

Missouri State University

A Component Unit of the State of Missouri

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016

Missouri State University
A Component Unit of the State of Missouri
June 30, 2017 and 2016

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Independent Auditor's Report

Board of Governors
Missouri State University
Springfield, Missouri

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Missouri State University, collectively a component unit of the state of Missouri, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Missouri State University's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Missouri State University as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information and other postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We, have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements, that collectively comprise the University's basic financial statements. The Condensed Statements by Campus listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
November 29, 2017

Missouri State University
A Component Unit of the State of Missouri
Management’s Discussion and Analysis
Years Ended June 30, 2017 and 2016

We are providing Missouri State University’s (the “University”) discussion and analysis of our financial statements and related notes as of June 30, 2017 and 2016, and for the fiscal years then ended. Three statements are described in the following discussion and analysis: The Statement of Net Position, which presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the institution as of the end of the fiscal year, the Statement of Revenues, Expenses and Changes in Net Position, 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. As you read through the next few pages, please review and refer to the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows in addition to the Notes to the Financial Statements that we have described above.

Overview

Missouri State University is a comprehensive institution offering undergraduate and graduate programs, including the professional doctorate with an enrollment of over 26,000 students. The University educates students to be global citizen scholars committed to the public affairs mission. The University’s Mission, Vision and Values are detailed on the following link:

<https://www.missouristate.edu/about/missouristatement.htm>.

The Missouri State University campuses are structured to address the special needs of the urban and rural populations they serve. Missouri State University-Springfield is a selective admissions, graduate level teaching and research institution. Missouri State University-West Plains is an open admissions campus serving seven counties in south central Missouri. Missouri State University-Mountain Grove serves Missouri’s fruit industry through operation of the State Fruit Experiment Station. The Extended Campus provides anytime, anyplace learning opportunities through telecourses, internet-based instruction and through its interactive video network (BearNet). The University also operates various other special facilities, such as the Darr Agricultural Center in southwest Springfield, the Jordan Valley Innovation Center in downtown Springfield, the Bull Shoals Field Station near Forsyth, Baker’s Acres and Observatory near Marshfield, the Missouri State University Graduate Center in Joplin and a branch campus at Liaoning Normal University in Dalian, China. In addition, Missouri State has the operations and program offerings of one entire academic department, its Department of Defense and Strategic Studies, located near Washington, D.C., in Fairfax, Virginia.

Management Discussion and Analysis

This discussion and analysis of the Missouri State University's financial statements provides a comparative overview of the University's financial performance during the years ended June 30, 2017, 2016 and 2015. Since the management's discussion and analysis is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the University's basic financial statements and the footnotes. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

In 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment to GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which was effective for fiscal year 2015 and established standards for the recognition of liabilities, deferred outflows and inflows of resources and expenses related to pension plans.

Statements of Net Position

The Statement of Net Position presents the financial position of the University at a point in time. The Statement of Net Position has five major components which include 1.) Assets, 2.) Deferred Outflows of Resources, 3.) Liabilities, 4.) Deferred Inflows of Resources and 5.) Net Position. A description of each component is as follows:

Assets – Current assets are those anticipated to be liquidated within one year or less and include items such as cash and cash equivalents, investments, accounts receivable, inventories, loans to students and prepaid expenses. Noncurrent assets include that portion of accounts receivable, investments, loans to students and prepaid expenses not expected to liquidate within one year plus capital assets such as buildings, building improvements, infrastructure, equipment, etc.

Deferred Outflows of Resources – Deferred outflows of resources are those applicable to a future reporting period and include losses on bond refundings and current year contributions to the related pension plan as a result of the adoption of GASB Statement No. 68.

Liabilities – Current liabilities are those anticipated to be recognized within one year or less and include items such as accounts payable and accrued liabilities, accrued compensated absences, unearned revenue, interest payable, student deposits, the current portion of long-term debt and accrued settlements. Noncurrent liabilities include that portion of accrued liabilities, compensated absences and long-term debt that are not due within one year.

Deferred Inflows of Resources – Deferred inflows of resources is the net difference between the projected and actual earning on the pension plan investments created as a result of the adoption of GASB Statement No. 68.

Net Position – Net Position represents University total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. Net Position are classified in three major categories which include 1.) Net Investment in Capital Assets, 2.) Restricted and 3.) Unrestricted.

- 1.) Net Investment in Capital Assets represents buildings, building improvements, equipment, etc., that is net of accumulated depreciation and related debt.
- 2.) Restricted Net Position are that whose purpose has been determined by an outside party for a specific use such as scholarships, loans and capital projects.
- 3.) Unrestricted Net Position represents balances from operational activities that have not been restricted by parties external to the University. This includes funds that have been designated for specific purposes as well as amounts that have been contractually committed for goods and services not yet received.

A summary of the University's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2017, 2016 and 2015:

Statements of Net Position
As of June 30, 2017, 2016 and 2015
(In Millions)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current Assets	\$ 104.0	\$ 104.1	\$ 93.6
Noncurrent Assets	632.9	604.3	581.6
Deferred Outflows of Resources	<u>87.0</u>	<u>34.5</u>	<u>20.8</u>
Total Assets and Deferred Outflows of Resources	<u>823.9</u>	<u>742.9</u>	<u>696.0</u>
Current Liabilities	58.5	57.0	53.4
Noncurrent Liabilities	407.3	330.8	276.0
Deferred Inflows of Resources	<u>2.1</u>	<u>3.2</u>	<u>33.5</u>
Total Liabilities and Deferred Inflows of Resources	<u>467.9</u>	<u>391.0</u>	<u>362.9</u>
Net Position			
Net investment in capital assets	348.2	331.1	325.5
Restricted	16.2	16.5	13.3
Unrestricted	<u>(8.4)</u>	<u>4.3</u>	<u>(5.7)</u>
Total Net Position	<u>\$ 356.0</u>	<u>\$ 351.9</u>	<u>\$ 333.1</u>

Comparative Analysis of Fiscal Years 2017, 2016 and 2015

Current Assets – Current assets for Fiscal Year 2017 totaled \$104.0 million which is a decrease of \$0.1 million from Fiscal Year 2016 current assets of \$104.1 million. Current assets for Fiscal Year 2016 totaled \$104.1 million which is an increase of \$10.5 million from Fiscal Year 2015 current assets of \$93.6 million. This increase is primarily attributed to an increase in cash, restricted cash, accounts receivable and inventories.

Noncurrent Assets – Noncurrent assets for Fiscal Year 2017 totaled \$632.9 million which is an increase of \$28.6 million from Fiscal Year 2016 noncurrent assets of \$604.3 million and Fiscal Year 2016 increased \$22.7 million from Fiscal Year 2015 noncurrent assets of \$581.6 million. The increases are primarily due to an increase in long-term investments and increased construction in progress and/or capital assets.

Deferred Outflows of Resources – Deferred outflows of resources for Fiscal Year 2017 totaled \$87.0 million which is an increase of \$52.5 million from Fiscal Year 2016 deferred outflows of resources of \$34.5 million. The increase is the result of GASB 68 in the amount of \$53.0 million. Deferred outflows of resources for Fiscal Year 2016 totaled \$34.5 million which is an increase of \$13.7 million from Fiscal Year 2015 deferred outflows of resources of \$20.8 million. The increase was the result of GASB 68 in the amount of \$14.2 million.

Current Liabilities – Current liabilities for Fiscal Year 2017 totaled \$58.5 million which is an increase of \$1.5 million from Fiscal Year 2016 current liabilities of \$57.0 million. This increase is primarily attributable to an increase in accounts payable and unearned revenue offset by reduced insurance claims payable. Current liabilities for Fiscal Year 2016 totaled \$57.0 million which is an increase of \$3.6 million from Fiscal Year 2015 current liabilities of \$53.4 million. This increase is primarily attributable to an increase in accounts payable related to the purchase of text book inventory and insurance claim payables.

Noncurrent Liabilities – Noncurrent liabilities for Fiscal Year 2017 totaled \$407.3 million which is an increase of \$76.5 million from Fiscal Year 2016 noncurrent liabilities of \$330.8 million. The increase is primarily the adoption of GASB Statements Nos. 68 and 71 with an increase of the accrued pension liability of \$73.7 million. Noncurrent liabilities for Fiscal Year 2016 totaled \$330.8 million which is an increase of \$54.8 million from Fiscal Year 2015 noncurrent liabilities of \$276.0 million. The increase is primarily the adoption of GASB Statements Nos. 68 and 71 with the recording of the accrued pension liability of \$44.3 million and the issuance of an academic bond issue in the amount of \$16.8 million.

Deferred Inflows of Resources – Deferred inflows of resources for Fiscal Year 2017 totaled \$2.1 million a decrease of \$1.1 million from Fiscal Year 2016. This amount is related to the adoption of GASB Statements Nos. 68 and 71. Deferred inflows of resources for Fiscal Year 2016 totaled \$3.2 million a decrease of \$30.3 million from Fiscal Year 2015. This amount is related to the adoption of GASB Statements Nos. 68 and 71.

Net Position – Net Position totaled \$356.0 million for Fiscal Year 2017, \$351.9 million for Fiscal Year 2016 and \$333.1 million for Fiscal Year 2015.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position (SRECNP) present the operating results of the University as a whole. The statements, prepared in accordance with GASB, distinguish revenues and expenses between operating and nonoperating categories and provide a view of the University's operating margin. Comparative summary statements of revenue, expenses and changes in net position for the years ended June 30, 2017, 2016 and 2015, are as follows:

Operating Results As of June 30, 2017, 2016 and 2015 (In Millions)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Operating Revenue			
Tuition and fees	\$ 161.6	\$ 158.2	\$ 149.3
Scholarship allowances	(34.6)	(34.1)	(33.4)
Net tuition and fees	127.0	124.1	115.9
Sales and services	14.0	18.0	13.1
Grants and contracts	30.4	30.0	27.8
Auxiliary enterprises	40.7	39.4	36.4
Other	4.1	3.9	3.7
Total Operating Revenues	216.2	215.4	196.9
Operating Expenses	346.4	323.6	304.4
Operating Loss	(130.2)	(108.2)	(107.5)
Nonoperating Revenue (Expenses)			
State appropriations	83.2	85.2	83.9
Federal grants and contracts	29.8	30.6	30.5
Loss on disposal/impairment of fixed assets	(1.4)	-	(0.5)
Gifts	8.4	8.0	8.4
Investment income (loss)	(0.5)	2.7	1.2
Interest on capital asset – related debt	(5.3)	(5.8)	(5.8)
Net Nonoperating Revenues	114.2	120.7	117.7
Capital Grants, Gifts and Appropriations	20.1	6.3	6.8
Increase in Net Position	4.1	18.8	17.0
Net Position, Beginning of Year	351.9	333.1	316.1
Net Position, End of Year	<u>\$ 356.0</u>	<u>\$ 351.9</u>	<u>\$ 333.1</u>

Comparative Analysis of Fiscal Years 2016, 2015 and 2014

Operating Revenues – Operating Revenues for Fiscal Year 2017 totaled \$216.2 million which is an increase of \$0.8 million from Fiscal Year 2016 operating revenues of \$215.4 million and operating revenues for Fiscal Year 2016 increased \$18.5 million from Fiscal Year 2015 operating revenues of \$196.9 million.

Nonoperating Revenues – Nonoperating Revenues for Fiscal Year 2017 totaled \$114.2 million which is a decrease of \$6.5 million from Fiscal Year 2016 nonoperating revenues of \$120.7 million. Nonoperating Revenues for Fiscal Year 2016 totaled \$120.7 million which is an increase of \$3.0 million from Fiscal Year 2015 nonoperating revenues of \$117.7 million. State appropriations were \$83.2 million, \$85.2 million and \$83.9 million for Fiscal Years 2017, 2016 and 2015, respectively.

Operating Expenses As of June 30, 2017, 2016 and 2015

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Salaries	\$ 150.1	\$ 147.2	\$ 143.1
Benefits	70.4	49.4	42.5
Scholarships and fellowships	30.7	28.7	27.4
Utilities	7.0	6.9	7.3
Supplies and other services	62.3	65.4	60.1
Depreciation	<u>25.9</u>	<u>26.0</u>	<u>24.0</u>
Total	<u>\$ 346.4</u>	<u>\$ 323.6</u>	<u>\$ 304.4</u>

Operating Expenses – Operating Expenses for Fiscal Year 2017 totaled \$346.4 million which is an increase of \$22.8 million from Fiscal Year 2016 operating expenses of \$323.6 million. Operating Expenses for Fiscal Year 2016 totaled \$323.6 million which is an increase of \$19.2 million from Fiscal Year 2015 operating expenses of \$304.4 million. The increase in 2017 and 2016 related to the adoption of GASB Statements Nos 68 and 71 is \$19.8 million and \$5.2 million, respectively.

Statements of Cash Flows

The Statements of Cash Flows report the major sources and uses of cash and reveal 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, noncapital financing, capital and related financing and investing activities. Comparative summary statements of cash flows for the years ended June 30, 2017, 2016 and 2015, are as follows:

Cash Flows As of June 30, 2017, 2016 and 2015 (In Millions)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash Provided By (Used In)			
Operating activities	\$ (82.9)	\$ (83.8)	\$ (86.6)
Noncapital financing activities	121.3	123.8	122.9
Capital and related financing activities	(28.2)	(31.5)	(40.1)
Investing activities	<u>(8.4)</u>	<u>(6.9)</u>	<u>(20.0)</u>
Increase (Decrease) in Cash and Cash Equivalents	1.8	1.6	(23.8)
Cash and Cash Equivalents, Beginning of Year	<u>61.3</u>	<u>59.7</u>	<u>83.5</u>
Cash and Cash Equivalents, End of Year	<u>\$ 63.1</u>	<u>\$ 61.3</u>	<u>\$ 59.7</u>

The Statement of Cash Flows shows the sources and uses of University cash. The statement presents a beginning and ending cash balance.

Debt and Capital Activities

During Fiscal Year 2017 the University issued \$12.7 million of auxiliary enterprise system bonds. During Fiscal Year 2016 the University issued \$16.8 million of education bonds. During Fiscal Year 2015 the University issued \$21.5 million of education bonds and issued \$48.9 million in bonds for the auxiliary enterprise system to advance refund the 2007 series bonds. At June 30, 2017, total bonds payable equaled \$164.5 million, total bonds payable equaled \$160.5 million as of June 30, 2016, and total bonds payable equaled \$151.8 million as of June 30, 2015.

The following table summarizes the construction in progress and capital assets, net as of June 30, 2017, 2016 and 2015.

Capital Assets As of June 30, 2017, 2016 and 2015 (In Millions)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Capital Assets			
Construction in progress	\$ 55.6	\$ 19.7	\$ 42.7
Capital assets, net	465.4	480.6	440.6

On June 30, 2017, the University had 27 construction projects in progress with costs totaling approximately \$55.6 million incurred to date. The project costs budgeted for these projects totals \$97.3 million. These projects are being funded by bond proceeds, pledged gifts, restricted and unrestricted net position.

Project Name	Project Budget (Not Capitalized)	Amount Expended (Construction in Progress)	Project Balance
Intrsectn Imprv Broadmoor & Kansas	\$ 367,500	\$ 247,910	\$ 119,590
Hammons Transitway	580,000	504,984	75,016
Glass Hall Renovation & Addition	33,840,165	28,458,353	5,381,812
Meyer Library - Master Renovation	1,214,200	924,227	289,973
Hill Hall Renovation	11,001,423	631,261	10,370,162
Ellis Hall Renovation	14,328,230	9,503,655	4,824,575
District Chilled Water Improvements	3,500,000	3,315,671	184,329
Health And Wellness Center	13,000,000	5,173,739	7,826,261
Kentwood Elevator Renovation	2,043,395	1,629,486	413,909
Blair House Bathroom Renovation	1,616,750	1,558,891	57,859
Ellis Hall Technology	195,781	106,201	89,580
Greenwood Addition	259,600	13,349	246,251
Library Classroom Technology	28,000	4,521	23,479
Chiller Replacement - Kentwood	160,000	122,023	37,977
Reno Cheek Hall Computer Labs	860,000	265,446	594,554
Reno Professional Building	1,100,000	376,144	723,856
Shannon House - Bath Reno	1,920,000	833,806	1,086,194
KOZK Fordland Reassign	3,386,670	12,129	3,374,541
KOZJ Joplin Reassign	1,025,928	3,976	1,021,952
Parking - S Kentwood/Lot 39	700,000	66,147	633,853
Mtn Grove Parking Lots	154,000	129,266	24,734
Intramural Field Repl-Allison	355,000	309	354,691
Professional Bldg Technology	98,972	37,611	61,361
Boiler Replacement - Kentwood	180,000	2,485	177,515
Boiler Replacement - Morris Ct	330,000	22,957	307,043
Health And Wellness FFE	50,000	6,320	43,680
Hass-Darr Hall Renovation	5,000,000	1,607,726	3,392,274
	<u>\$ 97,295,614</u>	<u>\$ 55,558,593</u>	<u>\$ 41,737,021</u>

Per the TRULY AGREED TO AND FINALLY PASSED SENATE COMMITTEE SUBSTITUTE FOR HOUSE COMMITTEE SUBSTITUTE for House Bill No. 19 98th General Assembly, Missouri State University was appropriated \$18,925,377 from the Board of Public Buildings Bond Proceeds Fund (Various). As permitted expenditures are made on approved projects, the University submits monthly draws for reimbursement of such expenditures from the approved appropriation balance. As of June 30, 2017, the University had received \$8,895,293 for permitted expenditures.

Missouri State University
A Component Unit of the State of Missouri
Statements of Net Position
June 30, 2017 and 2016

Assets

	University 2017	University 2016	Component Unit Foundation 2017	Component Unit Foundation 2016
Current Assets				
Cash and cash equivalents	\$ 48,273,112	\$ 43,982,108	\$ 11,737,342	\$ 12,940,477
Restricted cash and cash equivalents	14,740,555	17,267,879	-	-
Short-term investments	10,000,000	10,028,000	9,740,484	3,250,262
Restricted short-term investments	3,501,421	3,500,033	-	-
Accounts receivable, net	12,563,582	14,590,502	5,675	11,137
Pledges receivable	-	-	6,933,388	6,276,936
Grants receivable	2,822,600	2,651,978	-	-
Accrued interest receivable - unrestricted	352,999	386,104	49,167	94,236
Inventories	9,080,623	9,042,583	-	-
Loans to students, net	507,366	531,516	-	-
Prepaid expenses	2,203,667	2,079,130	1,138,915	17,975
Assets for resale	-	-	203,126	315,626
	<u>104,045,925</u>	<u>104,059,833</u>	<u>29,808,097</u>	<u>22,906,649</u>
Total current assets				
Noncurrent Assets				
Pledges receivable, net	-	-	25,745,349	29,058,733
Restricted long-term investments	-	-	88,263,128	86,052,993
Investments held in trust	-	-	744,241	717,957
Other long-term investments	109,887,750	101,892,543	478,943	487,318
Loans to students, net	1,860,357	1,973,633	-	-
Due from Foundation	199,762	199,762	-	-
Construction in progress	55,558,593	19,695,979	-	-
Capital assets, net	465,424,228	480,576,308	1,246,344	1,114,390
	<u>632,930,690</u>	<u>604,338,225</u>	<u>116,478,005</u>	<u>117,431,391</u>
Total noncurrent assets				
Total assets	<u>736,976,615</u>	<u>708,398,058</u>	<u>146,286,102</u>	<u>140,338,040</u>

Deferred Outflows of Resources

Loss on refunding of bonds	3,049,200	3,530,675	-	-
Deferred outflows related to pension	83,925,503	30,933,137	-	-
	<u>86,974,703</u>	<u>34,463,812</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources				

See Notes to Financial Statements

Liabilities

	University 2017	University 2016	Component Unit Foundation 2017	Component Unit Foundation 2016
Current Liabilities				
Accounts payable and accrued expenses	\$ 15,426,004	\$ 14,760,603	\$ 2,903,649	\$ 2,600,262
Accrued compensated absences	5,448,591	5,832,746	-	-
Accrued payroll	5,736,234	5,947,509	-	-
Unearned revenue	17,143,475	15,522,302	-	5,000
Deposits	585,628	571,947	-	-
Accrued interest payable	1,889,115	1,617,012	-	-
Capital lease obligations - current	1,012,624	994,349	-	-
Revenue bonds payable - current	9,490,788	9,056,097	-	-
Annuity obligations - current	-	-	25,544	23,235
Insurance claims payable	1,806,848	2,680,269	-	-
Total current liabilities	<u>58,539,307</u>	<u>56,982,834</u>	<u>2,929,193</u>	<u>2,628,497</u>
Noncurrent Liabilities				
Accrued compensated absences	5,592,869	5,231,997	-	-
Annuity obligations	-	-	140,063	167,489
Capital lease obligations	6,589,705	7,602,329	-	-
Revenue bonds payable	158,725,104	155,029,617	-	-
Net pension liability	232,984,565	159,338,163	-	-
Other long-term liabilities	3,420,000	3,580,045	-	-
Due to Missouri State University	-	-	199,762	199,762
Total noncurrent liabilities	<u>407,312,243</u>	<u>330,782,151</u>	<u>339,825</u>	<u>367,251</u>
Total liabilities	<u>465,851,550</u>	<u>387,764,985</u>	<u>3,269,018</u>	<u>2,995,748</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pension	<u>2,081,116</u>	<u>3,151,471</u>	<u>-</u>	<u>-</u>
Net Position				
Net investment in capital assets	348,213,800	331,120,570	1,246,344	1,114,390
Restricted for				
Nonexpendable				
Scholarships and fellowships	199,762	199,762	34,818,444	31,312,238
Other	-	-	18,996,024	18,718,869
Expendable				
Scholarships and fellowships	-	-	19,740,604	17,896,614
Loans	3,398,499	4,136,748	-	-
Capital projects	11,927,536	11,492,493	-	-
Debt service	687,812	685,985	-	-
Other	-	-	58,650,722	60,785,626
Unrestricted	<u>(8,408,757)</u>	<u>4,309,856</u>	<u>9,564,946</u>	<u>7,514,555</u>
Total net position	<u>\$ 356,018,652</u>	<u>\$ 351,945,414</u>	<u>\$ 143,017,084</u>	<u>\$ 137,342,292</u>

Missouri State University
A Component Unit of the State of Missouri
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	University 2017	University 2016	Component Unit Foundation 2017	Component Unit Foundation 2016
Operating Revenues				
Student tuition and fees	\$ 161,600,673	\$ 158,179,953	\$ -	\$ -
Less scholarship allowances	(34,608,972)	(34,087,140)	-	-
Total net student tuition and fees	126,991,701	124,092,813	-	-
Sales and services of educational departments	13,964,539	17,973,460	-	-
Federal grants and contracts	12,096,695	12,571,739	-	-
State and local grants and contracts	11,455,959	9,490,294	-	-
Nongovernmental grants and contracts	6,904,958	7,898,407	-	-
Gifts and contributions	-	-	13,568,304	16,988,917
Auxiliary enterprises				
Residential life (net of scholarship allowances of \$6,928,395 in 2017 and \$6,673,484 in 2016)	27,957,750	27,316,224	-	-
Bookstore (net of scholarship allowances of \$2,075,911 in 2017 and \$2,328,929 in 2016)	2,150,427	2,043,861	-	-
Parking (net of scholarship allowances of \$379,898 in 2017 and \$380,482 in 2016)	2,165,712	2,073,898	-	-
Taylor Health and Wellness Center	2,004,624	2,068,486	-	-
Athletics	4,709,613	4,196,990	-	-
Recreational facilities	954,500	980,431	-	-
Student Union	722,443	736,234	-	-
Other operating revenues	4,134,283	3,942,892	1,033,255	1,054,161
Total operating revenues	216,213,204	215,385,729	14,601,559	18,043,078
Operating Expenses				
Salaries	150,035,183	147,243,190	-	-
Benefits	70,434,813	49,358,351	-	-
Scholarships and fellowships	30,713,762	28,744,422	2,436,837	1,914,743
Utilities	7,008,919	6,858,866	140,540	139,723
Supplies and other services	62,324,175	65,408,036	3,706,081	4,039,147
Depreciation	25,854,143	25,960,733	90,451	90,452
Total operating expenses	346,370,995	323,573,598	6,373,909	6,184,065
Operating Income (Loss)	(130,157,791)	(108,187,869)	8,227,650	11,859,013
Nonoperating Revenues (Expenses)				
State appropriations	83,148,188	85,192,135	-	-
Federal grants and contracts	29,743,496	30,583,189	-	-
Gifts	8,380,289	8,043,434	-	-
Investment income (loss)	(455,579)	2,647,148	9,146,217	(1,453,468)
Interest on capital asset-related debt	(5,328,578)	(5,750,342)	-	-
Other nonoperating expenses and losses	-	-	(458,743)	(552,596)
Expenditures to Missouri State University	-	-	(8,380,289)	(8,043,434)
Gain (loss) on disposal of capital assets	(1,336,992)	30,243	-	-
Net nonoperating revenues (expenses)	114,150,824	120,745,807	307,185	(10,049,498)
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(16,006,967)	12,557,938	8,534,835	1,809,515

Missouri State University
A Component Unit of the State of Missouri
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	University 2017	University 2016	Component Unit Foundation 2017	Component Unit Foundation 2016
Other Revenues, Expenses, Gains or Losses				
Capital gifts	\$ 6,643,404	\$ 4,639,545	\$ (6,643,404)	\$ (4,639,545)
Capital grants and contracts	(80,097)	1,264,806	-	-
Capital appropriations	13,516,898	378,395	-	-
Additions to permanent endowments	-	-	3,783,361	914,608
	<u>20,080,205</u>	<u>6,282,746</u>	<u>(2,860,043)</u>	<u>(3,724,937)</u>
Total other revenues, expenses, gains or losses				
	<u>4,073,238</u>	<u>18,840,684</u>	<u>5,674,792</u>	<u>(1,915,422)</u>
Increase (Decrease) in Net Position				
Net Position, Beginning of Year	<u>351,945,414</u>	<u>333,104,730</u>	<u>137,342,292</u>	<u>139,257,714</u>
Net Position, End of Year	<u><u>\$ 356,018,652</u></u>	<u><u>\$ 351,945,414</u></u>	<u><u>\$ 143,017,084</u></u>	<u><u>\$ 137,342,292</u></u>

Missouri State University
A Component Unit of the State of Missouri
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Tuition and fees	\$ 130,653,475	\$ 122,138,153
Sales and services of educational departments	13,964,539	17,973,460
Federal grants and contracts	11,926,073	12,298,360
State and local grants and contracts	11,455,959	9,490,294
Nongovernmental grants and contracts	6,904,958	7,898,407
Payments to suppliers	(100,615,487)	(101,686,057)
Payments to employees	(201,280,918)	(195,991,220)
Collections of loans to students	137,426	135,515
Auxiliary enterprise charges		
Residential Life	27,957,750	27,316,224
Bookstore	2,150,427	2,043,861
Parking	2,165,712	2,073,898
Taylor Health and Wellness Center	2,004,624	2,068,486
Athletics	4,709,613	4,196,990
Recreational facilities	954,500	980,431
Student Union	722,443	736,234
Other receipts	3,260,862	4,466,085
Net cash used in operating activities	(82,928,044)	(83,860,879)
Noncapital Financing Activities		
State appropriations	83,148,188	85,192,135
Federal grants and contracts	29,743,496	30,583,189
Gifts and grants received for other than capital purposes	8,380,289	8,043,434
Net cash provided by noncapital financing activities	121,271,973	123,818,758
Capital and Related Financing Activities		
Cash received from disposal of capital assets	65,875	34,709
Purchase of capital assets	(5,996,223)	(8,916,558)
Construction in progress	(39,624,275)	(33,836,566)
Capital appropriations	13,516,898	378,395
Gifts of cash for capital purposes	6,563,307	5,904,351
Principal paid on capital debt and leases	(9,679,411)	(9,132,772)
Proceeds from issuance of new debt	13,195,127	20,341,764
Interest paid on capital debt and lease	(6,230,478)	(6,276,037)
Net cash used in capital and related financing activities	(28,189,180)	(31,502,714)

Missouri State University
A Component Unit of the State of Missouri
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Investing Activities		
Proceeds from sales and maturities of investments	\$ 40,000,000	\$ 87,000,000
Purchases of investments	(50,100,000)	(95,555,000)
Interest on investments	1,708,931	1,657,001
Net cash used in investing activities	<u>(8,391,069)</u>	<u>(6,897,999)</u>
Increase in Cash and Cash Equivalents	1,763,680	1,557,166
Cash and Cash Equivalents, Beginning of Year	<u>61,249,987</u>	<u>59,692,821</u>
Cash and Cash Equivalents, End of Year	<u>\$ 63,013,667</u>	<u>\$ 61,249,987</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 48,273,112	\$ 43,982,108
Restricted cash and cash equivalents	<u>14,740,555</u>	<u>17,267,879</u>
Total cash and cash equivalents	<u>\$ 63,013,667</u>	<u>\$ 61,249,987</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (130,157,791)	\$ (108,187,869)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	25,854,143	25,960,733
Changes in operating assets and liabilities		
Accounts receivable	2,026,920	(2,270,874)
Loans to students	137,426	135,515
Federal and state grants receivable	(170,622)	(273,379)
Inventories	(38,040)	(2,146,952)
Prepaid expenses	(124,537)	(467,937)
Accounts payable and accrued expenses	(406,054)	1,940,156
Accrued compensated absences	(23,283)	322,741
Accrued payroll	(211,275)	537,996
Unearned revenue	1,621,173	(530,724)
Deposits	13,681	(20,515)
Insurance claims payable	(1,033,466)	1,387,646
Accrued pension liability	<u>19,583,681</u>	<u>(247,416)</u>
Net Cash Used in Operating Activities	<u>\$ (82,928,044)</u>	<u>\$ (83,860,879)</u>
Supplemental Cash Flows Information		
Accounts payable incurred for purchase of capital assets	\$ 8,955,235	\$ 6,569,308
Gifts in kind of capital assets	\$ 1,293,172	\$ 3,511,999

Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2016 and 2015

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 and West Plains and locations in Mountain Grove, Missouri, and Dalian, China. A nine-member Board of Governors, appointed by the Governor and confirmed by the Senate of the State of Missouri, governs the University, a component unit of the State of Missouri.

Component Unit

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, 2017 and 2016, the Foundation provided \$15,023,693 and \$12,682,979, respectively, of support to the University. Complete financial statements of the Foundation may be obtained from its Administrative Office at the following address: 901 S. National, Springfield, MO 65897.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including ASC Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s statements in the University’s financial reporting entity for these differences.

Basis of Accounting and Presentation

The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements.

Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2017 and 2016

Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The University first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The Foundation applies ASU 2013-06, *Services Received from Personnel of an Affiliate*, which requires recognition of personnel services received from an affiliate for which the Foundation was not charged. The Foundation received contributed personnel services from the University of \$2,860,306 and \$2,865,128 for the years ended June 30, 2017 and 2016, respectively. The contributed personnel services are based on costs incurred and expense recognized by the University. The Foundation receives administrative support outside of personnel services from the University without charge.

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, liabilities and deferred inflows and outflows of resources 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 position during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The University and Foundation consider all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017, Foundation cash equivalents consisted primarily of money market accounts with brokers.

Investments and Investment Income

Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit are carried at cost. Investment income consists of interest income and the net change for the year in the fair value of investments carried at fair value.

Accounts and Notes Receivable

Student accounts receivable consists of fees charged to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts of \$2,819,402 and \$2,498,894 at June 30, 2017 and 2016, respectively. The University reserves for uncollectible accounts that are at least 90 days past due.

Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2017 and 2016

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

Loans 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 loans 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 \$1,023,086 and \$947,074 at June 30, 2017 and 2016, respectively.

Inventories

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

Auxiliary enterprises inventories consist of merchandise available for sale at the bookstore, student union, pharmacy and recreation facilities. These inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets purchased by the University are recorded at cost as the date of acquisition. 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 acquisition 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.

Missouri State University
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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 was \$1,275,590 and \$845,674 for the years ended June 30, 2017 and 2016, respectively.

Deferred Outflows of Resources

The University reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position.

Loss on Refinancing

Losses on refinancing incurred on the bond issues have been deferred and are being amortized over the life of the bonds and are included in deferred outflows of resources.

Foundation Real Estate and Equipment

Buildings, improvements and equipment are stated at cost and are depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method. Real estate and equipment include equipment of \$442,208 in 2017 and 2016 and tenant remodeling improvements of \$83,695, for the years ended June 30, 2017 and 2016, respectively. Real estate and equipment for the year ended June 30, 2017, also includes building costs of \$2,948,716 and land of \$243,983.

Foundation Valuation of Gifts and 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.

Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2017 and 2016

Unearned Revenue

Unearned revenue includes unearned student fees, advances on program tickets and unamortized revenue contributions for dining services capital projects.

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.

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.

Defined Benefit Pension Plan

As a component unit of the State of Missouri, the University participates in the Missouri State Employees' Plan (MSEP), a single-employer defined benefit pension plan as defined by GASB Statement No. 68. MSEP is administered by the Missouri State Employee's Retirement System (MOSERS), also a component unit of the State of Missouri. In accordance with the provisions of GASB Statement No. 68, the University accounts for and reports its participation in the single-employer plan as if it was a cost-sharing employer. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of MOSERS and additions to/deductions from MOSERS' fiduciary net position has been determined on the same basis as they are reported by MOSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

The University reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2017 and 2016

Net Position

Net position of the University is classified in four components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted expendable net position are made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the University, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the University, such as the federal portion of loan funds. Unrestricted net position are the remaining net position that does not meet the definition of net investment in capital assets or restricted.

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 and (3) 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 Direct Loan and Federal Perkins Loan Programs.

Tuition Revenue

Tuition revenue is recognized in the term to which it relates. The summer term is allocated by number of days falling within each fiscal year.

Missouri State University
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Notes to Financial Statements
June 30, 2017 and 2016

Scholarship Allowances

Student tuition and fees and auxiliary enterprise revenues, presented net of scholarships and fellowships of \$43,993,176 and \$43,470,035 at June 30, 2017 and 2016, 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 included in unearned revenues.

Bad Debt Expense

Bad debt expense is \$1,755,817 and \$1,123,451 for the years ended June 30, 2017 and 2016, 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 and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Note 2: Deposits, Investments and Investment Income

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, 2017 and 2016, 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 2017 and 2016. 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:

	2017	2016
Uninsured and uncollateralized	\$ 194,290	\$ 150,697

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June 30, 2017 and 2016

Foreign Currency Risk. This risk relates to adverse effects 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 \$194,290 and \$150,697 of foreign deposits denominated in Chinese Yuan at June 30, 2017 and 2016, respectively.

Investments

Investment policies are established by the Board of Governors. The University may invest in certificates of deposit, United States Treasury and U.S. agency securities, repurchase agreements, corporate bonds, commercial paper, bankers acceptances and money market funds.

At June 30, 2017 and 2016, the University had the following investments and maturities:

Type	Fair Value	June 30, 2017		
		Maturities in Years		
		Less than 1	1-5	6-10
Government-sponsored enterprises obligations	\$ 119,887,750	\$ 10,000,000	\$ 109,887,750	\$ -
Money market treasury funds	3,501,421	3,501,421	-	-
	<u>\$ 123,389,171</u>	<u>\$ 13,501,421</u>	<u>\$ 109,887,750</u>	<u>\$ -</u>

Type	Fair Value	June 30, 2016		
		Maturities in Years		
		Less than 1	1-5	6-10
Government-sponsored enterprises obligations	\$ 111,920,543	\$ 10,028,000	\$ 101,892,543	\$ -
Money market treasury funds	3,500,033	3,500,033	-	-
	<u>\$ 115,420,576</u>	<u>\$ 13,528,033</u>	<u>\$ 101,892,543</u>	<u>\$ -</u>

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.

Missouri State University
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Notes to Financial Statements
June 30, 2017 and 2016

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University uses nationally recognized rating organizations to evaluate credit risk for non-U.S. governmental agency investments. Minimums are established for each investment type.

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. In accordance with its policy, the University minimizes custodial credit risk by establishing limitations on the types of instruments held by qualifying institutions.

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, bankers acceptance and money market funds. 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. Money market funds must be SEC 2a-7 compliant and no more than \$4,000,000 to be held in money market funds.

Foreign Currency Risk. This risk relates to adverse effects 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, 2017 and 2016, because there were no foreign investments in the University's investment portfolio at any time during these two fiscal years.

Summary of Carrying Values

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

	2017	2016
Carrying value		
Deposits	\$ 63,013,667	\$ 61,249,987
Investments	123,389,171	115,420,576
	<u>\$186,402,838</u>	<u>\$176,670,563</u>

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Included in the following statements of net position captions:

	2017	2016
Cash and cash equivalents	\$ 48,273,112	\$ 43,982,108
Restricted cash and cash equivalents	14,740,555	17,267,879
Short-term investments	10,000,000	10,028,000
Restricted short-term investments	3,501,421	3,500,033
Long-term investments	109,887,750	101,892,543
	<u>\$186,402,838</u>	<u>\$176,670,563</u>
Cash, cash equivalents and investments total	<u>\$186,402,838</u>	<u>\$176,670,563</u>

Investment Income

Investment income for the years ended June 30, 2017 and 2016, consisted of:

	2017	2016
Interest and dividend income	\$ 1,961,090	\$ 1,835,922
Fair value adjustment	(2,416,669)	811,226
	<u>\$ (455,579)</u>	<u>\$ 2,647,148</u>

Foundation Pooled Investments

Funds treated as endowment by the Foundation are managed as a pooled investment fund. This pool includes funds from the unrestricted, temporarily restricted and permanently restricted net asset classes. The various subsidiary accounts purchase shares in the investment pool when additions are received. The investment pool is operated on a unit market basis. The following schedule summarizes data related to the investment pool for the years ended June 30, 2017 and 2016:

	2017	2016
Pooled investments at market value	\$ 77,773,393	\$ 69,337,895
Number of pool shares	333,441	316,712
Market value per pool share	\$ 233	\$ 219
Fiscal year return	12.24%	-2.20%
Interest and dividend earnings	\$ 68,403	\$ 51,392
Net gains (losses)	\$ 8,977,049	\$ (1,703,893)

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Foundation Investments and Investment Return

Investments in equity securities and debt securities are carried at fair value. All other investments are valued at estimated fair value. The estimated fair value of investments in hedge funds, where a readily determinable market price is not available, has been estimated using the net asset value per share of investments. Investment income and gains that are restricted by donor stipulation are initially included in temporarily restricted net assets. When the restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. Other investment income, gains and losses are reflected in nonoperating revenues of the statements of revenues, expenses and changes in net position.

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

Investments are summarized as follows at June 30:

	2017	2016
Accrued income	\$ 106,851	\$ 94,236
Money market accounts	9,740,484	1,249,102
U.S. equity mutual funds	17,053,706	23,983,774
Non-U.S. equity mutual funds	25,827,828	17,789,228
U.S. fixed income mutual funds	-	8,722,792
Non-U.S. fixed income mutual funds	-	2,262,041
Other mutual funds	1,576,772	6,506,281
Real estate funds	2,694,944	2,109,125
Corporate bonds	5,121,826	-
Hedge funds	10,197,884	10,232,523
Private equity	1,814,760	1,430,436
Governmental issues and similar bonds	23,914,224	15,014,453
Other	3,500	3,500
	<u>\$ 98,052,779</u>	<u>\$ 89,397,491</u>

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Investment return consists of the following:

	2017	2016
Investment income	\$ 323,102	\$ 238,379
Net realized and unrealized gains (losses) on investments reported at fair value	8,823,115	(1,691,847)
	\$ 9,146,217	\$ (1,453,468)

Investments held in trust are deposited with U.S. Bank Institutional Trust, Benjamin F. Edwards & Co. and Bank of America, N.A. or are in municipal bonds and other investments. Investment expenses incurred for the years ended June 30, 2017 and 2016, totaled \$110,999 and \$109,090, respectively.

Note 3: Foundation Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017.

	Total Fair Value	Fair Value Measurements Using		
		Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Cash equivalents	\$ 3,965,758	\$ 3,965,758		
Money market funds	9,740,484	9,740,484	\$ -	\$ -
U.S. equity mutual funds	17,053,706	17,053,706	-	-
Non-U.S. equity mutual funds	22,420,616	22,420,616	-	-
U.S. Treasury securities	23,914,224	-	23,914,224	-
Corporate bonds	5,121,826	-	5,121,826	-
Real estate	2,679,211	2,679,211	-	-
Other	3,500	3,500	-	-
Investments held in trust				
Mutual funds	380,327	380,327	-	-
Other	363,913	273,386	-	90,527
Total investments by fair value level	<u>85,643,565</u>	<u>\$ 56,516,988</u>	<u>\$ 29,036,050</u>	<u>\$ 90,527</u>
Investments measured at the net asset value (NAV) (A)				
Non-U.S. equity mutual funds	3,407,212			
Other mutual funds	1,576,772			
Real estate	15,733			
Hedge funds	10,197,884			
Private equity	1,814,760			
Total investments measured at the NAV	<u>17,012,361</u>			
Total investments	<u>\$ 102,655,926</u>			

(A) Certain investments that are measured using the net assets value per share (or equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliations of the fair value hierarchy to the amounts presented in the statements of financial position.

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Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash equivalents, money market funds, equity securities, hedge funds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Inputs used to value Level 2 securities include interest rates for similar debt securities and Treasury obligations with similar maturities.

Investments Held in Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the investments are classified as Level 1, Level 2 and Level 3 of the hierarchy. The Level 3 investments are the Foundation's beneficial interest in trusts. Fair value is determined based on the market value of the securities held in the trusts and the Foundation's proportional beneficial interest.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2017.

	Fair Value at 6/30/2017	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Investments held in trust	\$ 90,528	Market value of underlying securities	Liquidation Discount Rate	0%

Fair Value of Financial Instruments

The following method and assumptions were used to estimate the fair value of all other financial instruments recognized in the accompanying statement of financial position at amounts other than fair value.

Cash Equivalents

The carrying amount approximates fair value.

Pledges Receivable

The carrying amount is a reasonable estimate of fair value as described in *Note 8*, which is estimated by discounting the cash flows of the future payments expected to be received.

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Annuities and Trusts Payable

Fair values of the annuity and trust obligations are based on the present value of the estimated annuity or other payments under such obligations.

Note 4: Foundation Pledges Receivable

Pledges receivable are a credit risk to the extent donors choose not to complete their pledge payments. Discount rates ranged from 0.60% to 3.30% for the years ended June 30, 2017 and 2016. Pledges receivable consist of the following unconditional promises to give at June 30:

	2017	2016
Due in less than one year	\$ 6,933,388	\$ 6,276,936
Due in one to five years	12,325,028	14,179,510
Due in more than five years	20,507,886	23,001,229
	39,766,302	43,457,675
Less: Allowance for doubtful accounts	256,948	299,654
Unamortized discount	6,830,617	7,822,352
	7,087,565	8,122,006
	\$ 32,678,737	\$ 35,335,669

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Note 5: Foundation Endowment

The Foundation's endowment consists of approximately 1,019 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

The composition of net assets by type of endowment fund at June 30, 2017, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Donor-restricted endowment funds	\$ (38)	\$ 23,873,897	\$ 53,211,125	\$ 77,084,984
Board-designated endowment funds	3,161,109	-	-	3,161,109
Total endowment funds	<u>\$ 3,161,071</u>	<u>\$ 23,873,897</u>	<u>\$ 53,211,125</u>	<u>\$ 80,246,093</u>

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The composition of net assets by type of endowment fund at June 30, 2016, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Donor-restricted endowment funds	\$ (176,530)	\$ 18,235,722	\$ 49,476,277	\$ 67,535,469
Board-designated endowment funds	2,959,425	-	-	2,959,425
Total endowment funds	\$ 2,782,895	\$ 18,235,722	\$ 49,476,277	\$ 70,494,894

Changes in endowment net assets for the year ended June 30, 2017, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Endowment net assets, beginning of year	\$ 2,782,895	\$ 18,235,722	\$ 49,476,277	\$ 70,494,894
Investment return				
Investment income	-	9,504,328	-	9,504,328
Net appreciation	348,291	(348,291)	-	-
Total investment return	348,291	9,156,037	-	9,504,328
Contributions	-	-	3,699,278	3,699,278
Other income	22,939	(449)	35,570	58,060
Appropriation of endowment assets for expenditure	-	(4,321,317)	-	(4,321,317)
Other additions	6,946	803,904	-	810,850
Endowment net assets, end of year	\$ 3,161,071	\$ 23,873,897	\$ 53,211,125	\$ 80,246,093

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Changes in endowment net assets for the year ended June 30, 2016, were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Endowment net assets, beginning of year	\$ 3,139,977	\$ 23,319,135	\$ 48,509,457	\$ 74,968,569
Investment return				
Investment income	-	371,441	-	371,441
Net depreciation	(393,337)	(1,309,180)	-	(1,702,517)
Total investment return	(393,337)	(937,739)	-	(1,331,076)
Contributions	-	-	932,114	932,114
Other income	23,721	15,467	34,706	73,894
Appropriation of endowment assets for expenditure	-	(4,223,542)	-	(4,223,542)
Other additions	12,534	62,401	-	74,935
Endowment net assets, end of year	<u>\$ 2,782,895</u>	<u>\$ 18,235,722</u>	<u>\$ 49,476,277</u>	<u>\$ 70,494,894</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$38 and \$176,530 at June 30, 2017 and 2016, respectively. 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 a rate of return between 7.7% annually over time. Actual returns in any given year may vary from this amount.

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

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The Foundation has a policy (the spending policy) of appropriating for expenditure each year 5.7% of its endowment fund's average fair value over the prior 36 months through the month end preceding the month 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 a rate of 1.5% to 3.0% 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.

Note 6: 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 position as amounts due from the Foundation, in 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 \$2,786,410 and \$2,625,176 at June 30, 2017 and 2016, 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 position as current assets and is included in accounts receivable.

Note 7: Pension Plans

MOSERS

Plan Description

The Missouri State Employees' Plan (MSEP) is a single-employer, defined benefit public employee retirement plan with two benefit structures known as the MSEP (closed plan) and MSEP 2000, which are administered by the Missouri State Employees' Retirement System (MOSERS or the System) in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). In accordance with the provisions of GASB 68, the University accounts for and records its participation in the single-employer plan as if it was a cost-sharing plan. As established under Section 104.320, RSMo, MOSERS is a body corporate and an instrumentality of the state. In the System are vested the powers and duties specified in Sections 104.010 and 104.312 to 104.1215, RSMo and such other powers as may be necessary or proper to enable it, its officers, employees and agents to carry out fully and effectively all the purposes of Sections 104.010 and 104.312 to 104.1215, RSMo. Responsibility for the operation and administration of the System is vested in the 11-member MOSERS Board of Trustees as defined by state law. Due

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to the nature of MOSERS' reliance on funding from the state of Missouri and other state government agencies and the overall control of the plan document by the legislative and executive branches of state government, the MSEP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Generally, all full-time state employees hired before July 2000, who were not covered under another state-sponsored retirement plan, are eligible for membership in the MSEP (closed plan). Full-time state employees hired after July 2000, and before January 2011, are eligible for membership in the MSEP 2000. Employees hired for the first time on or after January 2011 are eligible for membership in the MSEP 2011 tier of the MSEP 2000. The MSEP provides retirement, survivor and disability benefits. MOSERS issues an annual Comprehensive Annual Financial Reporting (CAFR), a publicly available financial report that can be obtained at www.mosers.org.

Benefits Provided

MOSERS provides retirement, disability and life insurance benefits to eligible employees. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. The factor is based on the specific funding structure in which the employee participates, which is based on the employee's hire date. Information on the three funding structures administered by MOSERS (MSEP, MSEP 2000 and MSEP 2011) and how eligibility and the benefit amount is determined for each funding structure may be found in the Notes to the Financial Statements of MOSERS' CAFR starting on page 30.

Contributions

Per Chapter 104.436 of the Revised Statutes of Missouri, contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. No employee contribution is required for the MSEP and MSEP 2000 plans. Employees in the MSEP 2011 plan are required to contribute 4.00% of their annual pay. The University's required contribution rate for all plans for the year ended June 30, 2017, was 16.97% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contribution rate for the MOSERS plan years ended June 30, 2016 and 2015, was 16.97%, for all plans, which is the year of measurement for the net pension liability. Contributions to the pension plan from the University were \$16,698,515 and \$16,501,401 for the years ended June 30, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017 and 2016, the University reported a liability of \$232,984,565 and \$159,338,163, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

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The University's proportion of the net pension liability was based on the University's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for MOSERS plan year ended June 30, 2016 and 2015. At June 30, 2016, the University's proportion was 5.0191%, which was an increase of 0.0568% from its proportion measured as of June 30, 2015. At June 30, 2015, the University's proportion was 4.9623%, which was an increase of 0.0843% from its proportion measured as of June 30, 2014.

There were no changes in benefit terms during the MOSERS plan year ended June 30, 2016 and 2015, that affected the measurement of total pension liability.

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$36,276,228 and \$16,258,042, respectively. At June 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 2,399,504	\$ 680,715
Change in assumptions	24,258,217	1,400,401
Net difference between projected and actual earning on pension plan investments	38,067,319	-
Change in proportion and differences between the University's contributions and the University proportionate share of contributions	2,501,948	-
University's contributions subsequent to the measurement date	<u>16,698,515</u>	<u>-</u>
Total	<u><u>\$ 83,925,503</u></u>	<u><u>\$ 2,081,116</u></u>

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	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 297,658	\$ 1,030,819
Change in assumptions	-	2,120,652
Net difference between projected and actual earning on pension plan investments	12,234,476	-
Change in proportion and differences between the University's contributions and the University proportionate share of contributions	1,899,602	-
University's contributions subsequent to the measurement date	16,501,401	-
Total	\$ 30,933,137	\$ 3,151,471

At June 30, 2017 and 2016, the University reported \$16,698,515 and \$16,501,401, respectively, as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the years ending June 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount Recognized
2018	\$ 17,259,241
2019	17,171,431
2020	24,057,698
2021	6,657,502
	\$ 65,145,872

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Actuarial Assumptions

The total pension liability in the June 30, 2016 and 2015, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 8.75% including inflation
Wage inflation	3.00%
Investment rate of return	7.65% per year, compounded annually, net after investment expenses and including inflation

Mortality: Mortality rates for post-retirement mortality are based on the RP-2014 Healthy Annuitant mortality table, projected to 2026 with Scale MP-2015 and scaled by 120%. The preretirement mortality table used is the RP-2014 Employee mortality table, projected to 2026 with Scale MP-2015 and scaled by 95% for males and 90% for females.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010, to June 30, 2015. As a result of this actuarial experience study, the MOSERS Board made various demographic and economic assumption changes to more closely reflect actual experience. The most significant changes included lowering the assumed annual investment rate of return from 8% to 7.65% and the adoption of the above mortality tables. The changes in assumptions recorded as deferred inflows and outflows of resources were due to these changes from the actuarial experience study.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2007, to June 30, 2011. As a result of the 2011 actuarial experience study, the MOSERS Board made various demographic assumption changes to more closely reflect actual experience. The most significant change was lowering the assumed annual investment rate of return from 8.50% to 8.00%.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS target asset allocation as of June 30, 2016, are summarized in the following table:

Asset Class	Policy Allocation	Long-Term Expected Real Rate of Return *	Weighted Average Long-Term Expected Real Rate of Return
Beta Balanced	80.00%	5.70%	4.60%
Illiquids **	<u>20.00%</u>	7.30%	<u>1.50%</u>
	<u><u>100.00%</u></u>		<u><u>6.10%</u></u>

* Represent best estimates of geometric rates of return for each major asset class included.

** Illiquid portfolio upper limit of 27.5% of capital, no new commitments past 23%.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% and 8.00% at June 30, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.65%) or 1% point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
University's proportionate share of the net pension liability	\$ 306,785,075	\$ 232,984,565	\$ 179,109,203

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MOSERS financial report.

CURP

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 noncontributory 401(a) defined contribution retirement plan which uses TIAA-CREF as its third-party administrator. 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).

The University was required to contribute 5.67%, 5.89% and 6.16% of the participant's salary to CURP for the years ended June 30, 2017, 2016 and 2015, respectively. The total contributed for years ended June 30, 2017, 2016 and 2015, was \$1,712,511, \$1,647,232 and \$1,614,374, respectively.

Note 8: Postemployment Health Care

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 University 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.

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Funding Policy: The contribution requirements of plan members are established by the Missouri State University 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 2017 Missouri State University contributed \$886,000 to the postemployment retirement plan portion of the MSUEBP and the retirees contributed \$744,868 through their required monthly contributions of \$418 for retiree and \$456 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.

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

	2017	2016
Amortization of Unfunded Actuarial Value of Assets (UAAL)	\$ 326,000	\$ 331,000
Normal cost (with interest)	388,000	373,000
Interest on amortization of UAAL	13,000	13,000
Annual required contribution (ARC)	727,000	717,000
Interest on net OPEB obligation	143,000	143,000
Adjustment to the ARC	(144,000)	(146,000)
Annual OPEB cost (expense)	726,000	714,000
Contributions made	(886,000)	(717,000)
Increase (decrease) in net OPEB obligation	(160,000)	(3,000)
Net OPEB obligation - beginning of year	3,580,000	3,583,000
Net OPEB obligation - end of year	<u>\$ 3,420,000</u>	<u>\$ 3,580,000</u>

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

	2017	2016	2015
Annual OPEB cost	\$ 726,000	\$ 714,000	\$ 824,000
Net employer contributions	\$ 886,000	\$ 717,000	\$ 886,000
Percentage contributed	122.04%	100.42%	107.52%
End of year net OPEB obligation	\$ 3,420,000	\$ 3,580,000	\$ 3,583,000

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Funded Status and Funding Progress: As of June 30, 2017 and 2016, the Actuarial Accrued Liability (AAL) was \$8,086,000 and \$8,119,000, 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 \$117,094,000 and \$113,134,000 in 2017 and 2016, respectively. The ratio of the UAAL to the covered payroll was 6.91% and 7.18% in 2017 and 2016, respectively.

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

Benefit obligations shown in this report are computed using the projected unit credit method. Benefits are attributed to service based on the plan's benefit eligibility provisions. The beginning of the attribution period is the date of hire and the end is the full eligibility date. The unfunded actuarial accrued liability is amortized over a 30-year open period in level dollar amounts. Cumulative gains and losses are amortized over the same 30-year period as other UAAL. Other assumptions include a discount rate of 4.00% per annum and health care cost trend rates as follows:

	Medical/Rx/ Stop Loss	Admin
2017 - 2018	7.50%	4.50%
2018 - 2019	7.00%	4.50%
2019 - 2020	6.50%	4.50%
2020 - 2021	6.00%	4.50%
2021 - 2022	5.50%	4.50%
2022 - 2023	5.00%	4.50%
2023 - 2024	4.50%	4.50%
2024 - 2025	4.50%	4.50%
2026 and beyond	4.50%	4.50%

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Note 9: 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, 2017 and 2016, is summarized as follows:

	2017	2016
Balance at beginning of year	\$ 2,680,269	\$ 1,289,623
Health and dental claims	18,735,928	19,832,248
Health insurance payments	<u>(19,609,349)</u>	<u>(18,441,602)</u>
Balance at end of year	<u>\$ 1,806,848</u>	<u>\$ 2,680,269</u>

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Note 10: Operating Expenses by Function

Operating expenses by functional classification for the year ended June 30, 2017, are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and Other Services	Depreciation	2017 Total
Instruction	\$ 75,045,687	\$ 36,569,357	\$ -	\$ 6,074	\$ 12,940,903	\$ -	\$ 124,562,021
Research	3,998,617	2,035,103	-	1,809	4,715,522	-	10,751,051
Public service	5,211,584	2,262,775	-	48,831	4,379,243	-	11,902,433
Academic support	17,111,992	8,112,486	-	1,494	5,679,508	-	30,905,480
Student services	7,469,126	3,474,511	-	-	4,545,026	-	15,488,663
Institutional support	16,679,946	7,666,367	-	-	2,706,194	-	27,052,507
Operation and maintenance of plant	6,122,195	2,973,903	-	4,517,943	6,478,813	-	20,092,854
Scholarship and fellowships	706,084	(229,794)	25,378,530	-	4,439	-	25,859,259
Auxiliary enterprises	17,689,952	7,570,105	5,335,232	2,432,768	20,874,527	-	53,902,584
Depreciation	-	-	-	-	-	25,854,143	25,854,143
Total operating expenses for fiscal year 2017	<u>\$ 150,035,183</u>	<u>\$ 70,434,813</u>	<u>\$ 30,713,762</u>	<u>\$ 7,008,919</u>	<u>\$ 62,324,175</u>	<u>\$ 25,854,143</u>	<u>\$ 346,370,995</u>

Operating expenses by functional classification for the year ended June 30, 2016, are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and Other Services	Depreciation	2016 Total
Instruction	\$ 73,161,770	\$ 25,406,703	\$ -	\$ 82	\$ 13,301,575	\$ -	\$ 111,870,130
Research	4,774,975	1,621,582	-	284	5,097,410	-	11,494,251
Public service	4,554,609	1,415,334	-	49,367	4,354,843	-	10,374,153
Academic support	17,034,992	5,691,271	-	2,383	4,815,821	-	27,544,467
Student services	7,099,011	2,366,732	-	-	5,088,780	-	14,554,523
Institutional support	16,412,098	5,388,839	-	-	3,313,848	-	25,114,785
Operation and maintenance of plant	6,267,618	2,137,762	-	4,324,026	6,214,428	-	18,943,834
Scholarship and fellowships	555,923	143,162	23,666,368	-	1,478	-	24,366,931
Auxiliary enterprises	17,382,194	5,186,966	5,078,054	2,482,724	23,219,853	-	53,349,791
Depreciation	-	-	-	-	-	25,960,733	25,960,733
Total operating expenses for fiscal year 2016	<u>\$ 147,243,190</u>	<u>\$ 49,358,351</u>	<u>\$ 28,744,422</u>	<u>\$ 6,858,866</u>	<u>\$ 65,408,036</u>	<u>\$ 25,960,733</u>	<u>\$ 323,573,598</u>

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Note 11: Long-Term Liabilities

Long-term debt and other obligations consist of the following as of June 30, 2017:

	Bond Series	Interest Rate	Maturity	Beginning Balance June 30, 2016	Additions	Reductions	Ending Balance June 30, 2017	Current Portion
Auxiliary Enterprise System								
Revenue Bonds								
1988 Note Payable		3.00%	2018	\$ 357,676	\$ -	\$ 176,176	\$ 181,500	\$ 181,500
2005	A	2.75%-4.05%	2025	1,625,000	-	-	1,625,000	-
2010	A	1.00%-2.55%	2016	760,000	-	760,000	-	-
2010	B	4.25%-6.25%	2035	20,565,000	-	-	20,565,000	775,000
2010	C	1.00%-2.80%	2017	6,185,000	-	3,050,000	3,135,000	3,135,000
2014	A	.50%-4.20%	2036	37,465,000	-	1,040,000	36,425,000	1,050,000
2015	A	2.00%-5.00%	2032	46,670,000	-	2,170,000	44,500,000	2,230,000
2016	A	2.00%-3.25	2039	-	12,720,000	-	12,720,000	205,000
				<u>113,627,676</u>	<u>12,720,000</u>	<u>7,196,176</u>	<u>119,151,500</u>	<u>7,576,500</u>
MOHEFA Bonds								
2010	A	.3%-2.55%	2016	300,000	-	300,000	-	-
2010	B	4.25%-6.25%	2036	8,235,000	-	146,510	8,235,000	310,000
2012	DNR	2%	2021	562,633	-	-	416,123	149,456
2013	DNR	1%	2017	7,376	-	7,376	-	-
2014	A	2.00% -4.00%	2039	20,945,000	-	555,000	20,390,000	575,000
2015		1.625%-3.800%	2041	16,790,000	-	480,000	16,310,000	490,000
				<u>160,467,685</u>	<u>12,720,000</u>	<u>8,685,062</u>	<u>164,502,623</u>	<u>9,100,956</u>
Total bonds and notes payable								
				<u>160,467,685</u>	<u>12,720,000</u>	<u>8,685,062</u>	<u>164,502,623</u>	<u>9,100,956</u>
Unamortized premium on bond issues				<u>3,618,029</u>	<u>475,127</u>	<u>379,887</u>	<u>3,713,269</u>	<u>389,832</u>
Total bonds and notes payable including unamortized premiums				<u>164,085,714</u>	<u>13,195,127</u>	<u>9,064,949</u>	<u>168,215,892</u>	<u>9,490,788</u>
Compensated absences				11,064,743	6,170,174	6,193,457	11,041,460	5,448,591
Capital lease obligations		1.87%-2.22%	2024	8,596,678	-	994,349	7,602,329	1,012,624
Other long-term liabilities				3,580,045	-	160,045	3,420,000	-
Net pension liability				159,338,163	73,646,402	-	232,984,565	-
Total other obligations				<u>182,579,629</u>	<u>79,816,576</u>	<u>7,347,851</u>	<u>255,048,354</u>	<u>6,461,215</u>
Total long-term debt and other obligations				<u>\$ 346,665,343</u>	<u>\$ 93,011,703</u>	<u>\$ 16,412,800</u>	<u>\$ 423,264,246</u>	<u>\$ 15,952,003</u>

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Long-term debt and other obligations consist of the following as of June 30, 2016:

	Bond Series	Interest Rate	Maturity	Beginning Balance June 30, 2015	Additions	Reductions	Ending Balance June 30, 2016	Current Portion
Auxiliary Enterprise System								
Revenue Bonds								
1988 Note Payable		3%	2018	\$ 528,683	\$ -	\$ 171,007	\$ 357,676	\$ 176,176
2005	A	2.75%-4.05%	2025	1,625,000	-	-	1,625,000	-
2010	A	1.00%-2.55%	2016	1,495,000	-	735,000	760,000	760,000
2010	B	4.25%-6.25%	2035	20,565,000	-	-	20,565,000	-
2010	C	1%-2.8%	2017	9,175,000	-	2,990,000	6,185,000	3,050,000
2014	A	.5%-4.2%	2036	38,495,000	-	1,030,000	37,465,000	1,040,000
2015	A	2%-5%	2032	48,900,000	-	2,230,000	46,670,000	2,170,000
				<u>120,783,683</u>	<u>-</u>	<u>7,156,007</u>	<u>113,627,676</u>	<u>7,196,176</u>
MOHEFA Bonds								
2010	A	.3%-2.55%	2016	595,000	-	295,000	300,000	300,000
2010	B	4.25%-6.25%	2036	8,235,000	-	-	8,235,000	-
2012	DNR	2%	2021	706,258	-	143,625	562,633	146,511
2013	DNR	1%	2017	18,607	-	11,231	7,376	7,376
2014	A	2.00%-4.00%	2039	21,485,000	-	540,000	20,945,000	555,000
2015		1.625%-3.800%	2041	-	16,790,000	-	16,790,000	480,000
				<u>-</u>	<u>16,790,000</u>	<u>-</u>	<u>16,790,000</u>	<u>480,000</u>
Total bonds and notes payable				151,823,548	16,790,000	8,145,863	160,467,685	8,685,063
Unamortized premium on bond issues				3,980,927	23,401	386,299	3,618,029	371,034
Total bonds and notes payable including unamortized premium				<u>155,804,475</u>	<u>16,813,401</u>	<u>8,532,162</u>	<u>164,085,714</u>	<u>9,056,097</u>
Compensated absences				10,742,002	6,706,372	6,383,631	11,064,743	5,832,746
Capital lease obligations		1.87%	2020	6,031,823	3,551,764	986,909	8,596,678	994,349
Other long-tem liabilities				3,583,045	-	3,000	3,580,045	-
Net pension liability				115,013,732	44,324,431	-	159,338,163	-
Total other obligations				<u>135,370,602</u>	<u>54,582,567</u>	<u>7,373,540</u>	<u>182,579,629</u>	<u>6,827,095</u>
Total long-term debt and other obligations				<u>\$ 291,175,077</u>	<u>\$ 71,395,968</u>	<u>\$ 15,905,702</u>	<u>\$ 346,665,343</u>	<u>\$ 15,883,192</u>

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, 2017 and 2016, 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.

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2015 Revenue Bonds

On April 23, 2015, the University issued Auxiliary Enterprise System Revenue Bonds in the principal amount of \$48,900,000 for the purpose of advance refunding the University's outstanding Auxiliary Enterprise System Revenue Bonds, Series 2007A with an outstanding balance of \$46,985,000. The refunding was undertaken to reduce total debt service payments by \$3,605,298 and resulted in an economic gain (present value savings) of \$2,874,713. The current outstanding balance of the defeased bonds is \$0 and \$45,110,000 at June 30, 2017 and 2016, respectively. The bonds are secured by the net revenues pledged of the Auxiliary Enterprise System (see *Note 12*).

2015 MOHEFA Bonds

On August 11, 2015, the University issued bonds through the MOHEFA in the principal amount of \$16,790,000 for the acquisition, construction, renovation and improvements of various educational facilities of the University including the renovations and improvements to Glass Hall, home of the University's College of Business. The payments to be made pursuant to the Loan Agreement are general unsecured obligations of the University.

2016 Revenue Bonds

On October 27, 2016, the University issued Auxiliary Enterprise System Revenue Bonds in the principal amount of \$12,720,000 for the purpose of the demolition of the existing health and wellness center and capital improvements to the Auxiliary Enterprise System. The bonds are secured by the net revenues pledged of the Auxiliary Enterprise System (see *Note 12*).

The principal and interest requirements on notes and bonds payable to maturity at June 30, 2017, are as follows:

	Principal	Interest	Total
2018	\$ 9,100,956	\$ 6,416,736	\$ 15,517,692
2019	7,297,460	5,986,631	13,284,091
2020	7,484,206	5,754,658	13,238,864
2021	7,575,000	5,526,181	13,101,181
2022	7,835,001	5,232,634	13,067,635
2023 - 2027	41,125,000	21,373,462	62,498,462
2028 - 2032	46,535,000	13,082,284	59,617,284
2033 - 2037	28,215,000	4,538,273	32,753,273
2038 - 2042	9,335,000	577,500	9,912,500
	\$ 164,502,623	\$ 68,488,359	\$ 232,990,982

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Capital Lease Obligations

On April 28, 2016, the University entered into a capitalized lease with Banc of America Public Capital in the amount of \$3,500,000 for expansion of the University's chilled water loop system.

The University is obligated under leases accounted for as capital leases. Assets under capital leases at June 30, 2017 and 2016, totaled \$5,758,174 and \$5,828,351, respectively, net of accumulated depreciation of \$6,551,329 in 2017 and \$5,828,351 in 2016.

The following is a schedule by year of future minimum lease payments under the capital leases including interest together with the present value of the future minimum lease payments as of June 30, 2017:

2018	\$ 1,166,794
2019	1,154,595
2020	1,154,484
2021	1,154,373
2022	917,495
2023 - 2027	<u>2,752,480</u>
Total minimum lease payments	8,300,221
Less amount representing interest	<u>697,892</u>
Present value of future minimum lease payments	<u><u>\$ 7,602,329</u></u>

Foundation Leases

Noncancelable leases for space in the Kenneth E. Meyer Alumni Center expire in various years through 2022. Several of these leases contain renewal options for periods ranging from one to three years. Future minimum lease income at June 30, 2017, is as follows:

2018	\$ 647,422
2019	96,875
2020	84,341
2021	74,981
2022	74,981

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Note 12: 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 October 2016. The Resolution provides that the bonds are payable from the gross income and revenues derived from the housing, parking, health center and recreational facilities serving the University and its students. The housing facilities consist of 11 residence halls, 4 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 the 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 Bill R. Foster and Family Recreation Center, Hammons Student Center, the Plaster Stadium, the JQH Arena, Betty and Bobby Allison Recreation Fields 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, 2017 and 2016, is summarized as follows:

	2017	2016
Condensed Statements of Net Position		
Assets		
Current assets	\$ 51,346,908	\$ 34,134,911
Noncurrent assets	234,412,942	237,177,138
Total assets	285,759,850	271,312,049
Deferred Outflows of Resources	11,765,438	6,767,714
Total assets and deferred outflows of resources	297,525,288	278,079,763
Liabilities		
Current liabilities	20,566,204	18,420,914
Long-term liabilities	138,833,681	125,926,302
Total liabilities	159,399,885	144,347,216
Deferred Inflows of Resources	151,966	262,962
Total liabilities and deferred inflows of resources	159,551,851	144,610,178
Net Position		
Net investment in capital assets	110,186,541	119,407,237
Unrestricted	27,786,896	14,062,348
Total net position	\$ 137,973,437	\$ 133,469,585

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	2017	2016
Condensed Statements of Revenues, Expenses and Changes in Net Position		
Operating revenues	\$ 62,531,060	\$ 66,199,312
Operating expenses		
Depreciation	10,853,908	11,018,205
All other operating expenses	53,771,538	53,257,200
Total operating expenses	64,625,446	64,275,405
Operating income (loss)	(2,094,386)	1,923,907
Nonoperating revenues (expenses)	346,151	705,220
Excess (deficiency) of revenues over expenses	(1,748,235)	2,629,127
Transfer from other University units	6,252,087	3,315,764
Increase in Net Position	4,503,852	5,944,891
Net Position, Beginning of Year	133,469,585	127,524,694
Net Position, End of Year	\$ 137,973,437	\$ 133,469,585

Note 13: Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	2017				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 37,653,092	\$ 370,000	\$ -	\$ -	\$ 38,023,092
Infrastructure	79,169,364	29,942	-	568,974	79,768,280
Buildings	593,252,963	(29,942)	(3,646,802)	5,494,560	595,070,779
Furniture, fixtures and equipment	53,916,898	2,799,681	(1,899,118)	45,175	54,862,636
Library materials	62,112,356	1,995,680	-	-	64,108,036
Capitalized collections	526,077	830,860	-	-	1,356,937
Construction in progress	19,695,979	41,971,323	-	(6,108,709)	55,558,593
	846,326,729	47,967,544	(5,545,920)	-	888,748,353
Less accumulated depreciation					
Infrastructure	33,861,483	4,487,905	-	-	38,349,388
Buildings	218,692,749	15,940,764	(2,262,413)	-	232,371,100
Furniture, fixtures and equipment	43,447,604	3,153,231	(1,880,640)	-	44,720,195
Library materials	49,628,298	2,258,821	-	-	51,887,119
Capitalized collections	424,308	13,422	-	-	437,730
Total accumulated depreciation	346,054,442	25,854,143	(4,143,053)	-	367,765,532
Net capital assets	\$ 500,272,287	\$ 22,113,401	\$ (1,402,867)	\$ -	\$ 520,982,821

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Capital asset activity for the year ended June 30, 2016, was as follows:

	2016				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
Land	\$ 34,141,093	\$ 3,511,999	\$ -	\$ -	\$ 37,653,092
Infrastructure	75,754,628	330,619	-	3,084,117	79,169,364
Buildings	539,620,093	-	-	53,632,870	593,252,963
Furniture, fixtures and equipment	51,991,455	2,737,321	(1,103,499)	291,621	53,916,898
Library materials	59,780,204	2,332,152	-	-	62,112,356
Capitalized collections	526,077	-	-	-	526,077
Construction in progress	42,667,127	34,230,981	(193,521)	(57,008,608)	19,695,979
	<u>804,480,677</u>	<u>43,143,072</u>	<u>(1,297,020)</u>	<u>-</u>	<u>846,326,729</u>
Less accumulated depreciation					
Infrastructure	29,605,645	4,255,838	-	-	33,861,483
Buildings	202,921,302	15,771,447	-	-	218,692,749
Furniture, fixtures and equipment	41,105,445	3,445,657	(1,103,498)	-	43,447,604
Library materials	47,181,125	2,447,173	-	-	49,628,298
Capitalized collections	383,690	40,618	-	-	424,308
Total accumulated depreciation	<u>321,197,207</u>	<u>25,960,733</u>	<u>(1,103,498)</u>	<u>-</u>	<u>346,054,442</u>
Net capital assets	<u>\$ 483,283,470</u>	<u>\$ 17,182,339</u>	<u>\$ (193,522)</u>	<u>\$ -</u>	<u>\$ 500,272,287</u>

Note 14: Disclosure About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2017 and 2016

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016:

Description	2017			
	Total	Level 1	Level 2	Level 3
Government-sponsored enterprises obligations	\$ 119,887,750	\$ -	\$ 119,887,750	\$ -
Total investments measured at fair value	<u>\$ 119,887,750</u>	<u>\$ -</u>	<u>\$ 119,887,750</u>	<u>\$ -</u>
Description	2016			
	Total	Level 1	Level 2	Level 3
Government-sponsored enterprises obligations	\$ 111,920,543	\$ -	\$ 111,920,543	\$ -
Total investments measured at fair value	<u>\$ 111,920,543</u>	<u>\$ -</u>	<u>\$ 111,920,543</u>	<u>\$ -</u>

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 are not available, securities are classified within Level 3 of the hierarchy.

Note 15: 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.

Missouri State University
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Notes to Financial Statements
June 30, 2017 and 2016

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.

During fiscal 2016, the U.S. Department of Education performed a program review of the Student Financial Assistance program at the University's West Plains campus. The University has submitted responses. The amount, if any, that will be due to the Department of Education is unknown and no liability has been accrued at June 30, 2017 or 2016.

Construction Commitments

The University has outstanding commitments for various construction contracts of approximately \$41.7 million at June 30, 2017.

Foundation Contingencies

The John Q. Hammons Trust and more than 70 entities associated with the Trust (the John Q. Hammons Entities) filed for bankruptcy protection in the federal bankruptcy court in Kansas City, Kansas, on June 26, 2016. The entities are believed to include substantially all the hotel operating entities of the John Q. Hammons enterprise. The Trust is scheduled to make scheduled payments to the Foundation towards the pledge receivable on April 1 and October 1. The Foundation received the October 1, 2017, scheduled payment of \$387,530 on September 28, 2017. The John Q. Hammons Entities have been operating in the ordinary course and making payments to creditors, including the Foundation, pursuant to orders approved periodically by the bankruptcy court. Similar orders will need to be entered by the bankruptcy court in the future for the John Q. Hammons Entities to continue operating in the ordinary course and paying creditors during the pendency of the bankruptcy case. The Foundation cannot speculate on the outcome of the bankruptcy case and the ability for future payments to creditors, including the Foundation, and are dependent on the decisions determined by the bankruptcy court. Based on these factors, there is no allowance recorded for this pledge as the uncollectible amount, if any, cannot be reasonably estimated. As the case progresses, more information might be obtained that could significantly affect the balance of the net pledge receivable.

Note 16: Subsequent Event

In November 2017, the University signed a commitment letter to issue bonds of up to \$36,255,000 for the purpose of refunding the Series 2005 and Series 2014 bonds (*Note 11*) outstanding at June 30, 2017. The commitment letter agrees to interest rates of 2.15% and 2.63% with the bonds maturing in 2024 and 2036.

Required Supplementary Information

Missouri State University
A Component Unit of the State of Missouri
Schedule of University's Proportionate Share of the Net Pension Liability –
Missouri State Employees' Retirement System
Last Three Fiscal Years*

	2017	2016	2015
University's proportion of the net pension liability	5.0191%	4.9620%	4.8780%
University's proportionate share of the net pension liability	\$ 232,984,565	\$ 159,338,163	\$ 115,013,732
University's covered-employee payroll	\$ 97,425,261	\$ 96,031,717	\$ 93,529,298
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	239.14%	165.92%	122.97%
Plan fiduciary net position as a percentage of the total pension liability	63.60%	72.62%	79.49%

* The amounts presented for June 30, 2017, 2016 and 2015, were determined as of the end of the preceding fiscal year.

This schedule presents the information available to the University and will include ten-year trend information once available.

Missouri State University
A Component Unit of the State of Missouri
Schedule of University Contributions –
Missouri State Employees’ Retirement System
Last Four Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 16,698,515	\$ 16,501,401	\$16,296,821	\$15,920,447
Contributions in relation to the contractually required contribution	<u>16,698,515</u>	<u>16,501,401</u>	<u>16,296,821</u>	<u>15,920,447</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University’s covered-employee payroll	\$ 98,400,206	\$ 97,238,662	\$96,031,717	\$93,529,298
Contributions as a percentage of covered-employee payroll	16.97%	16.97%	16.97%	17.02%

This schedule presents information available to the University and will include ten-year trend information once available.

Notes to Schedule:

Benefit Changes

There were no changes to benefit terms for MOSERS for the years ended June 30, 2016 and 2015.

Changes of Assumptions

Actuarial assumptions used in the June 30, 2016, valuation were changed as follows:

- Salary increases: 3.25% to 8.75% including inflation
- Wage inflation: 3.00%
- Investment rate of return: 7.65%
- Post-retirement mortality tables: RP-2014 Healthy Annuitant projected to 2026 with Scale MP-2015 and scaled by 120%
- Preretirement mortality tables: RP-2014 Employee projected to 2026 with Scale MP-2015 and scaled by 95% for males and 90% for females

There were no changes to actuarial assumptions used in valuation reports for the year ended June 30, 2015, other than the assumption that there would be no pay increases for fiscal year ending June 30, 2016, only.

There were no changes to actuarial assumptions used in the June 30, 2014, valuation.

Missouri State University
A Component Unit of the State of Missouri
Schedule of Funding Progress – Other Postemployment Benefits
June 30, 2017

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Actuarial valuation date	July 1, 2015	July 1, 2015	July 1, 2013
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Actuarial accrued liability	\$ 8,086,000	\$ 8,119,000	\$ 8,658,000
Actuarial value of assets	-	-	-
Total unfunded actuarial liability	<u>\$ 8,086,000</u>	<u>\$ 8,119,000</u>	<u>\$ 8,658,000</u>
Funded ratio	0.00%	0.00%	0.00%
Annual coverage payroll	\$ 117,094,000	\$ 113,134,000	\$ 109,346,000
Ratio of unfunded actuarial liability to covered payroll	6.91%	7.18%	7.92%
Participant summary			
Active employees	2,198	2,231	2,125
Retirees	118	121	101
Spouses of retirees	<u>26</u>	<u>25</u>	<u>27</u>
Total	<u>2,342</u>	<u>2,377</u>	<u>2,253</u>

Actuarial assumptions:

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

	Medical/Rx/Stop Loss	Admin
2017 - 2018	7.50%	4.50%
2018 - 2019	7.00%	4.50%
2019 - 2020	6.50%	4.50%
2020 - 2021	6.00%	4.50%
2021 - 2022	5.50%	4.50%
2022 - 2023	5.00%	4.50%
2023 - 2024	4.50%	4.50%
2024 - 2025	4.50%	4.50%
2025 and beyond	4.50%	4.50%

Other Information

Missouri State University
A Component Unit of the State of Missouri
Condensed Statements by Campus
June 30, 2017

Condensed Statements of Net Position

	<u>Springfield</u>	<u>West Plains</u>	<u>Total</u>
Assets			
Current assets	\$ 97,989,302	\$ 6,056,623	\$ 104,045,925
Noncurrent assets	615,739,729	17,190,961	632,930,690
Total assets	<u>713,729,031</u>	<u>23,247,584</u>	<u>736,976,615</u>
Deferred Outflows of Resources			
Loss on refunding of bonds	3,049,200	-	3,049,200
Deferred outflows of resources related to pension	80,056,083	3,869,420	83,925,503
Total deferred outflows of resources	<u>83,105,283</u>	<u>3,869,420</u>	<u>86,974,703</u>
Liabilities			
Current liabilities	57,388,369	1,150,938	58,539,307
Long-term liabilities	173,192,343	1,135,335	174,327,678
Accrued net pension liability	222,263,903	10,720,662	232,984,565
Total liabilities	<u>452,844,615</u>	<u>13,006,935</u>	<u>465,851,550</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pension	2,009,513	71,603	2,081,116
Net Position			
Net investment in capital assets	332,215,312	15,998,488	348,213,800
Restricted			
Nonexpendable	199,762	-	199,762
Expendable	15,988,642	25,205	16,013,847
Unrestricted	<u>(6,423,530)</u>	<u>(1,985,227)</u>	<u>(8,408,757)</u>
Total net position	<u>\$ 341,980,186</u>	<u>\$ 14,038,466</u>	<u>\$ 356,018,652</u>

**Condensed Statements of Revenues,
Expenses and Changes in Net Position**

Operating Revenues	<u>\$ 211,839,526</u>	<u>\$ 4,373,678</u>	<u>\$ 216,213,204</u>
Operating Expenses			
Depreciation	25,151,181	702,962	25,854,143
All other operating expenses	305,281,036	15,235,816	320,516,852
Total operating expenses	<u>330,432,217</u>	<u>15,938,778</u>	<u>346,370,995</u>
Operating Income (Loss)	(118,592,691)	(11,565,100)	(130,157,791)
Nonoperating Revenues	128,884,493	10,675,114	139,559,607
Nonoperating Expenses	<u>(5,273,723)</u>	<u>(54,855)</u>	<u>(5,328,578)</u>
Excess (Deficiency) of Revenues Over Expenses	5,018,079	(944,841)	4,073,238
Transfer from Other University Units	<u>(197,016)</u>	<u>197,016</u>	<u>-</u>
Increase (Decrease) in Net Position	4,821,063	(747,825)	4,073,238
Beginning Net Position	<u>337,159,123</u>	<u>14,786,291</u>	<u>351,945,414</u>
Ending Net Position	<u>\$ 341,980,186</u>	<u>\$ 14,038,466</u>	<u>\$ 356,018,652</u>

Missouri State University
A Component Unit of the State of Missouri
Condensed Statements by Campus
June 30, 2016

Condensed Statements of Net Position

	<u>Springfield</u>	<u>West Plains</u>	<u>Total</u>
Assets			
Current assets	\$ 96,419,019	\$ 7,640,814	\$ 104,059,833
Noncurrent assets	588,353,090	15,985,135	604,338,225
Total assets	<u>684,772,109</u>	<u>23,625,949</u>	<u>708,398,058</u>
Deferred Outflows of Resources			
Loss on refunding of bonds	3,530,675	-	3,530,675
Deferred outflows of resources related to pension	29,492,837	1,440,300	30,933,137
Total deferred outflows of resources	<u>33,023,512</u>	<u>1,440,300</u>	<u>34,463,812</u>
Liabilities			
Current liabilities	55,347,780	1,635,054	56,982,834
Noncurrent liabilities	170,251,885	1,192,103	171,443,988
Accrued net pension liability	152,006,216	7,331,947	159,338,163
Total liabilities	<u>377,605,881</u>	<u>10,159,104</u>	<u>387,764,985</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pension	3,030,617	120,854	3,151,471
Net Position			
Net investment in capital assets	316,371,362	14,749,208	331,120,570
Restricted			
Nonexpendable	199,762	-	199,762
Expendable	16,291,341	23,885	16,315,226
Unrestricted	<u>4,296,658</u>	<u>13,198</u>	<u>4,309,856</u>
Total net position	<u>\$ 337,159,123</u>	<u>\$ 14,786,291</u>	<u>\$ 351,945,414</u>

**Condensed Statements of Revenues,
Expenses and Changes in Net Position**

Operating Revenues	\$ 211,153,538	\$ 4,232,191	\$ 215,385,729
Operating Expenses			
Depreciation	25,259,668	701,065	25,960,733
All other operating expenses	283,528,216	14,084,649	297,612,865
Total operating expenses	<u>308,787,884</u>	<u>14,785,714</u>	<u>323,573,598</u>
Operating Income (Loss)	(97,634,346)	(10,553,523)	(108,187,869)
Nonoperating Revenues	122,795,223	9,983,672	132,778,895
Nonoperating Expenses	<u>(5,681,236)</u>	<u>(69,106)</u>	<u>(5,750,342)</u>
Excess (Deficiency) of Revenues Over Expenses	19,479,641	(638,957)	18,840,684
Transfer from Other University Units	<u>(115,355)</u>	<u>115,355</u>	<u>-</u>
Increase (Decrease) in Net Position	19,364,286	(523,602)	18,840,684
Net Position, Beginning of Year	<u>317,794,837</u>	<u>15,309,893</u>	<u>333,104,730</u>
Ending Net Position	<u>\$ 337,159,123</u>	<u>\$ 14,786,291</u>	<u>\$ 351,945,414</u>