



Midwestern State University

Financial Report
(unaudited)
For the Year Ended
August 31, 2005

Midwestern State University Wichita Falls, Texas

History What began in September of 1922 as Wichita Falls Junior College has developed over the years into Midwestern State University. Growing from its first location on the third floor of the high school at Eleventh and Broad streets, the college was moved to its current location in 1937 and was renamed Hardin Junior College. In 1946, the college achieved senior status and was renamed Hardin College only to be renamed again in 1950 to Midwestern University. Although the university became a state-supported institution in 1961, it was not until 1975 that the school was renamed to bear its final name, Midwestern State University.



Midwestern State University aspires to be the public liberal arts university of the State of Texas. In FY 2004-2005, the university had an annual budget of \$53 million and encompassed six different colleges offering 42 undergraduate programs and 22 master's degree programs.

Location Midwestern State University is located midway between Oklahoma City and the Dallas-Fort Worth Metroplex and is approximately a two-hour drive to either city. Accessible from a number of state highways, the campus is nestled in a beautiful residential area of Wichita Falls which has a population of 104,000.



Accreditation Midwestern State University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award associate, baccalaureate and master's degrees. MSU's three largest academic programs include business, health sciences and education. You can learn more about the Academic Programs at MSU by visiting our Academic webpage - academics.mwsu.edu.



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Midwestern State University

Wichita Falls, Texas



**Annual Financial Report
(Unaudited)
For the Year Ended August 31, 2005**

Year
Ended
8-31-2005

(Unaudited)

Midwestern State University

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Year
Ended
8-31-2005

(Unaudited)

Midwestern State University

MIDWESTERN STATE UNIVERSITY

ORGANIZATIONAL DATA

August 31, 2005

THE BOARD OF REGENTS

Term Expires February 25, 2006

Mr. Mac W. Cannedy, Jr., Chairman	Wichita Falls
Mr. John C. Bridgman	Wichita Falls
Mr. David L. Stephens	Plano

Term Expires February 25, 2008

Ms. Pamela Odom Gough	Graham
Ms. Pat Haywood	Wichita Falls
Mr. Don Ross Malone	Vernon

Term Expires February 25, 2010

Mr. Stephen A. Gustafson	Wichita Falls
Mr. Munir A. Lalani	Wichita Falls
Mr. Ben F. Wible	Sherman

Ms. Kathryn A. Yeager, Regent Emeritus

PRESIDENT

Dr. Jesse W. Rogers

UNIVERSITY FISCAL OFFICERS

Mr. Juan R. Sandoval	Vice President, Administration and Finance
Ms. Gail Ferguson	Controller

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(Unaudited)

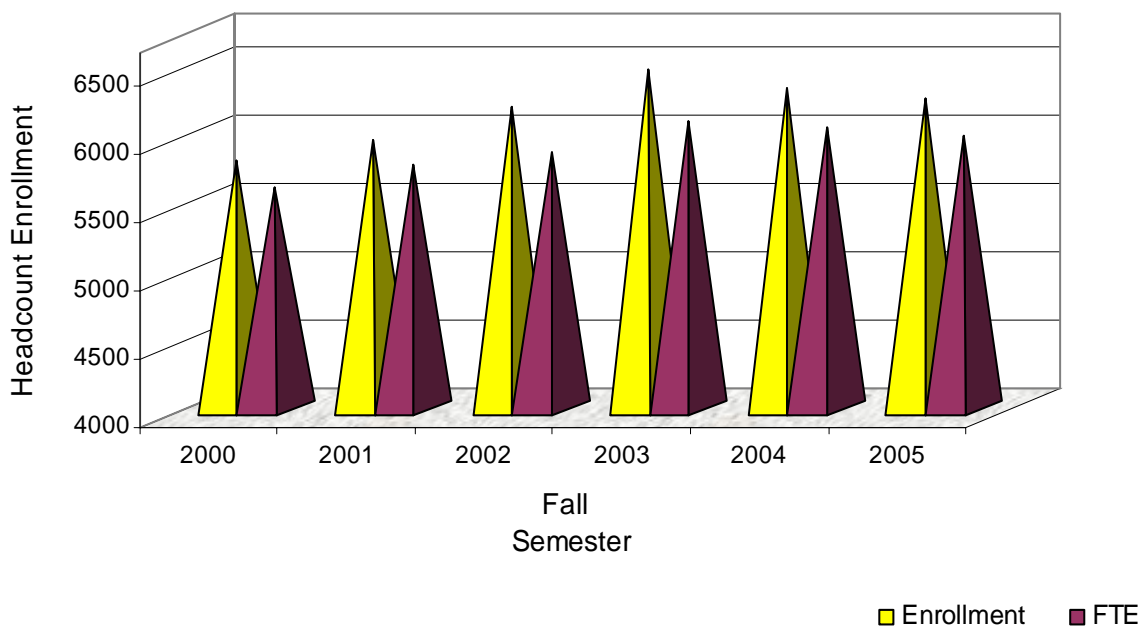
Midwestern State University

The objective of Management's Discussion and Analysis is to help readers of Midwestern State University's financial statements better understand the financial position and operating activities of the university for the fiscal years ended August 31, 2005 and 2004.

Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the university administration.

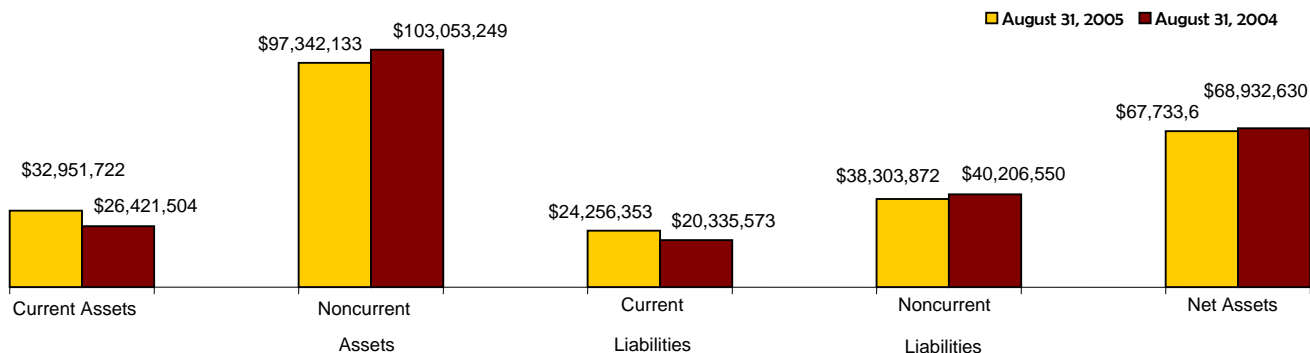
The following discussion should be read in conjunction with the accompanying transmittal letter, financial statements, and note disclosures.

Fall Headcount vs FTE



Midwestern State University

The University's Financial Position



The Statement of Net Assets

The statement of net assets presents the financial position of the university at year end. By reporting information on the university as a whole, the following statements highlight for the reader whether or not the year's activities strengthened or weakened the university's financial position. When revenues and other support exceed expenses, the result is an increase in net assets. The relationship between revenues and expenses represent a measure of the financial condition of the university. Increases in net assets show an improvement in financial health while decreases often indicate declining financial stability. However, many other non-financial factors, such as the trend in admission applicants, enrollment, student retention, and condition of the buildings must be considered to accurately assess the overall health of the university.

In spite of a \$6,010,818 increase in net assets from current operations, the university's net assets shows a decline in the amount of \$1,199,000 due to a restatement to prior year net assets in the amount of \$7,209,818. This restatement was due to the requirement by the State Comptroller's Office that all Texas universities should conform to GAAP and depreciate their library collections. The \$7,209,818 represents prior year's accumulated depreciation.

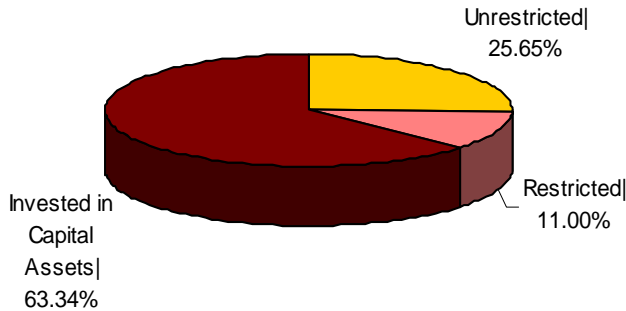
As the statement shows below, the university's net assets decreased from \$68,932,630 in 2004 to \$67,733,630 in 2005.

	2005	2004
Current Assets	\$32,951,722	\$26,421,504
Noncurrent Assets		
Capital Assets	74,724,922	66,541,645
Other	22,617,211	36,511,604
Total Assets	130,293,855	129,474,753
Current Liabilities	\$24,256,353	\$20,335,573
Noncurrent Liabilities	38,303,872	40,206,550
Total Liabilities	62,560,225	60,542,123
Net Assets:		
Invested in Capital Assets	42,905,812	42,228,928
Restricted – Debt Retirement		
Restricted – Nonexpendable	3,246,323	2,970,232
Expendable – Contributor Restricted	4,206,518	4,207,524
Unrestricted*(see next page)	17,374,977	19,525,946
Total Net Assets	67,733,630	68,932,630
Total Liabilities and Net Assets	\$130,293,855	\$129,474,753

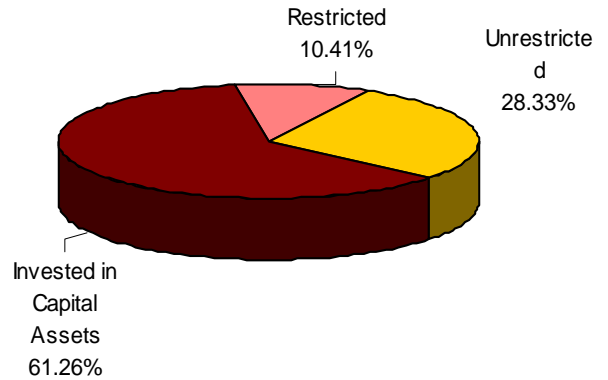
Midwestern State University

The following charts indicate the changes in net assets for the year ended August 31, 2005 when compared to the previous year.

Net Assets August 31, 2005

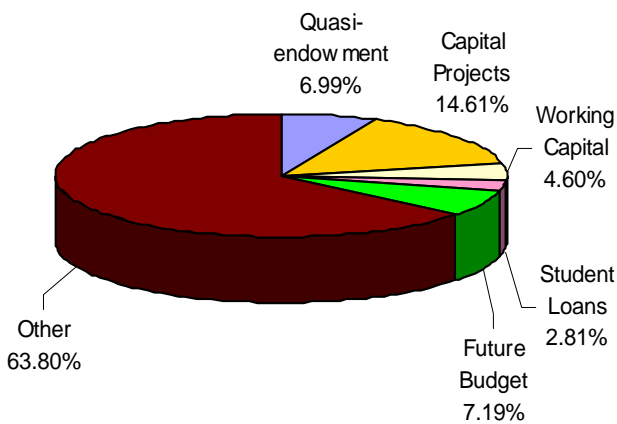


Net Assets August 31, 2004

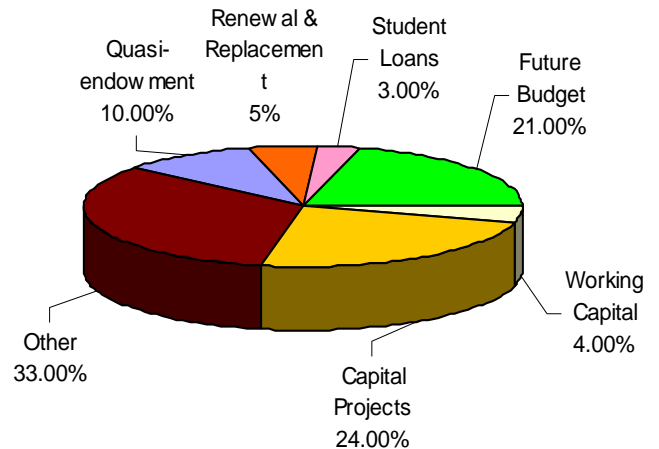


The university reports unrestricted net assets of 25.65% for the year ended August 31, 2005 and 28.33% for the prior year. This decrease in unrestricted net assets is due to the university's use of \$2,166,700 of HEAF funds on the COBA building that was from prior year's savings, and the purchase of four properties adjacent to campus in the amount of \$540,000 was from a quasi-endowment fund. Although unrestricted, most of these funds have been designated for specific purposes. The following charts show how funds have been allocated:

Allocation of Unrestricted Net Assets August 31, 2005



Allocation of Unrestricted Net Assets August 31, 2004



Midwestern State University

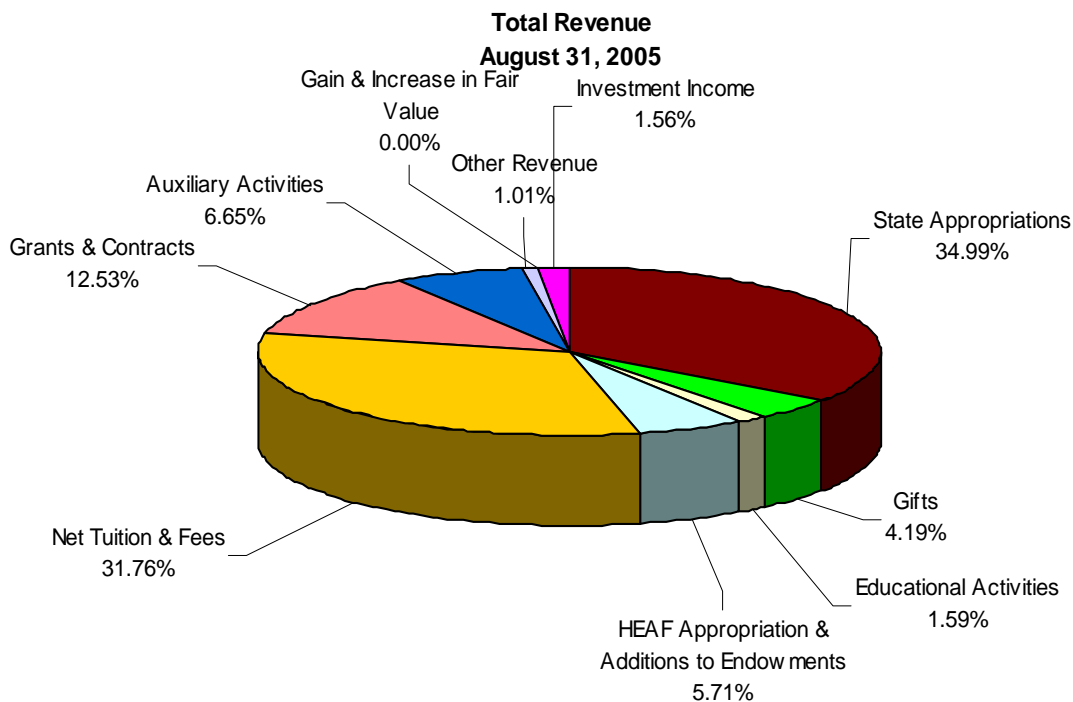
The University's Results of Operations

The statement of revenues, expenses, and changes in net assets is a presentation of the University's operating results for the years ended August 31, 2005 and 2004. It indicates whether the financial condition has improved or deteriorated. This statement shows the operating results of the University, as well as the non-operating revenues and expenses. Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and food services. Certain federal, state, and private grants are considered operating revenues if they are not for capital purposes and are considered a contract for services. Annual state appropriations are budgeted for operations but are considered non-operating revenues according to generally accepted accounting principles.

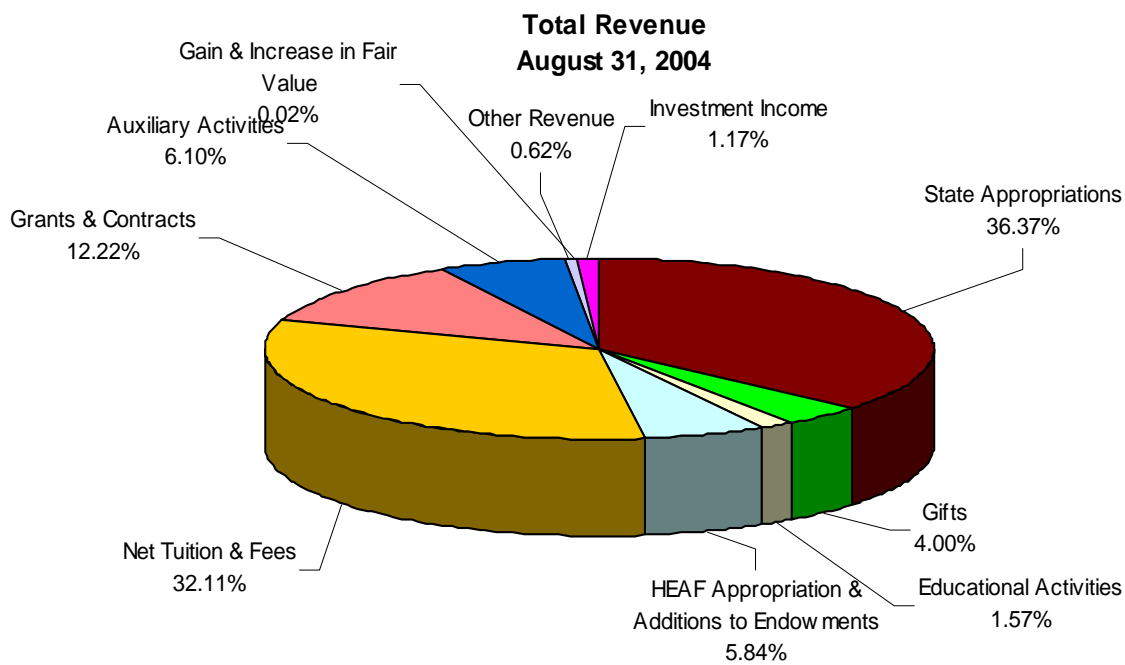
	2005	2004
Operating Revenue:		
Net tuition and fees	\$19,007,023	\$18,408,377
Grant and contracts	1,495,391	1,336,333
Sales and Service of Educational Activities	954,217	901,203
Sales and Services of Auxiliary Enterprises	3,981,844	3,496,213
Other	583,756	348,233
Total Operating Revenue	26,022,231	24,490,359
Operating Expenses	57,599,243	55,031,818
Operating Loss	(31,577,012)	(30,541,459)
Nonoperating Revenues (Expenses):		
State Appropriations	20,941,156	20,853,180
Grants (Federal & State)	6,001,181	5,667,964
Gifts	2,509,958	2,293,662
Other Nonoperating Revenues	22,805	6,020
Investment Income	1,087,051	643,243
Investment Activities Expense		
Net Increase (Decrease) in Fair Value of Investments	(152,282)	26,981
Gain (Loss) on Sale of Capital Assets	(246,703)	(16,372)
Net Book Value of Capital Assets Disposals	(125,370)	(89,492)
Net Expenses Incurred on Bonds Issued		5,012
Interest Expense on Capital Asset Financing	(816,339)	(759,385)
Total Nonoperating Revenue (Expense)	29,221,457	28,630,813
Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items	(2,355,555)	(1,910,646)
Capital Contributions, Additions to Endowments, & Special Items		
Capital Contributions	4,968,525	1,500,000
HEAF Appropriation	3,007,669	3,007,669
Additions to Endowments	410,487	338,086
Transfers In	5,586	
Transfers Out	(25,894)	(8,314)
Increase (Decrease) in Net Assets	6,010,818	2,926,795
Net Assets, Beginning of Year, as Restated	61,722,812	66,005,835
Net Assets, End of Year	\$67,733,630	\$68,932,630

Midwestern State University

This chart identifies components of total revenue for the year ended August 31, 2005:



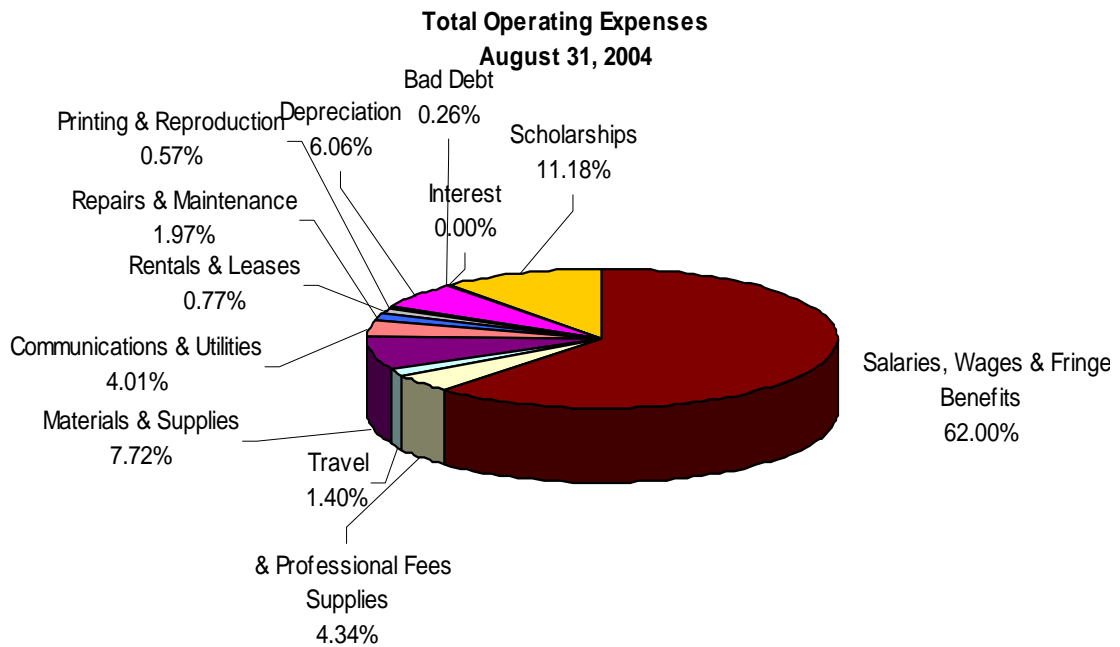
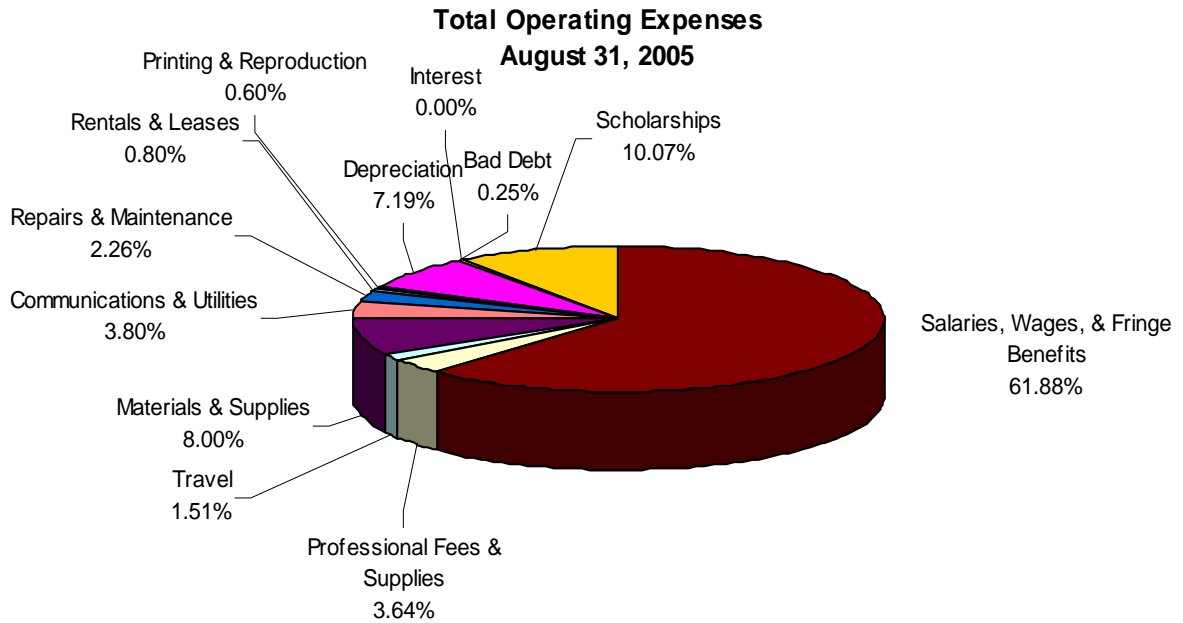
This chart shows the same information for the year ended August 31, 2004



State appropriations decreased from 36% of total revenues in 2004 to 34% of total revenue in 2005. Auxiliary activities, investment income, and grants & contracts increased from 2004..

Midwestern State University

Total operating expenses for the year ended August 31, 2005 were \$57,599,243 as compared to \$55,031,818 for the previous year. These charts show that the distribution of operating expenses was almost identical for both years.



Midwestern State University

The University's Cash Flows

The statement of cash flows presents the significant sources and uses of cash. It is designed to help users assess the University's ability to generate future cash flows, its ability to meet obligations as they come due, and its need for external financing.

	<u>Cash Flows</u>	
	2005	2004
-		
Cash provided (used) by:		
Operating activities	\$(26,063,430)	\$(24,773,546)
Noncapital financing activities	31,658,331	29,008,902
Capital and related financing activities	(1,423,287)	(11,667,285)
Investing activities	(4,133,551)	7,730,102
Net increase (decrease) in cash	38,063	298,173
Cash – Beginning of year as restated	3,261,448	2,963,275
Cash – End of year	\$3,299,511	\$3,261,448

There was a net increase in cash of \$38,063.

Exhibit III, the Statement of Cash Flows, shows that the major sources of funds for operating activities are from student tuition and fees and auxiliary enterprises. Tuition and fees accounted for \$20.8 million and auxiliary enterprises, including housing and dining, accounted for \$4 million.

State appropriations in the amount of \$22 million are the primary source of non-capital financing. Although the University is dependent on these appropriations to continue the current level of operations, the new accounting standards require that this source of funding be reflected as non-operating.

Other non-capital financing activities include state and federal grants in the amount of \$6 million and gifts in the amount of \$3 million.

The main sources for financing activities came from the issuance of HEAF bonds in the amount of \$11 million.. Cash was used to purchase capital assets in the amount of \$15 million and for the payment of principal and interest on capital debt in the amount of \$1.5 million.

The use of cash in investing activities was also related to the influx of cash when the HEAF bonds were issued.

ANNUAL FINANCIAL REPORT STATEMENTS

Year
Ended
8-31-2005

(Unaudited)

Midwestern State University

The University's Capital Assets and Debt Administration

Capital Assets

As of August 31, 2005, the University had \$74.7 million invested in capital assets. This figure is net of accumulated depreciation of \$62.3 million. Depreciation charges totaled \$4.1 million for the current fiscal year. Assets by classification are shown below.

Capital Assets Before Accumulated Depreciation

	2005	2004
Land and Land Improvements	\$3,436,321	\$2,717,554
Construction in Progress	12,502,739	5,589,806
Buildings and Building Improvements	85,189,018	76,798,133
Infrastructure	7,601,961	7,601,961
Facilities Improvements	4,033,412	4,033,412
Furniture and Equipment	8,845,762	7,962,306
Vehicles	1,506,152	1,236,217
Other Capital Assets	13,947,937	12,457,234
Total	\$137,063,302	\$118,396,623

The category of other capital assets includes library holdings, artwork, and collections. Assets totaling \$6.7 million were placed in service during fiscal year 2004-2005. These include finalization of the HVAC project and the Boiler project.

The \$12,502,739 representing construction in progress at the end of the year includes the new Dillard College of Business building, the tunnel expansion for utilities, and Pierce Hall (which was not fully complete).

Further financial information about the university's capital assets is presented in Note 2 of the notes to the financial statements.

Midwestern State University

Debt

At year-end, the University had \$53.6 million in outstanding debt. Outstanding debt for the year ended August 31, 2004 was \$55.4 million. The table below summarizes the amount of outstanding debt by type of instrument for the year ended August 31, 2005 compared with August 31, 2004.

	2005	2004
Revenue Bonds	\$27,775,000	\$28,735,000
General Obligation Bonds (HEAF)	11,185,000	11,185,000
Accrued long term interest payable on revenue bonds	13,960,722	15,194,194
Capital Lease Obligation	581,351	303,796
Accrued interest payable on capital lease obligations	102,789	23,712
Total	\$53,604,862	\$55,441,702

Debt repayments made during the year included principal in the amount of \$1,137,297 and interest in the amount of \$1,255,651, of which \$997,260 was capitalized as part of constructed assets and construction in progress.

The University's revenue bond rating is A2. More detailed bond information is disclosed in Schedule 2A, 2B, 2C, 2D, and 2E.

Factors That Will Affect the Future

Construction is still in progress on the new College of Business Administration building. This building of 88,000 square feet will represent the largest, single construction project in the history of Midwestern State University and should be completed Spring 2006. The College of Business Administration with approximately 1,200 majors is the university's largest college. At the present time, the faculty of the college are placed in five different buildings. Administration of this program is near impossible and the college is in need of modern teaching and research equipment, data bases, and libraries. The total cost of the new facility will be \$18 million. The source of funds for this building is a combination of private donations, Higher Education Assistance Funds (HEAF), and the issue of HEAF Constitutional Appropriation Bonds. In recognition of a \$5,000,000 gift from Kay Dillard to the MSU Charitable Trust, the Board of Regents has approved the name of the building to be the Dillard College of Business Administration

The donation of the Wichita Falls Museum & Art Center to Midwestern State University was finalized after a lengthy process and will be an incalculable addition to the University. This will open the doors to many educational programs not only for the University but also the community and area schools. Plans are already being made to expand the museum's current collection and renovate the galleries in order to present four to six new exhibitions a year.

Midwestern State University

Pierce Hall reopens after renovations that began in 2004. The renovations included updates to accommodate changes in fire codes, transformation of community restrooms into semi-private, remodeled lounge areas and made student rooms more space efficient. The University now operates eight separate housing facilities with the combined ability to accommodate over 1,000 students. It is anticipated that the demand for student housing will continue to increase and planning has begun for a new 250-350 bed apartment-style complex similar to Sunwatcher Village, which was completed in September 2003.

State appropriations still comprise the largest source of funding for the University. Due to a State mandated reshuffling of HEAF funds, the university lost \$718,104 in funding for FY 05-06 and FY 06-07. Faced with the critical need to upgrade computer hardware and software, the university increased the Computer Use Fee from \$9.50 to \$12.00 per semester credit hour effective Spring 2006. The Distance Education Course Fee was increased from \$25 to \$32 per semester credit hour effective Fall 2006, and an additional tuition charge of \$100 per semester credit hour will be assessed for any course a student takes for the third or more time effective Summer 2006.

Continued strong support from alumni, parents and friends resulted in the university's new Annual Fund Campaign tripling its first year expectations with contributions in excess of \$200,000. The President's Excellence Club, which has existed since 1984, showed a record contribution of approximately \$300,000.

The administration of Midwestern State University believes that the university will continue to maintain a strong financial framework that will enable the university to improve programs and effectively manage operating costs.

Midwestern State University

Unaudited

Midwestern State University Exhibit I Comparative Statement of Net Assets August 31

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash on Hand	\$ 15,595	\$ 14,995
Cash in Bank	719,013	1,071,881
Cash in State Treasury	2,488,631	2,146,703
Short-term Investments	16,166,739	9,121,764
State Appropriations	2,452,590	3,768,075
Restricted:		
Cash and Cash Equivalents:		
Cash in Bank	76,272	27,869
Cash Equivalents		
Short-term Investments	744,064	811,131
Notes and Loans receivable	13,070	13,935
Net Receivables:		
Student Receivables	3,586,066	3,868,080
Federal Receivables	174,887	127,245
Other Intergovernmental Receivables	378	916
Interest and Dividends	213,118	102,277
Other Receivables	1,047,763	626,045
Pledges receivable	300,453	278,700
Consumable Inventories	290,986	294,162
Prepaid Expenses	4,662,097	4,147,726
Total Current Assets	32,951,722	26,421,504
Noncurrent Assets:		
Restricted:		
Short-term Investments	10,087,168	7,301,667
Bond Proceeds Receivable		11,183,485
Investments	671,466	1,102,669
Loans and Contracts	85,918	91,600
Other Long term Investments	10,772,659	15,332,183
Pledges Receivable-Capital Projects	1,000,000	1,500,000
Capital Assets, Non-depreciable:		
Land and Land Improvements	\$ 3,436,321	\$ 2,717,554
Construction in Progress	12,502,739	5,589,806
Other Capital Assets	2,963,878	18,902,938
Capital Assets, Depreciable:		
Buildings & Building Improvements	85,189,018	76,798,133
Less Accumulated Depreciation	(43,678,273)	(41,586,406)
Infrastructure	7,601,961	7,601,961
Less Accumulated Depreciation	(2,190,407)	(1,879,810)
Facilities and Other Improvements	4,033,412	4,033,412
Less Accumulated Depreciation	(1,927,156)	(1,778,039)
Furniture and Equipment	8,845,762	7,962,306
Less Accumulated Depreciation	(6,064,571)	(5,520,248)
Vehicles	1,506,152	1,236,217
Less Accumulated Depreciation	(719,331)	(868,220)
Other Capital Assets	10,984,059	253,434
Less Accumulated Depreciation	(7,758,642)	(222,255)
Total Noncurrent Assets	97,342,133	103,053,249
Total Assets	\$ 130,293,855	\$ 129,474,753

Year
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(Unaudited)

Midwestern State University

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	<u>2005</u>	<u>2004</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 1,796,399	\$ 1,421,732
Accrued Liabilities	3,380,626	2,938,026
Intergovernmental Accounts Payable—ERS	74,882	66,926
Employees' Compensable Leave	120,713	142,124
Room/Property Deposits	76,135	71,393
Deferred Revenues	15,747,864	14,216,853
Retainages and Contracts	625,365	243,259
Funds Held for Others	67,906	128,345
Revenue Bonds Payable	1,300,000	960,000
Constitutional Appropriation Bonds	875,000	
Capital Lease Obligations	191,463	146,915
Total Current Liabilities	24,256,353	20,335,573
Noncurrent Liabilities:		
Employees' Compensable Leave	900,580	875,488
Room/Property Deposits	228,404	214,181
Revenue Bonds Payable	26,475,000	27,775,000
Constitutional Appropriation Bonds	10,310,000	11,185,000
Capital Lease Obligations	389,888	156,881
Total Noncurrent Liabilities	38,303,872	40,206,550
Total Liabilities	62,560,225	60,542,123
NET ASSETS		
Invested in Capital Assets, net of related debt	42,905,812	42,228,928
Restricted for:		
Debt Retirement		
Nonexpendable	3,246,323	2,970,232
Expendable:		
Restricted by Contributor	4,206,518	4,207,524
Unrestricted	17,374,977	19,525,946
Total Net Assets	67,733,630	68,932,630
Total Liabilities and Net Assets	\$ 130,459,320	\$ 129,474,753

Year
Ended
8-31-2005

(Unaudited
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Midwestern State University

Unaudited

**Midwestern State University
Exhibit II
Comparative Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended August 31**

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Student Tuition and Fees (net of scholarship allowances of \$3,335,737 and \$2,783,714, respectively)	\$ 19,007,023	\$ 18,408,377
Federal Grants	621,178	722,102
Federal Pass-Through Grants	94,516	127,424
State Pass-Through Grants	617,055	57,245
Other Grants and Contracts	162,642	429,562
Sales and Services of Educational Activities	954,217	901,203
Sales and Services of Auxiliary Enterprises (net of scholarship allowances of \$432,338 and \$396,790 respectively)	3,981,844	3,496,213
Other Operating Revenue	<u>583,756</u>	<u>348,233</u>
Total Operating Revenues	26,022,231	24,490,359
Operating Expenses:		
Salaries and Wages	28,464,541	27,151,301
Payroll Related Costs	7,179,972	6,813,535
Professional Fees and Services	2,096,201	2,386,888
Travel	868,701	769,866
Materials and Supplies	4,606,513	4,249,796
Communications and Utilities	2,188,433	2,208,398
Repairs and Maintenance	1,303,473	1,083,854
Rentals and Leases	460,181	426,306
Printing and Reproduction	348,402	313,311
Depreciation	4,139,839	3,333,577
Bad Debt Expense	143,461	142,247
Interest	213	1,220
Scholarships	<u>5,799,313</u>	<u>6,151,519</u>
Total Operating Expenses	57,599,243	55,031,818
Operating Loss	(31,577,012)	(30,541,459)
Nonoperating Revenues (Expenses):		
State Appropriations	17,229,737	17,130,992
Additional State Appropriations	3,711,419	3,722,188
State Grants	1,184,644	1,119,417
Federal Grants	4,816,537	4,548,547
Gifts	2,509,958	2,293,662
Other Nonoperating revenues	22,805	6,020
Investment Income	1,087,051	643,243
Net Increase (Decrease) in Fair Value of Investments	(152,282)	26,981
Gain (Loss) on Sale of Capital Assets	(246,703)	(16,372)
Net Book Value of Capital Asset Disposals	(125,370)	(89,492)
Premium on Bonds Issued		5,012
Interest Expense on Capital Asset Financing	<u>(816,339)</u>	<u>(759,385)</u>
Total Nonoperating Revenues (Expenses)	<u>29,221,457</u>	<u>28,630,813</u>
Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items	(2,355,555)	(1,910,646)

Year Ended
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Midwestern State University

	<u>2005</u>	<u>2004</u>
Capital Contributions	\$ 4,968,525	\$ 1,500,000
HEAF Appropriation	3,007,669	3,007,669
Additions to Endowments	410,487	338,086
Transfers In	5,586	
Transfers Out	<u>(25,894)</u>	<u>(8,314)</u>
Increase (Decrease) in Net Assets	6,010,818	2,926,795
Net Assets, Beginning of Year	68,932,630	77,731,108
Restatements	(7,209,818)	(11,725,273)
Net Assets, Beginning of Year, as Restated	61,722,812	66,005,835
Net Assets, End of Year	<u>\$ 67,733,630</u>	<u>\$ 68,932,630</u>

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Midwestern State University

Midwestern State University Matrix of Operating Expenses Reported by Function For the Year Ended August 31, 2005

	Total Operating Expenses	Instruction	Research	Public Service	Academic Support
Salaries and Wages	\$ 28,464,541	\$ 16,872,454	\$ 32,733	\$ 303,361	\$ 1,903,644
Payroll Related Costs	7,179,972	3,812,303	2,863	58,370	411,349
Professional Fees and Services	2,096,201	447,610	15,656	43,331	482,689
Travel	868,701	217,593	3,956	32,555	170,894
Materials and Supplies	4,606,513	571,832	17,314	148,263	652,295
Communications and Utilities	2,188,433	63,075		4,457	22,258
Repairs and Maintenance	1,303,473	122,191	99	19,044	135,040
Rentals and Leases	460,181	71,841		47,106	21,332
Printing and Reproduction	348,402	30,146	34	12,732	18,456
Depreciation	4,139,839				
Bad Debt Expense	143,461	3,105			427
Interest	213	13	1		56
Scholarships	5,799,313				
Total Operating Expenses	\$ 57,599,243	\$ 22,212,163	\$ 72,656	\$ 669,219	\$ 3,818,440

Midwestern State University Matrix of Operating Expenses Reported by Function For the Year Ended August 31, 2004

	Total Operating Expenses	Instruction	Research	Public Service	Academic Support
Salaries and Wages	\$ 27,151,301	\$ 15,910,388	\$ 89,353	\$ 318,702	\$ 1,795,683
Payroll Related Costs	6,813,535	3,325,706	8,288	61,939	374,876
Professional Fees and Services	2,386,888	413,864	19,581	79,068	372,418
Travel	769,866	221,800	6,375	41,213	122,791
Materials and Supplies	4,249,796	622,514	5,702	140,724	685,388
Communications and Utilities	2,208,398	69,782		3,144	7,974
Repairs and Maintenance	1,083,854	84,903		35,026	38,083
Rentals and Leases	426,306	102,533		60,118	20,721
Printing and Reproduction	313,311	20,842	88	48,792	10,000
Depreciation	3,333,577				
Bad Debt Expense	142,247	5,849			429
Interest	1,220	97		9	227
Scholarships	6,151,519				
Total Operating Expenses	\$ 55,031,818	\$ 20,778,278	\$ 129,387	\$ 788,735	\$ 3,428,590

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<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation & Maintenance</u>	<u>Scholarships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation</u>
\$ 1,512,324	\$ 3,347,667	\$ 1,931,747		\$ 2,560,611	
400,479	1,118,098	781,310		595,200	
555,829	(449,785)	99,275		901,596	
53,621	82,527	5,715		301,840	
179,909	830,659	555,836		1,650,405	
22,448	44,623	1,252,122		779,450	
37,079	541,838	245,269		202,913	
13,253	61,091	17,477		228,081	
77,742	73,421	(4,883)		140,754	
					4,139,839
108,177	10,544			21,208	
2	112	29			
			5,799,313		
<u>\$ 2,960,863</u>	<u>\$ 5,660,795</u>	<u>\$ 4,883,897</u>	<u>\$ 5,799,313</u>	<u>\$ 7,382,058</u>	<u>\$ 4,139,839</u>

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation & Maintenance</u>	<u>Scholarships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation</u>
\$ 1,473,369	\$ 3,252,990	\$ 1,958,517		\$ 2,352,299	
347,890	1,583,724	554,045		557,067	
431,633	96,970	195,323		778,031	
41,570	60,649	15,463		260,005	
273,273	332,519	510,065		1,679,611	
26,244	45,303	1,254,098		801,853	
21,715	453,837	249,912		200,378	
11,942	51,485	17,802		161,705	
96,110	48,369	377		88,733	
					3,333,577
94,818	5,986	16,204		18,961	
40	303	544			
			6,151,519		
<u>\$ 2,818,604</u>	<u>\$ 5,932,135</u>	<u>\$ 4,772,350</u>	<u>\$ 6,151,519</u>	<u>\$ 6,898,643</u>	<u>\$ 3,333,577</u>

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Midwestern State University
Exhibit III
Statement of Cash Flows
For the Years Ended August 31

	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities:		
Proceeds Received from Students	\$ 20,839,013	\$ 19,775,821
Proceeds Received for Sponsored Programs	1,447,749	1,314,638
Proceeds Received from Auxiliary Enterprises	3,981,844	3,496,213
Proceeds From Loan Programs	28,506	16,672
Proceeds From Other Revenues	950,790	1,358,884
Payments to Employees	(35,594,397)	(33,545,905)
Payments to Suppliers for Good and Services	(17,694,976)	(17,170,383)
Payments for Loans Provided	(21,959)	(19,486)
Net Cash Provided (Used) by Operating Activities	(26,063,430)	(24,773,546)
Cash Flows from Noncapital Financing Activities		
Proceeds from State Appropriations	22,256,641	20,947,945
Proceeds from State and Federal Grants	6,001,719	5,661,867
Proceeds from Contributed Capital	410,487	338,086
Gifts	2,986,987	2,069,318
Proceeds from Other Noncapital Financing Activities	22,805	
Transfers in from Other Funds	5,586	
Transfers out to Other Funds	(25,894)	(8,314)
Net Cash Provided by Noncapital Financing Activities	31,658,331	29,008,902
Cash Flows from Capital and Related Financing Activities		
Proceeds from Issuance of Debt	11,183,485	
Proceeds from Capital Gifts	1,128,525	
Proceeds from HEAF Appropriations	3,007,669	3,007,669
Proceeds from Disposal of Capital Assets	59,818	15,401
Purchase of Capital Assets	(15,287,867)	(12,918,037)
Principal Paid on Capital Related Debt	(1,094,743)	(1,096,581)
Interest Paid on Capital Related Debt	(420,174)	(675,737)
Net Cash Provided by Capital and Related Financing Activities	(1,423,287)	(11,667,285)
Cash Flows from Investing Activities		
Proceeds from Interest and Investment Income	976,210	603,834
Proceeds from Sales and Maturities of Investments	56,148,262	57,069,754
Payments to Acquire Investments	(61,258,023)	(49,943,486)
Net Cash Provided (Used) by Investing Activities	(4,133,551)	7,730,102
Increase (Decrease) in Cash and Cash Equivalents	38,063	298,173
Cash and Cash Equivalents, September 1, 2004	3,261,448	3,195,524
Restatement of Cash and Cash Equivalents*		(232,249)
Cash and Cash Equivalents, August 31, 2005	\$ 3,299,511	\$ 3,261,448

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	<u>2005</u>	<u>2004</u>
Reconciliation to Cash and Cash Equivalents as Displayed on the Statement of Net Assets		
Current Assets:		
Cash On Hand	\$ 15,595	\$ 14,995
Cash In Bank	719,013	1,071,881
Cash in State Treasury	2,488,631	2,146,703
Restricted:		
Cash In Bank	76,272	27,869
Cash Equivalents	_____	_____
	\$ 3,299,511	\$ 3,261,448
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (31,577,012)	\$ (30,541,459)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Amortization and Depreciation	4,139,839	3,333,577
Bad Debt Expense	143,461	142,247
(Increase) Decrease in Receivables	(187,346)	(94,336)
(Increase) Decrease in Inventories	3,176	(19,346)
(Increase) Decrease in Prepaid Expenses	(514,371)	119,115
(Increase) Decrease in Loans	6,547	(2,814)
Increase (Decrease) in Payables	372,300	739,937
Increase (Decrease) in Deferred Income	1,531,011	1,538,421
Increase (Decrease) in Other Liabilities	18,965	11,112
Total Adjustments	5,513,582	5,767,913
Net Cash Used by Operating Activities	\$ (26,063,430)	\$ (24,773,546)
 Non Cash Transactions		
Net Increase (Decrease) in FMV of Investments	\$ (152,282)	\$ 26,981
(Loss) Gain on Asset Disposals	(372,073)	(121,265)
Donated Capital Asset	3,840,000	24,870
Donated Investment Asset	1,218	24,824

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Note 1: Summary of Significant Accounting Policies

Introduction

Midwestern State University is a public institution of higher education and is an agency of the State of Texas. The university's Board of Regents is appointed by the Governor of the State. Accordingly, the university is included in the State's financial statements. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various state agencies.

Basis of Presentation

The financial statements of Midwestern State University have been prepared in accordance with the requirements established by the Comptroller of Public Accounts' Annual Financial Reporting Requirements. These requirements follow, as near as practicable, the generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*, issued in June and November, 1999. Due to the significant changes related to these Statements, the Comptroller of Public Accounts does not require the annual financial report to be in compliance with GAAP.

The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas' Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

The university now follows the "business-type activities" reporting requirement of GASB Statement No. 34 that provides a comprehensive one-line look at the university's financial activities.

Basis of Accounting - Proprietary Fund Accounting

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial positions, and cash flows. The financial statements of the university have been prepared on the accrual basis. Accrual accounting attempts to record a transaction's financial effects in the period in which the transaction occurred, rather than when cash is received or paid. Revenues are recorded when they are earned or when the university has a right to receive the revenues. Expenses are recognized when they are incurred.

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There are four essential elements of accrual accounting. They are:

- Deferral of expenditures and the subsequent amortization of the deferred costs.
- Deferral of revenues until they are earned.
- Capitalization of certain expenses and the subsequent depreciation of the capitalized costs.
- The accruals of revenues that have been earned and expenses that have been incurred.

Proprietary funds use the flow of economic resources measurement focus, which is similar to the focus used by commercial entities. Proprietary funds focus on whether the enterprise is economically better off as a result of the events and transactions that occurred during the fiscal period reported. Transactions and events that improved an enterprise's financial position are reported as revenues or gains. Transactions and events that diminished the economic position of the enterprise are reported as expenses or losses. Both current and long-term assets and liabilities are shown on the statement of net assets.

The proprietary statement of revenues, expenses, and changes in net assets is segregated into operating and non-operating sections.

Generally, operating activities are those that directly result from the provision of goods and services to customers or are directly related to the principal and usual activity of an enterprise. GASB 34 indicates that a consideration for defining a proprietary fund's operating revenues and expenditures is how individual transactions would be classified for purposes of preparing a statement of cash flows according to GASB Statement No. 9.

Since certain grants are actually contracts for services, they are classified as operating activities. Although loan activity would normally be classified as an investing activity, lending activities in a university are directly related to the principal and usual activity of the university, and are classified as operating activities.

Net Assets

GASB Statement No. 34 reports equity as "Net Assets" rather than "fund balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of university obligations.

Restricted Net Assets represent amounts over which third parties have imposed restrictions that cannot be changed by the Board, including amounts that the Board has agreed to set aside under contractual agreements with third parties. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes. Restricted Net Assets includes funds held in the university's permanent endowments and donor restricted funds.

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Unrestricted Net Assets are available for university use, and have been internally designated or reserved for specific purposes such as renewals and replacements, quasi-endowments, capital projects, student loans, budget commitments, and reserves for working capital.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash and cash equivalents.

Investments

The university reports investments at fair value in the Statement of Net Assets.

Restricted Assets

Restricted assets are those assets that have third party restrictions or are restricted for specific uses by a contractual obligation. Restricted assets include donor restricted funds and proceeds from bond issuances that can only be used for capital projects.

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, and utilize the last-in, first-out method.

Capital Assets

Property, plant and equipment are recorded at cost, or, if acquired by gift, at the fair market value as of the date of the acquisition. Depreciation is provided on physical properties on a straight-line basis over the estimated useful life of the asset.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

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NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2005, is presented below.

BUSINESS-TYPE ACTIVITIES	Balance 09/01/04	Restatement	Completed CIP	Additions	Deletions	Balance 08/31/05
Non-depreciable Assets						
Land and Land Improvements	\$2,717,554			\$718,767		\$3,436,321
Construction in Progress	5,589,806		(\$6,723,820)	13,636,753		12,502,739
Other Capital Assets	12,203,800	(\$10,239,922)		1,000,000		2,963,878
Total Non-depreciable Assets:	<u>20,511,160</u>	<u>(10,239,922)</u>	<u>(6,723,820)</u>	<u>15,355,520</u>	<u>0</u>	<u>18,902,938</u>
Depreciable Assets:						
Buildings and Building Improvements	76,798,133		6,723,820	2,543,388	(\$876,323)	85,189,018
Infrastructure	7,601,961					7,601,961
Furniture and Equipment	7,962,306			1,006,917	(123,461)	8,845,762
Vehicles	1,236,217			534,421	(264,486)	1,506,152
Other Capital Assets	253,434	10,239,922		526,579	(35,876)	10,984,059
Facilities and Other Improvements	4,033,412					4,033,412
Total Depreciable Assets at Historical Cost:	<u>97,885,463</u>	<u>10,239,922</u>	<u>6,723,820</u>	<u>4,611,305</u>	<u>(1,300,146)</u>	<u>118,160,364</u>
TOTAL ASSETS BEFORE DEPRECIATION	<u>118,396,623</u>	<u>0</u>	<u>0</u>	<u>19,966,825</u>	<u>(1,300,146)</u>	<u>137,063,302</u>
Less Accumulated Depreciation for:						
Buildings & Building Improvements	(41,586,406)			(2,554,962)	463,095	(43,678,273)
Infrastructure	(1,879,810)			(310,597)		(2,190,407)
Furniture and Equipment	(5,520,248)			(660,193)	115,870	(6,064,571)
Vehicles	(868,220)			(102,525)	251,414	(719,331)
Other Capital Assets	(222,255)	(7,209,818)		(362,445)	35,876	(7,758,642)
Facilities and Other Improvements	(1,778,039)			(149,117)		(1,927,156)
Total Accumulated Depreciation	<u>(51,854,978)</u>	<u>(7,209,818)</u>	<u>0</u>	<u>(4,139,839)</u>	<u>866,255</u>	<u>(62,338,380)</u>
Depreciable Assets, Net	<u>\$46,030,485</u>	<u>\$3,030,104</u>	<u>\$6,723,820</u>	<u>\$471,466</u>	<u>(\$433,891)</u>	<u>\$55,821,984</u>
Capital Assets, Net	<u>\$66,541,645</u>	<u>(\$7,209,818)</u>	<u>0</u>	<u>\$15,826,986</u>	<u>(\$433,891)</u>	<u>\$74,724,922</u>

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Note 3: Deposits and Investments

Authorized Investments

Midwestern State University is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256 Texas Government Code). Such investments include:

- 1) Obligations of the United States or its agencies,
- 2) Direct Obligations of the State of Texas or its agencies,
- 3) Obligations of political subdivisions rated not less than A by a national investment rating firm,
- 4) Certificates of deposit, and
- 5) Other instruments and obligations authorized by statute.

Deposits of Cash In Bank

At August 31, 2005, and 2004, the carrying amount of the university's deposits was as follows:

	<u>2005</u>	<u>2004</u>
Business-type activities:		
Proprietary Funds Current Assets Cash In Bank	\$719,013	\$1,071,881
Proprietary Funds Current Assets Restricted Cash In Bank	<u>76,272</u>	<u>27,869</u>
Total Cash In Bank	<u>\$795,285</u>	<u>\$1,099,750</u>

University policy and State Statute require the university's funds be deposited into authorized commercial banks and savings and loan associations. State statutes also require that these financial institutions pledge securities as collateral to secure university deposits.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the university's deposits may not be recovered or the university may not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are:

- 1) Uncollateralized.
- 2) Collateralized with securities held by the pledging financial institution.
- 3) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the agency's name.

The university's bank balance at August 31, 2005 was \$1,445,299. \$100,000 of this amount was covered by FDIC insurance and \$1,345,299 was collateralized with securities pledged by the bank granting the university a first priority security interest in the collateral which was held by the Federal Home Loan Bank of Dallas acting as Custodian for the university and the bank. (As defined in 3) above.)

Midwestern State University

Investments

As of August 31, 2005, and 2004, the fair value of the university's investments is presented below:

	<u>2005</u>	<u>2004</u>
U.S. Government:		
U.S. Treasury Note	\$ 990,160	\$
U.S. Agency Obligations	31,068,082	21,319,759
Equity	101,950	75,298
Other Commingled Funds-Texpool	5,870,370	11,774,541
Other Commingled Funds-LOGIC	<u>411,597</u>	<u>499,816</u>
Total	<u>\$38,442,159</u>	<u>\$33,669,414</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2005, the university's credit quality distribution for securities with credit risk exposure was as follows:

U.S. Government Agency Obligations (FNMA, FHLB, FFCB, FHLMC)	\$31,068,082	Rated AAA
Commingled Funds-Texpool	5,870,370	Rated AAA
Commingled Funds-LOGIC	411,597	Rated AAA

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2005, the university's concentration of credit risk is as follows:

<u>Issuer</u>	<u>Carrying Value</u>	<u>% of Total Portfolio</u>
Federal Home Loan Bank	\$20,446,601	53%
Federal National Mortgage Assn.	8,572,334	22%
Texpool-Commingled Funds	5,870,370	15%

Note 4: Short Term Debt

Not Applicable.

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Note 5: Summary of Long Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2005, the following changes occurred in liabilities:

Business-Type Activities	Balance 09-01-04	Additions	Reductions	Balance 08-31-05	Amounts Due Within One Year
Compensable Leave	\$1,017,612	\$65,644	\$61,963	\$1,021,293	\$120,713
General Obligation Bond Payable	11,185,000	0	0	11,185,000	875,000
Revenue Bonds Payable	28,735,000	0	960,000	27,775,000	1,300,000
Capital Lease Obligations	303,796	454,852	177,297	581,351	191,463
Total	<u>\$41,241,408</u>	<u>\$520,496</u>	<u>\$1,199,260</u>	<u>\$40,562,644</u>	<u>\$2,487,176</u>

Employees' Compensable Leave

Benefit eligible staff and 12-month faculty members can earn annual leave from eight to twenty-one hours per month depending on the respective employee's years of state employment. The State's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum of hours up to 532 for those employees with thirty-five or more years of state service. A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, separation from State employment, or transfer to a position that no longer accrues vacation, provided the employee has had continuous employment with the State for six months. For proprietary fund types an expense and liability are recorded as the benefits accrue to the employee. The liability is determined through the summarization of each employee's annual leave balance multiplied by their respective salary rate. The estimated cumulative amount of this liability is \$1,021,293. The University made lump sum payments totaling \$61,963 for accrued vacation to employees who separated from state service during the fiscal year ended August 31, 2005, and payments of \$132,584 for August 31, 2004.

The University has an undetermined and unrecorded liability for employee's earned sick leave. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is absent due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The University's policy is to recognize the cost of sick leave when paid. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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Note:6 Capital Leases

The University has entered into long-term leases for financing the purchase of certain fixed assets. Such leases are classified as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments at the inception of the lease. The following is a summary of original capitalized costs of all such property under lease as well as the accumulated depreciation as of August 31:

<u>Assets Under Capital Lease</u>	<u>Business-Type Activities</u>	
	2005	2004
Furniture and Equipment	\$1,220,109	\$1,200,257
Less: Accumulated Depreciation	(299,873)	(459,968)
Total Net Book Value	<u>\$920,236</u>	<u>\$740,289</u>

Future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments at fiscal year-end, are as follows:

<u>Fiscal Year</u>	<u>Business Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$191,463	\$23,924	\$215,387
2007	41,672	16,141	57,813
2008	42,016	14,446	56,462
2009	43,752	12,711	56,463
2010	45,560	10,903	56,463
2011-2015	216,888	24,664	241,552
Total Minimum Lease Payments			<u>\$684,140</u>
Amount Representing Interest at Various Rates		<u>\$102,789</u>	
Present Value of Net Minimum Lease Payments		<u>\$581,351</u>	

Note 7: Operating Lease Obligations

Not Applicable

Note 8: Interfund Balances/Activities

Not Applicable

Midwestern State University

Note 9: Contingent Liabilities

A lawsuit involving Midwestern State University is pending. While the ultimate liability with respect to litigation and other claims asserted against the university cannot be reasonably estimated at this time, such liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the university.

Note 10: Continuance Subject to Review

Not Applicable to colleges and universities. (Texas Sunset Act)

Note 11: Risk Financing and Related Insurance

The university is exposed to a variety of civil claims resulting from the performance of its duties. It is the university's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. Currently there is no purchase of commercial general liability insurance for the university except for the operation of Sunwatcher Village, which is privatized housing. The University does not participate in any risk pools with other government agencies. The university does purchase directors' and officers' liability insurance.

The university's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. At August 31, 2005, there were no known claim liabilities.

The State provides coverage for workers' compensation and unemployment benefits from appropriations made to other state agencies for university employees. At August 31, 2005, the university was assessed \$119,142 for worker's compensation coverage. Unemployment compensation is funded on a pay as you go method, with the State contributing ½ of the cost of benefits and the university contributing the other half for employees paid by State appropriated funds. The university must pay 100% of the cost of benefits for employees paid from local funds.

The university is required by certain bond covenants to carry fire and extended coverage and boiler insurance on buildings financed through the issuance of bonds using pledged Auxiliary Enterprise or other non-Educational and General Funds. The insurance protects the bond holders from a disruption to the revenue stream that is being utilized to make the bond interest and principal payments.

The Texas Motor Vehicle Safety Responsibility Act requires that every non-governmental vehicle operated on a state highway be insured for minimum limits of liability in the amount of \$20,000/\$40,000 bodily injury and \$15,000 property damage. However, the university has chosen to carry liability insurance on its licensed vehicles in the amount of \$250,000/\$500,000/\$100,000.

Note 12: Segment Information

Not Applicable.

NOTE 13: Bonded Indebtedness

Revenue Bonds Payable

Detailed supplemental bond information is disclosed in Schedule 2A-Miscellaneous Bond Information, Schedule 2B-Changes in Bonded Indebtedness, Schedule 2C-Debt Service Requirements, Schedule 2D-Analysis of Funds Available for Debt Service and Schedule 2E-Defeased Bonds Outstanding

General information related to Revenue Financing System bonds is summarized below:

Revenue Refunding and Improvement Bonds, Series 1998

- Issued by the Texas Public Finance Authority (TPFA) on behalf of the University. To advance refund Tuition and General Fee Revenue Bonds, Series 1975 and Series 1989 and to renovate Bea Wood and O'Donohoe Halls, to construct a health and wellness center and to acquire various equipment
- Issued September 1, 1998
- \$9,860,000; all bonds authorized have been issued
- Source of revenue for debt service – Pledged Revenues, consisting of unrestricted current funds and revenues and unappropriated fund balances available, but not including remissions, governmental appropriations, gifts, grants, and contracts, and student service fees

Revenue Financing System Revenue Bonds, Series 2002

- Issued by the Texas Public Finance Authority (TPFA) on behalf of the University. To pay for campus improvements in heating, ventilating and air conditioning systems; chilled water distribution; street drainage and paving; and other projects including Americans with Disabilities Act (ADA) accessibility, elevator improvements, safety, and security lighting
- Issued June 15, 2002
- \$8,965,000; all bonds authorized have been issued
- Source of revenue for debt service – Pledged Revenues, consisting of unrestricted current funds revenues and unappropriated fund balances available, but not including remissions, governmental appropriations and gifts, grants and contracts, Higher Education Assistance Funds, and student service fees and private gifts

Midwestern State University

Revenue and Refunding Bonds, Series 2003

- Issued by the Texas Public Finance Authority (TPFA) on behalf of the University. To pay for improving, enlarging and/or equipping university residence halls, including fire safety improvements and other general modernization improvements, and advance refunding Building Revenue and Refunding Bonds, Series 1996
- Issued August 1, 2003
- \$13,180,000; all bonds authorized have been issued
- Source of Revenue for Debt Service – Pledged Revenues, consisting of unrestricted current funds revenues and unappropriated fund balances available, but not including remissions, governmental appropriations and gifts, grants and contracts, Higher Education Assistance Funds, and student service fees and private gifts

General information related to the Constitutional Appropriation bond is summarized below:

Constitutional Appropriation Bond, Series 2004

- Issued by the Board of Regents of Midwestern State University. The proceeds of the Bonds are to be used to construct a Business Administration classroom building for use by students of the University
- Issued August 1, 2004
- \$11,185,000; all bonds authorized have been issued
- Source of Revenue for Debt Service – Payable and secured solely from a first lien on and pledge of up to one-half of the annual appropriation for and on behalf of the University, from the State Treasury pursuant to the Constitutional Provision and “The Excellence in Higher Education Act.”

Note 14: Subsequent Events

A Student Recreation/Wellness Center overlooking Sikes Lake has been proposed and is waiting for approval from the Board of Regents. The building would be host to multiple basketball courts, racquetball courts, an indoor, elevated track, an exterior swimming pool, a rock-climbing wall, weight and cardiovascular rooms, among other things. The construction of the building would be funded by a revenue bond issue. An added fee of \$100—\$150 per student, per semester, would be used to pay for operating expenses and for debt retirement.

The Wichita Falls Museum of Art at Midwestern State University is scheduled for renovations costing between \$500,000 and \$2,000,000. It is anticipated that private funds will be used for the renovations.

The university’s computer hardware and software will be upgraded in the amount of \$3,100,000 over the next four years. The hardware and software purchases will be funded through a loan from TPFA, HEAF appropriations, and an increased Computer Use Fee in the amount of \$12.00 per semester credit hour.

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Note 15: Related Parties

The Midwestern State University Foundation and MSU Charitable Trust are nonprofit organizations with the sole purpose of supporting the educational and other activities of the University. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of \$898,621 to the University during the year ended August 31, 2005, and \$599,435 for the prior year. The MSU Charitable Trust remitted restricted gifts of \$419,098 to the University during the year ended August 31, 2005 and \$396,116 for the prior year. The assets of the Midwestern State University Foundation and the MSU Charitable Trust as of August 31, 2005 are reported by their trustees in the amount of \$16,117,028 and \$14,059,553 respectively.

The balances, or transactions, of funds held in trust by others on behalf of the University are not reflected in the financial statements. At August 31, 2005, there were three other such funds held for the benefit of the University. Based upon the most recent available information, the assets of these funds are reported by the Trustees at values totaling \$428,364.

Note 16: Stewardship, Compliance and Accountability

Financial information is reported in accordance with the requirements established by GASB No. 34 and No. 35. The university administration is not aware of any noncompliance items.

Note 17: The Financial Reporting Entity

The university is an agency of the State of Texas. The university has no component units.

Note 18: Restatement of Fund Balances and Net Assets

The State Comptroller's Office requested that all state universities change their method of accounting for library collections. In accordance with generally accepted accounting principles established within GASB 24 and 35, library collections should be depreciated. This restatement of net assets at September 1, 2004 reflects the accumulated depreciation at that point based on a 15 year life.

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Net Assets, September 1, 2004	\$68,932,630
Restatement:	
Accumulated Depreciation of Library Books	(7,209,818)
 Net Assets, September 1, 2004 As Restated	 <u>\$61,722,812</u>

Note 19: Employees Retirement Plans

Not Applicable.

Note 20: Deferred Compensation

Not Applicable.

Note 21: Donor Restricted Endowments

Donor-Restricted Endowment	Amounts of Net Appreciation	Reported in Net Assets
True Endowments	\$ - 0 -	Restricted for Nonexpendable
Term Endowments		Restricted for Nonexpendable
True Endowments		Restricted for Expendable
Total	\$ - 0 -	

Net appreciation (unrealized gains) is used for reporting purposes only and is not part of any distribution of income.

Note 22: Management Discussion and Analysis

See Introduction.

Note 23: Postemployment Health Care and Life Insurance Benefits

Not Applicable.

Note 24: Special or Extraordinary Items:

Not Applicable

Note 25: Disaggregation of Receivable and Payable Balances

Not Applicable

Midwestern State University

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MIDWESTERN STATE UNIVERSITY
Schedule 1A - Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2005, with Comparative Totals for the Year Ended August 31, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	ID #	Agy #	Pass-Through From			Non St A Amount
				Univ #	Agy Amount	Univ Amount	
<u>Student Financial Assistance Cluster</u>							
<u>U.S Department of Education</u>							
Direct Programs							
--Federal Supplemental Education							
Opportunity Grant Program	84.007						
--Federal Work Study Program	84.033						
--Federal Pell Grant Program	84.063						
--Federal Family Education Loan Program	84.032						
--Federal Perkins Loan Program	84.038						
--Upward Bound	84.047						
--Childcare Access Means Parents in School	84.335A						
--Transition to Teaching Program	84.350A						
Total Student Financial Assistance Cluster Programs							
<u>Other Clusters</u>							
<u>U.S. Department of Education</u>							
Pass Through from Texas Higher Education							
Coordinating Board - Eisenhower							
Higher Ed Grants	84.168		781				
<u>U.S. Department of Health & Human Services</u>							
Research on Aging - Nortex	93.044		340				
Advanced Education Nursing Traineeships	93.358						
<u>Small Business Administration</u>							
Pass-Through from Texas Tech-							
Small Business Development Center	59.037			733	\$94,516		
<u>Office of the Governor</u>							
Bullet Proof Vest Program	16.607		300				
<u>National Science Foundation</u>							
Case-based Pedagogy in Preservice Science	47.076						
Courses							
Donation of Federal Surplus Personal Property	39.003		303				
Texas Building and Procurement Commission							
General Services Administration							
Total Federal Financial Assistance					\$94,516		

Note 1: Nonmonetary Assistance

There were no programs involving non-monetary assistance in fiscal year 05

Note 3: Student Loans

Federal Grantor/CFDA #/Program Name	New Loans	Adm. Costs	Loans Outstanding at 8/31/05	Ending balances of loans from previous years
U.S. Department of Education				
84.032 Federal Family Education Program	\$18,393,103			
84.038 Federal Perkins Loan Program	21,959			\$98,988
Total Department of Education	\$18,415,062			\$98,988

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Direct Program	Total Pass-Through From & Direct Program	Pass Through To			Expenditures	2005	2004
		Agy #/ Univ #	State Entities	Other Entities		Total Pass Through To and Expenditures	Total Pass Through To and Expenditures
\$136,939	\$136,939				\$136,939	\$90,036	
100,000	100,000				100,000	75,000	
4,669,418	4,669,418				4,669,418	4,452,306	
18,393,103	18,393,103				18,393,103	16,664,194	
40,709	40,709				40,709	19,485	
273,808	273,808				273,808	270,924	
21,658	21,658				21,658	32,476	
151,149	151,149				151,149	235,959	
<u>23,786,784</u>	<u>23,786,784</u>				<u>23,786,784</u>	<u>21,840,380</u>	
						12,905	
<u>19,500</u>	<u>19,500</u>				<u>19,500</u>	<u>15,500</u>	
	<u>94,516</u>				<u>94,516</u>	<u>127,424</u>	
<u>46,493.00</u>	<u>46,493.00</u>				<u>46,493.00</u>	<u>77,388</u>	
						8,155	
<u>\$23,852,777</u>	<u>\$23,947,293</u>				<u>\$23,947,293</u>	<u>\$22,081,752</u>	

Note 2: Reconciliation

Federal Revenues - per Exhibit II	
Federal grant revenue - operating	\$621,178
Federal pass - through revenue-operating	94,516
Federal grant revenue - non-operating	<u>4,816,537</u>
Total Federal Revenues	5,532,231
Reconciling Items: Add Add New Loans	
Federal Family Education Loans Processed	18,393,103
Federal Perkins Loans Processed	<u>21,959</u>
	<u>\$23,947,293</u>

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Schedule 1B - Schedule of State Grant Pass Throughs From/To State Agencies

For the Fiscal Year Ended August 31, 2005 and August 31, 2004

	2005	2004
Operating Revenue:		
Pass Through From:		
Texas Higher Ed. Coord. Board (Agy #781)		
Advanced Research Program	(\$4,164)	
Academic Growth	156,053	
Nursing and Allied Health	459,490	57,245
Financial Aid - Professional Nursing	5,676	
Total Operating Pass Through Revenue (Exhibit II)	\$617,055	\$57,245
Non-Operating Revenue		
Pass Through From:		
Texas Higher Ed. Coord. Board (Agy #781)		
Texas Grants	\$1,147,110	\$1,083,300
College Work Study	32,721	31,631
Fifth Year Accounting	4,813	4,486
Total Nonoperating Pass Through Revenue (Exhibit II)	\$1,184,644	\$1,119,417
 Total Pass Through From Other Agencies	 \$1,801,699	 \$1,176,662
 Pass Through To:		
None		

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**Midwestern State University
Schedule 2A - Miscellaneous Bond Information
For the Fiscal Year Ended August 31, 2005**

Business Type Activities

Description of Issue	Bonds Issued To Date	Range of Interest Rates	<u>Scheduled Maturities</u>		First Call Date
			First Year	Last Year	
<u>General Obligation Bonds:</u>					
Constitutional Appropriation Bonds: Series 2004	\$11,185,000	2.75% - 3.75%	2005	2013	None
<u>Revenue Bonds:</u>					
Tuition & General Fee Revenue Bonds: Series 1998	9,860,000	3.45% - 5.10%	1998	2018	12-01-08
Revenue Financing System Revenue Bonds: Series 2002	8,965,000	4.00% - 5.00%	2003	2021	12-01-12
Building Revenue & Refund Bonds: Series 2003	13,180,000	2.00% - 5.00%	2003	2024	12-01-13
Total	<u>\$43,190,000</u>				

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**Midwestern State University
Schedule 2B - Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2005**

Business Type Activities	Bonds Outstanding 09-01-2004	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08-31-2005	Amounts Due Within One Year
Description of Issue	09-01-2004	Issued	Matured or Retired	Refunded or Extinguished	08-31-2005	One Year
<u>General Obligation Bonds:</u>						
Constitutional Appropriation Bonds:	\$11,185,000				\$11,185,000	\$875,000
Series 2004						
<u>Revenue Bonds:</u>						
Tuition & General Fee Revenue Bonds:	7,465,000		\$355,000		7,110,000	370,000
Series 1998						
Revenue Financing System Revenue Bonds:	8,410,000		305,000		8,105,000	320,000
Series 2002						
Building Revenue & Refunding Bonds:	12,860,000		300,000		12,560,000	610,000
Series 2003						
Total	<u>\$39,920,000</u>	<u>\$0</u>	<u>\$960,000</u>	<u>\$0</u>	<u>\$38,960,000</u>	<u>\$2,175,000</u>

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**Midwestern State University
Schedule 2C - Debt Service Requirements
For the Fiscal Year Ended August 31, 2005**

Business Type Activities

Description of Issue									Total
	2006	2007	2008	2009	2010	2011-15	2016-20	2021-25	Requirements
<u>General Obligation Bonds:</u>									
Constitutional Appropriation									
Bonds:									
Series 2004									
Principal	\$875,000	\$1,145,000	\$1,180,000	\$1,215,000	\$1,255,000	\$5,515,000			\$11,185,000
Interest	572,213	318,831	286,863	252,413	213,794	405,987			2,050,101
<u>Revenue Bonds:</u>									
Tuition & General Fee									
Revenue Bonds:									
Series 1998									
Principal	370,000	390,000	405,000	420,000	440,000	2,550,000	2,535,000		7,110,000
Interest	328,520	312,555	295,560	277,613	258,472	954,019	261,375		2,688,114
Revenue Financing System									
Revenue Bonds:									
Series 2002									
Principal	320,000	335,000	355,000	370,000	385,000	2,225,000	2,790,000	1,325,000	8,105,000
Interest	357,101	344,001	330,201	315,701	300,361	1,231,171	674,658	67,125	3,620,319
Revenue & Refunding									
Bonds:									
Series 2003									
Principal	610,000	620,000	635,000	655,000	680,000	3,815,000	2,535,000	3,010,000	12,560,000
Interest	509,697	496,622	480,916	462,360	440,635	1,777,320	1,043,661	390,977	5,602,188
Total	3,942,531	3,962,009	3,968,540	3,968,087	3,973,262	18,473,497	9,839,694	4,793,102	52,920,722
Less Interest	<u>1,767,531</u>	<u>1,472,009</u>	<u>1,393,540</u>	<u>1,308,087</u>	<u>1,213,262</u>	<u>4,368,497</u>	<u>1,979,694</u>	<u>458,102</u>	<u>13,960,722</u>
Total Principal	<u>\$2,175,000</u>	<u>\$2,490,000</u>	<u>\$2,575,000</u>	<u>\$2,660,000</u>	<u>\$2,760,000</u>	<u>\$14,105,000</u>	<u>\$7,860,000</u>	<u>\$4,335,000</u>	<u>\$38,960,000</u>

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**Midwestern State University
Schedule 2D - Analysis of Funds Available for Debt Service
For Revenue Bonds Outstanding
For the Year Ended August 31, 2005**

Pledged and Other Sources and Related Expenses for FY 2005

Business Type Activities	Net Interest		Other	Total	Other	Operating	Capital	Net
Description of Issue	Operating	Gain on	Pledged	Pledged	Sources	Expenses	Outlay	Available for
	Revenues	Investments	Revenues	Sources				Debt Service
<u>General Obligation Bonds:</u>								
Constitutional Appropriation								
Bond - Series 2004								
<u>Revenue Financing System</u>								
<u>Revenue Bonds:</u>								
Tuition & General Fee Revenue								
Bonds - Series 1998								
Revenue Financing System								
Revenue Bonds - Series 2002								
Revenue & Refunding Bonds -								
Series 2003								
Total for all Revenue Financing								
System Revenue Bonds			\$39,476,546	\$39,476,546				\$39,476,546
Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Description of Issue	Debt Service		Refunded or Extinguished	Interest and Sinking Fund		Reserve Fund	
	Principal	Interest		Minimum	Actual	Minimum	Actual
<u>General Obligation Bonds:</u>							
Constitutional Appropriation							
Bond - Series 2004							
<u>Revenue Financing System</u>							
<u>Revenue Bonds:</u>							
Tuition & General Fee Revenue							
Bonds - Series 1998	355,000	345,073					
Revenue Financing System							
Revenue Bonds - Series 2002	305,000	369,601					
Revenue & Refunding Bonds -							
Series 2003	300,000	518,798					
Total for all Revenue Financing							
System Revenue Bonds	960,000	1,233,472					
Total	\$960,000	\$1,233,472					

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Midwestern State University
Schedule 2E - Defeased Bonds Outstanding
For the Fiscal Year Ended August 31, 2005

Business Type Activities

Description of Issue	Year Refunded	Par Value Outstanding
<u>Revenue Bonds:</u>		
Building Revenue & Refund Bonds: Series 1996	2003	<u>\$3,870,000</u>

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Midwestern State University Schedule 3 - Reconciliation of Cash in State Treasury August 31, 2005 and August 31, 2004

Cash in State Treasury	Unrestricted	Restricted	Current Year 2005	Prior Year 2004
General Revenue - Dedicated Fund 0264	\$2,485,320		\$2,485,320	\$2,126,044
Special Mineral Fund - Fund 0412	3,311		3,311	20,659
Total Cash in State Treasury (Stmnt of Net Assets)	<u>\$2,488,631</u>		<u>\$2,488,631</u>	<u>\$2,146,703</u>

Schedule 4 - Modified to Full-Accrual

Not Applicable

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