



2008–2009 Financial Report

Management's Discussion and Analysis

Missouri State University is a public, comprehensive university system with a mission in public affairs, whose purpose is to develop educated persons while achieving five major goals:

- ❖ democratizing society
- ❖ incubating new ideas
- ❖ imagining Missouri's future
- ❖ making Missouri's future
- ❖ modeling ethical and effective behavior as a public institution



Dr. Michael T. Nietzel
Missouri State University
President

We are providing Missouri State University's (the University) discussion and analysis of our financial statements and related notes as of June 30, 2009 and 2008, and for the fiscal years then ended. Three statements are described in the following discussion and analysis: the Statement of Net Assets, which presents the assets, liabilities, and net assets of the institution as of the end of the fiscal year, the Statement of Revenues, Expenses, and Changes in Net Assets, which reflects revenues and expenses recognized during the fiscal year, and the Statement of Cash Flows, which provides information on all of the cash inflows and outflows for the institution by major category during the fiscal year.

We hope this information will assist you as you seek to understand the University's financial position and operating activities, accomplishments and challenges. We are also presenting financial information of the 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.

CONTENTS

3	MANAGEMENT'S DISCUSSION AND ANALYSIS
11	INDEPENDENT ACCOUNTANTS' REPORT
12	FINANCIAL STATEMENTS
16	NOTES TO FINANCIAL STATEMENTS
39	REQUIRED SUPPLEMENTARY INFORMATION
40	PRIVATE GIVING

Financial Overview

In the fiscal year June 30, 2009, the University's tuition and fee revenue was \$3.3 million greater in fiscal year 2009 at \$82.7 million as compared to \$79.4 million in fiscal year 2008 which was an increase of almost \$2 million over \$77.6 million in fiscal year 2007. This increase over the last three years in tuition and fee revenue was due to a combination of an increase in tuition charges and an increase in student enrollment. The University received \$98.2 million from State of Missouri appropriations (both non-operating and capital) for fiscal year 2009 compared to \$85.0 million in the fiscal year 2008 and \$79.8 million in fiscal year 2007.

Fiscal year 2009's operating revenues of \$168.5 million was \$7.2 million more than the \$161.3 million operating revenues in fiscal year 2008 which is \$7.4 million greater than fiscal year 2007.

Operating revenues for fiscal year 2008 and 2007 were restated for comparison to fiscal year 2009 since the Governmental Accounting Standards Board (GASB) clarified a ruling which requires Federal Pell grants be classified as "nonoperating revenues." Operating expenses for the year ended

June 30, 2009, increased \$21.3 million to \$268.5 million from \$247.2 million in fiscal year 2008 while operating expenses for fiscal year 2007 totaled \$231.4 million. The increase in salaries, scholarships, supplies and other services and depreciation explains the change in operating expenses for fiscal year 2009. Net nonoperating revenues and capital gifts, grants, contracts and appropriations totaled \$127.6 million, \$110.4 million and \$104.9 million in fiscal years 2009, 2008 and 2007, respectively. The nonoperating revenues were restated for years 2008 and 2007 due to the clarification by GASB on the presentation of Federal Pell grants. The increase in fiscal year 2009 over 2008 was primarily from increases in state appropriations, gifts, grants and contracts (both nonoperating and capital) net of reduction in investment income and interest on capital asset-related debt. The comparison of fiscal year 2008 over 2007 was similar. Net assets increased almost \$27.7 million for the year ended June 30, 2009, compared to \$24.6 million for the year ended June 30, 2008, and \$27.4 million for the year ended June 30, 2007.

	University			Foundation		
	2009	2008	2007	2009	2008	2007
Total operating revenues	\$ 168,546,257	\$ 161,342,595	\$ 153,946,358	\$ 9,121,333	\$ 14,344,746	\$ 42,172,969
Total operating expenses	268,476,250	247,175,242	231,394,347	3,911,347	4,745,577	4,299,204
Net operating income (loss)	(99,929,993)	(85,832,647)	(77,447,989)	5,209,986	9,599,169	37,873,765
Total nonoperating revenues (expenses) and capital endowment activities	127,590,494	110,385,675	104,881,185	(20,639,823)	(8,398,343)	4,714,580
Increase (decrease) in net assets	27,660,501	\$ 24,553,028	\$ 27,433,196	(15,429,837)	\$ 1,200,826	\$ 42,588,345

Net assets on June 30, 2009, totaled \$372.6 million compared to \$344.9 million on June 30, 2008 and \$320.4 million on June 30, 2007. From June 30, 2007 to June 30, 2009, net assets increased \$52.2 million. Unrestricted net assets increased \$21 million, restricted net assets increased \$2.4 million and the University's investment in capital assets, net of related debt increased \$28.8 million.

The Foundation revenue from gifts totaled almost \$8.2 million in fiscal year 2009 compared to \$13.2 million in fiscal year 2008. In fiscal year 2007, due to a \$30 million pledge of a gift for the construction of a new arena, revenue from gifts reached an all-time high of \$41.1 million. The weak equity markets during fiscal year 2009 resulted in investments losses of \$10.8 million as compared to \$2.3 million in losses during fiscal year ending June 30, 2008, while strong markets during fiscal year 2007 resulted in substantial investment gains and other investment income totaling \$8.7 million. The economic downturn and weak equity markets caused net assets to decrease \$15.4 million in fiscal year 2009 to \$97 million on June 30, 2009, while they increased by \$1.2 million in fiscal year 2008 to \$112.4 million on June 30, 2008, as compared to a net asset increase of \$42.6 million in fiscal year 2007 to \$111.2 on June 30, 2007.

The University's current assets on June 30, 2009, of \$132.7 million were \$16.8 million less than the \$149.5 million on June 30, 2008, which was \$3.6 million less than the \$153.1 million on June 30, 2007. The decrease of current assets represents the

fiscal year 2009 spending of bond proceeds for the construction of the JQH Arena. The University's financial condition continues to be strong. The value of non-current assets on June 30, 2009, 2008 and 2007 were \$377.7 million, \$343.7 million and \$312.9 million, respectively. Current liabilities on June 30, 2009, of \$38.2 million were \$6.2 million less than on June 30, 2008, which reflects the reduction of accounts payable for construction contracts of the JQH Arena. Current liabilities on June 30, 2008, totaled \$44.4 million and \$37.1 million on June 30, 2007. The reduction of non-current liabilities to \$99.6 million on June 30, 2009, is due to the payment of revenue bonds. Non-current liabilities on June 30, 2008, were \$103.8 million as compared to \$108.6 million on June 30, 2007. Total liabilities on June 30, 2009, of \$137.8 million were \$10.4 million less than the \$148.2 million on June 30, 2008. Total liabilities on June 30, 2008, were \$2.6 million more than the \$145.6 million on June 30, 2007.

Assets of the Foundation totaled approximately \$97.8 million on June 30, 2009, which is \$15.8 million less than the \$113.6 million on June 30, 2008, and \$14.5 million less than the \$112.3 million on June 30, 2007. This decrease was caused by the change in the value of the Foundation's permanently restricted or endowment fund which was due to the weakening of the equity market. The Foundation's liabilities totaled \$.81 million, \$1.16 million and \$1.13 million on June 30, 2009, 2008 and 2007, respectively.

	University			Foundation		
	2009	2008	2007	2009	2008	2007
Current assets	\$ 132,737,893	\$ 149,518,570	\$ 153,129,801	\$ 23,351,315	\$ 23,271,368	\$ 18,412,440
Noncurrent assets						
Endowment and other investments	263,549	455,612	13,536,339	73,281,078	89,061,966	92,871,947
Capital assets, net	374,045,879	340,560,139	296,630,426	1,147,744	1,226,675	1,042,577
Other	3,378,916	2,656,451	2,743,125			
Total assets	510,426,237	493,190,772	466,039,691	97,780,137	113,560,009	112,326,964
Current liabilities	38,202,443	44,426,124	37,056,603	266,801	506,227	455,434
Noncurrent liabilities	99,604,556	103,805,911	108,577,379	547,696	658,305	676,879
Total liabilities	137,806,999	148,232,035	145,633,982	814,497	1,164,532	1,132,313
Net assets	372,619,238	\$ 344,958,737	\$ 320,405,709	96,965,640	\$ 112,395,477	\$ 111,194,651

Statement of Net Assets

Comparing the current assets on June 30, 2009, with current assets as of June 30, 2008, cash and investments are \$111.6 million, a decrease of \$22.1 million. The decrease from June 30, 2007, to June 30, 2008, for cash and investments was \$2.7 million. Accounts receivable, net of related allowances for uncollectible accounts increased almost \$.6 million from June 30, 2007 to 2008 and increased almost \$1.9 million from June 30, 2008 to 2009. Inventories decreased \$150 thousand from June 30, 2007 to 2008 and increased \$222 thousand from June 30, 2008 to 2009. Non-current investments were \$13.3 million at the end of fiscal year 2007. They decreased \$13.1 million to \$255 thousand at the end of fiscal year 2008.

Non-current investments were \$64 thousand at the end of fiscal year 2009. The short-term investment rates provided a better yield during fiscal year 2009 than the long-term rates. Construction in progress at the end of fiscal year 2008 totaled \$57.3 million and at the end of fiscal year 2007 totaled \$24.4 million. At the end of June 30, 2009, construction in progress totaled \$13.4 million. The change was mainly due to the completion of the JQH Arena and recording the project as a capital asset.

The following table shows the breakdown of net assets at June 30, 2009, 2008, and 2007 for both the University and Foundation.

Amounts in \$ millions	University			Foundation		
	2009	2008	2007	2009	2008	2007
Invested in Capital Assets, Net of Related Debt	\$ 265.6	\$ 242.5	\$ 236.8	\$ 1.1	\$ 1.2	\$ 1.0
Restricted						
Unexpendable	0.2	0.2	0.2	35.3	33.8	31.5
Expendable	13.5	13.6	11.1	58.3	71.9	73.5
Unrestricted	93.3	88.6	72.3	2.3	5.5	5.2
Total Net Assets	\$ 372.6	\$ 344.9	\$ 320.4	\$ 97.0	\$ 112.4	\$ 111.2

Capital and Debt Activities

During the fiscal year ended June 30, 2009, the University acquired capital assets totaling approximately \$49.9 million, including \$6.8 million of furniture, fixtures and equipment, \$2.2 million in library materials, and \$40.9 million of construction. During the fiscal year 2009, assets that cost \$998 thousand with an undepreciated value of \$948 thousand were sold, abandoned or otherwise retired. Construction projects with a cost totaling approximately \$84.7 million were capitalized. Note 11, Capital Assets, shows the capital asset changes for the fiscal years ended June 30, 2009 and 2008.

During the year, depreciation expense, the systematic allocation of a capital assets cost over the estimated useful life, totaling \$16.3 million was

recorded in the financial statements. This amount is \$2.1 million more than the \$14.2 million recorded during the fiscal year ended June 30, 2008, which was \$.6 million more than the \$13.6 million recorded during the fiscal year ended June 30, 2007.

On June 30, 2009, the University had 14 construction projects in progress with costs totaling approximately \$13.5 million incurred to date. The project costs budgeted for these projects totals \$33.6 million. These projects are being funded by restricted net assets of \$26.6 million and unrestricted net assets of \$7 million. 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
University Recreation Center	\$ 1,500,000	\$ 472,473	\$ 1,027,527
Hill Hall Roof Replacement	150,000	124,734	25,266
Classroom upgrades FY08	450,000	(5,738)	455,738
Darr Agriculture Center Phase III	2,000,000	39,849	1,960,151
Lewis & Clark Project Management	375,000	57,025	317,975
Hammons Student Center HPER Renovation	3,000,026	140,513	2,859,513
Siceluff Renovation	8,885,000	6,994,233	1,890,767
Hass-Hoover Renovation - West Plains	5,798,000	301,847	5,496,153
Gohn-Wood Renovation - West Plains	2,015,000	124,469	1,890,531
Business Incubator - Jordon Valley Innov. Center	5,000,000	4,109,834	890,166
Hammons House exterior repairs	3,600,000	710,678	2,889,322
Elevator renovatios	355,000	216,877	138,123
Professional Building modifications	360,000	109,194	250,806
Intersection improvement	124,500	62,325	62,175
Total	\$ 33,612,526	\$ 13,458,313	\$ 20,154,213

During 2007, the University issued taxable and nontaxable auxiliary enterprise system revenue bonds at a net premium of \$1.6 million with a par value of \$3 million and \$56.4 million, respectively. The University used the proceeds of these bonds and gift revenue to construct a \$67 million arena which was completed and capitalized as a capital asset during fiscal year 2009. At June 30, 2009, total bonds payable equaled \$89.8 million while total bonds payable equaled \$94.6 million and \$99.1 million at June 30, 2008 and 2007, respectively. Compensated absences, earned but untaken vacation and vested sick leave, increased slightly from \$8.4 million on June 30, 2008 to \$9.2 million on June 30, 2009. Capital lease obligations decreased from \$10.5 million to \$9.8 million. Note 9, Long-term Liabilities, illustrates the changes in long-term liabilities for the fiscal years ended June 30, 2009 and 2008.

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 \$299.2 million for the year ended June 30, 2009, \$276.2 million for June 30, 2008, and \$261.5 million for June 30, 2007. 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 \$32.5 million of scholarship allowances, were \$3.3 million more in FY2009 than FY2008 and generated 27.64% of these revenues (compared to 28.74% for the prior year). When comparing the same amounts to FY2007, the increase is \$1.8 million. Increases in net student fees made

up 14.3% of the \$23 million increase in total revenues in FY2009 when compared with FY2008. The State of Missouri provided both non-operating and capital appropriations which were 32.81% of total revenues (up from 30.78% in FY2008 and up from 30.51% in FY2007). The increase in state appropriations was for the projects paid for with Lewis and Clark (or MOHELA) funds. During FY2009, the University spent \$10.4 million for these capital projects while \$.8 million was spent in FY2008. Sales and services (including residence hall, intercollegiate athletics, student union, parking, bookstore, health center) revenues made up 17.72% of the funds in FY2009 as compared to 16.85% in fiscal year 2008. Our grants and contracts revenue, including capital, from FY2009 totals 16.06% of our total revenues while the grants and contracts revenue for FY2008 totaled 17.33% of the total revenues. Approximately, \$15.6 million of total revenues was generated from Pell grants which were recorded as non-operating revenue per GASB regulations. Approximately, \$11.1 million of Pell grant revenue from FY2008 was restated from operating to non-operating revenue for this statement.

Year Ended June 30, 2009	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 82,710,569	\$	\$ 82,710,569
State appropriations		87,744,549	87,744,549
Grants and contracts	29,860,372	15,590,847	45,451,219
Sales and services	53,027,587		53,027,587
Gifts		7,818,562	7,818,562
Investment income		3,066,743	3,066,743
Other	2,947,729		2,947,729
Revenues supporting core activities	168,546,257	114,220,701	282,766,958
Expenses			
Compensation and benefits	166,479,067		166,479,067
Scholarships and benefits	12,666,455		12,666,455
Supplies and services	66,855,905		66,855,905
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	268,476,250	3,084,279	271,560,529
Income (loss) from core activities	(99,929,993)	111,136,422	11,206,429
Other Nonoperating 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 in net assets	\$ (99,929,993)	\$ 127,590,494	27,660,501
Net assets			
Beginning of Year			344,958,737
End of Year			\$ 372,619,238

Year Ended June 30, 2008

	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 79,399,259	\$	\$ 79,399,259
State appropriations		84,206,223	84,206,223
Grants and contracts	32,334,576	11,063,905	43,398,481
Sales and services	46,555,167		46,555,167
Gifts		5,413,824	5,413,824
Investment income		6,441,558	6,441,558
Other	3,053,593		3,053,593
Revenues supporting core activities	161,342,595	107,125,510	268,468,105
Expenses			
Compensation and benefits	154,316,660		154,316,660
Scholarships and benefits	11,809,016		11,809,016
Supplies and services	60,554,201		60,554,201
Utilities	6,247,545		6,247,545
Interest expense		4,376,132	4,376,132
Depreciation	14,247,820		14,247,820
Expenses associated with core activities	247,175,242	4,376,132	251,551,374
Income (loss) from core activities	(85,832,647)	102,749,378	16,916,731
Other Nonoperating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets		(135,722)	(135,722)
Capital gifts		2,475,632	2,475,632
Capital State appropriations		809,193	809,193
Capital grants and contracts		4,487,194	4,487,194
Increase in net assets	\$ (85,832,647)	\$ 110,385,675	24,553,028
Net assets			
Beginning of Year			320,405,709
End of Year			\$ 344,958,737

Year Ended June 30, 2007

	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 77,624,110	\$	\$ 77,624,110
State appropriations		79,792,171	79,792,171
Grants and contracts	27,368,909	9,707,964	37,076,873
Sales and services	46,076,558		46,076,558
Gifts		4,738,063	4,738,063
Investment income		5,394,985	5,394,985
Other	2,876,781		2,876,781
Revenues supporting core activities	153,946,358	99,633,183	253,579,541
Expenses			
Compensation and benefits	144,702,496		144,702,496
Scholarships and benefits	10,215,742		10,215,742
Supplies and services	57,105,669		57,105,669
Utilities	5,751,294		5,751,294
Interest expense		2,673,293	2,673,293
Depreciation	13,619,146		13,619,146
Expenses associated with core activities	231,394,347	2,673,293	234,067,640
Income (loss) from core activities	(77,447,989)	96,959,890	19,511,901
Other Nonoperating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets		87,864	87,864
Capital gifts		1,749,554	1,749,554
Capital grants and contracts		6,083,877	6,083,877
Increase in net assets	\$ (77,447,989)	\$ 104,881,185	27,433,196
Net assets			
Beginning of Year			292,972,513
End of Year			\$ 320,405,709

Statement of Cash Flows

The Statement of Cash Flows reports the major sources and uses of cash and cash equivalents 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:

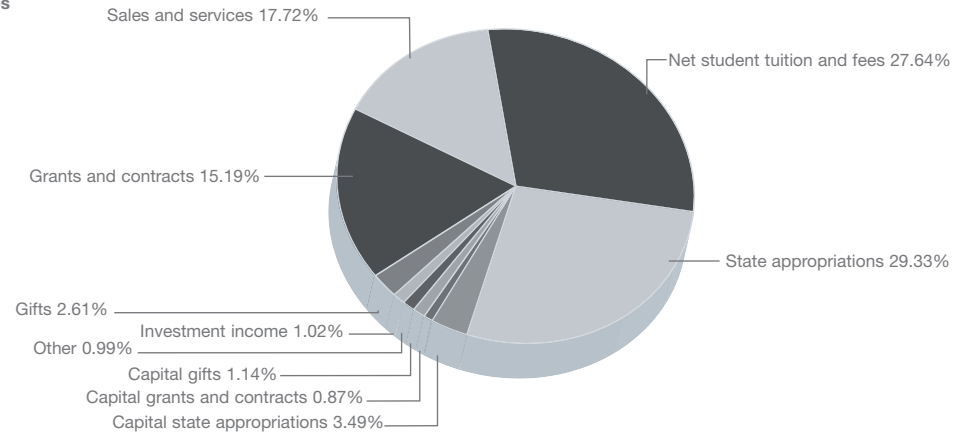
- ◆ **Democratizing Society** – Higher education will be increasingly crucial to individuals being successful participants in 21st century society, and Missouri State will accomplish this goal by ensuring access to high-quality public education for well-prepared students from diverse backgrounds. A Missouri 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:

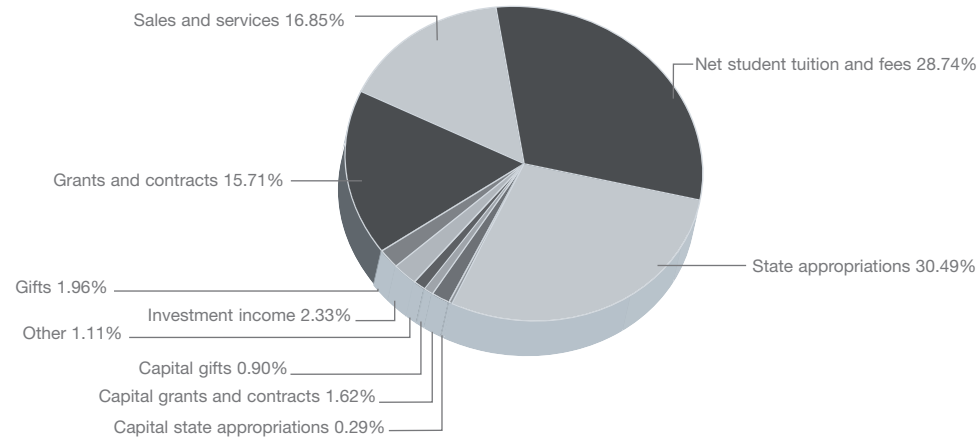
- **Faculty and Staff Salaries (including associated fringe benefits)** – Attracting and retaining outstanding faculty and staff is essential to the University's success now and in the future. Unfunded growth has not allowed salaries to keep pace with competition.
- **Instructional, Research, Service, 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) decreased by 1.4% for the one year period ending June 2009 (www.bls.gov/cpi). The 25.5% decline in energy more than offset the 2.1% increase in food, the 3.2% increase for medical care and 7.1% increase for other goods and services.
- **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 1.9% from fiscal year 2008 to 2009.
- **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, 2010, the University was appropriated at the same level of funds for operating costs (per GASB, they are classified as non-operating on these statements) as the previous year. The University recognizes that problems in the Missouri economy will result in reduced appropriations for fiscal year 2011 and beyond. It is likely that state funding will fall short of budgeted appropriations. 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 FY2011 and FY2012. The University instituted cost-saving policies during fiscal year 2009 by holding some positions open until receipt of the full FY2009 state appropriations was definite. Also, all international travel was reviewed and only academically related trips were approved. Most cost centers reviewed their expenses and approved only those that were academically necessary. Those cost savings measures allowed the University to end the year with an increase in net assets. The University is expecting and making plans for potential reductions to the state appropriation during fiscal year 2011 and 2012.

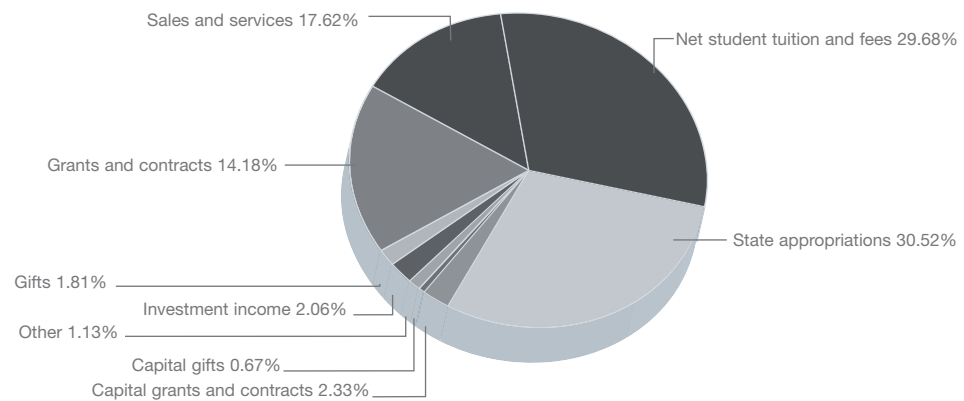
FY 2009 Operating and Nonoperating Revenues



FY 2008 Operating and Nonoperating Revenues



FY 2007 Operating and Nonoperating 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, 2009 and 2008, 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, 2009 and 2008. 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, 2009 and 2008, and the respective changes in its financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 6*, the University changed its method of accounting for other postemployment benefit obligations and adopted the provisions of GASB Statement No. 45 in 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009, 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.

November 24, 2009

Statements of Net Assets

June 30, 2009 and 2008

	University		Component Unit	Component Unit
	2009	2008	Foundation	Foundation
Assets				
Current assets:				
Cash and cash equivalents	\$ 98,634,944	\$ 93,621,199	\$ 14,788,459	\$ 12,203,485
Restricted cash and cash equivalents	2,961,987	22,614,281		
Short-term investments	9,997,000	12,795,986	1,433,756	2,675,869
Restricted short-term investments		4,667,363		
Accounts receivable, net	9,976,122	8,102,614	13,315	19,742
Pledges receivable, net			6,545,122	7,805,096
Grants receivable	3,761,228	1,321,878		
Appropriations due from State of Missouri	1,761,984	809,193		
Accrued interest receivable-unrestricted	829,705	766,259	44,621	83,668
Accrued interest receivable-restricted		25,130		
Inventories	3,783,370	3,561,283		
Loans to students, net	426,403	544,656		
Deposits recoverable	18,657	18,657		
Prepaid expenses	586,493	670,071		
Assets for resale			526,042	483,508
Total current assets	132,737,893	149,518,570	23,351,315	23,271,368
Noncurrent assets:				
Restricted cash and cash equivalents			2,375,100	2,583,002
Pledges receivable, net			29,184,701	33,398,800
Restricted long-term investments			40,615,888	51,682,206
Investments held in trust			618,616	876,272
Other long-term investments	63,787	255,850	486,773	521,686
Deferred bond issue costs and discounts	1,032,281	1,138,646		
Loans to students, net	2,346,635	1,517,805		
Due from Foundation	199,762	199,762		
Construction in progress	13,458,313	57,267,458		252,877
Capital assets, net	360,587,566	283,292,681	1,147,744	973,798
Total noncurrent assets	377,688,344	343,672,202	74,428,822	90,288,641
Total assets	510,426,237	493,190,772	97,780,137	113,560,009
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	6,814,385	13,479,003	212,158	447,649
Accrued compensated absences	4,275,836	4,429,776		
Accrued payroll	5,187,551	8,445,968		
Deferred revenue	13,248,351	9,722,754		
Deposits	527,059	519,948		
Accrued interest payable	1,277,577	1,339,628		
Long-term liabilities-current portion	5,637,086	5,438,010	54,643	58,578
Insurance claims payable	1,234,598	1,051,037		
Total current liabilities	38,202,443	44,426,124	266,801	506,227
Noncurrent liabilities:				
Accrued compensated absences	4,959,357	4,024,074		
Annuity obligations			347,934	458,543
Capital lease obligations	9,081,326	9,777,251		
Revenue bonds payable	84,953,976	89,845,137		
Other long-term liabilities	609,897	159,449		
Due to Missouri State University			199,762	199,762
Total noncurrent liabilities	99,604,556	103,805,911	547,696	658,305
Total liabilities	137,806,999	148,232,035	814,497	1,164,532
Net Assets				
Invested in capital assets, net of related debt	265,574,400	242,548,549	1,147,744	1,226,675
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	199,762	199,762	21,103,277	20,859,602
Other			14,137,152	12,957,895
Expendable:				
Research	4,387	445,288		
Scholarships and fellowships	4,518		9,020,730	14,625,263
Loans	2,812,632	2,882,566		
Capital projects	10,027,657	5,801,062		
Debt service	653,061	4,483,489		
Other			49,267,631	57,275,030
Unrestricted	93,342,821	88,598,021	2,289,106	5,451,012
Total net assets	\$ 372,619,238	\$ 344,958,737	\$ 96,965,640	\$ 112,395,477

See Notes to Financial Statements

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2009 and 2008

	University		Component Unit	Component Unit
	2009	2008	Foundation	Foundation
Operating Revenues				
Student tuition and fees	\$ 115,210,625	\$ 108,914,293	\$	\$
less scholarship allowances	(32,500,056)	(29,515,034)		
Total net student tuition and fees	82,710,569	79,399,259		
Sales and services of educational departments	18,150,174	12,732,949		
Federal grants and contracts	18,676,466	13,939,421		
State and local grants and contracts	7,322,289	4,937,812		
Nongovernmental grants and contracts	3,861,617	13,457,343		
Gifts and contributions			8,171,250	13,213,987
Auxiliary enterprises:				
Residential life (net of scholarship allowances of \$3,518,113 in 2009 and \$3,229,288 in 2008)	20,497,019	19,928,116		
Bookstore (net of scholarship allowances of \$919,908 in 2009 and \$658,645 in 2008)	2,930,477	3,114,683		
Parking (net of scholarship allowances of \$127,655 in 2009 and \$115,811 in 2008)	2,979,829	2,903,708		
Taylor Health and Wellness Center (net of scholarship allowances of \$0 in 2009 and 2,330 in 2008)	1,332,159	1,590,656		
Athletics	5,901,978	5,198,871		
Recreational facilities	316,030	178,073		
Student Union	919,921	908,111		
Other operating revenues	2,947,729	3,053,593	950,083	1,130,759
Total operating revenues	168,546,257	161,342,595	9,121,333	14,344,746
Operating Expenses				
Salaries	127,911,346	119,085,090		
Benefits	38,567,721	35,231,570		
Scholarships and fellowships	12,666,455	11,809,016	1,530,425	1,601,401
Utilities	6,130,242	6,247,545	124,247	123,558
Supplies and other services	66,855,905	60,554,201	2,177,744	2,951,839
Depreciation	16,344,581	14,247,820	78,931	68,779
Total operating expenses	268,476,250	247,175,242	3,911,347	4,745,577
Operating income (loss)	(99,929,993)	(85,832,647)	5,209,986	9,599,169
Nonoperating Revenues				
State appropriations	87,744,549	84,206,223		
Federal grants and contracts	15,590,847	11,063,905		
Gifts	7,818,562	5,413,824		
Investment income (loss)	3,066,743	6,441,558	(10,771,419)	(2,304,846)
Interest on capital asset-related debt	(3,084,279)	(4,376,132)		
Gain (loss) on assets held in trust			(6,695)	(5,796)
Other nonoperating expenses and losses			(147,959)	(335,135)
Expenditures to Missouri State University			(7,737,388)	(5,413,824)
Gain (loss) on disposal/impairment of fixed assets	8,502	(135,722)		(163,000)
Net nonoperating revenues	111,144,924	102,613,656	(18,663,461)	(8,222,601)
Income before other revenues, expenses, gains, or losses	11,214,931	16,781,009	(13,453,475)	1,376,568
Capital gifts	3,399,294	2,475,632	(3,399,294)	(2,475,632)
Capital grants and contracts	2,608,139	4,487,194		
Capital appropriations	10,438,137	809,193		
Additions to permanent endowments			1,422,932	2,299,890
Increase in net assets	27,660,501	24,553,028	(15,429,837)	1,200,826
Net assets — beginning of year	344,958,737	320,405,709	112,395,477	111,194,651
Net assets — end of year	\$ 372,619,238	\$ 344,958,737	\$ 96,965,640	\$ 112,395,477

See Notes to Financial Statements

Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities		
Tuition and fees	\$ 84,369,769	\$ 79,248,957
Sales and services of educational departments	18,150,174	12,732,949
Federal grants and contracts	16,237,116	15,952,896
State grants and contracts	7,322,289	4,937,812
Nongovernmental grants and contracts	3,861,617	13,457,343
Payments to suppliers	(85,718,280)	(78,293,366)
Payments to employees	(168,505,693)	(153,054,533)
Loans issued to students	(998,960)	(440,226)
Collection of loans to students	288,383	397,892
Auxiliary enterprise charges:		
Residential life	20,497,019	19,928,116
Bookstore	2,930,477	3,114,683
Parking	2,979,829	2,903,708
Taylor Health and Wellness Center	1,332,159	1,590,656
Athletics	5,901,978	5,198,871
Recreational facilities	316,030	178,073
Student Union	919,921	908,111
Other receipts	3,131,290	2,930,081
Net cash used by operating activities	(86,984,882)	(68,307,977)
Cash Flows From Noncapital Financing Activities		
State appropriations	87,744,549	85,015,416
Federal grants and contracts	15,590,847	11,063,905
Gifts and grants received for other than capital purposes	7,818,562	5,413,824
Net cash provided by noncapital financing activities	111,153,958	101,493,145
Cash Flows From Capital and Related Financing Activities		
Cash received from disposal of fixed assets	58,189	139,757
Purchase of capital assets	(8,812,975)	(4,986,267)
Construction in progress	(46,397,209)	(46,629,855)
Capital grants and contracts	2,608,139	3,678,001
Capital appropriations	9,485,346	
Gifts of cash	3,399,294	2,063,632
Principal paid on capital debt and lease	(5,487,482)	(5,311,780)
Interest paid on capital debt and lease	(4,347,766)	(4,385,516)
Net cash used by capital and related financing activities	(49,494,464)	(55,432,028)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	25,628,307	51,408,700
Purchase of investments	(17,714,481)	(24,774,149)
Interest on investments	2,773,013	6,458,975
Net cash provided by investing activities	10,686,839	33,093,526
Net (decrease) increase in cash and cash equivalents	(14,638,549)	10,846,666
Cash and cash equivalents—beginning of year	116,235,480	105,388,814
Cash and cash equivalents—end of year	\$ 101,596,931	\$ 116,235,480

Statements of Cash Flows (continued)

For the Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (99,929,993)	\$ (85,832,647)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	16,344,581	14,247,820
Change in operating assets and liabilities		
Accounts receivable	(1,873,508)	(551,687)
Loans to students	(710,577)	(42,334)
Federal and state grants receivable	(2,439,350)	2,013,475
Inventories	(222,087)	149,932
Prepaid expenses	83,578	6,253
Accounts payable and accrued expenses	523,279	320,660
Accrued compensated absences	781,343	528,207
Accrued payroll	(3,258,417)	574,471
Deferred revenue	3,525,597	413,293
Deposits	7,111	(11,908)
Insurance claims payable	183,561	(123,512)
Net cash used by operating activities	\$ (86,984,882)	\$ (68,307,977)
Supplemental Cash Flows Information		
Increase (decrease) in accounts payable incurred for capital asset purchases	\$ (6,737,449)	\$ 6,045,162
Gifts in kind of capital assets		\$ 412,000
Capital leases incurred for capital asset purchases		\$ 94,365

See Notes to Financial Statements

Notes to Financial Statements June 30, 2009 and 2008

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. An eight-member Board of Governors, appointed by the Governor and confirmed by the Senate of the State of Missouri, governs the University, a component unit of the State of Missouri.

Component 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, 2009 and 2008, the Foundation provided \$11,136,682 and \$7,889,456, respectively, of support to the University. Complete financial statements of the Foundation may be obtained from its Administrative Office at the following address: 901 S. National, Springfield, MO 65897.

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

JVIC, Inc., A Missouri Innovation Center, is a legally separate, tax-exempt component unit of the University. The mission of JVIC, 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 JVIC, 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 JVIC, 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, JVIC, 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 JVIC, Inc. for the fiscal years ended June 30, 2009 and 2008. If financial transactions occur in the future, JVIC, Inc. is a private nonprofit organization which will report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications will be made to the JVIC, 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 nonoperating revenues and expenses. Revenues for nonexchange transactions are recognized when all eligibility requirements have been satisfied. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Use of Estimates

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

Cash Equivalents

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

Notes to Financial Statements June 30, 2009 and 2008

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 \$1,802,201 and \$1,814,705 at June 30, 2009 and 2008, respectively. The University writes off accounts that have no activity within the last year and 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. Required student fees and residence hall charges are due at the beginning of the semester unless the student is enrolled in the Deferred Payment Plan. Fee payment deadlines vary depending upon when the student registers. If the required student fees are not paid in full by that date, a finance charge is assessed on the remaining balance. Miscellaneous charges are due when billed. A finance charge is assessed on the next statement date after a miscellaneous charge is first billed. Charges that are past due without payments for one year and have had no response to the due diligence process are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable 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 \$1,629,121 and \$1,514,322 at June 30, 2009, and 2008, respectively.

Inventories

Nonauxiliary inventories consist of supplies for use by the University and merchandise available for sale consisting of art supplies and pharmacy stock. These inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Auxiliary enterprises inventories consist of merchandise available for sale at the bookstore, student union 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, 2009 was \$1,407,273 and for the year ended June 30, 2008 was \$285,363.

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, 2009 and 2008

Compensated Absences

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

Deferred Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method. Total amortization for the year ended June 30, 2009 was \$306,988 and for the year ended June 30, 2008, was \$362,237.

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 nonoperating revenues according to the following criteria:

Operating revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) interest on student loans, and (4) grants and contracts meeting certain criteria.

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

Federal Financial Assistance Programs

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

Scholarship Allowances

Student tuition and fees and auxiliary enterprise revenues, presented net of scholarships and fellowships of \$37,065,732 and \$33,521,108 at June 30, 2009 and 2008, 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 \$571,347 and \$506,253 for the years ended June 30, 2009 and 2008, 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).

Subsequent Events

Subsequent events have been evaluated through November 24, 2009, which is the date the financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on change in net assets.

Notes to Financial Statements June 30, 2009 and 2008

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, 2009 and 2008, 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 2009 and 2008. 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:

	2009	2008
Uninsured and uncollateralized	\$ 937,932	\$ 788,226

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 \$937,932 and \$788,226 of foreign deposits denominated in Chinese Yuan and the Hong Kong Dollar at June 30, 2009 and 2008, 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, 2009 and 2008, the University had the following investments and maturities:

Type	Fair Value	June 30, 2009		
		Maturities in Years		
		Less than 1	1–5	6–10
U.S. Treasury obligations	\$ 63,787	\$	\$	\$ 63,787
U.S. agencies obligations	9,997,000	9,997,000		
	\$ 10,060,787	\$ 9,997,000	\$	\$ 63,787

Type	Fair Value	June 30, 2008		
		Maturities in Years		
		Less than 1	1–5	6–10
U.S. Treasury obligations	\$ 255,849	\$	\$ 69,307	\$ 186,542
U.S. agencies obligations	17,463,350	17,463,350		
	\$ 17,719,199	\$ 17,463,350	\$ 69,307	\$ 186,542

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, 2009 and 2008, 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, 2009 or 2008.

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, 2009 or 2008 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, 2009 and 2008

Summary of Carrying Values

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

	2009	2008
Carrying Value:		
Deposits	\$101,596,931	\$116,235,480
Investments	10,060,787	17,719,199
	<u>\$111,657,718</u>	<u>\$133,954,679</u>

Included in the following statements of net assets captions

	2009	2008
Cash and cash equivalents	\$ 98,634,944	\$ 93,621,199
Restricted cash and cash equivalents	2,961,987	22,614,281
Short-term investments	9,997,000	12,795,986
Restricted short-term investments		4,667,363
Long-term investments	63,787	255,850
Cash, cash equivalents and investments total	<u>\$111,657,718</u>	<u>\$133,954,679</u>

Investment Income

Investment income for the years ended June 30, 2009 and 2008, consisted of:

	2009	2008
Interest and dividend income	\$ 2,915,421	\$ 6,487,852
Net increase (decrease) in fair value of investments	151,322	(46,294)
	<u>\$ 3,066,743</u>	<u>\$ 6,441,558</u>

Foundation Pooled Investments

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

	2009	2008
Pooled investments at market value	\$ 42,719,177	\$ 53,258,894
Number of pool shares	212,372	201,858
Market value per pool share	\$ 201.15	\$ 263.84
Fiscal year return	-20.0%	-4.8%
Interest and dividend earnings	\$ 199,239	\$ 257,143
Net gains (losses)	\$ (10,997,609)	\$ (2,970,129)

Endowment and other pooled assets consist of the following as of June 30, 2009 and 2008:

Pooled investments from above	\$ 42,719,177	\$ 53,258,894
Non-pooled endowment assets	4,435,084	5,256,154
Total endowment and other pooled assets	<u>\$ 47,154,261</u>	<u>\$ 58,515,048</u>

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, is based on valuations conducted by the management group of each underlying fund.

While the Foundation does not invest directly in derivative securities, it may, 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:

	2009	2008
Accrued income	\$ 87,263	\$ 125,663
Money market accounts	122,985	5,917,359
Mutual funds	36,237,384	44,061,498
Real estate funds	1,536,140	3,503,134
U.S. Treasury securities	783,656	1,008,659
Corporate bonds	1,161,151	1,025,634
Hedge funds	2,375,725	4,516,770
Private Equity	481,868	185,000
Other	3,500	3,500
	<u>\$ 42,789,672</u>	<u>\$ 60,347,217</u>

Investment return consists of the following:

Investment income	\$ 560,265	\$ 831,909
Net realized and unrealized losses on investments reported at fair value	(11,331,684)	(3,136,755)
	<u>\$ (10,771,419)</u>	<u>\$ (2,304,846)</u>

Investments held in trust are deposited with Wachovia Balanced Fund or are in municipal bonds and other investments.

Investment expenses incurred for the years ended June 30, 2009 and 2008 totaled \$122,856 and \$144,678, respectively.

Notes to Financial Statements June 30, 2009 and 2008

Note 3: Foundation Pledges Receivable

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

	2009	2008
Due in less than one year	\$ 6,711,201	\$ 7,956,651
Due in one to five years	11,263,106	14,519,297
Due in more than five years	35,789,468	38,703,909
	<u>53,763,775</u>	<u>61,179,857</u>
Less: Allowance for doubtful accounts	254,805	325,373
Unamortized discount	17,779,147	19,650,588
	<u>18,033,952</u>	<u>19,975,961</u>
	<u>\$ 35,729,823</u>	<u>\$ 41,203,896</u>

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 \$175,128 and \$250,000 at June 30, 2009 and 2008, 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 12.53, 12.84 and 12.78 percent of annual covered payroll for the years ended June 30, 2009, 2008 and 2007, respectively. No employee contributions are required or permitted. Contributions, which equaled the contribution requirements for years ended June 30, 2009, 2008, and 2007 were \$11,698,121, \$11,297,989, and \$10,559,054, respectively. The MOSERS funded status ratio was 85.9% and 86.8% as of June 30, 2008 and 2007, 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. Employees do not contribute to MOSERS. 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 7.88%, 7.87% and 7.84% of the participants salary to CURP for the years ended June 30, 2009, 2008 and 2007 respectively. The total contributed for years ended June 30, 2009, 2008, and 2007 was \$1,387,991, \$1,037,231 and \$860,910, 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 2009 Missouri State University contributed \$532,065 to the postemployment retirement plan portion of the MSUEBP and the retirees contributed \$552,674 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, 2009 and 2008

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

	2009	
Amortization of Unfunded Actuarial		
Value of Assets (UAAL)	\$	450,364
Normal Cost (with interest)		516,622
Interest on Amortization of UAAL		18,015
Annual Required Contribution (ARC)		985,001
Interest on Net OPEB Obligation		6,378
Adjustment to the ARC		(8,866)
Annual OPEB Cost (Expense)		982,513
Contributions Made		(532,065)
Increase in Net OPEB Obligation		450,448
Net OPEB Obligation—Beginning of Year		159,449
Net OPEB Obligation—End of Year	\$	609,897

Missouri State University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the preceding year are as follows:

	2009		2008	
Annual OPEB Cost	\$	982,513	\$	825,801
Net Employer Contributions	\$	532,065	\$	666,352
Percentage Contributed		54.15%		80.69%
End of Year Net OPEB Obligation	\$	609,897	\$	159,449

Funded Status and Funding Progress: As of June 30, 2009 and 2008 the Actuarial Accrued Liability (AAL) was \$8,397,088 and \$6,901,400, 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 \$111,870,148 and \$106,672,261 in 2009 and 2008, respectively. The ratio of the UAAL to the covered payroll was 7.51% and 6.47% in 2009 and 2008, respectively.

Actuarial Methods and Assumptions: Actuarial valuations reflect a long-term perspective and involve estimates of the value 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
2008–2009	10.0%	10.0%
2009–2010	9.5%	9.5%
2010–2011	9.0%	9.0%
2011–2012	8.5%	8.5%
2012–2013	8.0%	8.0%
2013–2014	7.5%	7.5%
2014–2015	7.0%	7.0%
2015–2016	6.5%	6.5%
2016–2017	6.0%	6.0%
2017–2018	5.5%	5.5%
2018 and Beyond	5.0%	5.0%

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, 2009 and 2008, is summarized as follows:

	2009		2008	
Balance at beginning of year	\$	1,051,037	\$	1,174,549
Health and dental claims		13,479,345		13,068,424
Health insurance payments		(13,295,784)		(13,191,936)
Balance at end of year	\$	1,234,598	\$	1,051,037

Notes to Financial Statements June 30, 2009 and 2008

Note 8: Operating Expenses by Function

Operating expenses by functional classification for the year ended June 30, 2009 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2009 Total
Instruction	\$ 64,572,513	\$ 19,653,669	\$	\$ 1,400	\$ 9,314,858	\$	\$ 93,542,440
Research	5,575,909	1,558,701		1,358	9,677,458		16,813,426
Public service	4,347,762	1,197,208		106,807	3,997,890		9,649,667
Academic support	16,653,167	4,491,624		1,631	6,446,194		27,592,616
Student services	6,643,971	1,664,149			4,358,250		12,666,370
Institutional support	9,694,946	4,833,472		14,739	7,468,536		22,011,693
Operation and maintenance of plant	5,874,949	1,592,649		3,398,060	9,382,941		20,248,599
Scholarships and fellowships	604,871	134,135	12,666,455		119,660		13,525,121
Auxiliary enterprises	13,943,258	3,442,114		2,606,247	16,090,118		36,081,737
Depreciation						16,344,581	16,344,581
Total operating expenses for fiscal year 2009	\$ 127,911,346	\$ 38,567,721	\$ 12,666,455	\$ 6,130,242	\$ 66,855,905	\$ 16,344,581	\$ 268,476,250

Operating expenses by functional classification for the year ended June 30, 2008 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2008 Total
Instruction	\$ 59,610,701	\$ 16,749,376	\$	\$ 35,102	\$ 11,038,895	\$	\$ 87,434,074
Research	4,545,265	1,262,431		2,976	9,460,508		15,271,180
Public service	3,921,591	1,215,834		117,076	3,964,330		9,218,831
Academic support	14,224,775	4,414,056		2,508	6,233,920		24,875,259
Student services	5,523,115	1,806,549			4,675,323		12,004,987
Institutional support	12,860,103	4,064,473		15,507	2,181,742		19,121,825
Operation and maintenance of plant	5,244,202	2,149,302		3,839,573	8,285,080		19,518,157
Scholarships and fellowships	174,756	4,591	10,358,734		25,584		10,563,665
Auxiliary enterprises	12,980,582	3,564,958	1,450,282	2,234,803	14,688,819		34,919,444
Depreciation						14,247,820	14,247,820
Total operating expenses for fiscal year 2008	\$ 119,085,090	\$ 35,231,570	\$ 11,809,016	\$ 6,247,545	\$ 60,554,201	\$ 14,247,820	\$ 247,175,242

Note 9: Long-term Liabilities

Long-term debt and other obligations consist of the following as of June 30, 2009:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2008	Additions	Reductions	Ending Balance June 30, 2009	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable								
2002		3%	2018	\$ 1,593,202	\$	\$ 138,832	\$ 1,454,370	\$ 142,998
2005	A	3.00 to 3.2%	2010	4,295,000		1,390,000	2,905,000	1,435,000
2007	A	2.75 to 4.05%	2025	27,200,000		1,565,000	25,635,000	1,605,000
2007	A	4.0 to 5.0%	2032	56,420,000			56,420,000	1,100,000
2007	B	5.04%	2010	1,700,000		1,365,000	335,000	335,000
				91,208,202		4,458,832	86,749,370	4,617,998
Classroom Building 2002		3.35 to 4.35%	2016	3,735,000		360,000	3,375,000	375,000
Total Bonds and Notes Payable				94,943,202		4,818,832	90,124,370	4,992,998
Unamortized premium on bond issue				1,455,145		98,859	1,356,286	96,494
Unamortized loss on prior bond defeasance				(1,833,850)		(198,331)	(1,635,519)	(198,331)
Total Bonds and Notes Payable less unamortized loss				94,564,497		4,719,360	89,845,137	4,891,161
Compensated absences				8,453,850	5,592,930	4,811,587	9,235,193	4,275,836
Capital lease obligations		4.392%	2011-2021	10,495,901		668,650	9,827,251	745,925
Other long-term liabilities				159,449	450,448		609,897	
Total other obligations				19,109,200	6,043,378	5,480,237	19,672,341	5,021,761
Total long-term debt and other obligations				\$ 113,673,697	\$ 6,043,378	\$ 10,199,597	\$ 109,517,478	\$ 9,912,922

Long-term debt and other obligations consist of the following as of June 30, 2008:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable								
2002		3%	2018	\$ 1,727,960	\$	\$ 134,758	\$ 1,593,202	\$ 138,832
2005	A	2.75 to 3.2%	2010	5,650,000		1,355,000	4,295,000	1,390,000
2007	A	2.60 to 4.05%	2025	28,725,000		1,525,000	27,200,000	1,565,000
2007	A	4.0 to 5.0%	2032	56,420,000			56,420,000	
2007	B	5.0 to 5.04%	2010	3,000,000		1,300,000	1,700,000	1,365,000
				95,522,960		4,314,758	91,208,202	4,458,832
Classroom Building 2002		3.10 to 4.35%	2016	4,085,000		350,000	3,735,000	360,000
Total Bonds and Notes Payable				99,607,960		4,664,758	94,943,202	4,818,832
Unamortized premium on bond issue				1,556,390		101,245	1,455,145	98,859
Unamortized loss on prior bond defeasance				(2,032,178)		(198,328)	(1,833,850)	(198,331)
Total Bonds and Notes Payable less unamortized loss				99,132,172		4,567,675	94,564,497	4,719,360
Compensated absences				7,925,643	5,464,729	4,936,522	8,453,850	4,429,776
Capital lease obligations		4.392%	2011-2021	11,048,557	94,365	647,021	10,495,901	718,650
Other long-term liabilities					159,449		159,449	
Total other obligations				18,974,200	5,718,543	5,583,543	19,109,200	5,148,426
Total long-term debt and other obligations				\$ 118,106,372	\$ 5,718,543	\$ 10,151,218	\$ 113,673,697	\$ 9,867,786

Notes to Financial Statements June 30, 2009 and 2008

The University has bonds, notes, and capital lease obligations due in the total amount of \$99,672,388 and \$105,060,398 as of June 30, 2009 and 2008, respectively. At June 30, 2009, these bonds and notes bear interest at rates ranging from 2.75 percent to 5.04 percent annually, and mature at various dates through fiscal year 2032. The notes payable and revenue bonds are payable, both as to principal and interest, solely and only out of net income arising from the operation of the various revenue funds.

The revenue bond issues and the 1988 Housing System note payable require the University to establish and fund various Debt Service Reserve Funds. At June 30, 2009 and 2008, all Debt Service Reserve Funds have been fully funded. The University also is required to maintain certain rate covenants related to the Auxiliary Enterprise System bonds.

During 1991, revenue bonds totaling \$8,106,000 were defeased. The bonds matured in Fiscal Year 2009 and were paid in full by the bond trustee. At June 30, 2008, the current outstanding balance of these defeased bonds was \$81,000.

During 1998, Recreation Building 1991 bonds of \$4,475,000 and Parking System 1993 bonds of \$2,990,000 were defeased. At June 30, 2009 and 2008, the current outstanding balance of these defeased bonds was \$1,650,000 and \$2,300,000, 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, 2009 and 2008, the current outstanding balance of these defeased bonds was \$8,275,000 and \$10,365,000, respectively.

During 2005, Auxiliary System bonds series 1997A and 1999A of \$13,960,000 and \$16,835,000 respectively were defeased. At June 30, 2009 and 2008, the current outstanding balance of these defeased bonds was \$25,085,000 and \$26,415,000, respectively.

In accordance with accounting principles generally accepted in the United States of America, the outstanding balances of the defeased bonds are not reflected on the statement of net assets of the University.

The principal and interest requirements on notes and bonds payable to maturity at June 30, 2009 are as follows:

	Principal	Interest	Total
2010	4,993,028	3,684,390	8,677,418
2011	5,057,351	3,516,893	8,574,244
2012	5,001,805	3,346,747	8,348,552
2013	5,176,393	3,170,733	8,347,126
2014	5,361,120	2,983,393	8,344,513
2015–2019	24,084,673	11,965,457	36,050,130
2020–2024	13,390,000	8,315,803	21,705,803
2025–2029	15,830,000	4,812,171	20,642,171
2030–2032	11,230,000	996,625	12,226,625
	<u>\$ 90,124,370</u>	<u>\$ 42,792,212</u>	<u>\$ 132,916,582</u>

Capital Lease Obligations

The University is obligated under leases accounted for as capital leases. Assets under capital leases at June 30, 2009 and 2008, totaled \$10,198,836 and \$10,848,704, respectively, net of accumulated depreciation of \$1,908,006 in 2009 and \$1,258,139 in 2008.

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, 2009:

2010	\$ 1,167,627
2011	1,097,265
2012	1,072,627
2013	1,051,869
2014	1,051,869
2015 – 2019	5,259,345
2020 – 2021	2,103,738
Total minimum lease payments	12,804,340
Less amount representing interest	2,977,089
Present value of future minimum lease payments	<u>\$ 9,827,251</u>

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, 2009, is as follows: 2010–\$590,379; 2011–\$109,661; 2012–\$98,890; 2013–\$98,890; 2014–\$41,204.

Notes to Financial Statements June 30, 2009 and 2008

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 14 residence halls, four dining facilities, and the Student Union Building. The parking facilities consist of all facilities, lots and equipment for the parking of vehicles and the movement of passengers around campus. The 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, 2009 and 2008 is summarized as follows:

	2009	2008
Condensed Statement of Net Assets		
Assets:		
Current assets	\$ 31,175,917	\$ 52,089,867
Noncurrent assets	157,147,778	137,722,758
Total assets	188,323,695	189,812,625
Liabilities:		
Current liabilities	10,822,018	17,812,177
Noncurrent liabilities	82,156,543	87,096,409
Total liabilities	92,978,561	104,908,586
Net assets:		
Invested in capital assets, net of related debt	69,116,736	56,902,384
Restricted -		
Expendable	9,150,139	8,794,284
Unrestricted	17,078,259	19,207,371
Total net assets	95,345,134	84,904,039
Total liabilities and net assets	\$ 188,323,695	\$ 189,812,625

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2009	2008
Operating revenues	\$ 41,873,050	\$ 47,756,307
Operating expenses:		
Depreciation	4,399,178	2,818,538
All other operating expenses	36,081,737	34,919,444
Total operating expenses	40,480,915	37,737,982
Operating income	1,392,135	10,018,325
Nonoperating revenues (expenses)	8,331,221	3,396,699
Excess of revenues over expenses	9,723,356	13,415,024
Transfer (to) from other University units	717,739	(5,970,878)
Increase in net assets	10,441,095	7,444,146
Net assets, beginning of year	84,904,039	77,459,893
Net assets, end of year	\$ 95,345,134	\$ 84,904,039

Note 11: Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 29,681,540	\$	\$	\$ 186,704	\$ 29,868,244
Infrastructure	36,411,424			10,193,781	46,605,205
Buildings	329,753,093			71,703,180	401,456,273
Furniture, fixtures, and equipment	32,071,785	6,793,466	997,973	2,660,415	40,527,693
Library materials	43,730,729	2,151,607			45,882,336
Capitalized collections	391,858				391,858
Construction in progress	57,267,458	40,934,935		(84,744,080)	13,458,313
Total	529,307,887	49,880,008	997,973		578,189,922
Less accumulated depreciation:					
Infrastructure	11,152,876	1,833,051			12,985,927
Buildings	120,336,263	9,533,675			129,869,938
Furniture, fixtures, and equipment	24,311,082	2,997,642	948,286		26,360,438
Library materials	32,797,220	1,941,028			34,738,248
Capitalized collections	150,307	39,185			189,492
Total accumulated depreciation	188,747,748	16,344,581	948,286		204,144,043
Capital assets, net	\$ 340,560,139	\$ 33,535,427	\$ 49,687		\$ 374,045,879

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 29,504,880	\$	\$	\$ 176,660	\$ 29,681,540
Infrastructure	34,867,425			1,543,999	36,411,424
Buildings	311,552,886			18,200,207	329,753,093
Furniture, fixtures, and equipment	29,497,317	3,358,873	874,397	89,992	32,071,785
Library materials	41,509,788	2,220,941			43,730,729
Capitalized collections	391,858				391,858
Construction in progress	24,405,118	52,873,198		(20,010,858)	57,267,458
Total	471,729,272	58,453,012	874,397		529,307,887
Less accumulated depreciation:					
Infrastructure	9,510,004	1,642,872			11,152,876
Buildings	112,040,684	8,295,579			120,336,263
Furniture, fixtures, and equipment	22,548,107	2,361,893	598,918		24,311,082
Library materials	30,888,930	1,908,290			32,797,220
Capitalized collections	111,121	39,186			150,307
Total accumulated depreciation	175,098,846	14,247,820	598,918		188,747,748
Capital assets, net	\$ 296,630,426	\$ 44,205,192	\$ 275,479		\$ 340,560,139

Notes to Financial Statements June 30, 2009 and 2008

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 \$7 million at June 30, 2009, including a major outstanding contract related to the renovation of Sicheluff Hall. Of this contract, approximately \$2.2 million is still to be incurred at June 30, 2009.

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. For FY2010, universities in the state of Missouri entered into an agreement with the governor to hold tuition rates steady in exchange for steady state appropriations. 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 867 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 Uniform Management of Institutional Funds Act (SUMIFA) 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. In accordance with SUMIFA, 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, 2009 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
Donor-restricted endowment funds	\$ (2,619,436)	\$ 11,826,786	\$ 34,997,273	\$ 44,204,623
Board-designated endowment funds	2,506,720			2,506,720
Total endowment funds	\$ (112,716)	\$ 11,826,786	\$ 34,997,273	\$ 46,711,343

Changes in endowment net assets for the year ended June 30, 2009 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
Endowment net assets, beginning of year	\$ 3,117,240	\$ 21,380,549	\$ 33,486,158	\$ 57,983,947
Investment return:				
Investment income		247,977		247,977
Net appreciation (depreciation)	(3,287,126)	(7,710,390)		(10,997,516)
Contributions			1,443,970	1,443,970
Other Income	45,548	4,340	75,717	125,605
Provision for Uncollectible Pledges			(8,572)	(8,572)
Appropriation of endowment assets for expenditure		(2,667,132)		(2,667,132)
Other Additions	11,622	571,442		583,064
Endowment net assets, end of year	\$ (112,716)	\$ 11,826,786	\$ 34,997,273	\$ 46,711,343

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 SUMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated approximately \$2,600,000 at June 30, 2009. 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 9.4% 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 Organization 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 5.4% 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, 2009	Year Ended June 30, 2008
Actuarial Valuation Date	July 1, 2008	July 1, 2007
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Actuarial accrued liability	\$8,397,088	\$6,901,400
Actuarial value of assets		
Total Unfunded Actuarial Liability	\$8,397,088	\$6,901,400
Funded Ratio	0.00%	0.00%
Annual Covered Payroll	\$111,870,148	\$106,672,261
Ratio of Unfunded Actuarial Liability to Covered Payroll	7.51%	6.47%
Participant Summary:		
Active employees	2,091	2,091
Retirees	217	217
Spouses of retirees	84	84
Total	2,392	2,392

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
2008–2009	10.0%	10.0%
2009–2010	9.5%	9.5%
2010–2011	9.0%	9.0%
2011–2012	8.5%	8.5%
2012–2013	8.0%	8.0%
2013–2014	7.5%	7.5%
2014–2015	7.0%	7.0%
2015–2016	6.5%	6.5%
2016–2017	6.0%	6.0%
2017–2018	5.5%	5.5%
2018-beyond	5.0%	5.0%

Note to Schedule

Actuarial valuations are required biennially. For the year ended June 30, 2009, the University elected to have a roll-forward of its most recent actuarial valuation. Certain data as of the July 1, 2007 valuation date was used and relied upon by the actuary at the July 1, 2008 valuation date to roll forward the actuarial accrued liability as of June 30, 2009.

PRIVATE GIVING

The loyalty of alumni and friends of the University was evident during Fiscal Year 2009. Nearly 27,000 donors contributed \$15,044,534 (cash basis) to the Missouri State University Foundation for students, faculty, facilities and programs at Missouri State University. As part of that number, the Annual Fund, which supports annual needs of academic and other programs, received \$7,235,443. The other \$7,809,091 million was designated for special campaigns or were one-time gifts. In addition, nearly \$3.3 million was recorded in deferred gift commitments during the fiscal year, which will provide further support at some point in the future. These kinds of commitments and participation of alumni, faculty, staff, students, parents, businesses, foundations and the community allow the University and its students many opportunities to advance and excel.

Endowed funds are essential to ongoing institutional planning and support. At the end of the fiscal year, the market value of the endowment pool assets stood at \$42,719,177. In addition to providing scholarship support, endowments provide critical program support, fund ongoing maintenance and equipment needs, bring in guest artists and lecturers, and fund faculty growth and development.

The gifts received this past fiscal year came in many sizes and benefited students and programs across all campuses. Several donors established or contributed to endowed

funds and scholarships to support programs including: the James F. and Mary Asher Tearney Fund for Library Resources, the Asher-Tearney Legacy Scholarship for Education and Engineering, Adeline E. Moore Scholarship Endowment, the Atwood Research and Teaching Award, Special Collections Rare Books Endowment, and the H. Douglas Adams Public Administration Research Fund. Also, several funds and scholarships were established or continued receiving support in the areas of arts and letters, business, and health and human services, just to name a few. Additionally, annual gifts continued for critical support of facilities and programs in the areas of Greenwood, JQH Arena, KSMU, Ozarks Public Television, the West Plains and Mountain Grove campuses, The Performance Society and The Bears Fund.

Whether gifts are made for immediate use, designated for permanent needs by funding endowments or planned through a deferred gift vehicle, all gifts are important to Missouri State University. Across the University, many giving opportunities exist along with a range of giving options, from cash to stock to gifts which will pay income. All gifts advance the possibilities for Missouri State University students and help the University to fulfill its important mission.

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