



# **Midwestern State University**

**Financial Report  
(Unaudited)  
For The Year Ended  
August 31, 2012**

# Midwestern State University

## Table of Contents

Letter to Oversight Agencies .....	1
Letter of Transmittal .....	2
Organizational Data .....	3
Management’s Discussion & Analysis.....	4-14
Basic Financial Statements:	
• Exhibit I - Comparative Statement of Net Assets .....	16
• Exhibit II - Comparative Statement of Revenues, Expenses, and Changes in Net Assets.....	18
• Matrix of Operating Expenses Reported by Function .....	20
• Exhibit III - Statement of Cash Flows .....	22
Notes to the Financial Statements .....	24-41
Schedules:	
• Schedule 1A - Schedule of Expenditures of Federal Awards .....	42-45
• Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies .....	46
• Schedule 2A - Miscellaneous Bond Information .....	47
• Schedule 2B - Changes in Bonded Indebtedness .....	48
• Schedule 2C - Debt Service Requirements .....	50
• Schedule 2D - Analysis of Funds Available for Debt Service.....	52
• Schedule 2E - Defeased Bonds Outstanding .....	53
• Schedule 2F - Early Extinguishment and Refunding .....	54
• Schedule 3 - Reconciliation of Cash in State Treasury.....	55

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# Midwestern State University

## Management's Discussion & Analysis - Unaudited

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, 2012 and 2011.

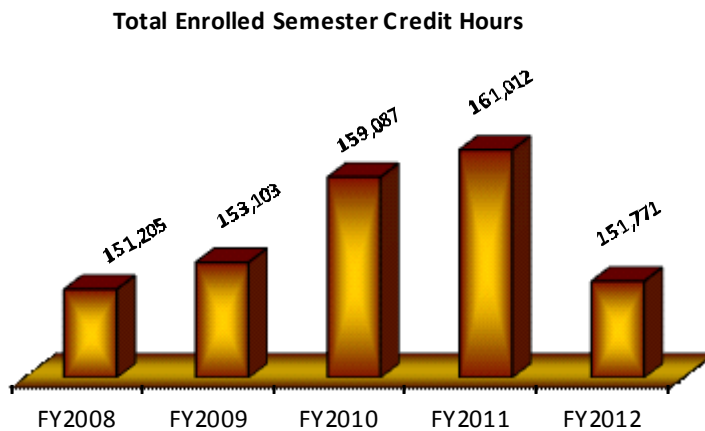
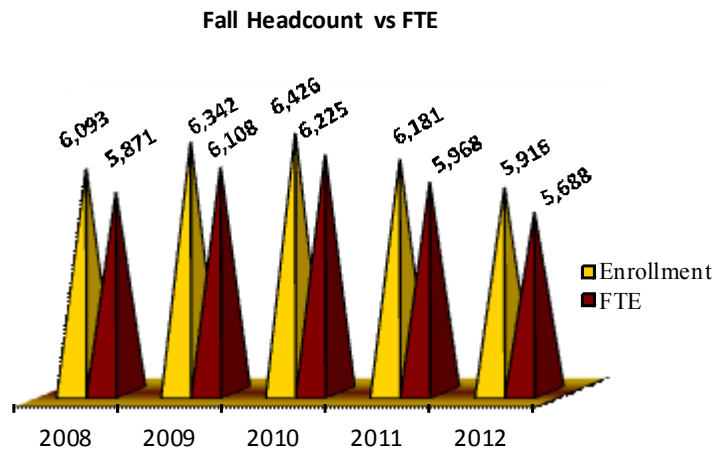
Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the university administration.

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

The following graph illustrates the comparison and movement of total student enrollment and full time equivalent (FTE) student growth since 2008. Increased academic standards and a statewide consistent pattern of very flat student enrollment explain the variance.

Beginning in 2006, and again in 2011, the university changed its academic standards to ensure students were prepared to pursue higher education. The increase in standards has created growth in student retention as more of our freshmen are better prepared for college which also improves graduation rates. Graduation rates may become financially important to the university as future state appropriations are contingent on such successful outcomes. In addition, the university is one of the few institutions in Texas capable of offering in-state tuition rates plus a \$65/semester credit hour assessment to all US citizens, which is a great positive impact on future enrollment.

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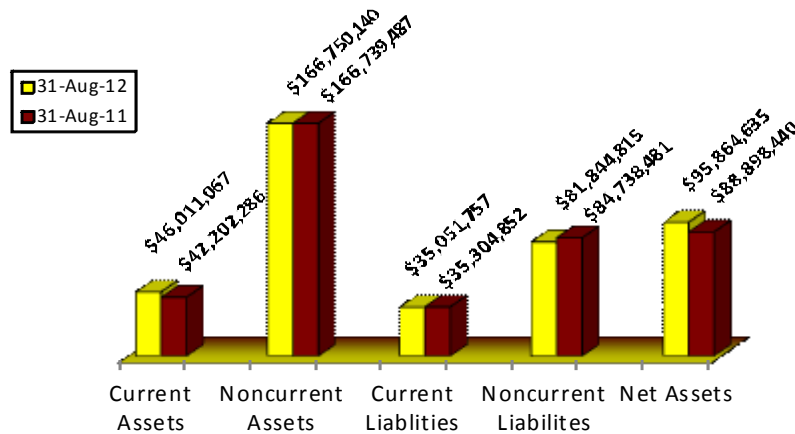
# Midwestern State University

## Management's Discussion & Analysis - Unaudited

ANNUAL

FINANCIAL

REPORT



### The Statement of Net Assets

By reporting information on the university as a whole, these comparative 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 may be thought of as the university's operating results.

These comparative statements report the current status and changes to the university's net assets. Net assets, the difference between assets and liabilities, is one way to measure the university's financial position. 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.

As the statement shows below, the university's net assets increased a total of \$6,966,196 from \$88,898,439 in 2011 to \$95,864,635 in 2012.

	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>	\$ 46,011,067	\$ 42,202,286
<b>Noncurrent Assets:</b>		
Capital Assets	134,327,458	136,678,381
Other	32,422,682	30,061,106
<b>Total Assets</b>	<u>\$212,761,207</u>	<u>\$208,941,773</u>
<b>Current Liabilities</b>	\$ 35,051,757	\$ 35,304,852
<b>Noncurrent Liabilities</b>	81,844,815	84,738,481
<b>Total Liabilities</b>	<u>116,896,572</u>	<u>120,043,333</u>
<b>Net Assets:</b>		
Invested in Capital Assets	50,204,678	53,679,004
Restricted for:		
Debt Retirement		
Nonexpendable	4,129,598	3,900,222
Expendable:		
Capital Projects	6,408,519	1,211,967
Restricted by Contributor	6,902,644	3,949,667
Unrestricted	28,219,196	26,157,580
<b>Total Net Assets</b>	<u>95,864,635</u>	<u>88,898,440</u>
<b>Total Liabilities and Net Assets</b>	<u>\$212,761,207</u>	<u>\$208,941,773</u>

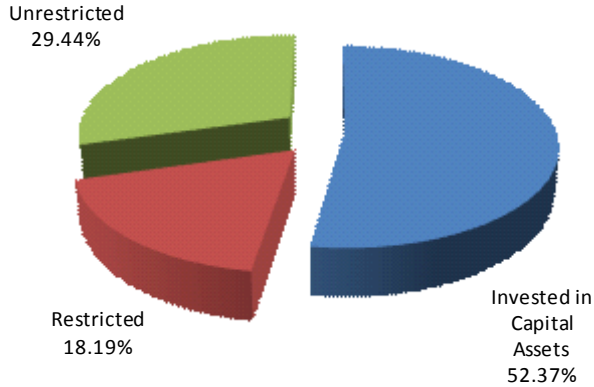
# Midwestern State University

## Management's Discussion & Analysis - Unaudited

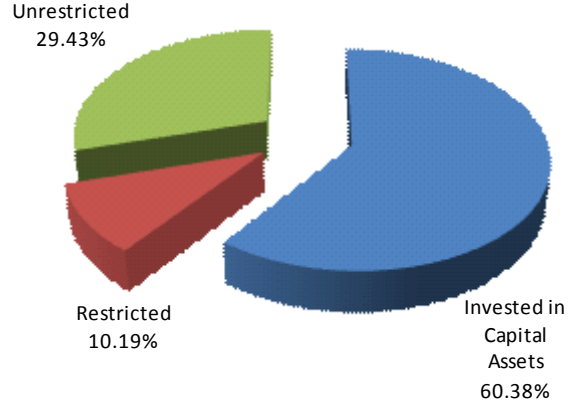
The following charts indicate the changes in net assets for the year ended August 31, 2012 as compared to the previous year.

ANNUAL FINANCIAL REPORT

**Net Assets - August 31, 2012**

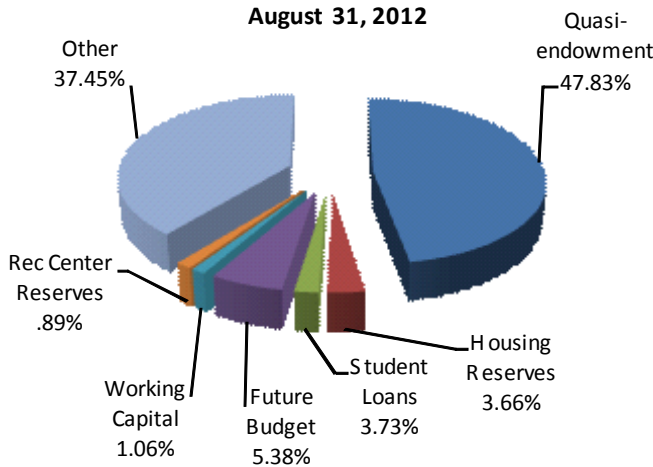


**Net Assets - August 31, 2011**

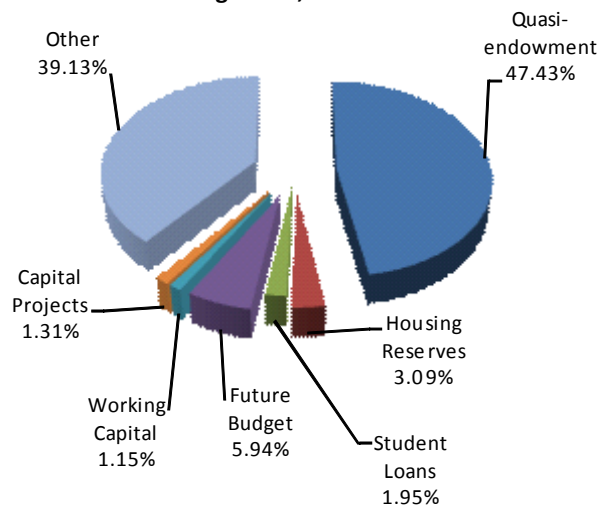


The university reports unrestricted net assets of 29.44% of total net assets for the year ended August 31, 2012 and 29.43% for the prior year. Although unrestricted, most of these funds have been designated for specific purposes. The category of other unrestricted net assets includes encumbrances, inventories, and unallocated unrestricted net assets. The following charts show how funds have been allocated:

**Allocation of Unrestricted Net Assets August 31, 2012**



**Allocation of Unrestricted Net Assets August 31, 2011**



# Midwestern State University

## Management's Discussion & Analysis - Unaudited

### The University's Results of Operations

The statement of revenues, expenses, and changes in net assets reflects the university's operating results for the fiscal years ended August 31, 2012 and 2011. The comprehensive statements indicate the financial condition of the university, and comparatively analyze in what direction the university is moving. The following statements reveal the operating results of the university, as well as the non-operating revenues and expenditures. 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, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The statement below compares the operating results of the university for the years ended August 31, 2012 and 2011.

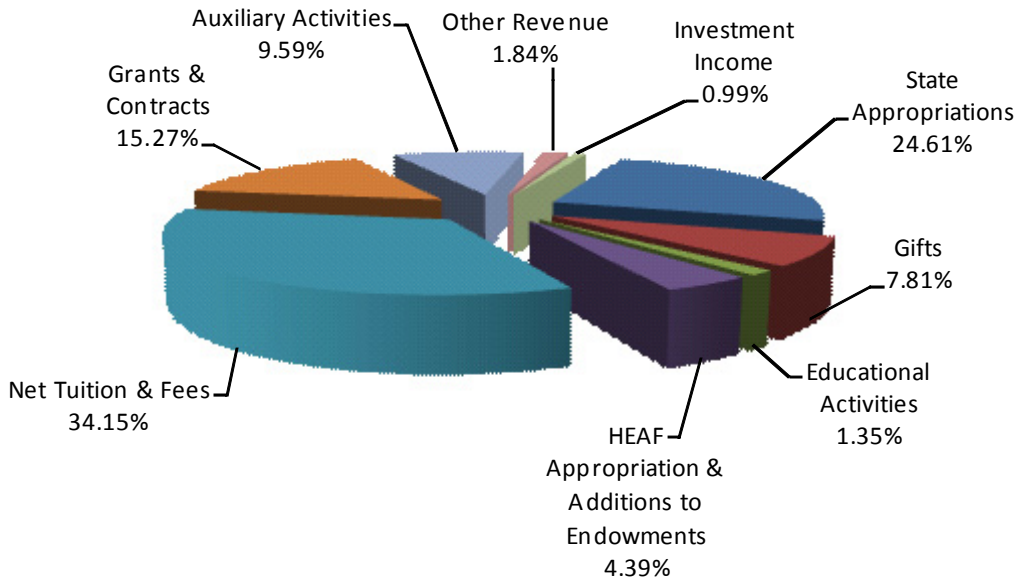
	<u>2012</u>	<u>2011</u>
<b>Operating Revenue:</b>		
Net tuition and fees	\$ 29,393,905	\$ 30,074,871
Grants and contracts	4,327,184	5,659,189
Sales and Service of Educational Activities	1,166,329	1,165,346
Sales and Services of Auxiliary Enterprises	8,257,663	8,383,510
Other	1,586,110	1,517,980
Total Operating Revenue	<u>44,731,191</u>	<u>46,800,896</u>
<b>Total Operating Expenses</b>	<u>(81,183,165)</u>	<u>(83,918,910)</u>
Operating Loss	(36,451,974)	(37,118,014)
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	16,762,807	18,252,263
Additional State Appropriations	4,423,896	4,676,181
Federal Grants	8,814,310	10,258,814
Gifts	6,722,053	3,030,962
Other Nonoperating Revenues (Expenses)	(2,490)	6,106
Investment Income	853,372	766,675
Net Increase (Decrease) in Fair Value of Investments	1,284,638	218,119
Net Book Value of Capital Asset Disposals	(45,501)	(105,042)
Interest Expense on Capital Asset Financing	(3,575,660)	(3,813,140)
Total Nonoperating Revenue (Expense)	<u>35,237,425</u>	<u>33,290,938</u>
Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items	(1,214,549)	(3,827,076)
Capital Contributions, Additions to Endowments, & Special Items		
Capital Contributions	4,999,209	325,000
HEAF Appropriation	3,559,433	3,559,433
Additions to Endowments	221,926	567,655
Transfers In	333,347	38,787
Transfers Out	(933,170)	(903,480)
<b>Increase (Decrease) in Net Assets</b>	<u>6,966,196</u>	<u>(239,681)</u>
<b>Net Assets, Beginning of Year</b>	<u>88,898,439</u>	<u>89,138,120</u>
<b>Net Assets, End of Year</b>	<u>\$ 95,864,635</u>	<u>\$ 88,898,439</u>

Year  
Ended  
8-31-2012  
(UNAUDITED)

# Midwestern State University Management's Discussion & Analysis - Unaudited

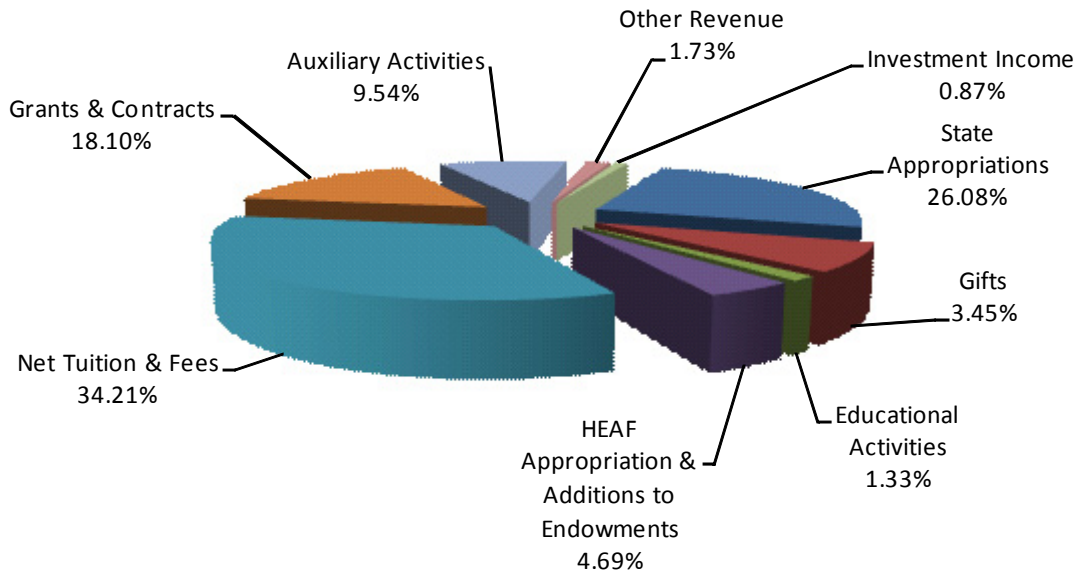
This chart identifies the components of total revenue for the year ended August 31, 2012.

**Total Revenue - August 31, 2012**



This chart reflects the same information for the year ended August 31, 2011.

**Total Revenue - August 31, 2011**



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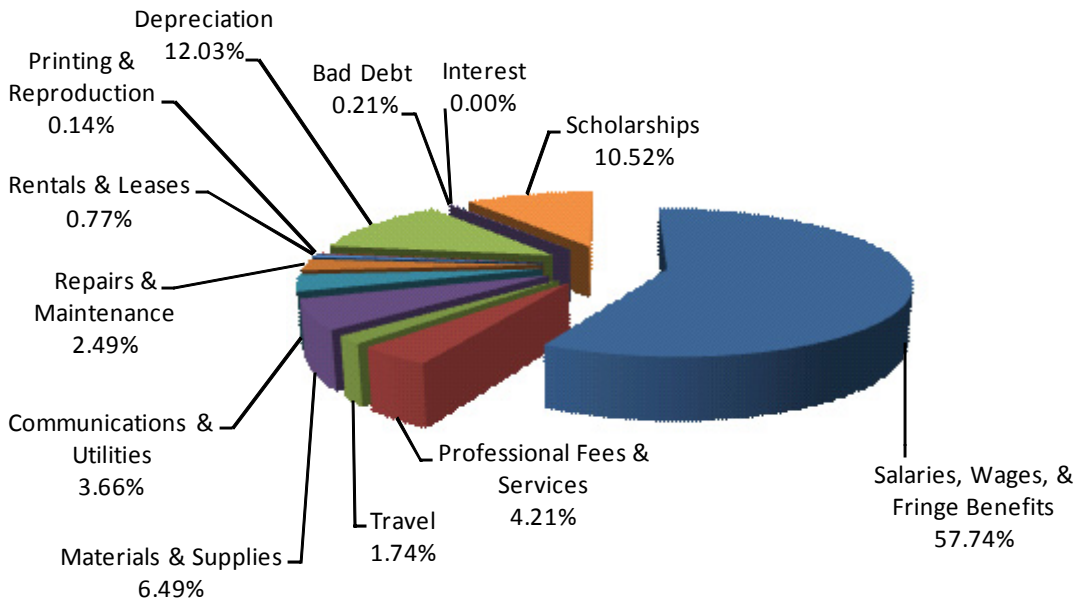
# Midwestern State University

## Management's Discussion & Analysis - Unaudited

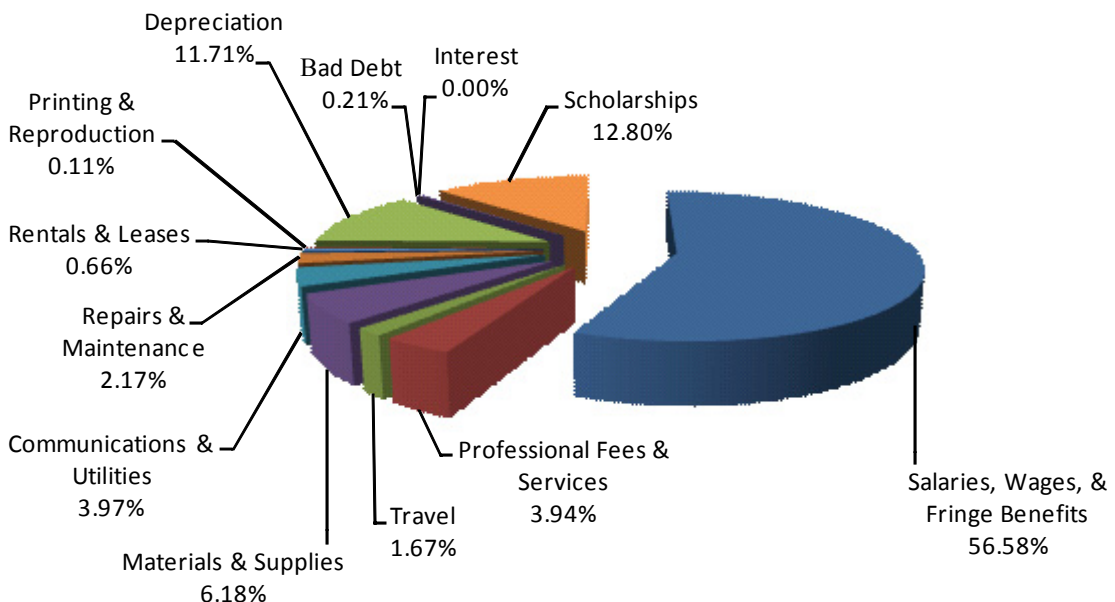
Total operating expenses for the year ended August 31, 2012 were \$81,183,165 as compared to \$83,918,910 for the previous year. The following charts compare the distribution of operating expenses between fiscal year 2012 and fiscal year 2011.

ANNUAL FINANCIAL REPORT

**Total Operating Expenses - August 31, 2012**



**Total Operating Expenses - August 31, 2011**



# Midwestern State University

## Management's Discussion & Analysis - Unaudited

### The University's Cash Flows

The statement of Cash Flows represents the university's 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>	
	<u>2012</u>	<u>2011</u>
Cash provided (used) by:		
Operating activities	\$(27,386,904)	\$(27,728,042)
Noncapital financing activities	33,830,365	35,644,381
Capital and related financing activities	(5,633,487)	(9,257,800)
Investing activities	338,775	1,970,862
Net increase (decrease) in cash	1,148,749	629,401
Cash – Beginning of year	5,687,853	5,058,452
Cash – End of year	\$ 6,836,602	\$ 5,687,853

There was a net increase in cash of \$1,148,749.

Exhibit III, the Statement of Cash Flows, shows that the major sources of funds for operating activities are from student tuition and fees, grants and auxiliary enterprises. Tuition and fees accounted for \$29.6 million, grants accounted for \$4.4 million and auxiliary enterprises, including housing and dining, accounted for \$8.3 million.

State appropriations in the amount of \$20.9 million were the primary sources of non-capital financing. Although the university is dependent on these appropriations to continue the current level of operations, accounting standards require that this source of funding be reflected as non-operating. Other non-capital financing activities include gifts in the amount of \$4.7 million, additions to endowments in the amount of \$221 thousand, and \$8.8 million in Federal non-operating grants.

The main uses of capital and related financing activities came from the financing of renovations to D.L. Ligon Coliseum. Cash was used to purchase capital assets in the amount of \$4.6 million and for the payment of principal and interest on capital debt in the amount of \$8.4 million.

ANNUAL FINANCIAL REPORT

# Midwestern State University

## Management's Discussion & Analysis - Unaudited

### Capital Assets and Debt Administration

#### Capital Assets

As of August 31, 2012, the university had \$134.3 million invested in capital assets. This figure is net of accumulated depreciation and amortization of \$107.6 million. Depreciation charges totaled \$9.8 million for the current fiscal year. The category of other capital assets includes library holdings, artwork, and collections. Assets by classification are shown below:

#### Capital Assets Before Accumulated Depreciation

	<u>2012</u>	<u>2011</u>
Land and Land Improvements	\$ 4,693,326	\$ 4,693,326
Construction in Progress	3,437,691	4,054,395
Buildings and Building Improvements	183,895,384	179,063,725
Infrastructure	12,823,875	10,463,927
Facilities Improvements	6,572,510	6,353,046
Furniture and Equipment	11,543,686	11,916,954
Vehicles	1,543,521	1,471,851
Computer Software	2,165,669	2,165,669
Other Capital Assets	<u>15,255,814</u>	<u>15,137,634</u>
<b>Total</b>	<u>\$241,931,476</u>	<u>\$235,320,527</u>

Additions to assets of \$12.28 million during fiscal year 2012 included: renovations to D.L. Ligon locker rooms, the Clark Student Center electrical renovation, the addition of green space between Killingsworth Hall and the Clark Student Center, renovations to Akin Auditorium, and completion of several energy conservation measures.

The construction in progress at the end of the year is the continued renovation of D.L. Ligon Coliseum, expansion of the McCoy Engineering building, and the replacement of soccer field lighting.

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

ANNUAL

FINANCIAL

REPORT

# Midwestern State University

## Management's Discussion & Analysis - Unaudited

### Debt

At year-end, the university had \$123 million in outstanding debt. Outstanding debt for the year ended August 31, 2011 was \$133 million. The table below summarizes the amount of outstanding debt by type of instrument for the year ended August 31, 2012 compared with August 31, 2011.

	<u>2012</u>	<u>2011</u>
Revenue Bonds	\$ 80,365,670	\$ 84,520,000
General Obligation Bonds (HEAF)	2,860,000	4,210,000
Accrued long term interest payable on bonds	40,696,829	44,506,797
Total	\$ 123,922,499	\$ 133,236,797

Debt repayments made during the year included principal in the amount of \$4,915,000 and interest in the amount of \$3,809,971.

Moody's Investor Services has assigned an A1 bond rating to the university's bonds, and Fitch has assigned an AA- rating. More detailed bond information is disclosed in Schedule 2A, 2B, 2C, 2D, and 2E.

### Factors Affecting the Future of Midwestern State University

The underlying strength of Midwestern State University (MSU) continues to be the acceptance of its mission as the only designated public liberal arts university in the State of Texas. Midwestern's focused mission has been defined over a number of years but was formally accepted when the 81st Legislature designated MSU's mission clearly. The weakness of many institutions of higher education is the continuous changing of philosophy and mission as boards and administrators change. Such has not been true of MSU. This stability gives direction that allows an understanding of its past and its future.

A public liberal arts college is known by its characteristics as much as its basic philosophy that every student majoring in majors ranging from fine arts to engineering has an underlying background based on the liberal arts defined for the 21<sup>st</sup> century. These characteristics include:

- Faculty are dedicated to teaching undergraduates.
- Classes are small and students receive personal attention and mentoring.
- Students work with professors, not graduate assistants.
- Leadership and co-curricular opportunities abound.
- Emphasis is on civic engagement and service learning.
- Students participate in summer-long exchanges at member campuses and study abroad.
- Students publish their research in the online Council of Public Liberal Arts Colleges (COPLAC) undergraduate research journal.
- Students present their work at regional undergraduate research conferences.
- Students enroll in summer "study-away" seminars at member campuses.

### Recent University Progress

MSU's physical plant continues to be expanded and improved in order to maintain a beautiful campus and to keep laboratories and classrooms up-to-date with current teaching methodologies and equipment. During fiscal year 2012, the university was the recipient of over \$12.4 million in private gifts for new programming and campus upgrades. The planned upgrades include:

# Midwestern State University

## Management's Discussion & Analysis - Unaudited

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- Clearing the campus of old buildings.
- Constructing beautiful new commuter parking lots.
- Adding classroom and laboratory space to McCoy Engineering Hall
- Renovating the former Christ Academy building.
- Renovating Akin Auditorium.
- Renovating the Wichita Falls Museum of Art at Midwestern State University.
- Building a research center at the Dalquest Desert Research Site.
- Adding three laboratories to Bolin Science Hall.
- Closing streets to add walkways and landscape to various areas on campus.
- Constructing a football field house near the football practice field.
- Adding campus lighting and lighting to softball and soccer fields.

Philanthropists of this community will also make possible the expansion of programming in the sciences and engineering. The McCoy School of Engineering will add two Ph.D. qualified engineers and a new option in petroleum production engineering. The option will include courses in petroleum production and the growing field of artificial lift, which has become a major portion of petroleum engineering with the development of new petroleum recovery techniques. The College of Science and Mathematics will add a baccalaureate program in biochemistry that has been needed for some time. Midwestern State is also in the process of establishing a petroleum geology program. The fields of biology and chemistry have been moving toward the study of life processes based on the expanding knowledge of DNA and its role in living systems. Few universities of the size of MSU offer programs of this sophistication.

The university is in the process of adding faculty and equipment to expand the number of graduates in nursing, respiratory care, and radiologic sciences. The university will no longer be in the position of having to reject student applicants who are qualified to major in these fields that offer secure employment opportunities and life-long careers. A major private gift of \$5 million will facilitate this expansion.

The university will expand its role as a member of the Lone Star Conference by expanding the intercollegiate athletic programs in women's track and baseball, as soon as private funds are available to construct a new baseball complex on campus.

The most important factor facing MSU continues to be national and state enrollment patterns.

### Enrollment

The university reached a record enrollment in 2010. However, in 2011 the university experienced a dramatic decrease in enrollment but a record graduating class. This trend continued in 2012. The tightening of admission standards in 2006 resulted in fewer students requiring remedial work, increased student retention, and rapidly increasing graduation numbers. A small but more qualified entering class and increased graduation numbers have come together at an unexpected time with clear results.

In the last decade the university's support from the State of Texas has dropped from 40 percent to the current 22 percent in FY 2013. Even though state funding is critical, student tuition and fees now provide for nearly 43 percent of the university's educational budget. The declining funding through state revenues is a challenge that can only be met by increasing the total size and reach of Midwestern State. The university must increase its enrollment to 7,000 or more students within the next three or four years. This will be accomplished with a stable mission, maintaining admission standards, teaching all students rigorously, and providing students with extracurricular activities that contribute to their maturity and total educational experience. The university is fortunate to have the faculty, physical plant, equipment, and programming to attract highly qualified students in greater numbers.

The university's recruiting activities must be expanded in order to attract students from across Texas and Oklahoma. The declining student population in the traditional drawing area and the increasing graduation rate has triggered the university's implementation of a new enrollment management plan. The university plans to increase its prospect pool from 9,000 to 75,000 individuals from which to recruit qualified students to MSU.

# Midwestern State University

## Management's Discussion & Analysis - Unaudited

In regard to academic programming, the university can potentially be affected by the increase in attention to low-producing programs in universities throughout Texas by the Texas Higher Education Coordinating Board. The loss of the university's physics program did, to some degree, diminish all programs of College of Science and Mathematics. However, the university will resurrect the program through a consortium effort with universities similar in size and mission through the State of Texas.

The deregulation of tuition in 2003 has been a financial boon to institutions throughout Texas. However, the state and nation now recognize the increasing number of college students coming from poverty line families. In effect, universities can expect a financially poorer student body. A premium must be placed upon competitive scholarship programs and financial aid in order for these students to receive their education in a timely manner.

MSU's Board of Regents established the Mustangs Guarantee Program. The program guarantees all students, both beginning freshmen and transfer students, a virtually free education if they come from families with an adjusted gross income of \$50,000 or less. The changes in Pell grants, particularly the deletion of Pell grants from the summer semester, will make it critical for students to plan their college careers carefully. It is essential that students understand that Pell will be available for only eight long semesters. Advising of students concerning available grants and loans puts pressure on universities to provide enough personnel to work with students on an almost one-to-one basis. MSU is doing this through its Academic Success Center.

It is clear that the nation's economy will rebuild but that it will be rebuilt around high-technology manufacturing, health sciences, computer technology, and numerous other areas that will require certificates and associate and baccalaureate degrees of nearly all in the work force. Only the growing areas of low paid service positions in the hospitality and health science fields will be exempt. The nation, at this point, is made up of a population that is as much unemployable as it is unemployed. All factors must be considered in planning the match between university education and the work force now demanded and that will be demanded in the future.

Midwestern State University will continue to seek private funding to supplement tuition and fees and state funding in order to provide the rigorous education that will allow students to compete in an ever increasingly competitive job environment. It is clear that the most important funding matter before the Texas Legislature is the development of a dependable, systematic, non-politicized funding system that will allow universities to plan and prepare for expanding its enrollment and decreasing its cost through the use of modern technology.

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# Midwestern State University

Unaudited

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

ASSETS

	<u>2012</u>	<u>2011</u>
<b>Current Assets:</b>		
<u>Cash and Cash Equivalents:</u>		
Cash on Hand	\$ 16,300	\$ 17,000
Cash in Bank	4,793,124	3,421,796
Cash in State Treasury	4,581,563	4,702,214
Short-term Investments	20,334,118	19,981,208
State Appropriations	1,230,859	1,007,602
<u>Restricted:</u>		
Cash and Cash Equivalents:		
Cash in Bank	(2,554,385)	(2,453,157)
Short-term Investments		
Notes and Loans receivable	17,044	11,867
<u>Net Receivables:</u>		
Student Receivables	5,297,785	5,383,687
Federal Receivables	347,394	232,899
Other Intergovernmental Receivables	236	59,064
Interfund Receivable		
Interest and Dividends	58,039	42,502
Other Receivables	1,416,864	1,336,360
Pledges receivable	2,360,468	435,258
Consumable Inventories	257,008	257,984
Prepaid Expenses	7,854,650	7,766,001
<b>Total Current Assets</b>	<u>46,011,067</u>	<u>42,202,285</u>
<b>Noncurrent Assets:</b>		
<u>Restricted:</u>		
Short-term Investments	943,893	4,255,992
Investments	4,154,997	3,900,222
Loans and Contracts	55,812	78,034
Other Long term Investments	25,002,147	20,616,520
Pledges Receivable	1,110,516	
Deferred Financing Costs	1,155,317	1,210,338
<u>Capital Assets, Non-depreciable:</u>		
Land and Land Improvements	\$ 4,693,326	\$ 4,693,326
Construction in Progress	3,437,691	4,054,395
Other Capital Assets	3,502,715	11,633,732
		3,480,715
		12,228,436
<u>Capital Assets, Depreciable:</u>		
Buildings & Building Improvements	183,895,384	179,063,725
Less Accumulated Depreciation	(78,319,852)	(70,773,319)
Infrastructure	12,823,875	10,463,927
Less Accumulated Depreciation	(4,980,900)	(4,554,384)
Facilities and Other Improvements	6,572,510	6,353,046
Less Accumulated Depreciation	(3,643,822)	(3,335,774)
Furniture and Equipment	11,543,686	11,916,954
Less Accumulated Depreciation	(8,560,547)	(8,342,511)
Vehicles	1,543,521	1,471,850
Less Accumulated Depreciation	(1,040,576)	(1,047,733)
Other Capital Assets	11,753,099	11,656,920
Less Accumulated Depreciation	(9,771,679)	(9,498,507)
<u>Intangible Capital Assets, Amortizable:</u>		
Computer Software	2,165,669	2,165,669
Less Accumulated Depreciation	(1,286,642)	(1,089,919)
	879,027	1,075,750
	<u>166,750,140</u>	<u>166,739,488</u>
	<u>\$ 212,761,207</u>	<u>\$ 208,941,773</u>

Year  
Ended  
8-31-2012  
(UNAUDITED)



<b>LIABILITIES</b>		
	<u>2012</u>	<u>2011</u>
<b>Current Liabilities:</b>		
Accounts Payable	\$ 2,192,020	\$ 4,148,355
Accrued Liabilities	3,995,332	3,460,372
Employees' Compensable Leave	179,852	167,335
Room/Property Deposits	68,236	76,639
Deferred Revenues	23,001,118	22,361,752
Retainages and Contracts	96,289	62,474
Funds Held for Others	94,645	81,365
Capital Lease	19,202	
Due to Other Agencies (SECO Loan)	251,570	
Unamortized Discount on Rev Bonds	(12,344)	(12,344)
Unamortized Discount on Rev Bonds	55,837	43,904
Revenue Bonds Payable	3,705,000	3,565,000
Constitutional Appropriation Bonds	1,405,000	1,350,000
<b>Total Current Liabilities</b>	<u>35,051,757</u>	<u>35,304,852</u>
<b>Noncurrent Liabilities:</b>		
Employees' Compensable Leave	1,325,200	1,266,021
Room/Property Deposits	178,103	199,331
Capital Lease	95,038	
Due to Other Agencies (SECO Loan)	2,041,489	
Unamortized Discount on Rev Bonds	(234,222)	(246,566)
Unaccreted Premium on Rev Bonds	323,537	379,373
Revenue Bonds Payable	76,660,670	80,280,322
Constitutional Appropriation Bonds	1,455,000	2,860,000
<b>Total Noncurrent Liabilities</b>	<u>81,844,815</u>	<u>84,738,481</u>
<b>Total Liabilities</b>	<u>116,896,572</u>	<u>120,043,333</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	50,204,678	53,679,004
Restricted for:		
Debt Retirement		
Nonexpendable	4,129,598	3,900,222
Expendable:		
Capital Projects	6,408,519	1,211,967
Restricted by Contributor	6,902,644	3,949,667
Unrestricted	<u>28,219,196</u>	<u>26,157,580</u>
<b>Total Net Assets</b>	<u>95,864,635</u>	<u>88,898,440</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 212,761,207</u>	<u>\$ 208,941,773</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

# 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**

A N N U A L  F I N A N C I A L  R E P O R T	<b>Operating Revenues:</b>	<u><b>2012</b></u>	<u><b>2011</b></u>
	Student Tuition and Fees (net of scholarship allowances of \$11,250,249 and \$10,365,096, respectively)	\$ 29,393,905	\$ 30,074,871
	Federal Grants	1,398,665	2,059,758
	Federal Pass-Through Grants	163,803	239,951
	State Grants Pass-Through from Other State Agencies	2,554,470	3,340,474
	Other Grants and Contracts	210,246	19,006
	Sales and Services of Educational Activities	1,166,329	1,165,346
	Sales and Services of Auxiliary Enterprises	8,257,663	8,383,510
	Other Operating Revenue	<u>1,586,110</u>	<u>1,517,980</u>
	<b>Total Operating Revenues</b>	<b>44,731,191</b>	<b>46,800,896</b>
	<b>Operating Expenses:</b>		
	Salaries and Wages	36,795,598	37,412,149
	Payroll Related Costs	10,076,375	10,066,127
	Professional Fees and Services	3,391,242	3,137,746
	Travel	1,413,283	1,400,170
	Materials and Supplies	5,272,536	5,189,036
	Communications and Utilities	2,974,207	3,332,719
	Repairs and Maintenance	2,021,045	1,822,130
	Rentals and Leases	629,113	549,104
	Printing and Reproduction	110,968	96,012
	Federal Pass Through Expenditures	28,441	167,229
	Depreciation	9,811,864	9,827,660
	Bad Debt Expense	120,605	174,902
	Interest	278	622
	Scholarships	<u>8,537,610</u>	<u>10,743,304</u>
	<b>Total Operating Expenses</b>	<b>81,183,165</b>	<b>83,918,910</b>
	<b>Operating Loss</b>	<b>(36,451,974)</b>	<b>(37,118,014)</b>
	<b>Nonoperating Revenues (Expenses):</b>		
	State Appropriations	16,762,807	18,252,263
	Additional State Appropriations	4,423,896	4,676,181
	Legislative Appropriations Lapsed		
	Federal Pass-Through Grants	20,311	625,759
	Federal Grants	8,793,999	9,633,055
	Gifts	6,722,053	3,030,962
	Other Nonoperating revenues (expense)	(2,490)	6,106
	Investment Income	853,372	766,675
	Net Increase (Decrease) in Fair Value of Investments	1,284,638	218,119
	Net Book Value of Capital Asset Disposals	(45,501)	(105,042)
	Interest Expense on Capital Asset Financing	<u>(3,575,660)</u>	<u>(3,813,140)</u>
	<b>Total Nonoperating Revenues (Expenses)</b>	<b>35,237,425</b>	<b>33,290,938</b>
	Income (Loss) Before Capital Contributions, Additions to Endowments, and Special Items	<b>(1,214,549)</b>	<b>(3,827,076)</b>

Year  
Ended  
8-31-2012  
(UNAUDITED)

	<u>2012</u>	<u>2011</u>
Capital Contributions	\$ 4,999,209	\$ 325,000
HEAF Appropriation	3,559,433	3,559,433
Additions to Endowments	221,926	567,655
Transfer In	333,347	38,787
Transfers Out	<u>(933,170)</u>	<u>(903,480)</u>
<b>Increase (Decrease) in Net Assets</b>	6,966,196	(239,681)
Net Assets, Beginning of Year	88,898,439	89,138,120
Net Assets, End of Year	<u>\$ 95,864,635</u>	<u>\$ 88,898,439</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

# Midwestern State University

Unaudited

**Midwestern State University**  
**Matrix of Operating Expenses Reported by Function**  
**For the Year Ended August 31, 2012**

A N N U A L	<b>Total Operating Expenses</b>	<b>Instruction</b>	<b>Research</b>	<b>Public Service</b>	<b>Academic Support</b>
Salaries and Wages	\$ 36,795,598	\$ 19,849,376	\$ 434,019	\$ 498,098	\$ 2,669,344
Payroll Related Costs	10,076,375	5,308,146	25,590	105,193	721,381
Professional Fees and Services	3,391,242	570,145	81,777	38,778	951,937
Travel	1,413,283	399,983	74,395	68,052	197,003
Materials and Supplies	5,272,536	583,054	246,063	134,612	572,572
Communications and Utilities	2,974,207	49,993	9,240	2,552	18,033
Repairs and Maintenance	2,021,045	155,720	18,342	32,224	105,972
Rentals and Leases	629,113	156,125	199	33,687	138,239
Printing and Reproduction	110,968	38,630	2,254	18,052	25,689
Federal Pass Through Expenditures	28,441				28,441
Depreciation & Amortization	9,811,864				
Bad Debt Expense	120,605				
Interest	278	15		6	66
Scholarships	8,537,610				
<b>Total Operating Expenses</b>	<b><u>\$ 81,183,165</u></b>	<b><u>\$ 27,111,187</u></b>	<b><u>\$ 891,879</u></b>	<b><u>\$ 931,254</u></b>	<b><u>\$ 5,428,677</u></b>

**Midwestern State University**  
**Matrix of Operating Expenses Reported by Function**  
**For the Year Ended August 31, 2011**

R E P O R T	<b>Total Operating Expenses</b>	<b>Instruction</b>	<b>Research</b>	<b>Public Service</b>	<b>Academic Support</b>
Salaries and Wages	\$ 37,412,149	\$ 20,784,250	\$ 300,745	\$ 403,093	\$ 2,519,429
Payroll Related Costs	10,066,127	5,392,890	15,627	83,506	682,278
Professional Fees and Services	3,137,746	596,631	85,118	53,010	881,475
Travel	1,400,170	462,280	18,688	37,842	167,300
Materials and Supplies	5,189,036	613,668	35,554	151,374	720,901
Communications and Utilities	3,332,719	59,744	140	2,855	25,500
Repairs and Maintenance	1,822,130	211,688	75	28,673	86,470
Rentals and Leases	549,104	116,101	62	68,451	36,777
Printing and Reproduction	96,012	43,045	354	10,802	46,580
Federal Pass Through Expenditures	167,229				167,228
Depreciation	9,827,660				
Bad Debt Expense	174,902				
Interest	622	7		116	26
Scholarships	10,743,304				
<b>Total Operating Expenses</b>	<b><u>\$ 83,918,910</u></b>	<b><u>\$ 28,280,304</u></b>	<b><u>\$ 456,363</u></b>	<b><u>\$ 839,722</u></b>	<b><u>\$ 5,333,964</u></b>

Year  
 Ended  
 8-31-2012  
 (UNAUDITED)

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation &amp; Maintenance</u>	<u>Scholarships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation</u>
\$ 5,240,895	\$ 4,514,187	\$ 2,368,700		\$ 1,220,979	
1,380,184	1,266,449	939,991		329,441	
1,431,294	(450,424)	220,346		547,389	
548,027	103,949	6,996		14,878	
908,336	364,056	691,049		1,772,794	
174,394	(42,433)	1,852,395		910,033	
182,251	609,247	646,901		270,388	
197,291	55,588	10,868		37,116	
146,926	(136,456)	2,872		13,001	
					\$ 9,811,864
120,605					
110	35	35		11	
			\$ 8,537,610		
<u>\$ 10,330,313</u>	<u>\$ 6,284,198</u>	<u>\$ 6,740,153</u>	<u>\$ 8,537,610</u>	<u>\$ 5,116,030</u>	<u>\$ 9,811,864</u>

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation &amp; Maintenance</u>	<u>Scholarships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation</u>
\$ 5,356,797	\$ 4,476,728	\$ 2,441,882		\$ 1,129,225	
1,391,094	1,254,772	941,598		304,362	
1,388,846	(661,448)	148,594		645,519	
641,102	59,913	5,736		7,310	
935,282	550,071	442,692		1,739,494	
223,078	(38,334)	2,135,707		924,031	
219,396	593,675	364,135		318,018	
172,715	117,609	9,108		28,282	
124,050	(141,821)	489		12,512	
					\$ 9,827,660
174,902					
44	11	378		39	
			\$ 10,743,304		
<u>\$ 10,627,306</u>	<u>\$ 6,211,176</u>	<u>\$ 6,490,319</u>	<u>\$ 10,743,304</u>	<u>\$ 5,108,792</u>	<u>\$ 9,827,660</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

# Midwestern State University

Unaudited

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

A N N U A L  F I N A N C I A L  R E P O R T		<u>2012</u>	<u>2011</u>
	<b>Cash Flows from Operating Activities:</b>		
	Proceeds Received from Students	\$ 29,687,808	\$ 29,843,453
	Proceeds Received for Sponsored Programs	4,410,858	5,875,588
	Proceeds Received from Auxiliary Enterprises	8,320,137	8,293,540
	Proceeds From Loan Programs	29,200	43,464
	Proceeds From Other Revenues	2,752,438	2,683,326
	Payments to Employees	(46,265,317)	(47,904,277)
	Payments to Suppliers for Good and Services	(17,679,140)	(15,982,235)
	Payments for Scholarships	(8,642,610)	(10,580,279)
	Payments for Loans Provided	<u>(278)</u>	<u>(622)</u>
	Net Cash Provided (Used) by Operating Activities	<u>(27,386,904)</u>	<u>(27,728,042)</u>
	<b>Cash Flows from Noncapital Financing Activities:</b>		
	Proceeds from State Appropriations	20,963,446	22,684,323
	Proceeds from Endowment Gifts	221,926	567,655
	Proceeds from Gifts	4,766,343	3,030,962
	Proceeds from Other Noncapital Financing Activities	(2,490)	6,106
	Proceeds from Nonoperating Grants	8,814,310	10,258,815
	Transfers out to Other Funds	<u>(933,170)</u>	<u>(903,480)</u>
	Net Cash Provided by Noncapital Financing Activities	<u>33,830,365</u>	<u>35,644,381</u>
	<b>Cash Flows from Capital and Related Financing Activities:</b>		
	Proceeds from Capital Gifts	3,888,693	153,648
	Proceeds from HEAF Appropriations	3,559,433	3,559,433
	Proceeds From Interest on Capital Investments	43,109	31,663
	Payments for Additions to Capital Assets	(4,616,735)	(4,720,088)
	Principal Paid on Capital Related Debt	(4,932,551)	(4,573,747)
	Interest Paid on Capital Related Debt	<u>(3,575,436)</u>	<u>(3,708,709)</u>
	Net Cash Provided by Capital and Related Financing Activities	<u>(5,633,487)</u>	<u>(9,257,800)</u>
	<b>Cash Flows from Investing Activities:</b>		
	Proceeds from Interest and Investment Income	719,914	711,378
	Proceeds from Sales and Maturities of Investments	14,072,164	22,864,207
	Payments to Acquire Investments	<u>(14,453,303)</u>	<u>(21,604,723)</u>
	Net Cash Provided (Used) by Investing Activities	<u>338,775</u>	<u>1,970,862</u>
	Increase (Decrease) in Cash and Cash Equivalents	1,148,749	629,401
	Cash and Cash Equivalents, September 1, 2011	<u>5,687,853</u>	<u>5,058,452</u>
	Cash and Cash Equivalents, August 31, 2012	<u>\$ 6,836,602</u>	<u>\$ 5,687,853</u>

Year  
Ended  
8-31-2012  
(UNAUDITED)

	<u>2012</u>	<u>2011</u>
<b>Reconciliation to Cash and Cash Equivalents as Displayed on the Statement of Net Assets:</b>		
<b>Current Assets:</b>		
Cash On Hand	\$ 16,300	\$ 17,000
Cash In Bank	4,793,124	3,421,796
Cash in State Treasury	4,581,563	4,702,214
<b>Restricted:</b>		
Cash In Bank	<u>(2,554,385)</u>	<u>(2,453,157)</u>
	<u>\$ 6,836,602</u>	<u>\$ 5,687,853</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Income (Loss)	\$ (36,451,974)	\$ (37,118,014)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Amortization and Depreciation	9,811,864	9,827,660
Bad Debt Expense	120,605	174,902
(Increase) Decrease in Receivables	(136,497)	(386,002)
(Increase) Decrease in Inventories	977	5,419
(Increase) Decrease in Prepaid Expenses	(88,650)	262,011
(Increase) Decrease in Loans	(5,177)	2,386
Increase (Decrease) in Payables	(1,362,394)	(906,146)
Increase (Decrease) in Deferred Income	639,365	448,242
Increase (Decrease) in Other Liabilities	<u>84,977</u>	<u>(38,500)</u>
Total Adjustments	9,065,070	9,389,972
Net Cash Used by Operating Activities	<u>\$ (27,386,904)</u>	<u>\$ (27,728,042)</u>
Non Cash Transactions		
Net Increase (Decrease) in FMV of Investments	\$ 1,284,638	\$ 218,119
(Loss) Gain on Asset Disposals	(45,501)	(105,042)
Donated Investment Assets	30,500	7,500
Transfer In on Master Lease Purchase	333,347	38,788
Borrowing Under Capital Lease Purchase	126,387	

The accompanying Notes to the Financial Statements are an integral part of this statement.

# Midwestern State University

## Notes To The Financial Statements - Unaudited

### 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's financial position is in the State of Texas' Consolidated Annual Financial Report. 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 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.

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.

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# Midwestern State University

## Notes To The Financial Statements - Unaudited

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 the university's permanent endowments and donor restricted funds.

**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. Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes.

### Investments

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

# Midwestern State University

## Notes To The Financial Statements - Unaudited

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### **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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# Midwestern State University

## Notes To The Financial Statements - Unaudited

### NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2012, is presented below.

BUSINESS-TYPE ACTIVITIES	Balance 09/01/11	Adjustment	Reclassifications Completed CIP
<b><u>Non-depreciable or Non-Amortizable Assets:</u></b>			
Land and Land Improvements	\$ 4,693,326		
Construction in Progress	4,054,395		\$ (7,120,220)
Other Tangible Capital Assets	3,480,715		
Total Non-depreciable Assets or Non-Amortizable Assets:	<u>12,228,436</u>	<u>0</u>	<u>(7,120,220)</u>
<b><u>Depreciable Assets:</u></b>			
Buildings and Building Improvements	179,063,725		
Infrastructure	10,463,927		2,359,947
Facilities and Other Improvements	6,353,046		
Furniture and Equipment	11,916,954		
Vehicles	1,471,851		
Other Capital Assets	11,656,919	\$ (62,713)	
Total Depreciable Assets:	<u>220,926,422</u>	<u>(62,713)</u>	<u>2,359,947</u>
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(70,773,319)		
Infrastructure	(4,554,384)		
Facilities and Other Improvements	(3,335,774)		
Furniture and Equipment	(8,342,510)		
Vehicles	(1,047,733)		
Other Capital Assets	(9,498,507)		
Total Accumulated Depreciation	<u>(97,552,227)</u>	<u>0</u>	<u>0</u>
Depreciable Assets, Net	<u>123,374,195</u>	<u>(62,713)</u>	<u>2,359,947</u>
<b><u>Amortizable Assets - Intangible</u></b>			
Computer Software	2,165,669		
Total Amortizable Assets - Intangible	2,165,669	0	0
Less Accumulated Amortization for:			
Computer Software	(1,089,919)		
Total Accumulated Amortization	<u>(1,089,919)</u>	<u>0</u>	<u>0</u>
Amortizable Assets - Intangible, Net	<u>1,075,750</u>	<u>0</u>	<u>0</u>
<b>Business-Type Activities Capital Assets, Net</b>	<b><u>\$136,678,381</u></b>	<b><u>\$ (62,713)</u></b>	<b><u>\$ (4,760,273)</u></b>

Additions	Deletions	Balance 08/31/12
		\$ 4,693,326
\$6,503,517		3,437,691
22,000		3,502,715
6,525,517	0	11,633,732
4,831,659		183,895,384
		12,823,875
219,464		6,572,510
323,043	\$ (696,311)	11,543,686
224,936	(153,266)	1,543,521
158,893		11,753,099
5,757,995	(849,577)	228,132,075
(7,546,534)		(78,319,852)
(426,516)		(4,980,900)
(308,048)		(3,643,822)
(853,813)	635,777	(8,560,547)
(144,344)	151,501	(1,040,576)
(273,172)		(9,771,679)
(9,552,427)	787,278	(106,317,376)
(3,794,432)	(62,299)	121,814,699
0	0	2,165,669
0	0	2,165,669
(196,723)	0	(1,286,642)
(196,723)	0	(1,286,642)
(196,723)	0	879,027
\$(2,534,362)	\$ (62,299)	\$134,327,458

# Midwestern State University

## Notes To The Financial Statements - Unaudited

### Note 3: Deposits, Investments, and Repurchase Agreements

#### Authorized Investments

Midwestern State University is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Governmental 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.

The university also employs four investment managers to manage the assets of the university's endowments which total \$17,626,008 and are invested under a separate investment policy that permits equities as well as fixed income and alternative assets.

#### Deposits of Cash in Bank

At August 31, the carrying amount of the university's deposits is presented below:

	<u>2012</u>	<u>2011</u>
Cash on Hand	\$ 16,300	\$ 17,000
Cash in Bank	2,238,739	968,639
Cash in State Treasury	4,581,563	4,702,214
Total Cash and Cash Equivalents	<u>\$6,836,602</u>	<u>\$5,687,853</u>
Current Assets—Cash and Cash Equivalents		
Cash on Hand	\$ 16,300	\$ 17,000
Cash in Bank	4,793,124	3,421,796
Cash in State Treasury	4,581,563	4,702,214
Current Assets—Restricted Cash and Cash Equivalents	<u>(2,554,385)</u>	<u>(2,453,157)</u>
Total Cash and Cash Equivalents	<u>\$6,836,602</u>	<u>\$5,687,853</u>

#### Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the university will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The university's policies and State Statute require the university's deposits 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 if they are not fully insured by FDIC.

The university's bank balance at August 31, 2012 was \$3,255,975. The entire amount was covered under the Dodd-Frank Deposit Insurance provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act which provides that all funds in a non-interest bearing transaction account are insured in full by the FDIC from December 31, 2010, through December 31, 2012. This temporarily unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules.

# Midwestern State University

## Notes To The Financial Statements - Unaudited

### Investments

At August 31, the fair value of the university's investments is presented below:

	<u>2012</u>	<u>2011</u>
U.S. Government Agency Obligations	\$10,149,222	\$11,765,109
Corporate Bonds	2,190,505	1,780,799
Fixed Income Exchange Traded Funds (ETFs)		2,587,522
Equities	8,714,597	9,624,120
Other Commingled Funds - Texpool	8,074,614	9,596,350
Other Commingled Funds - LOGIC	3,484,269	479,079
Other Commingled Funds - Goldman Sachs	201,326	751,786
Other Commingled Funds - Citibank	2,080,838	4,074,405
Certificates of Deposit - First National Bank	6,211,342	6,100,661
Other Certificates of Deposit	2,490,000	
Money Market - JP Morgan Chase	1,004,974	1,003,405
Other Money Market funds	5,431,990	82,398
Alternative Investments (including hedge funds)	401,478	908,308
<b>Total Investments</b>	<u>\$50,435,155</u>	<u>\$48,753,942</u>
Current Assets—Short-Term Investments	\$20,334,118	\$19,981,208
Non-Current Assets—Restricted Short-Term Investments	943,893	4,255,992
Non-Current Assets—Restricted Investments	4,154,997	3,900,222
Non-Current Assets—Other Long Term Investments	25,002,147	20,616,520
<b>Total Investments</b>	<u>\$50,435,155</u>	<u>\$48,753,942</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, 2012, the university's credit quality distribution for securities with credit risk exposure was as follows:

Investment Type	AAA	AA	A	BBB
U.S. Government Agency Obligations (FNMA, FHLB, FFCB, FHLMC)	\$ 10,149,222			
Corporate Bonds			\$ 1,083,406	\$ 1,107,099
Comingled Funds—Texpool & LOGIC	11,558,883			

Investment Type	BB	B	Collateralized	Not Rated
Other Comingled Funds—Goldman Sachs				201,326
Other Comingled Funds—Citibank			\$ 2,080,838	
Certificate of Deposit—First National Bank			6,211,342	
Certificates of Deposit—First United			2,000,000	
Certificates of Deposit—Other			490,000	
Money Market—JP Morgan			1,004,974	
Other Money Market				5,431,990
Equities				8,714,597
Alternative Investments (including hedge funds)				401,478

# Midwestern State University

## Notes To The Financial Statements - Unaudited

**Note 3: Continued**

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. As of August 31, 2012, the university's concentration of credit risk is immaterial to any single issuer.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weight. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Modified duration estimates the sensitivity of the university's investments to changes in interest rates.

The university's investments exposed to interest rate risk as of August 31, 2012, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration</u>
U.S. Government Agency Obligations	\$ 10,149,222	3.52
Corporate Bonds	\$ 2,190,505	3.21

**Note 4: Short-Term Debt**

Not Applicable

**Note 5: Long-Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2012, the following changes occurred in liabilities:

	<u>Balance</u>				<u>Balance</u>	<u>Amounts Due Within One Year</u>
	<u>09-01-11</u>	<u>Restatement</u>	<u>Additions</u>	<u>Reductions</u>		
Business-Type Activities						
Revenue Bonds Payable	\$83,845,321		\$85,348 *	\$3,565,000	\$80,365,669	\$3,705,000
Unamortized Premium on Revenue Bonds	423,277			43,904	379,373	55,837
Unamortized Discount on Revenue Bonds	(258,910)			(12,344)	(246,566)	(12,344)
Subtotal	<u>84,009,688</u>		<u>85,348</u>	<u>3,596,560</u>	<u>80,498,476</u>	<u>3,748,493</u>
General Obligation Bond Payable	4,210,000			1,350,000	2,860,000	1,405,000
Compensable Leave	1,433,356		193,544	121,847	1,505,053	179,852
Capital Lease Obligations			126,387	12,147	114,240	19,202
SECO Federal Revolving Loan			<u>2,352,252</u>	<u>59,192</u>	<u>2,293,060</u>	<u>251,570</u>
Total	<u>\$89,653,044</u>	<u>\$0.00</u>	<u>\$ 2,757,531</u>	<u>\$5,139,746</u>	<u>\$87,270,829</u>	<u>\$5,604,117</u>

\*See Note 6



# Midwestern State University

## Notes To The Financial Statements - Unaudited

### 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 \$1,505,053. The University made lump sum payments totaling \$121,847 for accrued vacation to employees who separated from state service during the fiscal year ended August 31, 2012, and payments of \$119,997 for the year ended August 31, 2011.

The University has an undetermined and unrecorded liability for employee's earned sick leave. Sick leave 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.

### Note 6: 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 on this page and on the following pages:

#### 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
- Revenue Bond
- Business-Type Activities
- 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

## Notes To The Financial Statements - Unaudited

### **Note 6: Continued**

#### 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
- Revenue Bond
- Business-Type Activities
- 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, student service fees and private gifts

#### Revenue and Refunding Bonds, Series 2007

- Issued by the Texas Public Finance Authority (TPFA) on behalf of the University.
- To pay for constructing, equipping and furnishing a student recreation and health facility; improving, renovating, enlarging and/or equipping Fowler Hall; improving, renovating, enlarging and/or equipping D.L. Ligon Coliseum; and refunding a portion of the outstanding Revenue Refunding and Improvement Bonds, Series 1998
- Issued August 1, 2007
- \$28,855,000; all bonds authorized have been issued
- Revenue Bond
- Business-Type Activities
- The discount on the bonds is being amortized on a straight-line basis over the life of the debt.
- Source of Revenue for Debt Service – Pledged Revenues, consisting of revenues, incomes, receipts, rentals, rates, charges, fees, and tuition levied or collected from any public or private source, including interest or other income from those funds and unrestricted fund and reserve balances available, but not including remissions, governmental appropriations and gifts, grants and contracts, Higher Education Assistance Funds, student service fees and private gifts.

#### Revenue Financing System Revenue Bonds, Series 2008

- Issued by the Texas public Finance Authority (TPFA) on behalf of the University. To pay for constructing, equipping and furnishing an additional student housing facility; purchasing an existing student housing facility; improving, renovating, enlarging and/or equipping D.L. Ligon Coliseum; constructing, equipping and furnishing an instrumental music facility
- Issued July 1, 2009
- \$38,300,136; all bonds authorized have been issued
- Revenue Bond
- Business-Type Activities
- Source of Revenue for Debt Service – Pledged Revenues consisting of Unrestricted Current Funds Revenues but do not include: remissions, governmental appropriations and gifts, grants and contracts within the Educational and General Fund Group; Higher Education Assistance Funds; and, student service fees and private gifts in the Auxiliary Fund Group
- The Bonds are issued in part as current interest bonds, \$37,955,000, and in part as premium capital appreciation bonds, \$345,136

# Midwestern State University

## Notes To The Financial Statements - Unaudited

**Note 6: Continued**

<u>Premium Capital Appreciation Bonds</u>			<u>Unamortized Premium on CAB</u>			<u>Combined Totals</u>		
Beginning Principal Amount			Beginning Premium			(953,598)		
(530,322)			(423,277)					
Amortization Entries			Amortization Entries			(41,445)		
FY12	(85,348)		FY12	43,904				
Balance at Year End			Balance at Year End			(995,043)		
(615,670)			(379,373)					
Future Entries: FY13			Future Entries: FY13			(43,247)		
	(99,084)			55,837				
	(115,031)			FY14	69,903	(45,127)		
	(133,543)			FY15	86,457	(47,087)		
	(155,035)			FY16	105,902	(49,133)		
	(86,637)			FY17	61,274	(25,363)		
	(589,330)			379,373		(209,957)		
Maturity Value						(1,205,000)		
(1,205,000)			0					

Revenue Financing System Revenue Bonds, Series 2010

- Issued by the Texas public Finance Authority (TPFA) on behalf of the University. To pay for improving, renovating, enlarging and/or equipping the University’s existing D.L. Ligon Coliseum
- Issued April 1, 2010
- \$6,700,000; all bonds authorized have been issued
- Revenue Bond
- Business-Type Activities
- Source of Revenue for Debt Service – Pledged Revenues consisting of Unrestricted Current Funds Revenues but do not include: remissions, governmental appropriations and gifts, grants and contracts within the Educational and General Fund Group; Higher Education Assistance Funds; and, student service fees and private gifts in the Auxiliary Fund Group

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
- General Obligation Bond
- Business-Type Activities
- 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.”

# Midwestern State University

## Notes To The Financial Statements - Unaudited

### Note 7: Derivatives

Not Applicable.

### Note 8: Leases

Midwestern State University has entered into a long-term lease for financing the purchase of a capital asset. Such leases are classified as capital leases for accounting purposes; therefore, such leases are recorded at the present fair value of the future minimum lease payments at the inception of the lease. The following is the original capitalized cost of such property under lease in addition to the accumulated depreciation as of 8/31/12.

Business-Type Activities	Year Ended August 31, 2012		
<u>Class of Property</u>	<u>Assets under Capital Lease</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Vehicles	\$132,036	(\$16,289)	\$115,747

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$19,202	\$7,317	\$26,519
2014	\$20,577	\$5,943	\$26,520
2015	\$74,461	\$2,079	\$76,540
Total Minimum Lease Payments	\$114,240	\$15,339	\$129,579
Less: Amount Representing Interest at Various Rates			\$15,339
Present Value of Net Minimum Lease Payments			<u>\$114,240</u>

### Operating Leases

Future minimum lease rental payments under non-cancellable operating leases having an initial term in excess of one year are as follows:

<u>Year</u>	<u>Total</u>
2013	\$120,285
2014	\$86,272
2015	\$64,718
2016	\$37,927
2017	\$21,222
Total Future Minimum Lease Payments	<u>\$330,424</u>

# Midwestern State University

## Notes To The Financial Statements - Unaudited

### Note 9: Pension Plans

The state has established an optional retirement program for institutions of higher education. Participation in ORP is in lieu of participation in the Teacher Retirement System and is available to certain eligible employees. The contributions made by the plan members and employer for the fiscal year ended August 31, 2012 compared to the previous year are shown below:

	Year Ended August 31, 2012	Year Ended August 31, 2011
Member Contributions	\$1,105,506	\$1,148,451
Employer Contributions	\$1,178,576	\$1,270,927
Total Remittance	\$2,284,082	\$2,419,378

### Note 10: Deferred Compensation

The university's Board of Regents approved a non-qualified deferred compensation plan for the university President which provided for \$2,500 per month to be set-aside for the President for thirty-six months, ending August 31, 2011, at which time the President received the full distribution of the \$91,547 balance of the Deferred Compensation Account. A second non-qualified deferred compensation plan was approved by the Board of Regents, which provided for \$1,250 per month to be set-aside for the President for twelve months beginning September 1, 2010 and ending August 31, 2011, at which time the amount of \$3,750 per month would be set-aside for the President for twenty-four months, ending August 31, 2013. The balance of this account at August 31, 2012 was \$60,459.

University employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Sec 609.001. Deferred compensation plans are administered by the Employees Retirement System.

The State's 457 Plan complies with Internal Revenue Code, Section 457. This plan is referred to as the TexaSaver Deferred Compensation Plan and is available to all employees. Deductions, purchased investments, and earnings attributed to the 457 Plan are the property of the State and subject only to the claims of the State's general creditors. Participant rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 Plan, and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The University also administers a Tax-Deferred Account Program, created in accordance with Internal Revenue Code, Section 403(b). All eligible employees can participate. The Tax-Deferred Account Program is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved non-bank trustees such as mutual fund companies. The assets of this plan do not belong to the University, and thus it does not have a liability related to this plan.

### Note 11: Post-employment Health Care and Life Insurance Benefits

Not Applicable.

ANNUAL

FINANCIAL

REPORT

# Midwestern State University

## Notes To The Financial Statements - Unaudited

**Note 12: Interfund Activity and Transactions**

University transactions with other state agencies are as follows:

ANNUAL FINANCIAL REPORT

Name of State Agency, Agency Number	Interfund Receivable	Interfund Payable	Purpose
<b><u>Interfund Receivables and Payables—Current:</u></b>			
State Energy Conservation Office, 907 D23 Fund 7999		\$251,570	SECO Federal Revolving Loan
<b><u>Interfund Receivables and Payables—Non Current:</u></b>			
State Energy Conservation Office, 907 D23 Fund 7999		\$2,041,489	SECO Federal Revolving Loan
Name of State Agency, Agency Number	Due From Other Agencies	Due To Other Agencies	Purpose
<b><u>Due to Due From:</u></b>			
Texas Department of Motor Vehicles, 608 D23 Fund 5015	\$ 236		Texas Collegiate License Plate Fund
Texas Tech University, 733 D23 Fund 7999	55,664		Small Business Development Center
Stephen F. Austin State University, 755 D23 Fund 7999	2,429		Stateview Program Development
<b>Total Due From/To</b>	<b>\$ 58,329</b>		
	<u>Transfer In</u>	<u>Transfer Out</u>	
<b><u>Operating Transfers:</u></b>			
Texas Higher Education Coordinating Board, 781 D23 Fund 5103		\$ 299,543	Texas B-On-Time Loan Program
D23 Fund 0264		945	Dental Hygienist Degree or Certification Program
Texas Public Finance Authority, 347 D23 Fund 7999		632,683	Master Lease Purchase Payment
D23 Fund 7999	\$ 333,347		Master Lease Purchase Payment
<b>Total Transfers</b>	<b>\$ 333,347</b>	<b>\$ 933,171</b>	

The detailed State Grant Pass-Through information is listed on Schedule 1B-Schedule of State Grant Pass-Through From/To State Agencies.

**Note 13: Continuance Subject to Review**

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

# Midwestern State University

## Notes To The Financial Statements - Unaudited

### Note 14: Adjustments to Fund Balance/Net Assets

Not Applicable.

### Note 15: Contingencies and Commitments

There is no pending or threatened litigation.

### Note 16: Subsequent Events

The University issued \$4,710,000 of Revenue Financing System Revenue Refunding Bonds, Series 2012A and \$5,415,000 Revenue Financing System Revenue Refunding Bonds, Series 2012B to refund \$4,600,000 of the Revenue Financing System Revenue Bonds, Series 2002 and the \$4,945,000 of the Revenue Financing System Revenue and Refunding Bonds, Series 2003 on October 9, 2012. The refunding was undertaken to reduce total debt service payments by \$1,313,344 that will result in an economic gain of \$1,059,634.

While the university does not expect any additional state resources for capital construction from state appropriations for the next biennium, the generous support of donor contributions will provide funding for capital construction needs for the next two years. Short-term capital projects include razing of several old facilities to accommodate new parking and the expansion of the Engineering Building to add additional classrooms and class labs.

A \$40 million request has been submitted to the state to renovate the library to accommodate the West college of Education and Information Technology. Such construction is dependent on authorization from the Texas State Legislature for tuition revenue bonds. The current outlook for the authorization for this funding is not strong given the current unfunded demands on the state budget.

### Note 17: Risk Management

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. The University participates in the statewide property insurance program and purchases educators legal 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, 2012, 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. The university was assessed \$101,258 and \$79,062 for worker's compensation coverage for fiscal years ending August 31, 2011 and 2012, respectively. 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 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 \$30,000/\$60,000 bodily injury and \$25,000 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 with a combined single limit of \$1,000,000 if the Texas Tort Claims Act is not applicable.

# Midwestern State University

## Notes To The Financial Statements - Unaudited

**Note 18: Management Discussion and Analysis**

See Introduction.

**Note 19: The Financial Reporting Entity and Related parties**

The University is an agency of the State of Texas. The ten members of its Board of Regents are appointed by the Governor, and include one non-voting student Regent. The University has no component units or joint ventures; however, there are two related parties described below.

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 \$1,025,884 to the University during the year ended August 31, 2012, and \$611,378 for the prior year. The MSU Charitable Trust remitted restricted gifts of \$874,318 to the University during the year ended August 31, 2012 and \$460,070 for the prior year. The assets of the Midwestern State University Foundation and the MSU Charitable Trust as of August 31, 2012 are reported by their trustees in the amount of \$16,812,235 and \$24,012,296, respectively.

**Note 20: 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 21: Not Applicable to the AFR Reporting Requirements Process**

**Note 22: Donor Restricted Endowments**

<u>Donor-Restricted Endowment</u>	<u>Amounts of Net Appreciation</u>	<u>Reported in Net Assets</u>
True Endowments	None	Restricted for Nonexpendable
Term Endowments	\$ 421,028	Restricted for Nonexpendable
True Endowments	None	Restricted for Expendable

**Note 23: Extraordinary and Special Items**

Not Applicable.

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# Midwestern State University

## Notes To The Financial Statements - Unaudited

**Note 24: Disaggregation of Receivable and Payable Balances**

**Accounts Receivables**

The components of Other Receivables, as reported in the Statement of Net Assets, are as follows:

Accounts Receivable Category	Current Amount
3rd Party Contracts on Student Receivables	\$ 980,271
Non-Student Receivables from Other Agencies	256,980
MSU Foundation Receivable	115,000
Barnes and Noble Bookstore Receivable	49,622
Employee Travel Advances	10,219
Payroll Advances and Receivables	2,704
Miscellaneous Receivables	2,068
<b>Total</b>	<b>\$1,416,864</b>

Of these amounts, there are no significant receivable balances that the University does not expect to collect within the next fiscal year.

**Note 25: Termination Benefits**

Not applicable.

**Note 26: Segment Information**

Not applicable.

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# Midwestern State University

Unaudited

## Schedule 1A - Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2012, with Comparative Totals for the Year Ended August 31, 2011

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	CFDA Number	ID #	Univ/ Agy #	Pass-Through From		
				Agency Amount	University Amount	Non State Entities Amount
<u>U.S. Department of the Interior</u>						
Pass-Through From:						
Stephen F. Austin State University						
National Land Remote Sensing-Education Outreach & Research	15.815		755		\$ 2,428	
<u>National Endowment for the Humanities</u>						
Direct Programs:						
Promotion of the Humanities-Division of Preservation and Access	45.149					
<u>Small Business Administration</u>						
Pass-Through From:						
TTU-Small Business Development Center	59.037		733		144,276	
<u>U.S. Department of Education</u>						
: Direct Program:						
Bilingual Education Professional Development	84.195					
Pass-Through From:						
THECB-Improving Teacher Quality State Grants	84.367		781	\$ 17,098		
THECB-College Access Challenge Grant Program	84.378		781			
Totals - U.S. Department of Education				17,098		
<u>U.S. Department of Health &amp; Human Services</u>						
Direct Program:						
Advanced Education Nursing Traineeships	93.358					
<b>Special Education (IDEA) Cluster</b>						
<u>U.S. Department of Education</u>						
Pass-Through From:						
TAMU Texarkana-Special Ed Grants to State	84.027		764			
<b>Statewide Data Systems Cluster</b>						
<u>U.S. Department of Education</u>						
Pass-Through From:						
Statewide Data Systems	84.372		781			

<u>Direct Program</u>	<u>Total Pass-Through From &amp; Direct Program</u>	<u>Pass-Through To</u>		<u>Expenditures</u>	<u>2012</u>	<u>2011</u>
		<u>Agency or Univ Amount</u>	<u>Non-State Entities Amount</u>		<u>Total PT To and Expenditures Amount</u>	<u>Total PT To and Expenditures Amount</u>
	\$ 2,428			\$ 2,428	\$ 2,428	\$ 5,042
2,000	2,000			2,000	2,000	4,000
	144,276			144,276	144,276	114,603
256,845	256,845			256,845	256,845	279,354
	17,098			17,098	17,098	34,375
256,845	273,943			273,943	273,943	43,295
						357,024
18,600	18,600			18,600	18,600	26,920
						40,636
						2,000

# Midwestern State University

Unaudited

## Schedule 1A - Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended August 31, 2012 with Comparative Totals for the Year Ended August 31, 2011

	CFDA Number	ID #	Univ/ Agy #	Pass-Through From		
				Agency Amount	University Amount	Non State Entities Amount
<b>Student Financial Assistance Cluster</b>						
<u>U.S. Department of Education</u>						
Direct Programs:						
Federal Supplemental Education Opportunity Grants	84.007					
Federal Work-Study Program	84.033					
Federal Perkins Loan Program - Federal Capital Contributions	84.038					
Federal Pell Grant Program	84.063					
Federal Direct Student Loans	84.268					
Academic Competitiveness Grants	84.375					
National Science and Mathematics Access to Retain Talent (SMART)	84.376					
Teacher Education Assistance for College & HE Grants (TEACH)	84.379					
Total Student Financial Assistance Cluster Programs						
<b>State Fiscal Stabilization Fund Cluster</b>						
<u>U.S. Department of Education</u>						
Pass-Through From:						
THECB-ARRA Government Services, Recovery Act	84.397			\$ 20,311		
<b>Teacher Quality Partnership Grants Cluster</b>						
<u>U.S. Department of Education</u>						
Teacher Quality Enhancement Grants	84.336					
<b>TRIO Cluster</b>						
<u>U.S. Department of Education</u>						
Direct Programs						
TRIO-Student Support Services	84.042					
TRIO-Upward Bound	84.047					
Totals—U.S. Department of Education						
Total Federal Financial Assistance				\$ 37,409	146,704	

**Note 3a: Student Loans Processed and Administrative Cost Recovered**

Federal Grantor/CFDA Number/Program Name	New Loans Processed	Admin Costs Re- covered	Total Loans Processed and Admin Costs Recovered	Ending Balances of Previous Years' Loans
U.S. Department of Education				
84.268 Federal Direct Student Loans Program	\$ 29,317,084			
84.038 Federal Perkins Loan Program				\$ 72,856
Total Department of Education	\$ 29,317,084			\$ 72,856

**Note 7: Federal Deferred Revenue**

CFDA Number/Program Name	Federal Deferred Revenue 09/01/11	Increase / (Decrease)	Federal Deferred Revenue 08/31/12
None for the Year Ended August 31, 2012			

Direct Program	Total Pass-Through From & Direct Program	Pass-Through To		Expenditures	2012	2011
		Agency or Univ Amount	Non-State Entities Amount		Total PT To and Expenditures Amount	Total PT To and Expenditures Amount
\$ 162,380	\$ 162,380			\$ 162,380	\$ 162,380	\$ 167,472
116,819	116,819			116,819	116,819	134,876
						16,000
8,793,999	8,793,999			8,793,999	8,793,999	9,633,055
29,317,084	29,317,084			29,317,084	29,317,084	28,547,813
						268,542
						84,000
198,300	198,300			198,300	198,300	161,259
38,588,582	38,588,582			38,588,582	38,588,582	39,013,017
	20,311			20,311	20,311	625,759
120,716	120,716	\$ 28,441		92,275	120,716	424,652
222,747	222,747			222,747	222,747	205,632
300,259	300,259			300,259	300,259	303,051
523,006	523,006			523,006	523,006	508,683
\$39,509,749	\$39,693,862	\$ 28,441		\$39,665,422	\$39,693,862	\$41,120,336

**Note 2: Reconciliation**

	08/31/2012
Federal Revenues - Per Exhibit II	
Federal Grant Revenue - Operating	\$ 1,398,665
Federal Grant Revenue - Non-Operating	8,793,999
Federal Pass-through Revenue-Operating	163,803
Federal Pass-through Revenue-Non-Operating	20,311
Total Federal Revenues	10,376,778
Reconciling Items: New Loans Processed	
Federal Perkins Loans Processed	
Federal Direct Student Loans Processed	29,317,084
	<u>\$39,693,862</u>

# Midwestern State University

Unaudited

## Schedule 1B - Schedule of State Grant Pass Through From/To State Agencies For the Years Ended August 31

<b>A N N U A L  F I N A N C I A L  R E P O R T</b>	<u>Operating Revenue:</u>	<u>2012</u>	<u>2011</u>
	Pass Through From:		
	UT System (Agy #720)		
	Joint Admission Medical Program (JAMP)	\$ (1,542)	\$ 13,362
	Texas Higher Education Coordinating Board (Agy #781)		
	5th Year Accounting	5,000	0
	Certified Educational Aide Program		95,880
	College Readiness Initiative		7,620
	College Work Study Program	28,050	31,357
	Early High School Program HB 1479	16,952	14,906
	Engineering Recruitment Program		22,246
	Financial Aid - Professional Nursing		24,793
	General Academic Enrollment Growth		14,525
	Nursing & Allied Health	190,829	188,979
	Professional Nursing Shortage Reduction Program	(137,152)	91,084
	Texas Grants Program	2,268,333	2,695,722
	Top 10% Scholarships	184,000	140,000
	Total Operating Pass Through Revenue (Exhibit II)	<u>\$2,554,470</u>	<u>\$3,340,474</u>
	Pass Through To:		
	None		

# Midwestern State University

Unaudited

**Midwestern State University**  
**Schedule 2A - Miscellaneous Bond Information**  
**For the Fiscal Year Ended August 31, 2012**

ANNUAL FINANCIAL REPORT

**Business Type Activities**

Description of Issue	Bonds Issued To Date	Range of Interest Rates	Scheduled Maturities		First Call Date
			First Year	Last Year	
<u>General Obligation Bonds:</u>					
<b>Constitutional Appropriation Bonds:</b> Series 2004	\$ 11,185,000	2.75% - 3.75%	2005	2013	None
<u>Revenue Bonds:</u>					
<b>Revenue Financing System Revenue Bonds:</b> Series 2002	8,965,000	4.00% - 5.00%	2003	2021	12-01-12
<b>Building Revenue &amp; Refunding Bonds:</b> Series 2003	13,180,000	2.00% - 5.00%	2003	2024	12-01-13
<b>Revenue and Refunding Bonds:</b> Series 2007	28,855,000	4.00% - 4.625%	2008	2032	12-01-16
<b>Revenue Financing System Revenue Bonds:</b> Series 2008	38,300,136	3.00% - 5.25%	2008	2034	12-01-18
<b>Revenue Financing System Revenue Bonds:</b> Series 2010	6,700,000	4.00% - 5.00%	2012	2036	12-01-20
Total	\$107,185,136				

# Midwestern State University

Unaudited

**Midwestern State University**  
**Schedule 2B - Changes in Bonded Indebtedness**  
**For the Fiscal Year Ended August 31, 2012**

ANNUAL

FINANCIAL

REPORT

Description of Issue	Bonds Outstanding 09-01-2011	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08-31-2012	Amounts Due Within One Year
<b><u>General Obligation Bonds:</u></b>						
Constitutional Appropriation Bonds:						
Series 2004	\$ 4,210,000		\$1,350,000		\$ 2,860,000	\$1,405,000
<b><u>Revenue Bonds:</u></b>						
Revenue Financing System Revenue Bonds:						
Series 2002	5,935,000		425,000		5,510,000	445,000
Building Revenue and Refunding Bonds:						
Series 2003	8,655,000		730,000		7,925,000	760,000
Revenue and Refunding Bonds:						
Series 2007	25,845,000		1,240,000		24,605,000	1,290,000
Revenue Financing System Revenue Bonds:						
Series 2008	36,710,321	\$85,349 *	1,020,000		35,775,670	1,055,000
Revenue Financing System Revenue Bonds:						
Series 2010	6,700,000		150,000		6,550,000	155,000
Total	<u>\$88,055,321</u>	<u>\$85,349</u>	<u>\$4,915,000</u>		<u>\$83,225,670</u>	<u>\$5,110,000</u>

\*Accretion on Capital Appreciation Bonds



<u>Unamortized Premium</u>	<u>Unamortized Discount</u>	<u>Unamortized Gain (Loss) On Refunding</u>	<u>Net Bonds Outstanding 08-31-2012</u>	<u>Amounts Due Within One Year</u>
			\$ 2,860,000	
			5,510,000	
			7,925,000	
	(\$246,566)		24,358,434	(\$12,344)
\$ 379,373			36,155,043	55,837
			6,550,000	
<u>\$ 379,373</u>	<u>(\$246,566)</u>	<u></u>	<u>\$83,358,477</u>	<u>\$43,493</u>

# Midwestern State University

Unaudited

Midwestern State University  
Schedule 2C - Debt Service Requirements  
For the Fiscal Year Ended August 31, 2012

Business Type Activities

Description of Issue	2013	2014	2015	2016	2017
<b><u>General Obligation Bonds:</u></b>					
<b>Constitutional Appropriation Bonds:</b>					
<b>Series 2004</b>					
Principal	\$1,405,000	\$1,455,000			
Interest	79,150	27,281			
<b><u>Revenue Bonds:</u></b>					
<b>Revenue Financing System Revenue Bonds:</b>					
<b>Series 2002</b>					
Principal	445,000	465,000	485,000	505,000	530,000
Interest	247,133	227,239	206,809	185,024	161,730
<b>Revenue Financing System Revenue and Refunding Bonds:</b>					
<b>Series 2003</b>					
Principal	760,000	790,000	830,000	600,000	450,000
Interest	357,898	326,898	289,310	254,472	231,298
<b>Revenue Financing System Revenue and Refunding Bonds:</b>					
<b>Series 2007</b>					
Principal	1,290,000	1,350,000	1,400,000	1,455,000	1,515,000
Interest	1,032,733	979,932	924,933	866,014	804,795
<b>Revenue Financing System Revenue Bonds:</b>					
<b>Series 2008</b>					
Principal	1,055,000	1,095,000	1,140,000	1,180,000	1,205,000
Interest	1,605,582	1,566,589	1,523,258	1,476,858	2,313,121
<b>Revenue Financing System Revenue Bonds:</b>					
<b>Series 2010</b>					
Principal	155,000	160,000	170,000	180,000	380,000
Interest	297,406	291,106	284,506	276,606	267,481
Total	8,729,902	8,734,045	7,253,816	6,978,974	7,858,425
Less Interest	(3,619,902)	(3,419,045)	(3,228,816)	(3,058,974)	(3,778,425)
Total Principal	\$5,110,000	\$5,315,000	\$4,025,000	\$3,920,000	\$ 4,080,000

Year  
Ended  
8-31-2012  
(UNAUDITED)

<u>2018-22</u>	<u>2023-27</u>	<u>2028-32</u>	<u>2033-37</u>	<u>Total Requirements</u>
				\$ 2,860,000
				106,431
3,080,000				5,510,000
395,029				1,422,964
2,600,000	1,895,000			7,925,000
803,494	145,375			2,408,745
6,380,000	6,305,000	4,910,000		24,605,000
3,151,019	1,858,798	570,519		10,188,743
6,695,000	8,330,000	10,065,000	5,600,000	36,365,000
5,749,746	4,965,862	2,776,691	370,387	22,348,094
880,000	1,335,000	1,650,000	1,640,000	6,550,000
1,186,081	897,425	565,153	156,088	4,221,852
<u>30,920,369</u>	<u>25,732,460</u>	<u>20,537,363</u>	<u>7,766,475</u>	<u>124,511,829</u>
<u>(11,285,369)</u>	<u>(7,867,460)</u>	<u>(3,912,363)</u>	<u>(526,475)</u>	<u>(40,696,829)</u>
<u>\$19,635,000</u>	<u>\$17,865,000</u>	<u>\$16,625,000</u>	<u>\$ 7,240,000</u>	<u>\$83,815,000</u>
			Less Unamortized Accretion	(589,330)
				<u>\$83,225,670</u>

# Midwestern State University

Unaudited

**Midwestern State University**  
**Schedule 2D - Analysis of Funds Available for Debt Service**  
**For the Year Ended August 31, 2012**

ANNUAL FINANCIAL REPORT

**Business Type Activities**  
**Description of Issue**

		<u>Application of Funds</u>			
		<u>Principal</u>	<u>Interest</u>		
<b><u>General Obligation Bonds</u></b>					
<b>Constitutional Appropriation</b>					
	Bond - Series 2004	\$ 1,350,000	\$ 127,363		
		<u>Pledged and Other Sources and Related Expenditures for FY 2012</u>			
		<u>Net Available for Debt Service</u>			
		<u>Total Pledged and Other Sources</u>	<u>Operating Expenses/ Expenditures And Capital Outlay</u>	<u>Debt Service</u>	
				<u>Principal</u>	<u>Interest</u>
<b><u>Revenue Financing System Revenue Bonds</u></b>					
<b>Revenue Financing System</b>					
	Revenue Bonds: Series 2002			\$ 425,000	\$ 266,176
<b>Building Revenue &amp; Refunding</b>					
	Bonds: Series 2003			730,000	387,698
<b>Revenue and Refunding Bonds:</b>					
	Series 2007		\$ 1,100,907	1,240,000	1,083,333
<b>Revenue Financing System</b>					
	Revenue Bonds: Series 2008		99,282	1,020,000	1,641,895
<b>Revenue Financing System</b>					
	Revenue Bonds: Series 2010		3,425,646	150,000	303,506
<b>Total for all Revenue Financing</b>					
<b>System Revenue Bonds</b>		\$62,350,587	\$ 4,625,835	\$ 3,565,000	\$ 3,682,608

Year  
 Ended  
 8-31-2012  
 (UNAUDITED)

# Midwestern State University

Unaudited

Midwestern State University  
 Schedule 2E - Defeased Bonds Outstanding  
 For the Fiscal Year Ended August 31, 2012

ANNUAL

**Business Type Activities**

<u>Description of Issue</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
<b>None for the Year Ended August 31, 2012</b>		
Total	<u>\$0</u>	<u>\$0</u>

FINANCIAL

REPORT

Year Ended  
8-31-2012  
(UNAUDITED)

# Midwestern State University

Unaudited

**Midwestern State University**  
**Schedule 2F - Early Extinguishment and Refunding**  
**For the Fiscal Year Ended August 31, 2012**

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**Business Type Activities**

Description of Issue	Category	Amount Extinguished or Refunded	Refunded Issued Par Value	Cash Flow Increase (Decrease)	*Economic Gain/(Loss)
<u>Revenue Bonds:</u>					
<b>None for the Year Ended August 31, 2012</b>					
Total		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

# Midwestern State University

Unaudited

**Midwestern State University**  
**Schedule 3 - Reconciliation of Cash in State Treasury**  
**For the Years Ended August 31**

Cash in State Treasury	Unrestricted	Restricted	Current Year 2012	Prior Year 2011
General Revenue - Dedicated Fund 0264	\$ 4,571,688		\$ 4,571,688	\$ 4,702,214
Special Mineral Fund - Fund 0412	9,874		9,874	0
Total Cash in State Treasury (Stmnt of Net Assets)	<u>\$ 4,581,562</u>		<u>\$ 4,581,562</u>	<u>\$ 4,702,214</u>

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