2010-2011

FINANCIAL REPORT

Missouri State™
UNIVERSITY

About Missouri State University

Missouri State University is a public university system with an enrollment of more than 22,000 students who come from all 50 states and 83 countries. There are four physical campuses, located in Springfield, Mo.; West Plains, Mo.; Mountain Grove, Mo.; and Dalian, China. Students can follow their passion and find their place at Missouri State University.

Missouri State offers:
- Distinctive Mission, Remarkable Education
- Affordable Choice, Unbeatable Value
- Memorable Experiences, Lifetime Success

Contents

Management's Discussion and Analysis

We are providing Missouri State University's (the University) discussion and analysis of our financial statements and related notes as of June 30, 2011 and 2010, 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 for the Missouri State University Foundation, Inc. (the Foundation). The Foundation is a legally separate support organization that raises and holds funds to support the University. 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 June 30, 2011, the University's tuition and fee revenue was $3.9 million greater in fiscal year 2011 at $126.6 million as compared to $122.7 million in fiscal year 2010 which was an increase of almost $6.4 million over $116.3 million in fiscal year 2009. This increase in tuition and fee revenue was due to a combination of an increase in fee charges and an increase in student enrollment. Scholarship allowances have fluctuated between $32.5 million in FY 2009 to $26.0 million in FY 2010 and back to $28.8 million in FY 2011. Scholarship allowances are scholarships, fellowships and stipends applied to student accounts to cover their tuition and fees while payments made directly to students are reported as scholarship and fellowship expenses. The University received $83.1 million from State of Missouri appropriations for fiscal year 2011 compared to $90.8 million in the fiscal year 2010 and $98.2 million in fiscal year 2009.

Fiscal year 2011's operating revenues of $177.7 million were $4.4 million more than the $173.3 million operating revenues in fiscal year 2010 which is $5.6 million greater than fiscal year 2009 amount of $167.7 million.

Operating expenses for the year ended June 30, 2011 decreased $3.3 million to $273.8 million from $277.1 million in fiscal year 2010 while operating expenses for fiscal year 2009 totaled $267.7 million. The decrease in salaries, scholarships, supplies and other services explains the change in operating expenses for fiscal year 2011. Net non-operating revenues and capital gifts, grants, contracts and appropriations totaled $120.9 million, $127.0 million and $127.7 million in fiscal years 2011, 2010 and 2009, respectively. The non-operating revenues were restated for 2009 due to the clarification by GASB on the presentation of Federal Pell grants. The net decrease in fiscal year 2011 over 2010 was primarily from increases in gifts, non-operating grants and contracts offset by a decrease in state appropriations (both non-operating and capital), investment income and interest on capital asset-related debt. The comparison of fiscal year 2010 over 2009 was primarily from decreases in state appropriations, and increases in gifts, grants and contracts (both non-operating and capital) net of reduction in investment income and interest on capital asset-related debt. Net assets increased almost $24.8 million for the year ended June 30, 2011, compared to $23.2 million for the year ended June 30, 2010, and $27.7 million for the year ended June 30, 2009.

Net assets on June 30, 2011, totaled $420.6 million compared to $395.8 million on June 30, 2010 and $372.6 million on June 30, 2009. From June 30, 2009 to June 30, 2011, net assets increased $48.0 million. Unrestricted net assets increased $23.5 million, restricted net assets increased $0.1 million and the University's investment in capital assets, net of related debt increased $1.2 million.

	University			Foundation		
	2011	2010	2009	2011	2010	2009
Total operating revenues	$ 177,678,562	$ 173,317,810	$ 167,676,480	$ 13,298,278	$ 16,027,770	$ 9,121,333
Total operating expenses	273,807,399	277,094,738	267,727,067	4,313,652	4,315,145	3,911,347
Net operating income (loss)	(96,128,837)	(103,776,928)	(100,050,587)	8,984,626	11,712,625	5,209,986
Total non-operating revenues (expenses) and capital endowment activities	120,886,952	126,952,281	127,711,088	57,367	(4,609,095)	(20,639,823)
Increase (decrease) in net assets	$ 24,758,115	$ 23,175,353	$ 27,660,501	$ 9,041,993	$ 7,103,530	$(15,429,837)

The Foundation revenue from gifts totaled almost $12.4 million in fiscal year 2011 compared to $14.9 million in fiscal year 2010. The equity markets improved during fiscal year 2011 which resulted in investments gains of $10.0 million as compared to $4.2 million in gains during fiscal year ending June 30, 2010 while weak markets during fiscal year 2009 netted investment losses totaling $10.8 million. The stronger market caused net assets to increase $9.0 million in fiscal year 2011 to $113.1 million. The increase in gifts and the stronger equity market caused net assets to increase $7.1 million in fiscal year 2010 to $104.1 million on June 30, 2010 while they decreased by $15.4 million in fiscal year 2009 to $97.0 million on June 30, 2009.

The University's current assets on June 30, 2011 of $184.6 million were $35.7 million greater than the $148.9 million on June 30, 2010 which was $16.2 million greater than the $132.7 million on June 30, 2009. The increase in current assets represents an increase in cash and cash equivalents, restricted cash from bond proceeds for capital projects and net accounts receivable. The increase of current assets during fiscal year 2010 represents an increase in cash and cash equivalents and net accounts receivable. The University's financial condition continues to be strong. The value of non-current assets on June 30, 2011, 2010, and 2009 were $398.9 million, $377.1 million, and $377.7 million, respectively. Current liabilities on June 30, 2011 of $41.4 million were $4 million greater than on June 30, 2010. Current liabilities on June 30, 2010 totaled $37.4 million and $38.2 million on June 30, 2009. The increase of non-current liabilities to $121.5 million on June 30, 2011 is due to the issuance of auxiliary revenue bonds and bonds issued through the Missouri Health and Educational Facilities Authority. Non-current liabilities on June 30, 2010 were $92.8 million as compared to $99.6 million on June 30, 2009. Total liabilities on June 30, 2011 of $162.9 million were $32.6 million greater than the $130.3 million on June 30, 2010. Total liabilities on June 30, 2010 were $7.5 million less than the $137.8 million on June 30, 2009.

Net assets of the Foundation totaled approximately $113.1 million on June 30, 2011 which is $9.1 million more than the $104.0 million on June 30, 2010 and $7.0 million greater than the $97.0 million on June 30, 2009. The Foundation's liabilities totaled $3.9 million, $2.5 million and $.8 million on June 30, 2011, 2010 and 2009, respectively.

	University 2011	University 2010	University 2009	Foundation 2011	Foundation 2010	Foundation 2009
Current assets	$ 184,568,793	$ 148,914,330	$ 132,737,893	$ 24,220,653	$ 24,722,360	$ 23,351,315
Noncurrent assets						
Endowment and other investments	244,533	253,964	263,549	91,613,871	80,772,881	73,281,078
Capital assets, net	395,422,417	373,925,357	374,045,879	1,192,608	1,093,699	1,147,744
Other	3,200,759	2,972,872	3,378,916	–	–	–
Total assets	583,436,502	526,066,523	510,426,237	117,027,132	106,588,940	97,780,137
Current liabilities	41,372,800	37,422,646	38,202,443	3,426,831	2,003,800	266,801
Noncurrent liabilities	121,510,996	92,849,286	99,604,556	489,138	515,970	547,696
Total liabilities	162,883,796	130,271,932	137,806,999	3,915,969	2,519,770	814,497
Net assets	$ 420,552,706	$ 395,794,591	$ 372,619,238	$113,111,163	$104,069,170	$ 96,965,640

Statement of Net Assets

Comparing the current assets on June 30, 2011 with current assets as of June 30, 2010, cash and investments are $159.6 million, an increase of $31.0 million. The increase from June 30, 2009 to June 30, 2010 for cash and investments was $17.0 million. Accounts receivable, net of related allowances for uncollectible accounts increased almost $1.6 million from June 30, 2009 to 2010 and increased almost $3.4 million from June 30, 2010 to 2011. Inventories increased $1.3 thousand from June 30, 2009 to 2010 and increased $.6 million from June 30, 2010 to 2011. Non-current investments were $64 thousand at the end of fiscal year 2009. They decreased $11 thousand to $54 thousand at the end of fiscal year 2010. Non-current investments were $45 thousand at the end of fiscal year 2011. It was determined the spread between short-term and long-term rates was not wide enough to invest long term. Construction in progress at the end of fiscal year 2010 totaled $8.5 million and at the end of fiscal year 2009 totaled $13.5 million. At the end of June 30, 2011, construction in progress totaled $36.2 million. The change from 2009 to 2010 was due to the recording of the renovation of Siceluff Hall and Jordan Valley Innovation Center as an increase in capital assets. New projects were also added. The change for 2010 to 2011 was the result of construction for the Bill R. Foster and Family Recreation Center, the Darr Agriculture Center Phase III, Residence Life Improvements, Greenwood Science Room Addition and the West Plains Community Storm Shelter.

The following table shows the breakdown of net assets at June 30, 2011, 2010, and 2009 for both the University and Foundation.

Amounts in $ millions	University 2011	University 2010	University 2009	Foundation 2011	Foundation 2010	Foundation 2009
Invested in Capital Assets,						
Net of Related Debt	$ 280.7	$ 279.5	$ 265.6	$ 1.2	$ 1.1	$ 1.1
Restricted						
Unexpendable	0.2	0.2	0.2	40.2	37.8	35.3
Expendable	6.9	6.8	13.5	68.1	63.0	58.3
Unrestricted	132.8	109.3	93.3	3.6	2.2	2.3
Total Net Assets	$ 420.6	$ 395.8	$ 372.6	$ 113.1	$ 104.1	$ 97.0

Capital and Debt Activities

During the fiscal year ended June 30, 2011, the University acquired capital assets totaling approximately $41.5 million, including $0.6 million for a building purchase, $4.0 million of furniture, fixtures and equipment, $2.3 million in library materials, and $34.5 million of construction. During the fiscal year 2011, assets that cost $3.2 million with an undepreciated value of $2.1 million were sold, abandoned or otherwise retired. Construction projects with a cost totaling approximately $6.2 million were capitalized. Note 11, Capital Assets, shows the capital asset changes for the fiscal years ended June 30, 2011 and 2010.

During the year, depreciation expense, the systematic allocation of a capital asset's cost over the estimated useful life, totaling $18.9 million was recorded in the financial statements. This amount is $0.3 million more than the $18.6 million recorded during the fiscal year ended June 30, 2010 which was $2.3 million more than the $16.3 million recorded during the fiscal year ended June 30, 2009.

On June 30, 2011, the University had 31 construction projects in progress with costs totaling approximately $36.2 million incurred to date. The project costs budgeted for these projects totals $72.0 million. These projects are being funded by bond proceeds, pledged gifts, restricted and unrestricted net assets. A table of the construction projects is provided for your analysis.

Project Name	Project Budget (Not Previously Capitalized)	Amount Expended (Construction in Progress)	Project Balance
Bill R. Foster and Family Recreation Center	$ 27,126,109.00	$ 13,421,790.66	$ 13,704,318.34
Darr Agriculture Center Phase III	6,150,000.00	5,632,333.51	517,666.49
Intersection Improvements	367,500.00	99,451.25	268,048.75
Robert W. Plaster Center for Free Enterprise	6,234,734.77	35,550.00	6,199,184.77
Greenwood Science Room Addition	2,600,000.00	1,223,067.83	1,376,932.17
JVIC Brewer office renovation	150,000.00	134,003.74	15,996.26
FY10 classroom upgrades	850,000.00	674,495.55	175,504.45
McQueary Family Health Sciences Hall	1,777,500.00	661,086.72	1,116,413.28
JVIC Brewer CBLS Lab infill	918,100.00	886,095.81	32,004.19
Emerg Resp - Generator install	225,000.00	222,699.18	2,300.82
Animal Care Facility	2,500,000.00	54,417.16	2,445,582.84
Res Life - Fire alarm & supprssion system	3,734,000.00	2,434,749.42	1,299,250.58
Res Life - Syswide-painting-carpet	1,900,000.00	1,462,230.97	437,769.03
Res Life - Syswide-Interior door replacement	1,180,000.00	718,357.95	461,642.05
Res Life - Syswide Roof	415,000.00	237,068.71	177,931.29
Res Life - Hutchens Exterior Repairs	5,200,000.00	3,703,871.15	1,496,128.85
Darr Agriculture Center Grant Phase III	1,000,000.00	102,968.16	897,031.84
One card & access control system	727,669.00	58,229.43	669,439.57
Cheek-3rd floor mechanical renovation	415,000.00	205,260.89	209,739.11
Craig - replace air handling units	280,000.00	81,793.95	198,206.05
Temple renovation project	1,750,000.00	651,221.55	1,098,778.45
Kemper hall roof replacement	468,000.00	249,324.63	218,675.37
Carrington auditorium renovation	975,000.00	345,532.70	629,467.30
Glass hall roof replacement	680,000.00	347,333.03	332,666.97
Dogwood & Kentwood South demolition	220,000.00	351.76	219,648.24
PSU Re-roofing	475,000.00	88,369.32	386,630.68
Crustal room repairs	500,000.00	188,184.73	311,815.27
JVIC Building 5 first floor	264,000.00	25,036.65	238,963.35
West Plains Community storm shelter	2,221,114.00	1,519,155.28	701,958.72
West Plains Looney Hall Exterior Repairs	278,493.02	278,493.02	-
West Plains Looney Hall Interior Repairs	411,636.00	408,826.65	2,809.35
Total	$ 71,993,855.79	$ 36,151,351.36	$ 35,842,504.43

During 2011, the University paid almost $1.5 million to retire the 2002 auxiliary bond issue. During 2011, the University issued $24.9 million of auxiliary revenue bonds and $21.5 of auxiliary revenue bonds to refund a portion of the 2005 series. The University issued $10.2 million in bonds through Missouri Health and Educational Facilities Authority. At June 30, 2011, total bonds payable equaled $112.9 million while total bonds payable equaled $82.1 million and $90.1 million at June 30, 2010 and 2009, respectively. Compensated absences, earned but untaken vacation and vested sick leave, decreased slightly from $10.2 million on June 30, 2010 to $9.7 million on June 30, 2011. Capital lease obligations decreased from $9.1 million to $8.4 million. Note 9, Long-term Liabilities, illustrates the changes in long-term liabilities for the fiscal years ended June 30, 2011 and 2010.

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 and Federal Pell grants 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, non-operating and capital sources (total revenues) totaled $303.1 million for the year ended June 30, 2011, $304.6 million for June 30, 2010, and $298.5 million for June 30, 2009. State Appropriations, Student Fees net of scholarships and Sales and Services of Educational and Auxiliary Activities are the main sources of funds. Student Fees, after deducting $28.8 million of scholarship allowances, were $1.0 million more in FY 2011 than FY 2010 and generated 32.25% of these revenues (compared to 31.74% for the prior year). Student tuition and fees net of scholarship allowances increased from $83.9 million in FY 2009 to $96.7 million in FY 2010 or $12.8 million. Most of the change from FY 2010 to FY 2011 was attributed to an increase in student tuition and fees, an increase in student enrollment and the change in scholarship allowances. The State of Missouri provided both non-operating and capital appropriations which were 27.41% of total revenues (down from 29.83% in FY 2010 and down from 32.89% in FY 2009). Sales and services (including residence hall, intercollegiate athletics, student union, parking, bookstore, health center) revenues made up 10.7% of the funds in FY 2011 as compared to 10.56% in fiscal year 2010. Our grants and contracts revenue, including capital, from FY 2011 totals 20.82% of our total revenues while the grants and contracts revenue for FY 2010 totaled 18.99% of the total revenues. Approximately, $28.6 million of total revenues were generated from Pell grants which were recorded as non-operating revenue per GASB regulations as compared to approximately, $24.4 million of Pell grant revenue from FY 2010.

Year Ended June 30, 2011

	Operating	Non-operating	Total
Revenues			
Net student tuition and fees	$ 97,735,332	$ –	$ 97,735,332
State appropriations	–	82,755,488	82,755,488
Grants and contracts	33,787,279	28,553,795	62,341,074
Sales and services	44,141,563	–	44,141,563
Gifts	–	8,457,856	8,457,856
Investment income	–	972,447	972,447
Other	2,014,388	–	2,014,388
Revenues supporting core activities	177,678,562	120,739,586	298,418,148
Expenses			
Compensation and benefits	166,045,177	–	166,045,177
Scholarships and benefits	25,622,057	–	25,622,057
Supplies and services	56,927,025	–	56,927,025
Utilities	6,295,544	–	6,295,544
Interest expense	–	4,319,367	4,319,367
Depreciation	18,917,596	–	18,917,596
Expenses associated with core activities	273,807,399	4,319,367	278,126,766
Income (loss) from core activities	(96,128,837)	116,420,219	20,291,382
Other Non-operating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets	–	(167,293)	(167,293)
Capital gifts	–	3,562,903	3,562,903
Capital State appropriations	–	315,812	315,812
Capital grants and contracts	–	755,311	755,311
Increase (Decrease) in net assets	$ (96,128,837)	$ 120,886,952	24,758,115
Net assets			
Beginning of Year			395,794,591
End of Year			$ 420,552,706

Year Ended June 30, 2010

	Operating	Non-operating	Total
Revenues			
Net student tuition and fees	$ 96,686,518	$ –	$ 96,686,518
State appropriations	–	87,303,394	87,303,394
Grants and contracts	31,969,169	26,561,694	58,530,863
Sales and services	42,952,041	–	42,952,041
Gifts	–	8,478,860	8,478,860
Investment income	–	1,381,894	1,381,894
Other	1,710,082	–	1,710,082
Revenues supporting core activities	173,317,810	123,725,842	297,043,652
Expenses			
Compensation and benefits	167,275,902	–	167,275,902
Scholarships and benefits	26,576,954	–	26,576,954
Supplies and services	59,000,169	–	59,000,169
Utilities	5,683,341	–	5,683,341
Interest expense	–	4,323,028	4,323,028
Depreciation	18,558,372	–	18,558,372
Expenses associated with core activities	277,094,738	4,323,028	281,417,766
Income (loss) from core activities	(103,776,928)	119,402,814	15,625,886
Other Non-operating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets	–	49,447	49,447
Other	–	2,305	2,305
Capital gifts	–	2,736,199	2,736,199
Capital State appropriations	–	3,525,092	3,525,092
Capital grants and contracts	–	1,236,424	1,236,424
Increase (Decrease) in net assets	$ (103,776,928)	$ 126,952,281	23,175,353
Net assets			
Beginning of Year			372,619,238
End of Year			$ 395,794,591

Year Ended June 30, 2009

	Operating	Non-operating	Total
Revenues			
Net student tuition and fees	$ 83,840,100	$ –	$ 83,840,100
State appropriations	–	87,744,549	87,744,549
Grants and contracts	30,172,659	15,611,181	45,783,840
Sales and services	50,766,077	–	50,766,077
Gifts	–	7,818,562	7,818,562
Investment income	–	3,167,003	3,167,003
Other	2,897,644	–	2,897,644
Revenues supporting core activities	167,676,480	114,341,295	282,017,775
Expenses			
Compensation and benefits	166,479,067	–	166,479,067
Scholarships and benefits	12,666,455	–	12,666,455
Supplies and services	66,106,722	–	66,106,722
Utilities	6,130,242	–	6,130,242
Interest expense	–	3,084,279	3,084,279
Depreciation	16,344,581	–	16,344,581
Expenses associated with core activities	267,727,067	3,084,279	270,811,346
Income (loss) from core activities	(100,050,587)	111,257,016	11,206,429
Other Non-operating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets	–	8,502	8,502
Capital gifts	–	3,399,294	3,399,294
Capital State appropriations	–	10,438,137	10,438,137
Capital grants and contracts	–	2,608,139	2,608,139
Increase (Decrease) in net assets	$ (100,050,587)	$ 127,711,088	27,660,501
Net assets			
Beginning of Year			344,958,737
End of Year			$ 372,619,238

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.

Economic Factors That Will Affect the Future

In September 2006, Missouri State University's Board of Governors adopted its strategic plan, *Imagining and Making Missouri's Future, a Long-Range Vision and Five-Year Plan (2006-2011).* The plan confirmed the University's statewide mission in public affairs, whose purpose is to develop educated persons while achieving five goals:

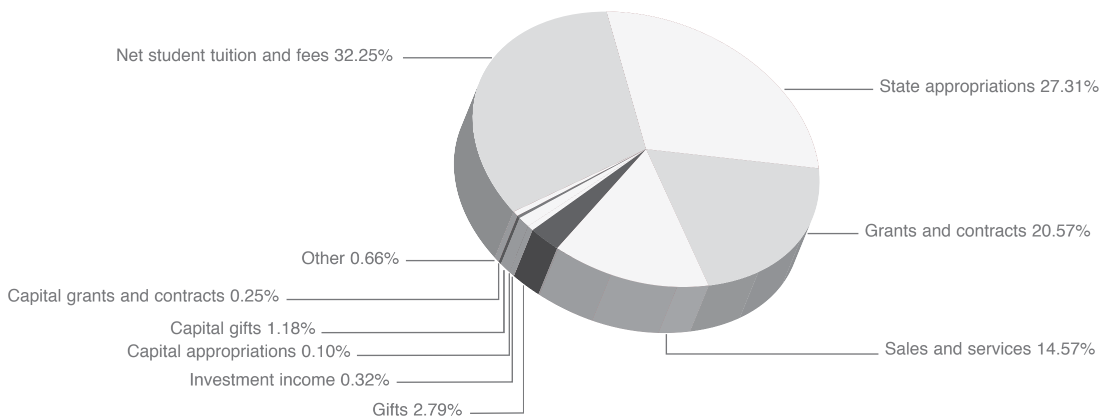
- **Democratizing Society –** Higher education will be increasingly crucial to individuals being successful participants in 21st century society, and Missouri State will accomplish this goal by ensuring access to high-quality public education for well-prepared students from diverse backgrounds. A Missouri State education will enable its graduates to live successful, mindful lives in what will be a more challenging and demanding world.
- **Incubating New Ideas –** Universities will continue to be the source of most new scientific discoveries and technological innovations. Toward that end, Missouri State will expand and focus its research investments so that its faculty and students will be able to discover, advance, and synthesize knowledge. We will become an engine for knowledge.
- **Imagining Missouri's Future –** Missouri State will be an institution where we educate one another about the crucial issues and choices that confront the modern world. We will be an institution that encourages students to weigh priorities, explore alternative views, and ultimately understand the basis for their personal values through open and informed dialogue and scholarly engagement. We will promote imaginative learning.
- **Making Missouri's Future –** Missouri State graduates should be well-informed, confident and conscientious leaders, prepared not just to take good jobs upon graduation, but to make good jobs through the application of their knowledge and the pursuit of their ambitions. Missouri State will cultivate these leaders through a breadth of opportunities and depth of learning that comes from rigorous standards in the classroom, in research, and in extracurricular activities. Our graduates will be committed to learning throughout their lifetimes, pursuing the personal curiosities that were awakened at Missouri State.
- **Modeling Ethical and Effective Institutional Behavior –** To be true to the University's statewide mission in public affairs, we must be an institution known not just for the equality of our outcomes, but also the constant integrity of how we do our work, especially when it comes to inclusiveness, social progress, and the effective stewardship of our resources. Missouri State University will maintain and publish a Public Scorecard of important outcomes by which all stakeholders will be able to monitor and judge the institution's progress in becoming a public university that is respected for the way it conducts its business.

In order to accomplish these five goals, Missouri State will focus on the following priorities:

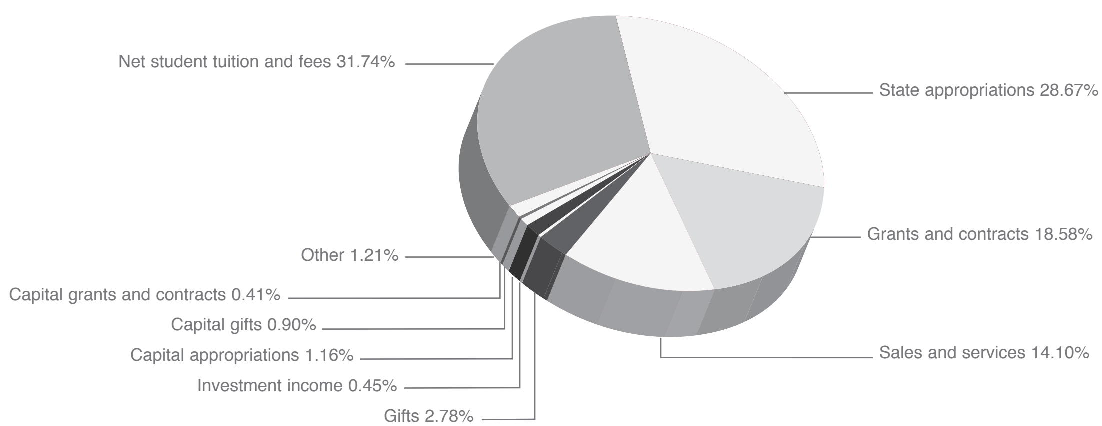
- **Faculty and Staff Salaries (including associated fringe benefits) –** Attracting and retaining outstanding faculty and staff is essential to the University's success now and in the future. Unfunded growth has not allowed salaries to keep pace with competition.
- **Instructional, Research, Service, Facilities, and Academic, Student and Institutional Support Expenses –** The Consumer Price Index, as published by the Bureau of Labor Statistics, for All Urban Consumers (CPI-U) increased by 1.1% for the one year period ending June 2010 (*www.bls.gov/cpi*). Over the last 12 months, the index for all items less food and energy has risen .9%.
- **Utilities –** The University has invested in energy saving measures through the installation of chilled-loop heating and cooling system and centralized building control thermostats. These investments have begun to pay back with the reduction of utility expense by approximately 7.3% from fiscal year 2009 to 2010.
- **Institutional Scholarships, Fellowships and Waivers –** The University has implemented a number of competitive and need-based scholarships, fellowships and waivers designed to attract, assist and retain students. Missouri State has increased funding for these programs equal to the increase in student fees.

The State of Missouri appropriates funds each year to the University for operating costs and capital expenditures. For the year ending June 30, 2012, the University was appropriated $5.8 million less for operating costs (per GASB, they are classified as non-operating on these statements) than the previous year. The University is hopeful improvement in the Missouri economy will result in additional appropriations in future years. However, as in prior years, there is 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. In fact, the University is already going through a process to reallocate funds internally in preparation of a reduction in appropriations from the State of Missouri for FY 2012 and possibly FY 2013. The University instituted some cost-saving policies for fiscal year 2011 by reducing the budget by the amount reduced from the state appropriation. These reductions were accomplished by instituting a retirement incentive program and reducing operating budgets. Some positions were not filled. Most cost centers reviewed their expenses and only ap proved those academically necessary. The University is expecting and making plans for potential reductions to the state appropriation during fiscal year 2012 and 2013.

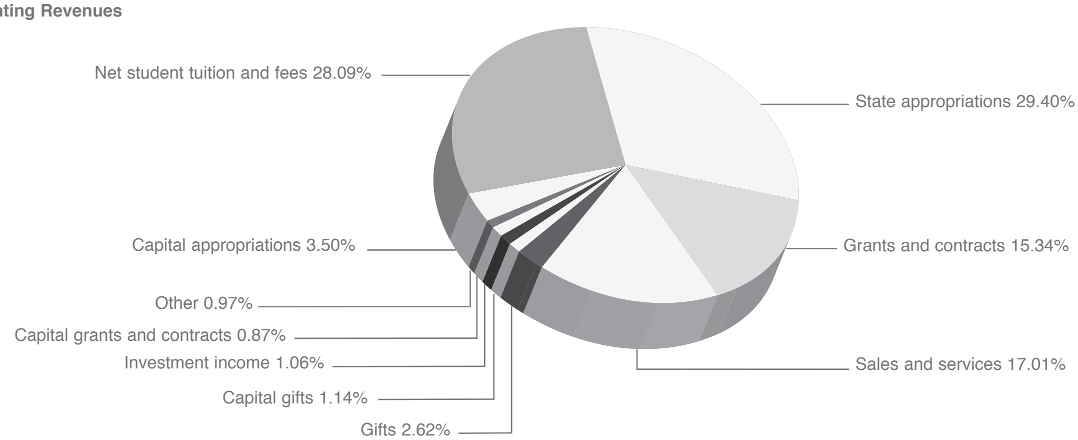
FY 2011 Operating and Non-operating Revenues



FY 2010 Operating and Non-operating Revenues



FY 2009 Operating and Non-operating Revenues



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Independent Accountants' Report on Financial Statements and Supplementary Information

The Board of Governors
Missouri State University
Springfield, Missouri

We have audited the accompanying statements of net assets as of and for the years ended June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows (the basic financial statements) of 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, 2011 and 2010. 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 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 audits provide 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 Missouri State University and of its discretely presented component unit as of June 30, 2011 and 2010, and the respective changes in its financial position and cash flows, where applicable, 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 November 16, 2011, 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 and other postemployment benefit information are not a required part of the basic financial statements but are 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

November 16, 2011

Statements of Net Assets

June 30, 2011 and 2010

		University 2011	University 2010	Component Unit Foundation 2011	Component Unit Foundation 2010
Assets	Current assets:				
	Cash and cash equivalents	$ 142,456,732	$ 123,326,963	$ 17,427,580	$ 16,366,375
	Restricted cash and cash equivalents	17,062,181	5,255,885	–	–
	Short-term investments	–	–	1,562,709	1,538,954
	Accounts receivable, net	14,981,718	11,534,650	8,500	42,064
	Pledges receivable, net	–	–	4,834,199	6,266,912
	Grants receivable	2,341,638	1,910,931	–	–
	Appropriations due from State of Missouri	2,357	48,734	–	–
	Accrued interest receivable-unrestricted	180,250	177,954	53,157	24,547
	Inventories	5,620,418	5,057,755	–	–
	Loans to students, net	315,008	327,386	–	–
	Deposits recoverable	–	18,657	–	–
	Prepaid expenses	1,608,491	1,255,415	–	–
	Assets for resale	–	–	334,508	483,508
	Total current assets	184,568,793	148,914,330	24,220,653	24,722,360
	Noncurrent assets:				
	Restricted cash and cash equivalents	–	–	2,262,403	3,769,184
	Pledges receivable, net	–	–	30,139,118	30,809,010
	Restricted long-term investments	–	–	57,842,904	44,690,561
	Investments held in trust	–	–	913,497	1,049,489
	Other long-term investments	44,771	54,202	455,949	454,637
	Deferred bond issue costs and discounts	1,347,183	853,344	–	–
	Loans to students, net	1,853,576	2,119,528	–	–
	Due from Foundation	199,762	199,762	–	–
	Construction in progress	36,151,351	8,476,502	202,454	24,750
	Capital assets, net	359,271,066	365,448,855	990,154	1,068,949
	Total noncurrent assets	398,867,709	377,152,193	92,806,479	81,866,580
	Total assets	583,436,502	526,066,523	117,027,132	106,588,940
Liabilities	Current liabilities:				
	Accounts payable and accrued expenses	12,092,215	6,206,336	3,386,280	1,957,463
	Accrued compensated absences	4,404,824	4,737,061	–	–
	Accrued payroll	5,461,466	5,315,885	–	–
	Deferred revenue	9,197,546	12,746,296	–	–
	Deposits	476,574	544,812	–	–
	Accrued interest payable	1,481,824	1,183,897	–	–
	Long-term liabilities-current portion	6,274,793	5,306,231	40,551	46,337
	Insurance claims payable	1,099,755	1,382,128	–	–
	Total current liabilities	40,488,997	37,422,646	3,426,831	2,003,800
	Noncurrent liabilities:				
	Accrued compensated absences	5,288,627	5,457,382	–	–
	Annuity obligations	–	–	289,376	316,208
	Capital lease obligations	7,683,147	8,411,924	–	–
	Revenue bonds payable	107,071,431	77,498,820	–	–
	Other long-term liabilities	2,351,594	1,481,160	–	–
	Due to Missouri State University	–	–	199,762	199,762
	Total noncurrent liabilities	122,394,799	92,849,286	489,138	515,970
	Total liabilities	162,883,796	130,271,932	3,915,969	2,519,770
Net Assets	Invested in capital assets, net of related debt	280,667,839	279,548,578	1,192,608	1,093,699
	Restricted for:				
	Nonexpendable:				
	Scholarships and fellowships	199,762	199,762	24,996,680	23,020,147
	Other	–	–	15,158,867	14,756,609
	Expendable:				
	Research	–	14,449	–	–
	Scholarships and fellowships	–	–	13,366,879	9,959,041
	Loans	3,568,536	2,812,869	–	–
	Capital projects	2,623,410	2,604,205	–	–
	Debt service	680,713	1,318,535	–	–
	Other	–	–	54,780,388	53,057,257
	Unrestricted	132,812,446	109,296,193	3,615,741	2,182,417
	Total net assets	$ 420,552,706	$ 395,794,591	$ 113,111,163	$ 104,069,170

See Notes to Financial Statements

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2011 and 2010

		University 2011	University 2010	Component Unit Foundation 2011	Component Unit Foundation 2010
Operating Revenues	Student tuition and fees	$ 126,578,318	$ 122,729,689	$ –	$ –
	less scholarship allowances	(28,842,986)	(26,043,171)	–	–
	Total net student tuition and fees	97,735,332	96,686,518	–	–
	Sales and services of educational departments	11,718,276	10,782,382	–	–
	Federal grants and contracts	15,130,349	18,387,988	–	–
	State and local grants and contracts	8,152,042	8,070,685	–	–
	Nongovernmental grants and contracts	10,504,888	5,510,496	–	–
	Gifts and contributions	–	–	12,351,096	14,952,402
	Auxiliary enterprises:				
	Residential life (net of scholarship allowances of $5,541,863 in 2011 and $4,784,777 in 2010)	21,202,200	20,504,767	–	–
	Bookstore (net of scholarship allowances of $2,639,247 in 2011 and $1,841,525 in 2010)	1,395,013	2,529,325	–	–
	Parking (net of scholarship allowances of $324,664 in 2011 and $274,499 in 2010)	1,646,996	1,680,504	–	–
	Taylor Health and Wellness Center	1,587,180	1,423,945	–	–
	Athletics	5,302,080	4,771,326	–	–
	Recreational facilities	541,161	479,609	–	–
	Student Union	748,657	780,183	–	–
	Other operating revenues	2,014,388	1,710,082	947,182	1,075,368
	Total operating revenues	177,678,562	173,317,810	13,298,278	16,027,770
Operating Expenses	Salaries	126,911,187	129,142,284	–	–
	Benefits	39,133,990	38,133,618	–	–
	Scholarships and fellowships	25,622,057	26,576,954	1,599,021	1,243,924
	Utilities	6,295,544	5,683,341	133,564	110,909
	Supplies and other services	56,927,025	59,000,169	2,502,272	2,881,517
	Depreciation	18,917,596	18,558,372	78,795	78,795
	Total operating expenses	273,807,399	277,094,738	4,313,652	4,315,145
	Operating income (loss)	(96,128,837)	(103,776,928)	8,984,626	11,712,625
Non-operating Revenues (Expenses)	State appropriations	82,755,488	87,303,394	–	–
	Federal grants and contracts	28,553,795	26,561,694	–	–
	Gifts	8,457,856	8,478,860	–	–
	Investment income	972,447	1,381,894	9,961,130	4,212,399
	Interest on capital asset-related debt	(4,319,367)	(4,323,028)	–	–
	Gain (loss) on assets held in trust	–	–	(1,093)	2,368
	Other non-operating expenses and losses	–	2,305	(260,702)	(145,130)
	Expenditures to Missouri State University	–	–	(8,457,856)	(8,478,860)
	Gain (loss) on disposal/impairment of fixed assets	(167,293)	49,447	–	–
	Net non-operating revenues (expenses)	116,252,926	119,454,566	1,241,479	(4,409,223)
	Income before other revenues, expenses, gains, or losses	20,124,089	15,677,638	10,226,105	7,303,402
	Capital gifts	3,562,903	2,736,199	(3,562,903)	(2,736,199)
	Capital grants and contracts	755,311	1,236,424	–	–
	Capital appropriations	315,812	3,525,092	–	–
	Additions to permanent endowments	–	–	2,378,791	2,536,327
	Increase in net assets	24,758,115	23,175,353	9,041,993	7,103,530
Net Assets	Net assets — beginning of year	395,794,591	372,619,238	104,069,170	96,965,640
	Net assets — end of year	$ 420,552,706	$ 395,794,591	$ 113,111,163	$ 104,069,170

See Notes to Financial Statements

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

		2011	2010
Cash Flows From Operating Activities	Tuition and fees	$ 90,671,276	$ 94,643,688
	Sales and services of educational departments	11,718,276	10,782,382
	Federal grants and contracts	14,699,642	20,238,285
	State grants and contracts	8,152,042	8,070,685
	Nongovernmental grants and contracts	10,504,888	5,510,496
	Payments to suppliers	(87,634,552)	(93,821,592)
	Payments to employees	(165,530,154)	(165,317,055)
	Collection of loans to students	296,987	326,124
	Auxiliary enterprise charges:		
	Residential life	21,202,200	20,504,767
	Bookstore	1,395,013	2,529,325
	Parking	1,646,996	1,680,504
	Taylor Health and Wellness Center	1,587,180	1,423,945
	Athletics	5,302,080	4,771,326
	Recreational facilities	541,161	479,609
	Student Union	748,657	780,183
	Other receipts	1,732,015	1,857,612
	Net cash used in operating activities	(82,966,293)	(85,539,716)
Cash Flows From Noncapital Financing Activities	State appropriations	82,755,488	87,303,394
	Federal grants and contracts	28,553,795	26,561,694
	Other revenue	–	2,305
	Gifts and grants received for other than capital purposes	8,457,856	8,478,860
	Net cash provided by noncapital financing activities	119,767,139	122,346,253
Cash Flows From Capital and Related Financing Activities	Cash received from disposal of fixed assets	56,249	76,170
	Purchase of capital assets	(6,881,941)	(6,785,753)
	Construction in progress	(28,692,106)	(11,513,037)
	Capital grants and contracts	755,311	1,236,424
	Capital appropriations	362,189	5,238,342
	Gifts of cash for capital purposes	3,562,903	2,736,199
	Principal paid on capital debt and lease	(26,541,755)	(8,688,950)
	Proceeds from issuance of new bonds	56,590,000	–
	Cash paid to defease outstanding debt	(543,689)	–
	Cash paid to issue new bonds	(607,213)	–
	Interest paid on capital debt and lease	(4,904,311)	(4,160,245)
	Net cash used in capital and related financing activities	(6,844,363)	(21,860,850)
Cash Flows From Investing Activities	Proceeds from sales and maturities of investments	9,411	9,730,766
	Interest on investments	970,171	2,309,464
	Net cash provided by investing activities	979,582	12,040,230
	Net increase in cash and cash equivalents	30,936,065	26,985,917
	Cash and cash equivalents — beginning of year	128,582,848	101,596,931
	Cash and cash equivalents — end of year	$ 159,518,913	$ 128,582,848

Statements of Cash Flows (continued)

For the Years Ended June 30, 2011 and 2010

		2011	2010
Reconciliation of cash and cash equivalents to the statements of net assets	Cash and cash equivalents	$ 142,456,732	$ 123,326,963
	Restricted cash and cash equivalents	17,062,181	5,255,885
	Total cash and cash equivalents	$ 159,518,913	$ 128,582,848
Reconciliation of net operating revenues (expenses) to net cash used in operating activities	Operating loss	$ (96,128,837)	$ (103,776,928)
	Adjustments to reconcile operating loss to net cash used in operating activities:		
	Depreciation expense	18,917,596	18,558,372
	Change in operating assets and liabilities		
	Accounts receivable	(3,447,068)	(1,558,528)
	Loans to students	296,987	326,124
	Federal and state grants receivable	(430,707)	1,850,297
	Inventories	(562,663)	(1,274,385)
	Prepaid expenses	(353,076)	(668,922)
	Accounts payable and accrued expenses	2,996,247	253,442
	Accrued compensated absences	(500,992)	959,250
	Accrued payroll	145,581	128,334
	Deferred revenue	(3,548,750)	(502,055)
	Deposits	(68,238)	17,753
	Insurance claims payable	(282,373)	147,530
	Net cash used in operating activities	$ (82,966,293)	$ (85,539,716)
Supplemental Cash Flows Information	Increase in accounts payable incurred for capital asset purchases	$ 3,760,066	$ 9,772
	Gifts in kind of capital assets	$ –	$ 986

See Notes to Financial Statements

Notes to Financial Statements June 30, 2011 and 2010

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

Nature of Institution

Missouri State University (the University) is a state assisted University with campuses in Springfield, West Plains and Mountain Grove, Missouri and Dalian, China. A nine-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 Units

The Missouri State University 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, 2011 and 2010, the Foundation provided $12,020,759 and $11,215,059, 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 ASC Topic 958, *Not-for-Profit Entities.* 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.

Springfield Innovation, Inc., A Missouri Innovation Center, is a legally separate, tax-exempt component unit of the University. The mission of Springfield Innovation, Inc. is to support advanced product development with a focus on advancing the competitiveness of Missouri-based industries and supporting technology based entrepreneurs while providing interdisciplinary work experiences for Missouri State University students. The board of Springfield Innovation, Inc. is self-perpetuating and consists of graduates and friends of the University.

The University does not control the timing or amount of transactions for Springfield Innovation, Inc. Since this entity will establish resources to maintain a Missouri innovation center program at Missouri State University and provide work experiences for Missouri State University students, Springfield Innovation, Inc. is considered a component unit of the University and will be discretely presented in the University's financial statements.

There were no financial transactions for Springfield Innovation, Inc. for the fiscal years ended June 30, 2011 and 2010. If financial transactions occur in the future, Springfield Innovation, Inc. is a private nonprofit organization which will report under Financial Accounting Standards Board (FASB) standards, including ASC Topic 958, *Not-for-Profit Entities*. 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 will be made to the Springfield Innovation, Inc. 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 non-operating 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 non-operating 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.

Notes to Financial Statements June 30, 2011 and 2010

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.

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 $2,383,644 and $2,370,537 at June 30, 2011 and 2010, respectively. The University reserves for uncollectible accounts that are 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. All 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 charges are not paid in full by that date, a finance charge is assessed on the remaining balance. 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 consists 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 $1,627,639 and $1,622,560 at June 30, 2011, and 2010, respectively.

Inventories

Nonauxiliary inventories consist of supplies for use by the University and merchandise available for sale such as art supplies. 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, pharmacy and recreation facilities. 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, estimated 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 $5,000 with a useful life greater than one year is capitalized. Donated assets are transferred from the Missouri State University 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 with depreciation beginning 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, 2011 was $1,304,085 and for the year ended June 30, 2010 was $156,011.

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.

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.

Deferred Revenue

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

Notes to Financial Statements June 30, 2011 and 2010

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, 2011. 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, 2011 was $609,201 and for the year ended June 30, 2010, was $501,677.

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 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 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 non-operating 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.

Non-operating revenues — Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as grants, gifts and contributions, and other revenue sources that are defined as non-operating 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 $37,348,760 and $32,943,972 at June 30, 2011 and 2010, 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.

Bad Debt Expense

Bad debt expense is $1,446,654 and $1,276,428 for the years ended June 30, 2011 and 2010, respectively, and is netted against tuition and 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).

Reclassification

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on change in net assets.

Notes to Financial Statements June 30, 2011 and 2010

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 having a population of not less than 2,000, 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, 2011 and 2010, none of the University's bank balances held by the current domestic 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 2011 and 2010. 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:

	2011	2010
Uninsured and uncollateralized	$245,112	$1,012,337

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 $245,112 and $1,012,337 of foreign deposits denominated in Chinese Yuan and the Hong Kong Dollar at June 30, 2011 and 2010, respectively.

Investments

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

At June 30, 2011 and 2010, the University had the following investments and maturities:

		June 30, 2011 Maturities in Years		
Type	Fair Value	Less than 1	1–5	6–10
U.S. Treasury obligations	$ 44,771	$ –	$ 44,771	$ –
	$ 44,771	$ –	$ 44,771	$ –

		June 30, 2010 Maturities in Years		
Type	Fair Value	Less than 1	1–5	6–10
U.S. Treasury obligations	$ 54,202	$ –	$ 54,202	$ –
	$ 54,202	$ –	$ 54,202	$ –

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, 2011 and 2010, the University had no investments not directly guaranteed by the U.S. government or U.S. government agencies.

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, 2011 or 2010.

Concentration of Credit Risk. The University's investment policy 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 U.S. 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.

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, 2011 or 2010 because there were no foreign investments in the University's investment portfolio at any time during these two fiscal years.

Notes to Financial Statements June 30, 2011 and 2010

Summary of Carrying Values

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

	2011	2010
Carrying Value:		
Deposits	$159,518,913	$128,582,848
Investments	44,771	54,202
	$159,563,684	$128,637,050

Included in the following statements of net assets captions

	2011	2010
Cash and cash equivalents	$142,456,732	$123,326,963
Restricted cash and cash equivalents	17,062,181	5,255,885
Long-term investments	44,771	54,202
Cash, cash equivalents and investments total	$159,563,684	$128,637,050

Investment Income

Investment income for the years ended June 30, 2011 and 2010, consisted of:

	2011	2010
Interest and dividend income	$ 972,447	$ 1,657,515
Net decrease in fair value of investments	–	(275,621)
	$ 972,447	$ 1,381,894

Foundation Pooled Investments

Funds treated as endowment by the Foundation are managed as a pooled investment fund. This pool includes funds from the unrestricted, temporarily restricted and permanently restricted net asset classes. 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, 2011 and 2010:

	2011	2010
Pooled investments at market value	$ 59,837,782	$ 48,240,357
Number of pool shares	249,918	228,626
Market value per pool share	$ 239	$ 211
Fiscal year return	20.1%	9.0%
Interest and dividend earnings	$ 200,226	$ 165,905
Net gains	$ 9,572,142	$ 3,661,007

Foundation Investments and Investment Return

Investments in equity securities and debt securities are carried at fair value. All other investments are valued at estimated fair value. The estimated fair value of investments in hedge funds, where a readily determinable market price is not available, has been estimated using the net asset value per share of investments. Investment income and gains that are restricted by donor stipulation are initially included in temporarily restricted net assets. When the restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. Other investment income, gains and losses are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

While the Foundation does not invest directly in derivative securities, it does, through investment holdings with various money managers, 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.

Investments are summarized as follows at June 30:

	2011	2010
Accrued income	$ 93,291	$ 58,008
Money market accounts	73,302	8,506
U.S. equity mutual funds	14,999,269	12,564,515
Non-U.S. equity mutual funds	16,598,404	11,977,462
U.S. fixed income mutual funds	12,721,072	11,528,842
Non-U.S. fixed income mutual funds	1,829,766	1,335,946
Other mutual funds	7,710,710	2,734,522
Real estate funds	1,065,670	788,569
U.S. Treasury securities	–	898,605
Corporate bonds	–	1,237,917
Hedge funds	3,433,759	2,339,998
Private equity	973,661	814,633
Other	3,500	3,500
	$ 59,502,404	$ 46,291,023

Investment return consists of the following:

	2011	2010
Investment income	$ 345,564	$ 361,569
Net realized and unrealized gains on investments reported at fair value	9,615,566	3,850,830
	$ 9,961,130	$ 4,212,399

Investments held in trust are deposited with U.S. Bank Institutional Trust, Benjamin F. Edwards & Co., and Bank of America, N.A. or are in municipal bonds and other investments.

Investment expenses incurred for the years ended June 30, 2011 and 2010 totaled $122,149 and $93,344, respectively.

Notes to Financial Statements June 30, 2011 and 2010

Note 3: Foundation Pledges Receivable

Pledges receivable are a credit risk to the extent donors choose not to complete their pledge payments. Discount rates ranged from 0.6% to 3.3% for the year ended 2011 and .49% to 2.9% for the year ended 2010. Pledges receivable consist of the following unconditional promises to give at June 30:

	2011	2010
Due in less than one year	$ 4,929,410	$ 6,382,621
Due in one to five years	12,923,957	12,480,059
Due in more than five years	32,983,587	35,364,896
	50,836,954	54,227,576
Less: Allowance for doubtful accounts	242,202	259,024
Unamortized discount	15,621,435	16,892,630
	15,863,637	17,151,654
	$ 34,973,317	$ 37,075,922

Note 4: Related Party Transactions

In 1982, the University's Board of Governors 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.

Additionally, the Foundation owed the University approximately $3,369,668 and $1,912,079 at June 30, 2011 and 2010, 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 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.

The University is required to contribute to MOSERS at an actuarially determined rate; the rate was 13.81, 12.75, and 12.53 percent of annual covered payroll for the years ended June 30, 2011, 2010 and 2009, respectively. Eligible employees hired as of or after January 1, 2011 must contribute 4% of wages to the MOSERS program. Contributions, which equaled the contribution requirements for years ended June 30, 2011, 2010 and 2009 were $12,189,240, $11,589,022, and $11,698,121, respectively. The MOSERS funded status ratio was 80.4% and 83.0% as of June 30, 2010 and 2009, respectively.

The MOSERS funding policy provides for actuarially determined and board approved, employer contributions using the entry-age normal cost method, consisting of normal cost and amortization of any unfunded accrued liabilities over an open 30-year period. Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by State statute to be funded in advance. Any amendments to the plan are established by changes in State statute.

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 7.77%, 7.71% and 7.88% of the participants salary to CURP for the years ended June 30, 2011, 2010 and 2009 respectively. The total contributed for years ended June 30, 2011, 2010, and 2009 was $1,513,483, $1,472,821, and $1,387,991, 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).

Note 6: Postemployment Healthcare Plan

Plan Description: Missouri State University Employee Benefit Plan (MSUEBP) is a single-employer defined benefit plan administered by Missouri State University. MSUEBP provides medical benefits to eligible retirees and their spouses. The Missouri State Board of Governors provides the authority to Missouri State University to establish and amend benefit provisions. The postemployment healthcare plan information is included in the Missouri State University Annual Financial Report and can be obtained by contacting Missouri State University's Financial Services department.

Funding Policy: The contribution requirements of plan members are established by the Missouri State Board of Governors. The postemployment healthcare benefits are funded on a pay-as-you-go basis. Missouri State University funds on a cash basis as benefits are paid. For fiscal year 2011 Missouri State University contributed $355,052 to the postemployment retirement plan portion of the MSUEBP and the retirees contributed $635,757 through their required monthly contributions of $389.26 for retiree and $290.91 for spouse for the medical portion. No assets have been segregated and restricted to provide postretirement benefits within the definition of Plan Assets under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

Annual OPEB Cost and Net OPEB Obligation: Missouri State University's annual OPEB expense is calculated based upon the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

Notes to Financial Statements June 30, 2011 and 2010

The following table shows the components of Missouri State University's annual OPEB expense for the year:

	2011
Amortization of Unfunded Actuarial	
Value of Assets (UAAL)	$ 614,960
Normal Cost (with interest)	612,338
Interest on Amortization of UAAL	24,598
Annual Required Contribution (ARC)	1,251,896
Interest on Net OPEB Obligation	59,246
Adjustment to the ARC	(85,656)
Annual OPEB Cost (Expense)	1,225,486
Contributions Made	(355,052)
Increase in Net OPEB Obligation	870,434
Net OPEB Obligation—Beginning of Year	1,481,160
Net OPEB Obligation—End of Year	$ 2,351,594

Missouri State University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the preceeding year are as follows:

	2011	2010
Annual OPEB Cost	$ 1,225,486	$ 1,202,240
Net Employer Contributions	$ 355,052	$ 330,977
Percentage Contributed	28.97%	27.53%
End of Year Net OPEB Obligation	$ 2,351,594	$ 1,481,160

Funded Status and Funding Progress: As of June 30, 2011 and 2010 the Actuarial Accrued Liability (AAL) was $13,462,874 and $12,884,515, respectively. No assets have been segregated and restricted to provide postretirement benefits within the definition of Plan Assets under GASB Statement No. 45. The covered payroll (annual payroll of active employees covered by the plan) was $113,300,265 and $113,189,763 in 2011 and 2010, respectively. The ratio of the UAAL to the covered payroll was 11.88% and 11.38% in 2011 and 2010, respectively.

Actuarial Methods and Assumptions: Actuarial valuations reflect a long-term perspective and involve estimates of the reported amounts and assumptions about the probability of events far into the future. Actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. These calculations are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. A Schedule of Funding Progress, presented as Required Supplementary Information, follows the notes to the financial statements. The Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As allowed by GASB, this reporting requirement was implemented prospectively in 2008. The actuarial calculations have been based on the substantive plan in place at the time of valuation and on the pattern of cost sharing between the employers and members to that point.

Benefit obligations shown in this report are computed using the projected unit credit method. Benefits are attributed to service based on the plan's benefit eligibility provisions. The beginning of the attribution period is the date of hire and the end is the full eligibility date. The unfunded actuarial accrued liability is amortized over a 30 year open period in level dollar amounts. Cumulative gains and losses are amortized over the same 30 year period as other UAAL. Other assumptions are as follows:

Discount rate 4.00% per annum

Health care cost trend rates

	Medical/Rx	Admin/Stop Loss
2012–2013	8.00%	9.50%
2013–2014	7.50%	9.00%
2014–2015	7.00%	8.50%
2015–2016	6.50%	8.00%
2016–2017	6.00%	7.50%
2017–2018	5.50%	7.00%
2018–2019	5.00%	6.50%
2019–2020	5.00%	6.00%
2020–2021	5.00%	5.50%
2021 and Beyond	5.00%	5.00%

Note 7: 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, 2011 and 2010, is summarized as follows:

	2011	2010
Balance at beginning of year	$ 1,382,128	$ 1,234,598
Health and dental claims	14,063,153	14,011,901
Health insurance payments	(14,345,526)	(13,864,371)
Balance at end of year	$ 1,099,755	$ 1,382,128

Notes to Financial Statements June 30, 2011 and 2010

Note 8: Operating Expenses by Function

Operating expenses by functional classification for the year ended June 30, 2011 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2011 Total
Instruction	$ 62,621,801	$ 19,486,953	$ –	$ 76,994	$10,607,291	$ –	$ 92,793,039
Research	5,866,459	1,802,174	–	299	5,788,673	–	13,457,605
Public service	3,202,481	975,869	–	–	3,322,320	–	7,500,670
Academic support	14,178,783	4,507,021	–	–	6,322,599	–	25,008,403
Student services	6,598,840	2,012,894	–	–	5,291,801	–	13,903,535
Institutional support	14,077,349	4,475,002	–	3,446	3,412,016	–	21,967,813
Operation and maintenance of plant	5,534,777	1,755,701	–	3,661,609	5,858,726	–	16,810,813
Scholarships and fellowships	557,917	57,006	21,060,142	–	12,784	–	21,687,849
Auxiliary enterprises	14,272,780	4,061,370	4,561,915	2,553,196	16,310,815	–	41,760,076
Depreciation	–	–	–	–	–	18,917,596	18,917,596
Total operating expenses for fiscal year 2011	$ 126,911,187	$ 39,133,990	$25,622,057	$ 6,295,544	$ 56,927,025	$18,917,596	$273,807,399

Operating expenses by functional classification for the year ended June 30, 2010 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2010 Total
Instruction	$ 63,149,287	$ 18,384,704	$ –	$ 70,230	$11,446,878	$ –	$ 93,051,099
Research	6,008,300	2,338,923	–	1,607	7,436,545	–	15,785,375
Public service	3,854,641	988,931	–	58,525	3,505,559	–	8,407,656
Academic support	14,971,142	4,670,606	–	2,000	6,349,175	–	25,992,923
Student services	6,468,039	1,923,394	–		4,781,967	–	13,173,400
Institutional support	14,469,178	4,470,397	–	14,891	3,117,558	–	22,072,024
Operation and maintenance of plant	5,587,365	1,726,526	–	3,272,067	6,406,148	–	16,992,106
Scholarships and fellowships	748,729	99,636	22,004,549	–	305,298	–	23,158,212
Auxiliary enterprises	13,885,603	3,530,501	4,572,405	2,264,021	15,651,041	–	39,903,571
Depreciation	–	–	–	–	–	18,558,372	18,558,372
Total operating expenses for fiscal year 2010	$ 129,142,284	$ 38,133,618	$26,576,954	$ 5,683,341	$ 59,000,169	$18,558,372	$277,094,738

Note 9: Long-term Liabilities

Long-term debt and other obligations consist of the following as of June 30, 2011:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2010	Additions	Reductions	Ending Balance June 30, 2011	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	$ 1,311,342	$ –	$ 147,351	$ 1,163,991	$ 151,805
2002	A	3.00 to 3.2%	2010	1,470,000	–	1,470,000	–	–
2005	A	2.75 to 4.05%	2025	24,030,000	–	22,405,000	1,625,000	–
2007	A	4.00 to 5.00%	2032	55,320,000	–	1,540,000	53,780,000	1,600,000
2010	A	1.00% to 2.55%	2016	–	4,320,000	–	4,320,000	695,000
2010	B	4.25% to 6.25%	2035	–	20,565,000	–	20,565,000	–
2010	C	1% to 2.8%	2017	–	21,485,000	–	21,485,000	3,090,000
				82,131,342	46,370,000	25,562,351	102,938,991	5,536,805
Classroom Building								
2010	A	.3% to 2.55%	2016	–	1,985,000	260,000	1,725,000	275,000
2010	B	4.25% to 6.25%	2035	–	8,235,000	–	8,235,000	–
Total Bonds and Notes Payable				82,131,342	56,590,000	25,822,351	112,898,991	5,811,805
Unamortized premium on bond issue				1,259,792	–	93,994	1,165,798	91,334
Unamortized loss on prior bond defeasance				(1,305,486)	(543,689)	(401,833)	(1,447,342)	(357,123)
Total Bonds and Notes Payable less unamortized loss				82,085,648	56,046,311	25,514,512	112,617,447	5,546,016
Compensated absences				10,194,443	5,040,698	5,541,690	9,693,451	4,404,824
Capital lease obligations		4.392%	2011-2021	9,131,327	–	719,403	8,411,924	728,777
Other long-term liabilities				1,481,160	870,434	–	2,351,594	–
Total other obligations				20,806,930	5,911,132	6,261,093	20,456,969	5,133,601
Total long-term debt and other obligations				$102,892,578	$ 61,957,443	$ 31,775,605	$133,074,416	$10,679,617

Long-term debt and other obligations consist of the following as of June 30, 2010:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	$ 1,454,370	$ –	$ 143,028	$ 1,311,342	$ 147,351
2002	A	3.00 to 3.2%	2010	2,905,000	–	1,435,000	1,470,000	1,470,000
2005	A	2.75 to 4.05%	2025	25,635,000	–	1,605,000	24,030,000	1,515,000
2007	A	4.00 to 5.00%	2032	56,420,000	–	1,100,000	55,320,000	1,540,000
2007	B	5.04%	2010	335,000	–	335,000	–	–
				86,749,370	–	4,618,028	82,131,342	4,672,351
Classroom Building 2002		3.35 to 4.35%	2016	3,375,000	–	3,375,000	–	–
Total Bonds and Notes Payable				90,124,370	–	7,993,028	82,131,342	4,672,351
Unamortized premium on bond issue				1,356,286	–	96,494	1,259,792	93,994
Unamortized loss on prior bond defeasance				(1,635,519)	–	(330,033)	(1,305,486)	(179,517)
Total Bonds and Notes Payable less unamortized loss				89,845,137	–	7,759,489	82,085,648	4,586,828
Compensated absences				9,235,193	5,643,701	4,684,451	10,194,443	4,737,061
Capital lease obligations		4.392%	2011-2021	9,827,251	–	695,924	9,131,327	719,403
Other long-term liabilities				609,897	871,263	–	1,481,160	–
Total other obligations				19,672,341	6,514,964	5,380,375	20,806,930	5,456,464
Total long-term debt and other obligations				$109,517,478	$ 6,514,964	$ 13,139,864	$102,892,578	$10,043,292

Notes to Financial Statements June 30, 2011 and 2010

The University has bonds, notes, and capital lease obligations due in the total amount of $121,310,915 and $91,262,669 as of June 30, 2011 and 2010, respectively. At June 30, 2011, these bonds and notes bear interest at rates ranging from 1.0 percent to 6.25 percent annually, and mature at various dates through fiscal year 2036. The notes payable and revenue bonds are paya ble, 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, 2011 and 2010, 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 1998, Recreation Building 1991 bonds of $4,475,000 and Parking System 1993 bonds of $2,990,000 were defeased. The Recreation Building 1991 bonds matured in Fiscal Year 2010. At June 30, 2011 and 2010, the current outstanding balance of these defeased bonds was $0 and $955,000, 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, 2011 and 2010, the current outstanding balance of these defeased bonds was $3,755,000 and $6,070,000, respectively.

During 2005, Auxiliary System bonds series 1997A and 1999A of $13,960,000 and $16,835,000 respectively were defeased. At June 30, 2011 and 2010, the current outstanding balance of these defeased bonds was $22,375,000 and $23,695,000, respectively.

On July 30, 2010, the University issued Auxiliary Enterprise System Revenue bonds in the principal amount of $46,370,000 in Tax-Exempt and Build America Bonds for additions and improvements to the auxiliary enterprise system and the partial refunding of the 2005A Series Bonds. The refunding portion of this issue is $21,485,000. Build America Bonds issued are in the amount of $20,565,000 and Tax-Exempt Bonds issued are in the amount of $25,805,000. The refunding issue was used to retire $20,890,000 of 2005 series bonds, meet $360,881 of interest escrow requirements and the remainder used for cost of issuance. This refunding was undertaken to reduce total debt service payments by $841,223 and resulted in an economic gain (present value savings) of $801,402. Projects to be funded by these bonds include the following:

- Construction of the Bill R. Foster and Family Recreation Center on the Springfield campus
- Construction of a multipurpose recreation center on the West Plains campus, which will be constructed as a storm shelter
- Residence hall life safety upgrades to three residence halls on the Springfield campus
- Miscellaneous capital improvements to certain residential facilities on the Springfield campus

On July 30, 2010, the University issued bonds through the Missouri Health and Educational Facilities Authority (MOHEFA) in the principal amount of $10,220,000 in Tax-Exempt and Build America Bonds for the acquisition, renovation and improvement of various health and educational facilities of the university. Build America Bonds issued are in the amount of $8,235,000 and Tax-Exempt Bonds issued are in the amount of $1,985,000. Projects to be funded by these bonds include the following:

- Construction of an educational building for the Darr Agricultural Center
- Renovation of Looney Hall (West Plains campus) to return it to use exclusively as an academic facility
- Construction of an animal research compliance facility (Springfield campus) to properly house animals needed for research on campus
- An addition to the Physical Therapy Building, the McQueary Family Health Sciences Hall
- Renovations to various academic buildings on the Springfield campus
- Other miscellaneous capital improvements to academic facilities on the Springfield and West Plains campuses

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.

The principal and interest requirements on notes and bonds payable to maturity at June 30, 2011 are as follows:

	Principal	Interest	Total
2012	$ 5,811,805	$ 4,713,716	$ 10,525,521
2013	5,926,393	4,599,171	10,525,564
2014	6,056,120	4,470,951	10,527,071
2015	5,900,990	4,330,228	10,231,218
2016	6,066,007	4,174,581	10,240,588
2017–2021	23,407,676	18,132,980	41,540,656
2022–2026	21,055,000	13,371,816	34,426,816
2027–2031	25,045,000	7,566,100	32,611,100
2032–2036	13,630,000	1,739,750	15,369,750
	$112,898,991	$ 63,099,293	$ 175,998,284

Capital Lease Obligations

The University is obligated under leases accounted for as capital leases. Assets under capital leases at June 30, 2011 and 2010, totaled $8,917,450 and $9,548,968, respectively, net of accumulated depreciation of $3,189,393 in 2011 and $2,557,874 in 2010.

The following is a schedule by year of future minimum lease payments under the capital leases including interest at the rate of 4.392% together with the present value of the future minimum lease payments as of June 30, 2011:

2012	$ 1,097,266
2013	1,051,869
2014	1,051,869
2015	1,051,869
2016	1,051,869
2017–2021	5,259,344
Total minimum lease payments	10,564,086
Less amount representing interest	2,152,162
Present value of future minimum lease payments	$ 8,411,924

Foundation Leases

Noncancelable leases for space in the Kenneth E. Meyer Alumni Center expire in various years through 2014. Several of these leases contain renewal options for periods ranging from one to three years. Future minimum lease income at June 30, 2011, is as follows: 2012–$573,980; 2013–$104,676; 2014–$41,204.

Notes to Financial Statements June 30, 2011 and 2010

Note 10: 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 April 2007.
The Resolution provides that the bonds are payable from the gross income and revenues derived from the housing, parking, health center and recreational facilities serving the University and its students. The housing facilities consist of 11 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 health center consists of a Taylor Health and Wellness Center facility which provides medical and wellness services to students and their spouses, and University employees and their spouses and eligible dependents. The recreational facilities include the Hammons Student Center, the Plaster Sports Complex, the JQH Arena 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, 2011 and 2010 is summarized as follows:

	2011	2010
Condensed Statements of Net Assets		
Assets:		
Current assets	$ 49,829,443	$ 38,817,510
Noncurrent assets	178,332,999	156,837,944
Total assets	228,162,442	195,655,454
Liabilities:		
Current liabilities	12,528,472	13,027,036
Noncurrent liabilities	98,472,511	77,574,665
Total liabilities	111,000,983	90,601,701
Net assets:		
Invested in capital assets, net of related debt	72,073,992	74,740,186
Restricted -		
Expendable	21,772,668	2,121,572
Unrestricted	23,314,799	28,191,995
Total net assets	$ 117,161,459	$ 105,053,753

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2011	2010
Operating revenues	$ 50,913,410	$ 46,278,191
Operating expenses:		
Depreciation	5,667,404	4,577,165
All other operating expenses	41,760,076	39,903,571
Total operating expenses	47,427,480	44,480,736
Operating income	3,485,930	1,797,455
Non-operating revenues (expenses)	2,302,946	3,038,034
Excess of revenues over expenses	5,788,877	4,835,489
Transfer from other University units	6,318,829	4,873,130
Increase in net assets	12,107,706	9,708,619
Net assets, beginning of year	105,053,753	95,345,134
Net assets, end of year	$ 117,161,459	$ 105,053,753

Note 11: Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 30,320,427	$ 494,543	$ –	$ –	$ 30,814,970
Infrastructure	46,979,436	–	–	–	46,979,436
Buildings	417,597,242	123,346	519,174	6,179,406	423,380,820
Furniture, fixtures, and equipment	44,211,632	4,046,850	2,075,112	–	46,183,370
Library materials	48,023,787	2,334,622	–	–	50,358,409
Capitalized collections	391,858	–	–	–	391,858
Construction in progress	8,476,502	34,501,117	646,862	(6,179,406)	36,151,351
Total	596,000,884	41,500,478	3,241,148	–	634,260,214
Less accumulated depreciation:					
Infrastructure	15,645,716	2,691,512	–	–	18,337,228
Buildings	140,214,716	10,465,962	407,617	–	150,273,061
Furniture, fixtures, and equipment	29,278,757	3,736,701	1,747,709	–	31,267,749
Library materials	36,707,660	1,996,224	–	–	38,703,884
Capitalized collections	228,678	27,197	–	–	255,875
Total accumulated depreciation	222,075,527	18,917,596	2,155,326	–	238,837,797
Capital assets, net	$ 373,925,357	$ 22,582,882	$ 1,085,822	$ –	$ 395,422,417

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 29,868,244	$ –	$ –	$ 452,183	$ 30,320,427
Infrastructure	46,605,205	–	–	374,231	46,979,436
Buildings	401,456,273	314,433	–	15,826,536	417,597,242
Furniture, fixtures, and equipment	40,527,693	4,343,800	659,861	–	44,211,632
Library materials	45,882,336	2,141,451	–	–	48,023,787
Capitalized collections	391,858	–	–	–	391,858
Construction in progress	13,458,313	11,795,874	124,735	(16,652,950)	8,476,502
Total	578,189,922	18,595,558	784,596	–	596,000,884
Less accumulated depreciation:					
Infrastructure	12,985,927	2,659,789	–	–	15,645,716
Buildings	129,869,938	10,344,778	–	–	140,214,716
Furniture, fixtures, and equipment	26,360,438	3,545,207	626,888	–	29,278,757
Library materials	34,738,248	1,969,412	–	–	36,707,660
Capitalized collections	189,492	39,186	–	–	228,678
Total accumulated depreciation	204,144,043	18,558,372	626,888	–	222,075,527
Capital assets, net	$ 374,045,879	$ 37,186	$ 157,708	$ –	$ 373,925,357

Notes to Financial Statements June 30, 2011 and 2010

Note 12: 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 of approximately $35.8 million at June 30, 2011, including major outstanding contracts related to the construction of the new recreation center.

Current Economic Conditions

The current economic environment presents universities with unprecedented circumstances and challenges, which in some cases may result in declines in enrollment revenue, governmental support and contributions; constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the University.

Current economic conditions could make it difficult for some donors to continue to contribute to universities and their foundations. Changes in contribution levels could impact the University's ability to provide scholarships or fund programs. State funding may also change as states have fewer resources to allocate. Recent legislation has further impacted the University's ability to increase tuition rates.

The changes possible in this environment could result in future adjustments to the values of assets and liabilities, such as allowances for student receivables. The University could experience difficulty maintaining sufficient liquidity should significant changes occur.

Note 13: Foundation Endowment

The Foundation's endowment consists of approximately 914 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Missouri Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of purdence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2011 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Donor-restricted endowment funds	$ (62,242)	$ 18,733,386	$ 39,542,447	$ 58,213,591
Board-designated endowment funds	3,014,478	–	–	3,014,478
Total endowment funds	$ 2,952,236	$ 18,733,386	$ 39,542,447	$ 61,228,069

Changes in endowment net assets for the year ended June 30, 2011 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Endowment net assets, beginning of year	$ 1,042,164	$ 13,217,420	$ 37,044,515	$ 51,304,099
Investment return:				
Investment income	564	866,123	–	866,687
Net appreciation	1,868,931	7,702,351	–	9,571,282
Total investment return	1,869,495	8,568,474	–	10,437,969
Contributions	–	–	2,416,971	2,416,971
Other Income	35,564	26,871	80,961	143,396
Appropriation of endowment assets for expenditure	–	(3,082,772)	–	(3,082,772)
Other Additions	5,013	3,393	–	8,406
Endowment net assets, end of year	$ 2,952,236	$ 18,733,386	$ 39,542,447	$ 61,228,069

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated approximately $62,000 at June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that exceed the endowment's financial requirement over time, while assuming a moderate level of investment risk. The Foundation expects its endowment funds to provide an average rate of return of approximately 9.7% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 5.7% of its endowment fund's average fair value over the prior 36 months through the year end preceding the year in which expenditure is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Required Supplementary Information for the Postemployment Healthcare Plan

	Year Ended June 30, 2011	Year Ended June 30, 2010
Actuarial Valuation Date	July 1, 2010	July 1, 2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Actuarial accrued liability	$13,462,874	$12,884,515
Actuarial value of assets	–	–
Total Unfunded Actuarial Liability	$13,462,874	$12,884,515
Funded Ratio	0.00%	0.00%
Annual Covered Payroll	$113,300,265	$113,189,763
Ratio of Unfunded Actuarial Liability to Covered Payroll	11.88%	11.38%
Participant Summary:		
Active employees	2,132	2,207
Retirees	83	59
Spouses of retirees	59	45
Total	2,274	2,311

Actuarial Assumptions:	
UAAL amortization method	Level % of Pay
UAAL amortization period, closed/open	30 years, open
Investment return (discount) rate	4.00%

Health care cost trend rates

	Medical/Rx	Admin/Stop Loss
2012–2013	8.00%	9.50%
2013–2014	7.50%	9.00%
2014–2015	7.00%	8.50%
2015–2016	6.50%	8.00%
2016–2017	6.00%	7.50%
2017–2018	5.50%	7.00%
2018–2019	5.00%	6.50%
2019–2020	5.00%	6.00%
2020–2021	5.00%	5.50%
2021 and Beyond	5.00%	5.00%

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