,000		32,850,000	2,460,000
				48,428,976	32,850,000	35,243,243	46,035,733	5,326,968
Classroom Building 2002		1.35 to 4.35%	2016	5,090,000		325,000	4,765,000	335,000
Total Bonds Payable				53,518,976	32,850,000	35,568,243	50,800,733	5,661,968
Unamortized loss on prior bond defeasance				(731,165)	(2,203,750)	(472,809)	(2,462,106)	(214,962)
Total Bonds Payable less unamortized loss				52,787,811	30,646,250	35,095,434	48,338,627	5,447,006
Compensated absences				6,591,068	4,164,016	3,822,493	6,932,591	3,484,033
Capital lease obligations		4.392% to 5.9%		1,153,604	10,902,115	900,779	11,154,940	252,825
Total other obligations				7,744,672	15,066,131	4,723,272	18,087,531	3,736,858
Total long-term debt and other obligations				\$ 60,532,483	\$ 45,712,381	\$ 39,818,706	\$ 66,426,158	\$ 9,183,864

Long-term debt and other obligations consist of the following as of June 30, 2004:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	\$ 2,228,603	\$	\$ 119,627	\$ 2,108,976	\$ 123,243
1997	A	4.2 to 5.1%	2018	15,850,000		930,000	14,920,000	960,000
1999	A	4.0 to 5.2%	2020	18,170,000		655,000	17,515,000	680,000
2002	A	1.45 to 3.2%	2010	16,510,000		2,625,000	13,885,000	2,685,000
				52,758,603	0	4,329,627	48,428,976	4,448,243
Classroom Building 2002		1.35 to 4.35%	2016	5,445,000		355,000	5,090,000	325,000
Total Bonds Payable				58,203,603	0	4,684,627	53,518,976	4,773,243
Unamortized loss on prior bond defeasance				(824,324)		(93,159)	(731,165)	(93,159)
Total Bonds Payable less unamortized loss				57,379,279	0	4,591,468	52,787,811	4,680,084
Compensated absences				6,173,600	3,859,251	3,441,783	6,591,068	3,264,288
Capital lease obligations		5.9%		1,965,746		812,142	1,153,604	900,779
Total other obligations				8,139,346	3,859,251	4,253,925	7,744,672	4,165,067
Total long-term debt and other obligations				\$ 65,518,625	\$ 3,859,251	\$ 8,845,393	\$ 60,532,483	\$ 8,845,151

The University has bonds, notes, and capital lease obligations due in the total amount of \$59,493,567 and \$53,941,415 as of June 30, 2005 and 2004, 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 2025. 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, 2005 and 2004, 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, 2005 and 2004, the current outstanding balance of these defeased bonds was \$331,000, and \$505,000, 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, 2005 and 2004, the current outstanding balance of these defeased bonds was \$4,035,000 and \$4,545,000, 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, 2005 and 2004, the current outstanding balance of these defeased bonds was \$18,840,000 and \$21,840,000, respectively. 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 statements of net assets of the University.

During 2005, Auxiliary System bonds series 1997A and 1999A of \$13,960,000 and \$16,835,000 respectively were defeased. At June 30, 2005, the current outstanding balance of these defeased bonds was \$13,960,000 and \$16,835,000. 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 was \$2,928,811. The net present value savings of the aggregate decreased debt service payments were \$2,127,952.

The principal and interest requirements on notes and bonds payable to maturity at June 30, 2005 are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 5,661,968	\$ 1,573,225	\$ 7,235,193
2007	4,950,805	1,375,768	6,326,573
2008	3,364,758	1,277,284	4,642,042
2009	3,453,832	1,188,122	4,641,954
2010	3,558,028	1,089,013	4,647,041
2011–2015	17,522,659	3,776,063	21,298,722
2016–2020	11,083,683	884,843	11,968,526
2021–2025	1,205,000	123,871	1,328,871
	<u>\$ 50,800,733</u>	<u>\$ 11,288,189</u>	<u>\$ 62,088,922</u>

## Notes to Financial Statements June 30, 2005 and 2004

### Capital Lease Obligations

The University is obligated under leases accounted for as capital leases. Assets under capital leases at June 30, 2005 and 2004, totaled \$16,403,491 and \$5,501,376, respectively, net of accumulated depreciation of \$1,501,020 and \$1,254,277, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 4.392% to 5.9% together with the present value of the future minimum lease payments as of June 30, 2005:

Year ending June 30,

2006	\$ 255,413
2007	1,051,869
2008	1,051,869
2009	1,051,869
2010	1,051,869
2011 – 2015	5,259,344
2016 – 2020	5,259,344
2021 – 2025	1,051,869
Total minimum lease payments	16,033,446
Less amount representing interest	4,878,506
Present value of future minimum lease payments	<u>\$11,154,940</u>

At the August 20, 2004 Board of Governors' meeting, the Board approved a contract with Johnson Controls for the installation of energy savings improvements in various locations throughout the SMSU-Springfield campus. The financing for this contract is a capital lease/purchase agreement which settled on September 7, 2004.

The total amount financed is \$10,902,115. The annual payments of \$1,051,869 will begin on August 30, 2006 or the date on which a Certificate of Substantial Completion is executed, whichever is earlier and are included above.

### Foundation Bonds and Notes Payable

Details of Real Estate Revenue bonds and notes for the Foundation, as of June 30 are as follows:

Bond Issue/Note	Bonds Series	Balance June 30, 2005	Balance June 30, 2004	Original Amount	Interest Rate	Due in One Year	Date Last Payment Due
Office Building—1991	B	\$200,000	\$440,000	\$900,000	3.5%	\$200,000	4/1/06

Aggregate annual maturities of long-term debt at June 30, 2005, are as follows:  
2006—\$200,000.

The Office Building Revenue Bonds were issued under the authority of The Industrial Development Authority of Greene County, Missouri, and the debt is secured by a deed of trust on The Alumni Center.

### Foundation Leases

Noncancelable leases for space in The Alumni Center expire in various years through 2008. Several of these leases contain renewal options for periods ranging from one to three years. Future minimum lease income at June 30, 2005, is as follows: 2006—\$482,295; 2007—\$39,375; 2008—\$19,406



Note 9: Auxiliary Enterprise System

The outstanding debt of the University consists of Auxiliary Enterprise System Revenue Bonds. The most recent Auxiliary Enterprise System Revenue Bonds were issued in accordance with a Resolution adopted by the Board of Governors in March 2005. The Resolution provides that the bonds are payable from the gross income and revenues derived from the housing, parking and recreational facilities serving the University and its students. The housing facilities consist of 14 residence halls, four dining facilities, and the Student Union Building. The parking facilities consist of all facilities, lots and equipment for the parking of vehicles and the movement of passengers around campus. The recreational facilities include the Hammons Student Center, the Plaster Sports Complex and the athletic programs of the University. The Auxiliary Enterprise System also includes the University's Bookstore and certain auxiliary operations at the University's West Plains campus.

Financial information for the Auxiliary Enterprise System for June 30, 2005 and 2004 is summarized as follows:

	2005	2004
<b>Condensed Statement of Net Assets</b>		
<b>Assets:</b>		
Current assets	\$ 21,949,467	\$ 18,746,962
Noncurrent assets	92,255,451	83,793,731
<b>Total assets</b>	<b>114,204,918</b>	<b>102,540,693</b>
<b>Liabilities:</b>		
Current liabilities	12,938,826	10,387,322
Noncurrent liabilities	38,134,289	42,021,265
<b>Total liabilities</b>	<b>51,073,115</b>	<b>52,408,587</b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	45,160,831	33,892,840
Restricted -		
Expendable	7,740,237	2,397,593
Unrestricted	10,230,735	13,841,673
<b>Total net assets</b>	<b>63,131,803</b>	<b>50,132,106</b>
<b>Total liabilities and net assets</b>	<b>\$ 114,204,918</b>	<b>\$ 102,540,693</b>

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	2005	2004
Operating revenues	\$ 31,821,801	\$ 29,925,931
<b>Operating expenses:</b>		
Depreciation	1,796,108	3,520,233
All other operating expenses	30,089,856	28,018,522
<b>Total operating expenses</b>	<b>31,885,964</b>	<b>31,538,755</b>
Operating income (loss)	(64,163)	(1,612,824)
Nonoperating revenues (expenses)	9,111,899	89,733
Excess (deficit) of revenues over expenses	9,047,736	(1,523,091)
Transfer from other University units	3,951,961	3,132,296
Increase in net assets	12,999,697	1,609,205
Net assets, beginning of year	50,132,106	48,522,901
<b>Net assets, end of year</b>	<b>\$ 63,131,803</b>	<b>\$ 50,132,106</b>

## Notes to Financial Statements June 30, 2005 and 2004

### Note 10: Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 28,666,254	\$ 406,350	\$	\$	\$ 29,072,604
Infrastructure	13,553,449	288,961		1,465,505	15,307,915
Buildings	279,114,509	10,253		1,813,812	280,938,574
Furniture, fixtures, and equipment	51,599,856	4,869,714	31,083,217	723,461	26,109,814
Library materials	35,439,831	1,995,689			37,435,520
Capitalized collections	119,892				119,892
Construction in progress	10,056,566	25,255,785		(4,002,778)	31,309,573
<b>Total</b>	<b>418,550,357</b>	<b>32,826,752</b>	<b>31,083,217</b>		<b>420,293,892</b>

Less accumulated depreciation:

Infrastructure	6,492,273	621,318			7,113,591
Buildings	89,806,019	7,310,517			97,116,536
Furniture, fixtures, and equipment	40,092,085	5,649,934	25,619,250		20,122,769
Library materials	25,192,608	1,863,554			27,056,162
Capitalized collections	47,957	11,989			59,946
<b>Total accumulated depreciation</b>	<b>161,630,942</b>	<b>15,457,312</b>	<b>25,619,250</b>		<b>151,469,004</b>
<b>Capital assets, net</b>	<b>\$ 256,919,415</b>	<b>\$ 17,369,440</b>	<b>\$ 5,463,967</b>		<b>\$ 268,824,888</b>

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 28,459,393	\$ 70,099	\$	\$ 136,762	\$ 28,666,254
Infrastructure	13,553,449				13,553,449
Buildings	276,477,919			2,636,590	279,114,509
Furniture, fixtures, and equipment	50,582,610	4,895,200	3,877,954		51,599,856
Library materials	33,553,439	1,886,392			35,439,831
Capitalized collections	119,892				119,892
Construction in progress	5,386,513	7,443,405		(2,773,352)	10,056,566
<b>Total</b>	<b>408,133,215</b>	<b>14,295,096</b>	<b>3,877,954</b>		<b>418,550,357</b>

Less accumulated depreciation:

Infrastructure	5,943,637	548,636			6,492,273
Buildings	82,576,164	7,229,855			89,806,019
Furniture, fixtures, and equipment	38,194,127	5,615,939	3,717,981		40,092,085
Library materials	23,313,683	1,878,925			25,192,608
Capitalized collections	35,967	11,990			47,957
<b>Total accumulated depreciation</b>	<b>150,063,578</b>	<b>15,285,345</b>	<b>3,717,981</b>		<b>161,630,942</b>
<b>Capital assets, net</b>	<b>\$ 258,069,637</b>	<b>\$ (990,249)</b>	<b>\$ 159,973</b>		<b>\$ 256,919,415</b>

The capitalization policy for furniture, fixtures and equipment was increased from \$1,000 to \$5,000 effective June 30, 2005. The value of equipment was reduced by \$27,133,648 for items less than \$5,000 as of June 30, 2005. Accumulated depreciation for these items was reduced by \$22,004,200, for a net loss of \$5,129,448 which is included in the loss on disposal of fixed assets in the statements of revenue, expenses and changes in net assets.

## Note 11: 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.

### **Construction Commitments**

The University has outstanding commitments for various construction contracts at June 30, 2005, including a major outstanding contract of approximately \$13 million at June 30, 2005, related to the Intermodal Transfer Facility. Of this contract, approximately \$5.3 million is still to be incurred at June 30, 2005. ■

## Private Giving

The loyalty of alumni and previous donors was evident during the fiscal year July 1, 2004, through June 30, 2005. The SMSU Foundation received 34,880 gifts, totaling \$8,979,512 (cash basis) for students, faculty and programs at SMSU. As part of that number, the Annual Fund, which supports academic and other programs, received the highest gift amount ever: \$5,278,970. The other approximately \$3.7 million was designated for special campaigns or were one-time gifts.

Many donors choose to support scholarships. Indeed, 650 endowed funds (or 85 percent of all endowments) are designated for scholarships. There also are 404 restricted, i.e., not endowed, funds for scholarships. Because of the generosity of scholarship donors, in the past academic year, students received \$1,052,456 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 \$39,965,318. 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 20 deferred gift commitments established in FY05 assist a variety of areas. The College of Business Administration will benefit from another trust established for capital purposes. In addition, other trusts will ultimately benefit the Tent Theatre program; scholarships in business, nursing and physician assistant studies; and scholarships for graduates of area Missouri high schools, including Marshfield and any Springfield high school.

A life insurance policy, combined with a trust and outright gifts, will benefit high school graduates from the Mountain Grove area who have chosen to study in the College of Humanities and Public Affairs. Other deferred gift commitments were in the form of bequests, for a variety of areas including scholarships in accounting, art, music, nursing, graduates of Springfield high schools majoring in education or business, and Students in Free Enterprise (SIFE).

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 2005 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. ■

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STRONG HALL



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