

Missouri Southern State University (A Component Unit of the State of Missouri)

Independent Auditor's Reports and Financial Statements

June 30, 2018 and 2017

Missouri Southern State University
(A Component Unit of the State of Missouri)
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Governors
Missouri Southern State University
Joplin, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Missouri Southern State University (the "University"), a component unit of the state of Missouri, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Missouri Southern Foundation, the discretely presented component unit of the University. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Missouri Southern Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Missouri Southern State University as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, on our consideration of Missouri Southern State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

BKD, LLP

Missouri Southern State University
(A Component Unit of the State of Missouri)
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

Overview

Missouri Southern State University (MSSU) has a long and rich history of excellence in academics, student services and community service. Located in Southwest Missouri on a beautiful 373-acre campus, MSSU is a public institution with a liberal arts foundation that fulfills its mission by educating students of all ages and socioeconomic backgrounds.

Missouri Southern State University offers more than 100 majors and degree options, five graduate programs and additional graduate programs through cooperative partnerships. Our extensive distance-learning program allows flexibility to our students.

Faculty and staff at MSSU work diligently to provide their students with a successful academic experience. A diverse student body adds to the fine higher education offered at MSSU where quality academic programs, modern state-of-the-art facilities, small classes and excellent, accessible professors complete the unique community.

The curriculum at Missouri Southern State University focuses on professional orientation and is committed to preparing students for a successful career in a rapidly changing global economy. Programs begin with general education requirements for all students leading to bachelor's degrees and providing a strong foundation for lifelong study.

Academic Programs

The academic programs at the University are organized under four schools: Robert W. Plaster School of Business, School of Arts and Sciences, School of Education and School of Health Sciences. Each school has varied degree programs that offer extensive opportunities. MSSU also has strong programs in Honors and International Studies.

Management Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Missouri Southern State University for the years ended June 30, 2018 and 2017. These statements provide both long-term and short-term financial information on the Missouri Southern State University campus as a whole. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis.

In 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which revises accounting and financial reporting standards for other post-employment benefits that are provided to the employees of state and local governmental employers through health care benefits that are administered through trusts and equivalent arrangements in which specific criteria are met. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenditures. For defined benefit post-employment benefits, this statement identifies the methods and assumptions that

should be used to project benefit payments, discount projected benefit payments to the actuarial present value and attribute that present value to periods of employee service. Information for the year ended June 30, 2017, was not restated for the application of GASB Statement No. 75 as it was deemed impractical to do so.

Basic Financial Statements

The University's financial report includes three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These statements focus on the University as a whole, with resources classified for accounting and reporting purposes into four net position categories. Net position is one way to measure the University's financial position. Over time, increases or decreases in the University's net position are indicators of whether its financial position is improving. Nonfinancial factors are also important to consider including trends in student enrollment, condition and upgrades to facilities and competency and excellence of the work force.

Financial Highlights

2018

At June 30, 2018, the University's net position was \$66.0 million. Operating revenues were \$33.5 million, which include tuition and fees of \$17.2 million, grants of \$5.7 million, auxiliary revenues of \$9.4 million and other revenues of \$1.2 million. Operating expenses amounted to \$76.3 million resulting in an operating loss of \$42.8 million before state appropriations and other nonoperating revenues and expenses. The 2018 operating loss, net nonoperating revenue of \$37.4 million and capital gifts and grants of \$4.2 million resulted in a decrease in net position of \$1.2 million and included depreciation and amortization expense of \$5.9 million.

2017

At June 30, 2017, the University's net position was \$68.4 million. Operating revenues were \$34.0 million, which include tuition and fees of \$17.7 million, grants of \$6.0 million, auxiliary revenues of \$9.2 million and other revenues of \$1.1 million. Operating expenses amounted to \$75.5 million resulting in an operating loss of \$41.5 million before state appropriations and other nonoperating revenues and expenses. The 2017 operating loss, net nonoperating revenue of \$36.2 million and capital gifts and grants of \$11.3 million resulted in an increase in net position of \$6.0 million and included depreciation and amortization expense of \$5.7 million.

Analysis of Changes in Net Position

The following table summarizes the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2018, 2017 and 2016.

Net Position, End of Year (In Millions)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current Assets	\$ 19.5	\$ 17.0	\$ 15.4
Capital Assets – Net	126.2	127.3	118.5
Other Noncurrent Assets	<u>6.4</u>	<u>6.2</u>	<u>2.9</u>
Total assets	<u>\$ 152.1</u>	<u>\$ 150.5</u>	<u>\$ 136.8</u>
Deferred Outflows of Resources	<u>\$ 18.2</u>	<u>\$ 17.8</u>	<u>\$ 6.7</u>
Current Liabilities	\$ 8.8	\$ 8.8	\$ 8.0
Noncurrent Liabilities	<u>92.6</u>	<u>89.7</u>	<u>71.9</u>
Total liabilities	<u>\$ 101.4</u>	<u>\$ 98.5</u>	<u>\$ 79.9</u>
Deferred Inflows of Resources	<u>\$ 2.9</u>	<u>\$ 1.4</u>	<u>\$ 1.2</u>
Net Position			
Net investment in capital assets	\$ 91.3	\$ 90.4	\$ 82.5
Restricted	4.7	4.4	4.0
Unrestricted	<u>(30.0)</u>	<u>(26.4)</u>	<u>(24.1)</u>
Total net position	<u>\$ 66.0</u>	<u>\$ 68.4</u>	<u>\$ 62.4</u>

Of the \$4.7 million in restricted net position in 2018, \$3.3 million of capital contributions in the federal student loan program is classified as nonexpendable. The expendable portion, \$1.4 million, is held for scholarships, capital projects and debt payments. Of the \$4.4 million in restricted net position in 2017, \$3.4 million of capital contributions in the federal student loan program is classified as nonexpendable. The expendable portion, \$1.0 million, is held for scholarships, capital projects and debt payments.

Unrestricted net position has a negative balance that began in fiscal year 2015. This resulted from the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements established standards for the measurement, recognition and presentation of net pension liability and other postemployment benefits in the University's financial statements. Net pension liabilities recorded on the statement of net position in accordance with GASB Statement No. 68 totaled \$54.3 million, \$50.7 million and \$35.9 million at June 30, 2018, 2017, and 2016, respectively.

Additional impact to unrestricted net position resulted from implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Other postemployment benefit liability as of June 30, 2018, totaled \$2.0 million.

The following table summarizes the University's revenues, expenses and changes in net position for the years ending June 30, 2018, 2017 and 2016:

Change in Net Position (In Millions)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues			
Tuition and fees	\$ 17.2	\$ 17.7	\$ 17.0
Grants and contracts	5.7	6.0	5.3
Interest on loans to students	0.1	0.1	0.1
Auxiliary enterprises	9.4	9.2	8.3
Other	<u>1.1</u>	<u>1.0</u>	<u>1.1</u>
Total operating revenues	33.5	34.0	31.8
Operating Expenses	<u>76.3</u>	<u>75.5</u>	<u>71.0</u>
Operating Loss	<u>(42.8)</u>	<u>(41.5)</u>	<u>(39.2)</u>
Nonoperating Revenue (Expense)			
State appropriations	22.3	22.8	23.7
Federal grants and contracts	12.7	11.6	11.5
Contributions	2.8	2.5	2.5
Investment income	0.3	0.1	0.1
Interest on capital asset – related debt	(1.3)	(1.3)	(1.4)
Loss on disposal of capital assets and construction in progress	0.0	0.0	(0.1)
Other nonoperating revenues	<u>0.6</u>	<u>0.5</u>	<u>0.5</u>
Net nonoperating revenues	<u>37.4</u>	<u>36.2</u>	<u>36.8</u>
Loss Before Other Revenues	<u>(5.4)</u>	<u>(5.3)</u>	<u>(2.4)</u>
Capital appropriations – state	3.7	10.6	1.1
Capital gifts and grants	<u>0.5</u>	<u>0.7</u>	<u>2.0</u>
Total other revenues, expenses, gains or losses	<u>4.2</u>	<u>11.3</u>	<u>3.1</u>
Increase (Decrease) in Net Position	<u>(1.2)</u>	<u>6.0</u>	<u>0.7</u>
Net Position, Beginning of Year, as Previously Reported	68.4	62.4	61.7
Cumulative Effect of Change in Accounting Principle (GASB 75)	<u>(1.2)</u>	<u>0.0</u>	<u>0.0</u>
Net Position, Beginning of Year, as Restated for GASB 75	<u>67.2</u>	<u>62.4</u>	<u>61.7</u>
Net Position, End of Year	<u>\$ 66.0</u>	<u>\$ 68.4</u>	<u>\$ 62.4</u>

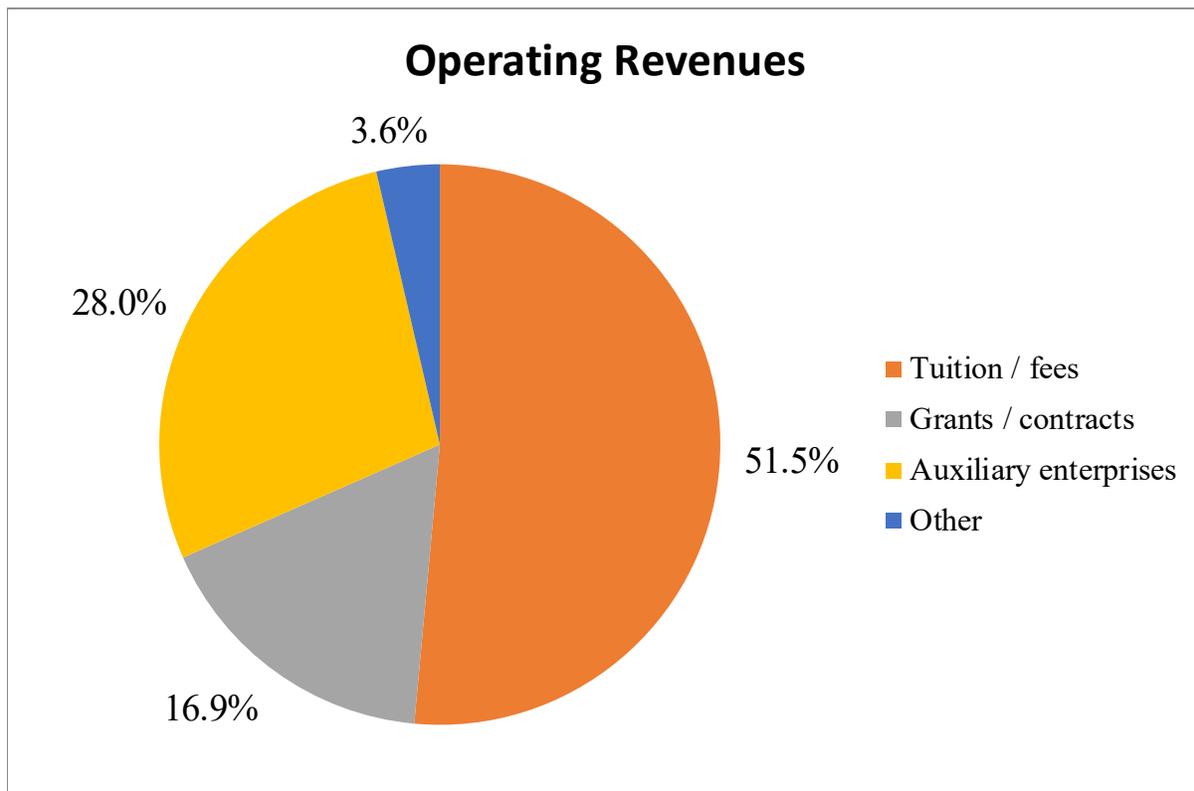
2018

Total operating revenues decreased 1.47% from \$34.0 to \$33.5 million during fiscal year ended June 30, 2018. The overall decrease is from tuition decrease due to tuition offset with additional scholarship allowance, reduction in access Missouri per student grant and offset with some increase in auxiliary and other operating revenue.

2017

Total operating revenues increased 6.92% from \$31.8 to \$34.0 million during fiscal year ended June 30, 2017. Tuition increase reflects increased enrollment and additional LionPride and Graduate program revenue. State grants increased primarily from larger annual award per student for Access Missouri grants. Auxiliary enterprises increased due to additional housing and bookstore revenue.

The following graph summarizes the University's operating revenues for the year ended June 30, 2018:



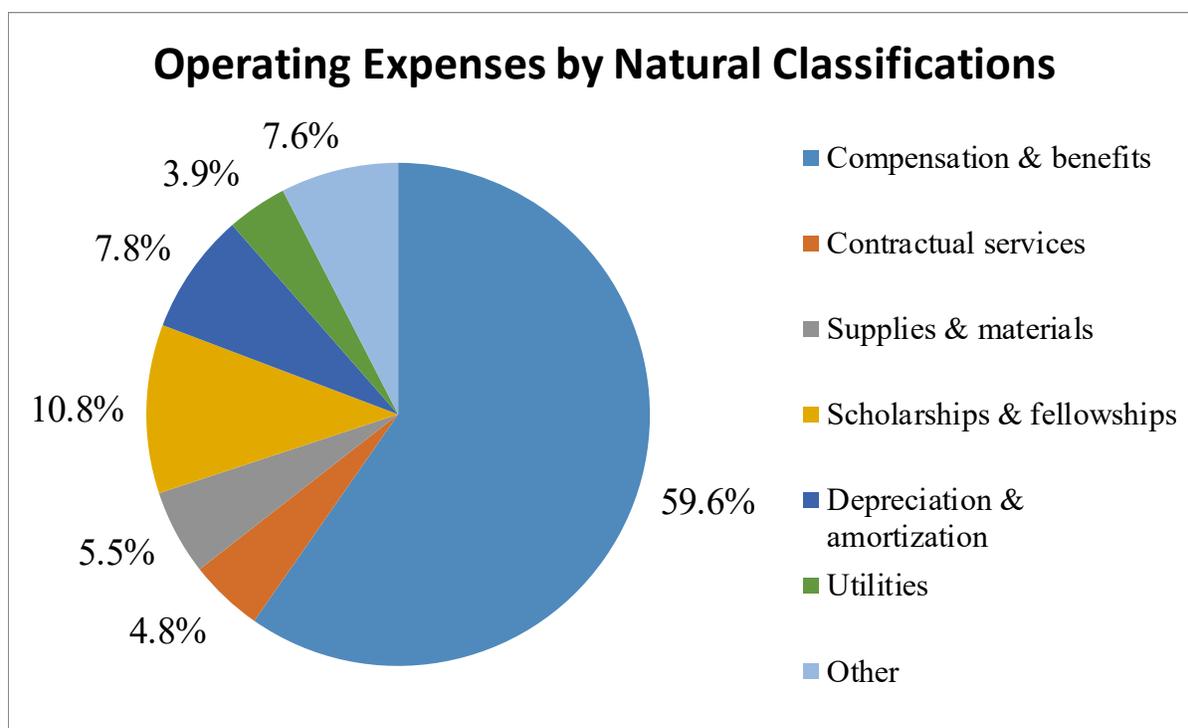
Operating expenses increased by \$0.8 million (1.06%). Primary increase from benefits were the result of the impact of GASB 68 net pension expense that created an additional \$4.6 million in calculated expense and implementation of GASB 75 (OPEB). Reduced expenses are from supplies, contract services, other operating expenses.

The following table summarizes the University's operating expenses by natural classifications for the years ended June 30, 2018, 2017 and 2016:

Operating Expenses (In Millions)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Compensation and benefits	\$ 45.6	\$ 44.2	\$ 40.1
Contractual services	3.6	3.8	3.5
Supplies and materials	4.2	4.6	4.4
Scholarships	8.3	8.3	8.1
Depreciation and amortization	5.9	5.7	5.6
Utilities	3.0	2.9	2.8
Other	<u>5.7</u>	<u>6.0</u>	<u>6.5</u>
 Total operating expenses	 <u>\$ 76.3</u>	 <u>\$ 75.5</u>	 <u>\$ 71.0</u>

The following graph summarizes the University's operating expenses by natural classifications for the year ended June 30, 2018:

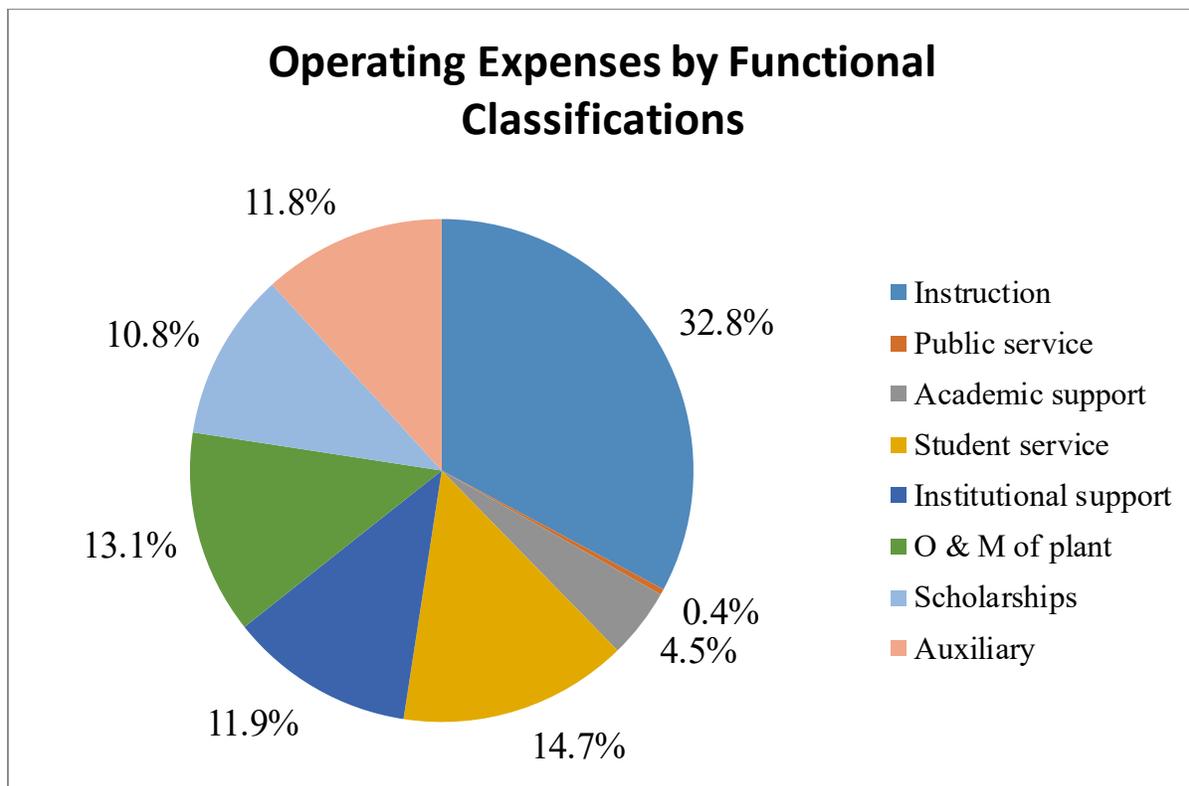


The following table summarizes the University’s operating expenses by functional classifications for the years ended June 30, 2018, 2017 and 2016:

Operating Expenses by Functional Classifications (In Millions)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Instruction	\$ 25.0	\$ 26.0	\$ 23.3
Public service	0.3	0.2	0.2
Academic support	3.4	3.4	3.6
Student service	11.2	10.9	9.5
Institutional support	9.1	8.4	6.7
Operations and maintenance of plant	10.0	9.8	10.5
Scholarships	8.3	8.1	8.3
Auxiliary	<u>9.0</u>	<u>8.7</u>	<u>8.9</u>
 Total operating expenses	 \$ <u>76.3</u>	 \$ <u>75.5</u>	 \$ <u>71.0</u>

The following graph summarizes the University’s operating expenses by functional classifications for the year ended June 30, 2018:



2018

Functional expenses for fiscal year 2018 saw an increase from GASB 68 net pension expense that created an additional \$4.6 million in calculated expense, implementation of GASB 75 (OPEB) and additional scholarships. Reduced expenses are from supplies, contract services and other operating expenses.

2017

Functional expenses for fiscal year 2017 saw an increase from compensation and benefits that were the result of the impact of GASB 68 net pension calculation that created an additional \$3.8 million in calculated expense.

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2018, 2017 and 2016:

Nonoperating Revenues and Expenses (In Millions)

	2018	2017	2016
State appropriations	\$ 22.3	\$ 22.8	\$ 23.7
Federal grants and contracts	12.7	11.6	11.5
Contributions	2.8	2.5	2.5
Investment income	0.3	0.1	0.1
Interest on capital asset-related debt	(1.3)	(1.3)	(1.4)
Loss on disposal of capital assets and construction in progress	0.0	0.0	(0.1)
Other nonoperating expenses	<u>0.6</u>	<u>0.5</u>	<u>0.5</u>
Net nonoperating revenues	<u>\$ 37.4</u>	<u>\$ 36.2</u>	<u>\$ 36.8</u>

The following table summarizes the University's cash flows for the years ended June 30, 2018, 2017 and 2016:

Cash Flows (In Millions)

	2018	2017	2016
Cash Provided By (Used In)			
Operating activities	\$ (32.9)	\$ (31.9)	\$ (33.4)
Noncapital financing activities	38.3	37.3	38.2
Capital and related financing activities	(3.3)	(4)	(6.1)
Investing activities	<u>0.3</u>	<u>0.1</u>	<u>5.1</u>
Net Change in Cash and Cash Equivalents	2.4	5.1	3.8
Cash and Cash Equivalents, Beginning of Year	<u>16.4</u>	<u>11.3</u>	<u>7.5</u>
Cash and Cash Equivalents, End of Year	<u>\$ 18.8</u>	<u>\$ 16.4</u>	<u>\$ 11.3</u>

2018

Cash provided by operating activities resulted from receipts from tuition and fees, grants and contracts, auxiliary enterprises, student loans and cash used resulted from payments to suppliers, utilities, employees and others resulting in net cash used in operating activities of \$32.9 million. Cash provided by noncapital financing activities of \$38.3 million includes state appropriations, gifts and grants for other than capital purposes and other. Cash used in capital and related financing activities of \$3.3 million consists primarily of purchases of capital assets, gifts and grants for capital projects and principal and interest paid on capital debt and leases. Cash provided by investing activities resulted from interest earned from bank cash balances. Cash and cash equivalents at June 30, 2018, were \$18.8 million, which increased \$2.4 million from June 30, 2017.

2017

Cash provided by operating activities resulted from receipts from tuition and fees, grants and contracts, auxiliary enterprises, student loans and cash used resulted from payments to suppliers, utilities, employees and others resulting in net cash used in operating activities of \$31.9 million. Cash provided by noncapital financing activities of \$37.3 million includes state appropriations, gifts and grants for other than capital purposes and other. Cash used in capital and related financing activities of \$0.4 million consists primarily of purchases of capital assets, gifts and grants for capital projects and principal and interest paid on capital debt and leases. Cash provided by investing activities resulted from interest earned from bank cash balances. Cash and cash equivalents at June 30, 2017, were \$16.4 million, which increased \$5.1 million from June 30, 2016.

Capital Assets

2018

At June 30, 2018, the University had \$126.2 million (net of accumulated depreciation), compared to \$127.3 million at June 30, 2017, invested in a broad range of capital assets, including land, land improvements, buildings and improvements, infrastructure, furniture, fixtures and equipment, vehicles, works of art, library materials and construction in progress. Additional information of the University's capital assets can be found in *Note 3* to the financial statements.

2017

At June 30, 2017, the University had \$127.3 million (net of accumulated depreciation), compared to \$118.5 million at June 30, 2016, invested in a broad range of capital assets, including land, land improvements, buildings and improvements, infrastructure, furniture, fixtures and equipment, vehicles, works of art, library materials and construction in progress. Additional information of the University's capital assets can be found in *Note 3* to the financial statements.

Long-Term Debt

2018

At June 30, 2018, the University had \$37.4 million in bonds and other long-term debt payable, of which \$2.1 million is payable during the upcoming fiscal year. The total balance payable represents a decrease of \$2.0 million from 2017, which represents principal payments made during the most recent fiscal year. *Note 4* to the financial statements provides additional information about the University's long-term debt.

2017

At June 30, 2017, the University had \$39.4 million in bonds and other long-term debt payable, of which \$2 million is payable during the upcoming fiscal year. The total balance payable represents an increase of \$3.1 million from 2016, which represents the issuance of \$5 million in MOHEFA bonds for various construction projects offset with principal payments made during the most recent fiscal year. *Note 4* to the financial statements provides additional information about the University's long-term debt.

Economic Outlook

Missouri Southern State University began as a two-year college and grew to a four-year university. With this growth, the need for additional space was necessary. The move to the Mission Hills estate allowed for expansion and future growth while providing an ever-lasting legacy. On October 27, 2017, Missouri Southern State University celebrated 50 years at the former Mission Hills estate. Missouri Southern now serves as an educational, athletic and cultural hub for our region.

Following the partial renovation of the 40-year-old Reynolds Hall building, the University continues its focus on the STEM programs with the construction of Nixon Hall. These facilities house our math and science programs and will provide continued support to the medical community.

The University unveiled a new football stadium videoboard that is the third largest in NCAA Division II. Funded by donors, the project will add excitement to the games as well as offer an educational opportunity to gain hands on broadcasting experience.

The state continues to struggle to find resources to meet all the needs throughout the state. FY2018, reflected a reduction in state appropriations. As Missouri Southern continued to be the least funded university from combined appropriations and tuition, the unenviable task of increasing tuition was set for FY2019. The University initially increased tuition by \$30.00. The increase activated the penalty provision of Senate Bill 389. After much deliberation, the University agreed to an increase of \$20.00 for FY2019 in exchange for no penalty. In addition, the legislature voted to provide financial assistance to the University in the form of a one-time appropriation supplement of \$1,000,000 in FY2019.

Senate Bill 389 limitations on tuition increases have placed higher education in a difficult financial position in years where state funding has decreased. When appropriations are cut and tuition increases are limited, it places a hardship on universities to function to the best of their abilities for their students. In order to address this inequity, Senate Bill 807 (SB807) allows for a remedy during periods of decreased appropriations. SB807 asserts, "The act changes the cap on tuition increases at public institutions of higher education in the state. Currently, tuition increases are capped at the rate of inflation. The act permits institutions to increase their tuition by inflation plus an amount, but not more than 5%, that would produce an increase in net tuition revenue, as defined in the act, no greater than the amount by which state operating support was reduced in the previous fiscal year. (Section 173.1003)."

In spring 2019, Missouri Southern will have an on-site comprehensive evaluation by the Higher Learning Commission (HLC). The evaluation ensures compliance with criteria for accreditation and certain requirements set by the Department of Education.

Our HLC Quality Initiative, Great Game of Education (GGOE), assisted the University in refining processes and metrics to develop the GGOE into a sustainable methodology for ongoing institutional improvement. Due to the success of GGOE, the University was honored to be asked to provide a presentation at the annual Central Association of College and University Business Officers (CACUBO) meeting. CACUBO is committed to sharing best practices and innovation ideas. GGOE is exactly this philosophy.

Missouri Southern State University
(A Component Unit of the State of Missouri)
Statements of Net Position
June 30, 2018 and 2017

Assets and Deferred Outflows of Resources

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 11,484,174	\$ 10,050,201
Reserved cash	3,278,227	2,649,646
Accounts receivable, net	2,791,525	1,874,715
Inventories	830,194	1,054,292
Loans to students, net	477,772	660,262
Deposits and prepaid expenses	<u>642,365</u>	<u>717,023</u>
 Total current assets	 <u>19,504,257</u>	 <u>17,006,139</u>
 Noncurrent Assets		
Restricted cash	4,051,009	3,728,613
Restricted investments	57,612	57,612
Other receivables, net	4,291	7,291
Loans to students, net	2,242,636	2,416,396
Capital assets, net	<u>126,201,532</u>	<u>127,266,356</u>
 Total noncurrent assets	 <u>132,557,080</u>	 <u>133,476,268</u>
 Total assets	 <u>152,061,337</u>	 <u>150,482,407</u>
 Deferred Outflows of Resources		
Loss on refunding of bonds	289,732	308,972
Deferred outflows of resources related to pensions	<u>17,891,092</u>	<u>17,523,084</u>
 Total deferred outflows of resources	 <u>18,180,824</u>	 <u>17,832,056</u>

Liabilities

	2018	2017
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,707,264	\$ 3,495,759
Accrued compensated absences	919,961	906,693
Unearned revenue	2,128,991	2,307,025
Unearned revenue – vending	2,500	30,000
Long-term debt – current portion	2,085,162	2,025,162
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Total current liabilities	8,843,878	8,764,639
Noncurrent Liabilities		
Accrued compensated absences	525,865	475,166
Unearned revenue – vending	-	2,500
Total other postemployment benefit liability	1,990,683	-
Net other postemployment benefit obligations	-	811,199
Long-term debt	35,315,372	37,401,169
Deposits held in custody for others	404,780	352,890
Net pension liability	54,290,979	50,654,529
	<hr/>	<hr/>
Total noncurrent liabilities	92,527,679	89,697,453
	<hr/>	<hr/>
Total liabilities	101,371,557	98,462,092
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	2,741,766	1,404,022
Deferred inflows of resources related to other postemployment benefits	118,921	-
	<hr/>	<hr/>
Total deferred inflows of resources	2,860,687	1,404,022
Net Position		
Net investment in capital assets	91,316,170	90,413,406
Restricted for		
Nonexpendable		
Loans	3,321,948	3,384,094
Expendable		
Scholarships and fellowships	424,184	421,916
Capital projects	951,847	652,273
Unrestricted (deficit)	(30,004,232)	(26,423,340)
	<hr/>	<hr/>
Total net position	\$ 66,009,917	\$ 68,448,349
	<hr/>	<hr/>

Missouri Southern State University
(A Component Unit of the State of Missouri)
Missouri Southern Foundation
Statements of Financial Position
June 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	\$ 1,612,826	\$ 1,854,557
Accounts receivable	39,750	38,000
Contributions receivable – current portion	266,494	266,302
Notes receivable, less provision for uncollectable notes of \$242,162 in 2017	54,866	156,423
Security deposit	9,000	-
Other receivables	144,516	137,584
Total current assets	2,127,452	2,452,866
Investments	20,666,074	18,962,133
Other Assets		
Contributions receivable – long-term portion	4,623,739	3,845,272
Real property (downtown library)	720,000	-
Beneficial interests in trusts held by others	12,101,664	11,382,942
Total other assets	17,445,403	15,228,214
Total assets	\$ 40,238,929	\$ 36,643,213

Liabilities

Current Liabilities		
Accounts payable	\$ 22,179	\$ -
Annuity obligations	44,976	49,480
Notes payable	-	1,040,000
Total current liabilities	67,155	1,089,480
Note payable long-term	1,040,000	-

Net Assets

Without donor restriction	1,507,496	1,306,122
With donor restriction	37,624,278	34,247,611
Total net assets	39,131,774	35,553,733
Total liabilities and net assets	\$ 40,238,929	\$ 36,643,213

Missouri Southern State University
(A Component Unit of the State of Missouri)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Tuition and fees, net of scholarship allowances and bad debt expense	\$ 17,229,127	\$ 17,690,064
Federal grants and contracts	2,424,224	2,464,432
State grants and contracts	3,251,175	3,514,828
Interest on loans to students	120,727	109,927
Auxiliary enterprises		
Housing, net of scholarship allowances and bad debt expense	4,011,715	3,867,770
Student recreation and health center	1,611,583	1,671,347
Bookstore and other	3,739,817	3,708,150
Other operating revenues	1,098,693	1,004,178
Total operating revenues	<u>33,487,061</u>	<u>34,030,696</u>
Operating Expenses		
Compensation and benefits	45,596,131	44,183,023
Contractual services	3,637,168	3,760,483
Supplies and materials	4,174,002	4,586,229
Scholarships and fellowships	8,277,680	8,278,820
Depreciation and amortization	5,934,252	5,730,307
Utilities	2,956,187	2,925,682
Other	5,767,804	6,089,010
Total operating expenses	<u>76,343,224</u>	<u>75,553,554</u>
Operating Loss	<u>(42,856,163)</u>	<u>(41,522,858)</u>
Nonoperating Revenues (Expenses)		
State appropriations	22,340,305	22,772,714
Federal PELL grants	12,685,173	11,608,658
Contributions	2,803,179	2,559,920
Gain on disposal of capital assets and construction-in-progress	49,079	21,609
Investment income	303,732	89,337
Interest on capital asset-related debt	(1,252,257)	(1,271,956)
Other nonoperating revenues	518,556	453,911
Net nonoperating revenues	<u>37,447,767</u>	<u>36,234,193</u>
Loss Before Other Revenues, Expenses, Gains or Losses	<u>(5,408,396)</u>	<u>(5,288,665)</u>
Other Revenues, Expenses, Gains or Losses		
Capital grants and gifts	462,332	740,538
State capital appropriations	3,737,784	10,542,402
Total other revenues, expenses, gains or losses	<u>4,200,116</u>	<u>11,282,940</u>
Increase (Decrease) in Net Position	<u>(1,208,280)</u>	5,994,275
Net Position, Beginning of Year, as Previously Reported	68,448,349	<u>62,454,074</u>
Cumulative Effect of Change in Accounting Principle	<u>(1,230,152)</u>	
Net Position, Beginning of Year, as Restated	<u>67,218,197</u>	
Net Position, End of Year	<u>\$ 66,009,917</u>	<u>\$ 68,448,349</u>

Missouri Southern State University
(A Component Unit of the State of Missouri)
Missouri Southern Foundation
Statement of Activities
Year Ended June 30, 2018

	Without Donor Restriction	With Donor Restriction	Total
Support and Revenue			
Contributions	\$ 168,153	\$ 4,230,722	\$ 4,398,875
Investment income	160,652	715,571	876,223
Endowment management fees	243,271	-	243,271
Net realized gain on investments	355,563	75,009	430,572
Net unrealized gain on investments	228,173	417,525	645,698
Increase in beneficial interest in trusts	-	895,325	895,325
Decrease in value of life insurance policy	-	(137,584)	(137,584)
Net assets released from restrictions	2,727,354	(2,727,354)	-
	<u>3,883,166</u>	<u>3,469,214</u>	<u>7,352,380</u>
Total support and revenue			
Expenses			
Scholarships	981,231	-	981,231
Faculty and department support	519,070	-	519,070
Facilities improvement	725,928	-	725,928
General university support	466,252	-	466,252
Cultural activities	1,602	-	1,602
Administrative	719,736	-	719,736
Fundraising	360,520	-	360,520
	<u>3,774,339</u>	<u>-</u>	<u>3,774,339</u>
Total expenses			
Increase in Net Assets	108,827	3,469,214	3,578,041
Change in restrictions	92,547	(92,547)	-
Net Assets at Beginning of Year	<u>1,306,122</u>	<u>34,247,611</u>	<u>35,553,733</u>
Net Assets at End of Year	<u><u>\$ 1,507,496</u></u>	<u><u>\$ 37,624,278</u></u>	<u><u>\$ 39,131,774</u></u>

Missouri Southern State University
(A Component Unit of the State of Missouri)
Missouri Southern Foundation
Statement of Activities
Year Ended June 30, 2017

	Without Donor Restriction	With Donor Restriction	Total
Support and Revenue			
Contributions	\$ 89,128	\$ 3,039,081	\$ 3,128,209
Investment income	168,171	761,853	930,024
Endowment management fees	140,896	-	140,896
Net realized gain (loss) on investments	317,576	69,546	387,122
Net unrealized gain (loss) on investments	186,603	938,710	1,125,313
Decrease in beneficial interest in trusts	-	211,234	211,234
Increase in value of life insurance policy	-	6,800	6,800
Net assets released from restrictions	2,581,941	(2,581,941)	-
Total support and revenue	<u>3,484,315</u>	<u>2,445,283</u>	<u>5,929,598</u>
Expenses			
Scholarships	829,212	-	829,212
Faculty and department support	579,447	-	579,447
Facilities improvement	821,346	-	821,346
General university support	211,876	-	211,876
Cultural activities	1,000	-	1,000
Administrative	435,891	-	435,891
Fundraising	499,695	-	499,695
Total expenses	<u>3,378,467</u>	<u>-</u>	<u>3,378,467</u>
Decrease in Net Assets	105,848	2,445,283	2,551,131
Change in restrictions	40,896	(12,678)	28,218
Net Assets at Beginning of Year	<u>1,159,378</u>	<u>31,815,006</u>	<u>32,974,384</u>
Net Assets at End of Year	<u>\$ 1,306,122</u>	<u>\$ 34,247,611</u>	<u>\$ 35,553,733</u>

Missouri Southern State University
(A Component Unit of the State of Missouri)
Missouri Southern Foundation
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services	Support Services	Functional Expenses
Scholarships	\$ 981,231	\$ -	\$ 981,231
Faculty and department support	519,070	-	519,070
Facilities improvement	725,928	-	725,928
General university support	466,252	-	466,252
Cultural activities	1,602	-	1,602
Administrative	-	719,736	719,736
Fundraising	-	360,520	360,520
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 2,694,083</u>	<u>\$ 1,080,256</u>	<u>\$ 3,774,339</u>

Year Ended June 30, 2017

	Program Services	Support Services	Functional Expenses
Scholarships	\$ 829,212	\$ -	\$ 829,212
Faculty and department support	579,447	-	579,447
Facilities improvement	821,346	-	821,346
General university support	211,876	-	211,876
Cultural activities	1,000	-	1,000
Administrative	-	435,891	435,891
Fundraising	-	499,695	499,695
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 2,442,881</u>	<u>\$ 935,586</u>	<u>\$ 3,378,467</u>

Missouri Southern State University
(A Component Unit of the State of Missouri)
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Tuition and fees	\$ 18,636,543	\$ 18,015,911
Grants and contracts	5,065,105	6,295,215
Payments for scholarships	(8,277,680)	(8,278,820)
Payments to suppliers	(16,443,004)	(17,675,221)
Payments to employees	(40,928,669)	(40,645,808)
Loans issued to students and employees	(179,552)	(697,125)
Collection of loans to students and employees	659,529	820,281
Sales and services of auxiliary enterprises	7,471,014	9,186,900
Other receipts	1,098,693	1,059,940
Net cash used in operating activities	(32,898,021)	(31,918,727)
Noncapital Financing Activities		
State appropriations	22,340,305	22,772,714
Federal grants and contracts	12,685,173	11,608,658
Gifts and grants for other than capital purposes	2,803,179	2,559,920
Other receipts	488,691	376,111
Net cash provided by noncapital financing activities	38,317,348	37,317,403
Capital and Related Financing Activities		
State appropriations for construction of assets	3,737,784	10,542,402
Capital grants and gifts received	462,332	740,538
Purchase of capital assets	(4,341,116)	(13,881,783)
Proceeds from sale of capital assets	68,155	21,923
Proceeds from issuance of capital debt	-	5,000,000
Principal paid on capital debt and leases	(2,025,797)	(1,592,307)
Interest paid on capital debt and leases	(1,239,467)	(1,247,004)
Net cash used in capital and related financing activities	(3,338,109)	(416,231)

Missouri Southern State University
(A Component Unit of the State of Missouri)
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Investing Activities		
Investment income received	\$ 303,732	\$ 106,089
Net cash provided by investing activities	303,732	106,089
Increase in Cash	2,384,950	5,088,534
Cash, Beginning of Year	16,428,460	11,339,926
Cash, End of Year	\$ 18,813,410	\$ 16,428,460
 Reconciliation of Cash to the Statements of Net Position		
Cash	\$ 11,484,174	\$ 10,050,201
Reserved cash	3,278,227	2,649,646
Restricted cash	4,051,009	3,728,613
Total cash	\$ 18,813,410	\$ 16,428,460
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (42,856,163)	\$ (41,522,858)
Depreciation expense	5,571,407	5,271,864
Amortization expense	362,845	458,443
Changes in operating assets and liabilities		
Receivables, net	(557,560)	(38,306)
Inventories	(138,752)	(188,347)
Prepaid expenses	74,658	(59,377)
Accounts payable and accrued liabilities	97,384	(392,325)
Total other postemployment benefits	(50,668)	-
Net other postemployment benefits	-	102,359
Deferred revenue	(178,169)	632,970
Deferred compensation	-	(31,669)
Deposits held in custody for others	51,890	55,762
Net pension liability	3,636,450	14,709,025
Deferred inflows of resources	1,456,665	197,479
Deferred outflows of resources	(368,008)	(11,113,747)
Net Cash Used in Operating Activities	\$ (32,898,021)	\$ (31,918,727)
 Noncash Investing, Capital and Financing Activities		
Accounts payable incurred for purchase of capital assets	\$ 861,077	\$ 676,536

Missouri Southern State University
(A Component Unit of the State of Missouri)
Notes to Financial Statements
June 30, 2018 and 2017

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

Nature of Operations

Missouri Southern State University (the “University”), A Component Unit of the State of Missouri, is a state educational institution operating under the jurisdiction of the state of Missouri. The University campus, located in Joplin, Missouri, offers a variety of programs and services.

Major federally funded student financial assistance programs in which the University participates include the Federal Pell Grant, Federal Work-Study, Federal Direct Student Loan, Federal Perkins Loan, Federal Supplemental Educational Opportunity Grant and Federal Teacher Education Assistance for College and Higher Education Grant. The University extends unsecured credit to students.

Basis of Accounting and Presentation

The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The University first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Change in Accounting Principle

In 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement established standards for measuring and recognizing liabilities, deferred outflows and inflows of resources and expenses for other postemployment benefits that are provided to retirees.

The University has not restated its financial statements as of and for the year ended June 30, 2017, because the actuarial information was not readily available for that period, thus making restatement of the 2017 financial statements not practical.

Missouri Southern State University
(A Component Unit of the State of Missouri)
Notes to Financial Statements
June 30, 2018 and 2017

As a result of the implementation, unrestricted net position (deficit) as of July 1, 2017 was restated as follows:

Unrestricted net position (deficit), as previously reported	\$ (26,423,340)
Cumulative effect of change in accounting principle	
OPEB liability (measurement date of June 30, 2017) - GASB 75	(2,041,351)
Total OPEB obligation - GASB 45	811,199
	(1,230,152)
 Unrestricted net position (deficit), as restated	 \$ (27,653,492)

Use of Estimates

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

Reserved Cash

The University has certain cash balances internally designated as reserved that are being held for specified future uses.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value, except for equity securities whose sale is restricted by donors. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and equity securities whose sale is restricted by donors are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Approximately 49% and 43% of accounts receivable at June 30, 2018 and 2017, respectively, is due from governmental and other entities for reimbursements under grants and other programs. The remaining 51% and 57% of accounts receivable at June 30, 2018 and 2017, respectively, consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff.

Missouri Southern State University
(A Component Unit of the State of Missouri)
Notes to Financial Statements
June 30, 2018 and 2017

Student accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds and an allowance for doubtful accounts of \$5,300,000 and \$4,800,000 at June 30, 2018 and 2017, respectively. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is due at the beginning of the semester unless the student has signed a payment plan. Charges that are past due without payments, have had no response to the due diligence process and are assigned to third-party collection agencies are considered delinquent.

Inventories

Inventories consist of bookstore merchandise and consumable supplies. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Inventories of textbooks rented to students are amortized using the straight-line method over three years. Total amortization for the years ended June 30, 2018 and 2017, was \$362,850 and \$458,443, respectively.

Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible amounts netted against loans to students was \$753,344 and \$695,314 at June 30, 2018 and 2017, respectively. Interest income is charged on loans to students as established under the loan programs. Interest income for the years ended June 30, 2018 and 2017, was \$120,727 and \$109,927, respectively.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Works of art collections are capitalized and depreciated. The following estimated useful lives are being used by the University:

Land improvements	10 – 40 years
Buildings and improvements	20 – 50 years
Infrastructure	10 – 40 years
Furniture, fixtures and equipment	3 – 25 years
Library materials	7 years
Collections	15 years

Deferred Outflows of Resources

The University reports the consumption of net position that relates to future reporting periods as deferred outflows of resources in a separate section of its statements of net position.

Missouri Southern State University
(A Component Unit of the State of Missouri)
Notes to Financial Statements
June 30, 2018 and 2017

Loss on Refunding of Bonds

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

Compensated Absences

University policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities for vacation benefits are computed using the regular pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

It is the University's policy to permit employees to accumulate earned but unused sick pay benefits. Accumulated sick pay benefits are forfeited by the employee upon death, permanent disability, termination or retirement. Therefore, no liability has been reported for the accumulated sick pay benefits. Although benefits are forfeited at retirement, unused accumulated sick pay benefits are credited to years of service for calculating retirement benefits.

Unearned Revenue

Current unearned revenue represents unearned student fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements. Current and noncurrent unearned vending revenues represent unearned sponsorships on vending machine commitments.

Defined Benefit Pension Plan

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

Missouri Southern State University
(A Component Unit of the State of Missouri)
Notes to Financial Statements
June 30, 2018 and 2017

Defined Benefit Other Postemployment Benefit Plan

The University has a single-employer defined benefit other postemployment benefit (OPEB) plan, providing health insurance to retirees, (the “OPEB Plan”). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources

The University reports the acquisition of net position that relates to future reporting periods as deferred inflows of resources in a separate section of its statements of net position.

Net Position

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

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises and (3) interest on student loans.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, such as state appropriations and investment income.

Missouri Southern State University
(A Component Unit of the State of Missouri)
Notes to Financial Statements
June 30, 2018 and 2017

Tuition Fee Revenue

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

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, are recorded as nonoperating revenues and other governmental grants are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30, 2018, were \$14,850,226 and \$2,191,986, respectively, and for the year ended June 30, 2017, were \$13,783,318 and \$1,928,816, respectively.

Income Taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Foundation

Missouri Southern Foundation (Foundation) is a legally separate, tax-exempt discretely presented component unit of Missouri Southern State University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University.

Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and discretely presented in the University's financial statements.

Missouri Southern State University
(A Component Unit of the State of Missouri)
Notes to Financial Statements
June 30, 2018 and 2017

During the year ended June 30, 2018, the Foundation provided funding for scholarships and general university support of \$1,038,441 and \$1,063,692, respectively. During the year ended June 30, 2017, the Foundation provided funding for scholarships and general university support of \$869,912 and \$1,438,227, respectively. Complete financial statements for the Foundation can be obtained from the Foundation Office at 3950 E. Newman Road, Joplin, Missouri 64801.

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial report for these differences.

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The University's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Missouri; bonds of any city having a population of not less than two thousand, county, school district or special road district of the state of Missouri; bonds of any state; a surety bond having an aggregate value at least equal to the amount of the deposits; tax anticipation notes issued by any first class county; irrevocable standby letter of credit issued by a Federal Home Loan Bank; or out-of-state municipal bonds rated in the highest category by a nationally recognized statistical rating agency.

At June 30, 2018 and 2017, respectively, the University's bank balances were \$19,445,940 and \$17,105,245. None of these deposits were exposed to custodial credit risk at June 30, 2018 or 2017.

Investments

The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities; repurchase agreements; banker's acceptances and commercial paper.

The University also holds equity securities which are restricted by donors as to investment holdings and are therefore not subject to the University's investment policies.

At June 30, 2018 and 2017, the University held \$21,852 of equity securities restricted by a donor.

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Summary of Carrying Values

The carrying values of deposits and investments discussed above are:

	2018	2017
Carrying value		
Cash on hand	\$ 8,450	\$ 4,750
Deposits	18,840,721	16,459,471
Other investments	21,851	21,851
	<u>\$ 18,871,022</u>	<u>\$ 16,486,072</u>

The deposits and investments are included in the following statements of net assets captions:

	2018	2017
Cash	\$ 11,484,174	\$ 10,050,201
Reserved cash	3,278,227	2,649,646
Restricted cash	4,051,009	3,728,613
Restricted investments	57,612	57,612
	<u>\$ 18,871,022</u>	<u>\$ 16,486,072</u>

Investment Income

Investment income for the years ended June 30, 2018 and 2017, consisted of interest and dividend income of \$303,732 and \$89,337, respectively.

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Note 3: Capital Assets

Capital assets activity for the years ended June 30, 2018 and 2017, were:

	Beginning Balance	2018			Ending Balance
		Additions	Disposals	Transfers	
Nondepreciable capital assets					
Land	\$ 953,355	\$ -	\$ -	\$ -	\$ 953,355
Construction in progress	11,394,158	4,184,811	-	(11,731,913)	3,847,056
Total nondepreciable capital assets	12,347,513	4,184,811	-	(11,731,913)	4,800,411
Depreciable capital assets					
Land improvements	5,160,462	-	-	-	5,160,462
Buildings, improvements and leasehold improvements	162,554,599	-	(96,970)	10,033,457	172,491,086
Infrastructure	842,204	-	-	105,220	947,424
Furniture, fixtures and equipment	18,546,746	291,180	(857,521)	1,593,236	19,573,641
Vehicles	629,561	23,288	-	-	652,849
Works of art	478,247	-	-	-	478,247
Software	1,593,296	-	-	-	1,593,296
Library materials	6,378,890	26,378	(27,996)	-	6,377,272
Total depreciable capital assets	196,184,005	340,846	(982,487)	11,731,913	207,274,277
Less accumulated depreciation					
Land improvements	3,502,850	199,477	-	-	3,702,327
Buildings, improvements and leasehold improvements	52,808,364	4,391,582	(81,637)	-	57,118,309
Infrastructure	414,172	20,190	-	-	434,362
Furniture, fixtures and equipment	15,715,970	870,005	(853,780)	-	15,732,195
Vehicles	568,656	30,675	-	-	599,331
Works of art	399,064	7,508	-	-	406,572
Software	1,579,271	14,026	-	-	1,593,297
Library materials	6,276,815	37,944	(27,996)	-	6,286,763
Total accumulated depreciation	81,265,162	5,571,407	(963,413)	-	85,873,156
Total depreciable capital assets, net	114,918,843	(5,230,561)	(19,074)	11,731,913	121,401,121
Net capital assets	\$ 127,266,356	\$ (1,045,750)	\$ (19,074)	\$ -	\$ 126,201,532

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	Beginning Balance	2017			Ending Balance
		Additions	Disposals	Transfers	
Nondepreciable capital assets					
Land	\$ 953,355	\$ -	\$ -	\$ -	\$ 953,355
Construction in progress	1,331,437	13,516,502	(9,969)	(3,443,812)	11,394,158
Total nondepreciable capital assets	<u>2,284,792</u>	<u>13,516,502</u>	<u>(9,969)</u>	<u>(3,443,812)</u>	<u>12,347,513</u>
Depreciable capital assets					
Land improvements	5,160,462	-	-	-	5,160,462
Buildings and improvements	159,339,900	-	-	3,214,699	162,554,599
Infrastructure	842,204	-	-	-	842,204
Furniture, fixtures and equipment	18,429,218	486,891	(598,476)	229,113	18,546,746
Vehicles	701,935	23,760	(96,134)	-	629,561
Works of art	478,247	-	-	-	478,247
Software	1,593,296	-	-	-	1,593,296
Library materials	6,414,413	20,678	(56,201)	-	6,378,890
Total depreciable capital assets	<u>192,959,675</u>	<u>531,329</u>	<u>(750,811)</u>	<u>3,443,812</u>	<u>196,184,005</u>
Less accumulated depreciation					
Land improvements	3,302,146	200,704	-	-	3,502,850
Buildings and improvements	48,819,610	3,988,754	-	-	52,808,364
Infrastructure	397,052	17,120	-	-	414,172
Furniture, fixtures and equipment	15,351,992	962,140	(598,162)	-	15,715,970
Vehicles	635,849	28,941	(96,134)	-	568,656
Works of art	391,454	7,610	-	-	399,064
Software	1,543,775	35,496	-	-	1,579,271
Library materials	6,301,918	31,098	(56,201)	-	6,276,815
Total accumulated depreciation	<u>76,743,796</u>	<u>5,271,863</u>	<u>(750,497)</u>	<u>-</u>	<u>81,265,162</u>
Total depreciable capital assets, net	<u>116,215,879</u>	<u>(4,740,534)</u>	<u>(314)</u>	<u>3,443,812</u>	<u>114,918,843</u>
Net capital assets	<u>\$ 118,500,671</u>	<u>\$ 8,775,968</u>	<u>\$ (10,283)</u>	<u>\$ -</u>	<u>\$ 127,266,356</u>

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Note 4: Noncurrent Liabilities

The following is a summary of noncurrent obligation transactions for the University for the years ended June 30, 2018 and 2017:

	Beginning Balance	Additions	2018		Ending Balance	Current Portion
			Deductions			
Auxiliary Enterprise System						
Revenue Bonds						
Series 2014A	\$ 12,875,000	\$ -	\$ 1,070,000	\$ 11,805,000	\$ 1,085,000	
Series 2014B	14,320,000	-	-	14,320,000	-	
Series 2015	7,085,000	-	540,000	6,545,000	560,000	
Bond premium – 2015 Issue	108,211	-	17,856	90,355	17,856	
Educational Facilities Revenue Bonds						
Series 2017	5,000,000	-	385,000	4,615,000	410,000	
Capital lease obligations	38,120	-	12,941	25,179	12,306	
Total bonds and capital leases	<u>39,426,331</u>	<u>-</u>	<u>2,025,797</u>	<u>37,400,534</u>	<u>2,085,162</u>	
Other noncurrent liabilities						
Accrued compensated absences	1,381,859	919,961	855,994	1,445,826	919,961	
Deferred revenue – vending	32,500	-	30,000	2,500	2,500	
Other postemployment benefit liability (obligation)	811,199	1,179,484	-	1,990,683	-	
Deposits held in custody for others	352,890	292,956	241,066	404,780	-	
Net pension liability	50,654,529	3,636,450	-	54,290,979	-	
Total other noncurrent liabilities	<u>53,232,977</u>	<u>6,028,851</u>	<u>1,127,060</u>	<u>58,134,768</u>	<u>922,461</u>	
Total noncurrent liabilities	<u>\$ 92,659,308</u>	<u>\$ 6,028,851</u>	<u>\$ 3,152,857</u>	<u>\$ 95,535,302</u>	<u>\$ 3,007,623</u>	

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	Beginning Balance	2017		Ending Balance	Current Portion
		Additions	Deductions		
Auxiliary Enterprise System					
Revenue Bonds					
Series 2014A	\$ 13,925,000	\$ -	\$ 1,050,000	\$ 12,875,000	\$ 1,070,000
Series 2014B	14,320,000	-	-	14,320,000	-
Series 2015	7,615,000	-	530,000	7,085,000	540,000
Bond premium – 2015 Issue	126,068	-	17,857	108,211	17,856
Educational Facilities Revenue Bonds					
Series 2017	-	5,000,000	-	5,000,000	385,000
Capital lease obligations	50,426	-	12,306	38,120	12,306
	<u>36,036,494</u>	<u>5,000,000</u>	<u>1,610,163</u>	<u>39,426,331</u>	<u>2,025,162</u>
Total bonds and capital leases					
Other noncurrent liabilities					
Accrued compensated absences	1,330,042	906,693	854,876	1,381,859	906,693
Deferred compensation	31,669	-	31,669	-	-
Deferred revenue – vending	62,500	-	30,000	32,500	30,000
Other postemployment benefit obligations	708,840	102,359	-	811,199	-
Deposits held in custody for others	297,128	300,609	244,847	352,890	-
Accrued net pension liability	35,945,504	14,709,025	-	50,654,529	-
	<u>38,375,683</u>	<u>16,018,686</u>	<u>1,161,392</u>	<u>53,232,977</u>	<u>936,693</u>
Total other noncurrent liabilities					
Total noncurrent liabilities	<u>\$ 74,412,177</u>	<u>\$ 21,018,686</u>	<u>\$ 2,771,555</u>	<u>\$ 92,659,308</u>	<u>\$ 2,961,855</u>

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Auxiliary Enterprise System Revenue Bonds

Series 2014A

On April 30, 2014, the University issued \$15,030,000 of bonds. The proceeds from the issuance of these bonds were used to refund the outstanding portion of the 2000 bond issue and defease a portion of the 2008 bond issue. The bonds bear interest, payable semiannually, at rates of 0.35% to 3.95%, which began October 1, 2014. Principal maturities begin October 1, 2014, and continue annually until 2034. Bonds maturing October 1, 2021, and thereafter, are callable for redemption and payment, at the University's option, on or after October 1, 2020, at 100% of principal plus accrued interest to the redemption date. The bonds are secured by the net revenues and assets pledged of the Auxiliary Enterprise System (see *Note 10*).

Series 2014B

On April 30, 2014, the University issued \$14,320,000 of bonds, consisting of \$9,475,000 of serial bonds and \$4,845,000 of term bonds. The proceeds from the issuance of these bonds were used to construct, improve, furnish and equip a new residence hall. The serial and term bonds bear interest, payable semiannually, at rates of 2.05% to 4.25%, which began October 1, 2014. Principal maturities for serial bonds begin October 1, 2020, and continue annually until 2039. The term bonds are subject to mandatory sinking fund redemption and payment in the years 2040 – 2044 at a redemption price equal to 100% of the scheduled principal amount plus accrued interest to the redemption date. The bonds are secured by the net revenues and assets pledged of the Auxiliary Enterprise System (see *Note 10*).

Series 2015

On July 7, 2015, the University issued Auxiliary Enterprise System Refunding Revenue bonds in the principal amount of \$7,615,000. The serial and term bonds bear interest, payable semiannually, at rates ranging from 2% to 4%, which began April 1, 2016. Principal maturities for the serial bonds began October 1, 2016, and continue annually until 2029. The term bonds are subject to mandatory sinking fund redemption and payment in the years 2030 – 2038 at a redemption price equal to 100% of the scheduled principal amount plus accrued interest to the redemption date. The bonds are secured by the net revenues and assets pledged of the Auxiliary Enterprise System (see *Note 10*).

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Educational Facilities Revenue Bonds

Series 2017

On April 1, 2017, the University issued Educational Facilities Revenue bonds through the Missouri Health and Educational Facilities Authority (MOHEFA) in principal amount of \$5,000,000. The serial and term bonds bear interest, payable semiannually, at a rate of 2.49%, beginning on October 1, 2017. Principal maturities for serial bonds begin October 1, 2017, and continue annually until 2027. The term bonds are subject to mandatory sinking fund redemption and payment in the years 2017 – 2027 at a redemption price equal to 100% of the scheduled principal amount plus accrued interest to the redemption date. The bonds are secured by all rights, title and interest of MOHEFA including all loan payments to be paid by the University. The MOHEFA bonds were issued to fund the renovation of Reynolds Hall and other capital improvements to academic facilities.

Long-Term Debt

The debt service requirements as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total to be Paid
2019	\$ 2,055,000	\$ 1,221,373	\$ 3,276,373
2020	2,085,000	1,177,219	3,262,219
2021	2,385,000	1,123,058	3,508,058
2022	2,475,000	1,057,131	3,532,131
2023	2,540,000	989,506	3,529,506
2024 – 2028	6,490,000	4,338,240	10,828,240
2029 – 2033	5,170,000	3,392,089	8,562,089
2034 – 2038	6,825,000	2,245,635	9,070,635
2039 – 2043	5,155,000	943,269	6,098,269
2044 – 2048	2,105,000	90,631	2,195,631
	<u>\$ 37,285,000</u>	<u>\$ 16,578,151</u>	<u>\$ 53,863,151</u>

Note 5: Line of Credit

During September 2016, the University obtained an unsecured demand line of credit with a borrowing limit of \$5,000,000. Interest varies daily at 1.25% less than the *Wall Street Journal* Prime Rate and had an outstanding rate of 3.75% and 3.00% at June 30, 2018, and 2017, respectively. The line of credit matured on September 1, 2018, and has had no borrowing activity since inception. The line of credit was not renewed subsequent to year end.

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Note 6: Pension Plan

MOSERS

Plan Description

The Missouri State Employees' Plan (MSEP) is a single-employer, defined benefit public employee retirement plan with two benefit structures known as the MSEP (closed plan) and MSEP 2000, which are administered by the Missouri State Employees' Retirement System (MOSERS or the "System") in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, MOSERS is a body corporate and an instrumentality of the state. In the System are vested the powers and duties specified in Sections 104.010 and 104.312 to 104.1215, RSMo and such other powers as may be necessary or proper to enable it, its officers, employees and agents to carry out fully and effectively all the purposes of Sections 104.010 and 104.312 to 104.1215, RSMo. Responsibility for the operation and administration of the System is vested in the 11-member MOSERS' Board of Trustees as defined by state law. Due to the nature of MOSERS' reliance on funding from the state of Missouri and other state government agencies and the overall control of the plan document by the legislative and executive branches of state government, the MSEP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

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

Benefits Provided

MOSERS provides retirement, disability and life insurance benefits to eligible employees. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. The factor is based on the specific funding structure in which the employee participates, which is based on the employee's hire date. Information on the three funding structures administered by MOSERS (MSEP, MSEP 2000 and MSEP 2011) and how eligibility and the benefit amount is determined for each funding structure may be found in the Notes to the Financial Statements of MOSERS' CAFR starting on page 28.

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Contributions

Per Chapter 104.436 of the Revised Statutes of Missouri, contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS' Board. No employee contribution is required for the MSEP and MSEP 2000 plans. Employees in the MSEP 2011 plan are required to contribute 4.00% of their annual pay. The University's required contribution rate for all plans for the year ended June 30, 2018, was 19.45% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contribution rate for the MOSERS' plan years ended June 30, 2017 and 2016, was 16.97%, which was the years of measurement for the net pension liability. Contributions to the pension plan from the University were \$3,731,781 and \$3,450,837 for the years ended June 30, 2018 and 2017, respectively.

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

At June 30, 2018 and 2017, the University reported a liability of \$54,290,979 and \$50,654,529, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

The University's proportion of the net pension liability was based on the University's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for MOSERS' plan years ended June 30, 2017 and 2016. At June 30, 2017, the University's proportion was 1.0427%, which was a decrease of 0.0485% from its proportion measured as of June 30, 2016. At June 30, 2016, the University's proportion was 1.0912%, which was a decrease of 0.0278% from its proportion measured as of June 30, 2015.

Senate Bill 62 (SB 62), which contained changes to the benefit structure for MSEP 2011, was passed by the 2017 legislature. The provisions of the bill decreased vesting from ten to five years of service, but also included provisions that essentially offset the cost of the vesting change. As a result, SB 62 had no impact on the employer contribution rate and created a decrease to the UAAL of \$1.6 million.

For the years ended June 30, 2018 and 2017, the University recognized pension expense of \$8,369,739 and \$7,247,781, respectively. At June 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
	<hr/>	<hr/>
Differences between expected and actual experience	\$ 300,777	\$ 855,060
Changes of assumptions	4,763,964	136,259
Net difference between projected and actual earning on pension plan investments	9,094,570	-
Changes in proportion and differences between the University's contributions and the University's proportionate share of contributions	-	1,750,447
University's contributions subsequent to the measurement date	<u>3,731,781</u>	<u>-</u>
Total	<u><u>\$ 17,891,092</u></u>	<u><u>\$ 2,741,766</u></u>
	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
	<hr/>	<hr/>
Differences between expected and actual experience	\$ 521,690	\$ 147,998
Changes of assumptions	5,274,120	304,469
Net difference between projected and actual earning on pension plan investments	8,276,437	-
Changes in proportion and differences between the University's contributions and the University's proportionate share of contributions	-	951,555
University's contributions subsequent to the measurement date	<u>3,450,837</u>	<u>-</u>
Total	<u><u>\$ 17,523,084</u></u>	<u><u>\$ 1,404,022</u></u>

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At June 30, 2018 and 2017, the University reported \$3,731,781 and \$3,450,837 as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to pensions will be recognized in pension expense as follows:

Year Ending June 30,		
2019	\$	3,496,056
2020		5,267,223
2021		1,963,251
2022		691,021
		\$ 11,417,551

Summary of Pension Changes

Below is a summary of pension changes due to the implementation of GASB 68 as of June 30, 2018 and 2017.

	2018	2017	Change
Statement of Net Position – deferred outflows of resources	\$ 17,891,092	\$ 17,523,084	\$ 368,008
Statement of Net Position – accrued net pension liability	(54,290,979)	(50,654,529)	(3,636,450)
Statement of Net Position – deferred inflows of resources	(2,741,766)	(1,404,022)	(1,337,744)
			\$ (4,606,186)

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The impact on the Statement of Revenues, Expenses and Changes in Net Position is the difference between the University's proportionate share of pension expense and the actuarial required contribution. The effect for the years ending June 30, 2018 and 2017, respectively, are shown below:

	2018	2017
Actuarial required contribution	\$ 3,731,781	\$ 3,450,837
Pension expense	(8,337,967)	(7,243,594)
	\$ (4,606,186)	\$ (3,792,757)

Actuarial Assumptions

The total pension liability in the June 30, 2017 and 2016, actuarial valuations which are also the measurement dates for GASB 68 purposes, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 8.75% including inflation
Investment rate of return	7.5% per year, compounded annually, net after investment expenses and including inflation

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

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2010, to June 30, 2015. As a result of this actuarial experience study, the MOSERS' Board made various demographic assumption changes to more closely reflect actual experience. The most significant changes included lowering the assumed annual investment rate of return from 7.65% to 7.50% and the adoption of the above mortality tables. The changes in assumptions recorded as deferred inflows and outflows of resources were due to these changes from the actuarial experience study.

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The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010, to June 30, 2015. As a result of this actuarial experience study, the MOSERS' Board made various demographic assumption changes to more closely reflect actual experience. The most significant changes included lowering the assumed annual investment rate of return from 8.00% to 7.65% and the adoption of the above mortality tables. The changes in assumptions recorded as deferred inflows and outflows of resources were due to these changes from the actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS' target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	Policy Allocation	Long-Term Expected Real Rate of Return *	Weighted Average Long-Term Expected Real Rate of Return
Opportunistic global equity	38.00%	5.50%	2.10%
Nominal bonds	44.00%	1.00%	0.50%
Commodities	20.00%	4.50%	0.90%
Inflation-linked bonds	39.00%	0.80%	0.30%
Alternative beta	31.00%	4.50%	1.40%
	<u>172.00%</u>		<u>5.20%</u>

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50% and 7.65% at June 30, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the University’s proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
University’s proportionate share of the net pension liability	\$ 69,900,922	\$ 54,290,979	\$ 41,161,171

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2018 and 2017, the University reported a payable of \$21,137 and \$19,793, respectively, for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2018 and 2017, respectively.

CURP

Beginning July 1, 2002, in accordance with Section 104.1200 through 104.1215 of the Revised Statutes of Missouri, employees hired who meet the criteria of an “education employee” participate in the College and University Retirement Plan (CURP). It is a noncontributory 401(a) defined contribution plan for education employees at regional colleges/universities in Missouri. The MOSERS has been given the responsibility by law to implement and oversee the administration of the plan. The TIAA-CREF group of companies is the third-party administrator for the CURP and manages the investment options under the plan. Contributions made by the University are self-directed by participants into their selected individual accounts. By law, the CURP contribution rate is equal to 1% less than the normal cost contribution rate of the Missouri State Employees’ Plan 200 (MSEP 200). After participating in CURP for at least six years, a faculty member may elect to become a member of MOSERS.

The University is required to contribute to CURP at an actuarially determined rate; the rate was 6.19% and 5.67% of annual covered payroll for 2018 and 2017, respectively. The University’s contributions to CURP for the years ended June 30, 2018 and 2017, were \$419,529 and \$361,252 respectively, which equaled the required contributions for the years.

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Note 7: Other Postemployment Benefit Care Plan

Plan Description

The University contributes to the self-insured healthcare plan (the “OPEB Plan”), a single-employer defined benefit other postemployment benefit (OPEB) plan covering substantially all employees. The OPEB Plan is administered through a commercial insurance carrier. Benefit provisions are contained in the plan document and were established and can be amended by action of the University’s governing body. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

The OPEB Plan provides medical and prescription drug benefits to eligible retirees and their dependents. Benefits are provided through a third-party insurer, and retirees contribute premiums ranging between \$480 to \$680 monthly for a single person or \$1,200 to \$1,690 for retiree and family. For employees who retire before reaching age 65, their insurance will be continued until the earlier of the date the plan is canceled or until their 65th birthday.

The employees covered by the benefit terms at June 30, 2018 and 2017, are:

	2018	2017
Inactive employees or beneficiaries currently receiving benefit payments	17	8
Active employees	528	526
	545	534

GASB 75 Disclosures (2018)

Total OPEB Liability

The University’s total OPEB liability of \$1,990,683 was measured as of June 30, 2018, for the year ended June 30, 2018, and was determined by an actuarial valuation as of that date.

The total OPEB liability in the June 30, 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Discount rate	3.87% (prior year 3.58%)
Salary increases	1.50% per year
Health care cost trend rates	7.0% for 2018, decreasing 0.5% per year to an ultimate rate of 4.5% for 2023 and later years

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The discount rate used for the plan was the 20-year, tax-exempt municipal bond rate as there are no assets in the plan.

Mortality rates were based on the RP-2014 trended back eight years using scale MP-2014 and projected generationally using scale MP-2017, applied on a gender specific basis.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study from 2013.

Changes in Total OPEB Liability

Changes in total OPEB liability are:

Balance, beginning of year	<u>\$</u>	<u>2,041,351</u>
Service cost		82,076
Interest		80,552
Changes in assumptions or other inputs		(129,542)
Benefit payments		<u>(83,754)</u>
Net changes		<u>(50,668)</u>
Balance, end of year	<u>\$</u>	<u><u>1,990,683</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

The total OPEB liability of the University has been calculated using a discount rate of 3.87%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
University's total OPEB liability	\$ 1,766,000	\$ 1,991,000	\$ 2,269,000

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The total OPEB liability of the University has been calculated using health care cost trend rates of 7.00%. The following presents the total OPEB liability using health care cost trend rates 1% higher and 1% lower than the current health care cost trend rates.

	1% Decrease	Current Health Care Cost Trend Rates	1% Increase
University's total OPEB liability	\$ 1,776,000	\$ 1,991,000	\$ 2,250,000

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the University recognized OPEB expense of \$152,007. At June 30, 2018, the University reported deferred inflows of resources related to OPEB from the following source.

Change of assumptions	\$ 118,921
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Deferred inflows of resources at June 30, 2018, related to OPEB will be recognized as a reduction in OPEB expense as follows:

2019	\$ (10,622)
2020	(10,622)
2021	(10,622)
2022	(10,622)
2023	(10,622)
Thereafter	<u>(65,811)</u>
	<u>\$ (118,921)</u>

GASB 45 Disclosures (2017)

Funding Policy

The contribution requirements of plan members are established by the Missouri Southern State University Board of Governors. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the University. The plan was established effective January 1, 2012, and the University contributions for the years ended June 30, 2018, were approximately \$88,000 which were approximately 40% of total contributions, respectively. Retiree contributions of approximately \$131,000 were paid in the year ending June 30, 2017, which consists of retiree contributions ranging between \$440 to \$690 monthly for a single person or \$830 to \$1,300 monthly for a retiree and spouse.

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Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the University's net OPEB obligation to the plan:

The University's annual OPEB cost, the percentage of expected annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 were as follows:

Fiscal Year End	Annual OPEB Costs	Percentage of Expected Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 190,359	23.5%	\$ 811,199

Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$1,833,878 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,833,878. The covered payroll (annual payroll of active employees covered by the plan) was \$25,171,015, and the ratio of the UAAL to the covered payroll was 7.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend rate of 8.0% initially, reduced by decrements to an ultimate rate of 5.00% after eight years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2016, was 30 years.

Note 8: Commitments and Contingencies

Software Licenses and Services

During 2006, the University contracted with Ellucian™ for software licenses, installation, consulting and support services. The University signed software maintenance agreements expiring September 30, 2016, which started with an annual payment of \$189,106, escalating 5% each year and adjusted based on the number of users. During 2018, the University extended the support agreement through September 30, 2018. Subsequent to year end, the agreement was further extended through September 30, 2019. During the years ended June 30, 2018 and 2017, \$336,525 and \$314,509, respectively, was paid for maintenance agreements.

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

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Claims and Litigation

The University is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The University administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the University.

Memorandum of Understanding – Missouri Southern Foundation

In June 2018, the University executed a Memorandum of Understanding (MOU) with the Foundation for the installation of a scoreboard at the University's athletic facility. As part of the MOU, the University has agreed to pay the Foundation nine annual installments of \$150,000 plus 5.5% interest with the initial payment due on June 30, 2019, in payment for the asset.

The University intends to raise funds through sponsorships and donations through the Foundation to subsidize payment for the asset.

As the asset had no substantial construction activity as of June 30, 2018, no asset or liability has been recorded in the Statement of Net Position at year end.

Note 9: Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; natural disasters; workers' compensation; employee injuries and illnesses; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, employee dishonesty, automobile liability and employee health as of January 1, 2017. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' Compensation, Employee Dishonesty, Automotive

The state of Missouri self-insures workers' compensation benefits and automobile liability for all state employees, including University employees. The state of Missouri self-insures, through the legal expense fund, claims relating to employee dishonesty. Claims are administered by the Missouri Office of Administration, Risk Management Section.

Employee Health Care

The University maintained medical, dental, vision, life and long-term disability insurance coverage with various commercial insurance carriers until December 31, 2016.

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Effective January 1, 2017, the University elected to self-insure certain costs related to employee health. The University has purchased insurance that limits its exposure for individual claims to \$125,000 per claim. As of June 30, 2018 and 2017, the University has accrued \$450,000 for claims incurred but not yet paid which is included in accrued liabilities on the statement of net position.

Note 10: Segment Information

A segment, an identifiable activity for which one or more revenue bonds are outstanding, has a specific identifiable revenue stream pledged in support of the revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has one segment that meets these reporting requirements, the Auxiliary Enterprise System for residence halls, student recreation center, health center, bookstore and ticket management.

The outstanding debt of the Auxiliary Enterprise System Revenue Bonds (*Note 4*) is payable from the gross income and revenues derived from the related auxiliary enterprise activities. Condensed financial information for the Auxiliary Enterprise System as of and for the years ended June 30, 2018 and 2017, is as follows:

Auxiliary Enterprise System
Revenue Bonds Series 2014A, 2014B and 2015
As of/Years Ended June 30, 2018 and 2017

	2018	2017
Condensed Statements of Net Position		
Assets		
Current assets	\$ 3,812,677	\$ 3,017,351
Capital assets, net	47,740,380	49,434,055
Total assets	51,553,057	52,451,406
Deferred Outflows of Resources	1,017,433	1,020,963
Liabilities		
Current liabilities	2,482,932	2,489,652
Long-term liabilities	33,063,334	34,801,115
Total liabilities	35,546,266	37,290,767
Deferred Inflows of Resources	105,656	42,542
Net Position		
Net investment in capital assets	\$ 16,918,568	\$ 16,139,060

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	2018	2017
Condensed Statements of Revenues, Expenses and Changes in Net Position		
Operating Revenues	\$ 9,418,671	\$ 9,285,713
Depreciation Expense	(2,082,862)	(1,989,455)
Other Operating Expenses	(5,358,243)	(4,812,341)
Operating income	1,977,566	2,483,917
Nonoperating Revenues (Expenses)		
Interest expense	(1,135,935)	(1,161,531)
Other nonoperating revenues	-	500,000
Total nonoperating expenses	(1,135,935)	(661,531)
Income Before Other Revenues, Expenses, Gains or Losses	841,631	1,822,386
Capital Grants and Gifts	-	1,131,669
Change in net position	841,631	2,954,055
Beginning Net Position, as Previously Reported	16,139,060	13,185,005
Cumulative Effect of Change in Accounting Principle	(62,123)	-
Beginning Net Position	16,076,937	13,185,005
Ending Net Position	\$ 16,918,568	\$ 16,139,060
Condensed Statements of Cash Flows		
Net Cash Provided By (Used In)		
Operating activities	\$ 3,733,948	\$ 4,633,299
Noncapital financing activities	-	500,000
Capital and related financing activities	(3,067,613)	(5,339,705)
Investing activities	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	666,335	(206,406)
Beginning Cash and Cash Equivalents	169,497	375,903
Ending Cash and Cash Equivalents	\$ 835,832	\$ 169,497

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Note 11: Missouri Southern Foundation

Financial Statements

The financial statements of the Foundation are presented in accordance with the provisions of the FASB ASC. The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of position, a statement of activities and a statement of cash flows.

Investments

Investments in equity and debt securities are carried at fair value. All other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or market value. Investments, including investments restricted for long-term purposes, at June 30, 2018 and 2017, consists of the following:

	2018	2017
Equity securities	\$ 12,775,347	\$ 11,499,875
U.S. Treasury and federal agency obligations	990,882	1,127,430
Corporate debt	5,734,375	4,276,172
Money market funds and other	1,165,470	2,058,656
	\$ 20,666,074	\$ 18,962,133

Beneficial Interests in Trusts Held by Others

The Foundation is the beneficiary of various perpetual trusts administered by financial institutions. The beneficial interests in these perpetual trusts are included in donor restricted net assets. The Foundation is to receive portions of the earnings from each of these trusts at least annually as provided for in each trust instrument. Earnings totaling \$390,844 and \$498,498 were received by the Foundation from these trusts during the years ended June 30, 2018 and 2017, respectively, for all restricted purposes.

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The Foundation is also beneficiary of various charitable beneficial trusts administered by a financial institution. The Foundation is to receive remainder interests in each of these trusts after donors or other beneficiaries have received benefits for specified periods of time. Once benefits have been distributed to the other beneficiaries, the Foundation is to receive stated percentages from each trust according to terms of the various trust instruments. The beneficial interests in these charitable remainder trusts are included in temporarily restricted net assets. The Foundation received distributions of \$0 from these charitable remainder trusts during the years ended June 30, 2018 and 2017, respectively.

Contributions Receivable

Contributions receivable consists of unconditional gifts to be received in future periods and have been discounted, at rates ranging from 3.0% to 5.2%, to the present value of estimated future cash flows. Expected receipt of contributions receivable at June 30, 2018 and 2017, is as follows:

	2018	2017
Less than one year	\$ 289,528	\$ 282,851
One to five years	5,254,193	4,560,659
More than five years	313,924	109,173
Gross contributions receivable	5,857,645	4,952,683
Less discount for present value	967,412	841,109
Net contributions receivable	\$ 4,890,233	\$ 4,111,574

Notes Payable

The Foundation entered into a \$1,040,000 term loan agreement with UMB Bank in December 2016. The principal of \$1,040,000 is due along with accrued interest at 3.80% on December 5, 2019. The loan is secured by the commercial pledge agreement executed by the Community Foundation of the Ozarks, Inc.

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Endowment

Endowment net assets at June 30, 2018 and 2017, by type of fund consisted of the following:

	Without Donor Restrictions	2018 With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 37,624,278	\$ 37,624,278
Board-designated endowment funds	399,549	-	399,549
	<u>\$ 399,549</u>	<u>\$ 37,624,278</u>	<u>\$ 38,023,827</u>
		2017	
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 34,247,611	\$ 34,247,611
Board-designated endowment funds	355,436	-	355,436
	<u>\$ 355,436</u>	<u>\$ 34,247,611</u>	<u>\$ 34,603,047</u>

The Foundation also designated \$350,000 of unrestricted net assets in March 2006 as a board-designated endowment for use by the English Department of MSSU based on a settlement received from the estate of a former English instructor. Distributions to the English Department from this endowment will be budgeted annually based on requests submitted by the English Department along with anticipated earnings from the invested funds. The balance in this endowment at June 30, 2018 and 2017, was \$399,549 and \$355,436, respectively.

Donor restricted net assets at June 30, 2018 and 2017, are categorized as directed by donors as follows:

	2018	2017
Scholarships	\$ 23,788,322	\$ 21,170,719
Faculty and departmental support	7,776,463	6,408,708
Facilities improvement	2,554,714	1,817,249
General university support	20,359	651,496
Cultural activities	59,563	653,897
Time	3,424,857	3,545,542
	<u>\$ 37,624,278</u>	<u>\$ 34,247,611</u>

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Fair Value of Financial Instruments

FASB ASC 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs: Quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs: Observable inputs other than Level 1 process, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs: Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes practical expedient investments with notice periods for redemption of more than 90 days.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following are major categories of assets and liabilities measured at fair value on a recurring basis during the year ended June 30, 2018.

Contributions receivable – Fair value is estimated based on the discounted estimated future cash flows using interest rates currently being offered for loans with similar terms.

Money market & equity securities – Fair values have been determined using quoted market prices.

Government and agency bonds & fixed income funds – Fair values have been determined using quoted market prices of similar assets in active markets.

Beneficial interest in trusts held by others – Fair values are based on the Foundation's percentage interest in total market value for perpetual trusts and the present value of future income payments for charitable remainder trusts.

Missouri Southern State University
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	June 30, 2018			Carrying Amount
	Fair Value			
	Level 1	Level 2	Level 3	
Financial Assets				
Contributions receivable	\$ -	\$ 266,494	\$ -	\$ 266,494
Money market funds	1,165,470	-	-	1,165,470
Equity securities	12,775,347	-	-	12,775,347
Government and agency bonds and fixed income funds	-	6,725,257	-	6,725,257
Beneficial interest in trusts held by others	-	-	12,101,664	12,101,664
	<u>\$ 13,940,817</u>	<u>\$ 6,991,751</u>	<u>\$ 12,101,664</u>	<u>\$ 33,034,232</u>

	June 30, 2017			Carrying Amount
	Fair Value			
	Level 1	Level 2	Level 3	
Financial Assets				
Contributions receivable	\$ -	\$ 266,302	\$ -	\$ 266,302
Money market funds	2,058,656	-	-	2,058,656
Equity securities	11,499,875	-	-	11,499,875
Government and agency bonds and fixed income funds	-	5,403,602	-	5,403,602
Beneficial interest in trusts held by others	-	-	11,382,942	11,382,942
	<u>\$ 13,558,531</u>	<u>\$ 5,669,904</u>	<u>\$ 11,382,942</u>	<u>\$ 30,611,377</u>

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The following is a reconciliation of the beginning and ending balances for recurring fair value measurements recognized in the accompanying Statement of Financial Position using significant unobservable (Level 3) inputs:

Balance, Beginning of Year	\$ 11,382,942
Total realized and unrealized gains and losses included in change in net assets	718,722
	\$ 12,101,664
Total gains or losses for the period in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	\$ 305,458
	\$ 305,458

Subsequent Events

The Foundation plans on entering into a bridge loan program with four local banks. The loans issued would represent a form of programmatic investing and be secured by pledges to give.

Required Supplementary Information

Missouri Southern State University
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Required Supplementary Information
Schedule of University Proportionate Share of the Net Pension Liability
Missouri State Employees' Retirement System
June 30, 2018 and 2017

	2018	2017	2016	2015
University's proportion of the net pension liability	1.0427%	1.0912%	1.1190%	1.1415%
University's proportionate share of the net pension liability	\$ 54,290,979	\$ 50,654,529	\$ 35,945,504	\$ 26,913,021
University's covered-employee payroll	\$ 20,522,141	\$ 21,133,582	\$ 21,669,752	\$ 21,803,175
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.55%	239.69%	165.88%	123.44%
Plan fiduciary net position as a percentage of the total pension liability	60.41%	63.60%	72.62%	79.49%

* The amounts presented for each fiscal year were determined as of the end of the preceding fiscal year.

This schedule is presented to illustrate the requirements to show information for ten years. However, until a full ten-year trend is compiled, the University only presents information for those years for which information is available.

Missouri Southern State University
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Required Supplementary Information
Schedule of University Pension Contributions
Missouri State Employees' Retirement System
Last Five Fiscal Years

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 3,731,781	\$ 3,450,837	\$ 3,586,368	\$ 3,677,357	\$ 3,725,358
Contributions in relation to the contractually required contribution	<u>3,731,781</u>	<u>3,450,837</u>	<u>3,586,368</u>	<u>3,677,357</u>	<u>3,725,358</u>
Contribution deficiency	<u>\$ -</u>				
University's covered-employee payroll	\$ 20,522,141	\$ 20,334,926	\$ 21,133,582	\$ 21,669,752	\$ 21,803,175
Contributions as a percentage of covered-employee payroll	19.45%	16.97%	16.97%	16.97%	17.09%

This schedule is presented to illustrate the requirements to show information for ten years. However, until a full ten-year trend is compiled, the University only presents information for those years for which information is available.

Notes to Schedule:

Benefit Changes

There were no changes to benefit terms for MOSERS for the year ended June 30, 2017 or 2016.

Changes of Assumptions

The board reduced the investment return assumption used in the June 30, 2017 valuation to 7.50%.

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

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

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

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Required Supplementary Information
Schedule of Changes in the University's Total OPEB Liability
and Related Ratios (GASB 75)

Total OPEB Liability	
Service cost	\$ 82,076
Interest	80,552
Changes in assumptions or other inputs	(129,542)
Benefit payments	<u>(83,754)</u>
Net Change in Total OPEB Liability	(50,668)
Total OPEB Liability – Beginning	<u>2,041,351</u>
Total OPEB Liability – Ending	<u><u>\$ 1,990,683</u></u>

Notes to Schedule:

Benefit Changes

There were no changes to benefit terms for the year ended June 30, 2018.

Changes of Assumptions

There was a change in the discount rate which has a net impact of \$135,000.

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Required Supplementary Information
Schedule of Funding Progress for Postemployment Health Care Plan (GASB 45)
June 30, 2018

	Year Ended June 30, 2017
Actuarial valuation date	January 1, 2016
Actuarial cost method	Projected Unit Credit
Actuarial accrued liability	\$ 1,833,878
Actuarial value of assets	-
Total unfunded actuarial liability	\$ 1,833,878
Funded ratio	0.00%
Annual covered payroll	\$ 25,171,015
Ratio of unfunded actuarial liability to covered payroll	7.3%
Participant Summary:	
Active employees	526
Retirees	8
Spouses of retirees	-
Total	534
Actuarial Assumptions:	
UAAL amortization method	Level % of pay
UAAL amortization period, closed/open	30 years, open
Investment return (discount) rate	3.00%
Projected salary increases	1.50%

Health Care Cost Trend Rates	
Year	Medical/Rx
2016	8.00%
2017	7.50%
2018	7.00%
2019	6.50%
2020	6.00%
2021	5.75%
2022	5.50%
2023	5.25%
2024 (to ultimate)	5.00%

Supplementary Information

Missouri Southern State University
(A Component Unit of the State of Missouri)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenses
U.S. Department of Education				
Student Financial Assistance Cluster				
Federal Supplemental Educational				
Opportunity Grants	84.007	NA	\$ -	\$ 176,006
Federal Work-Study Program	84.033	NA	-	190,343
Federal Perkins Loan Program	84.038	NA	-	4,611,785
Federal Pell Grant Program	84.063	NA	-	12,683,231
Federal Direct Student Loans	84.268	NA	-	19,763,090
Federal Teacher Education Assistance				
for College and Higher				
Education Grants (TEACH)	84.379	NA	-	80,141
Total Student Financial Assistance Cluster			-	37,504,596
U.S. Department of Education				
TRIO Cluster				
TRIO – Student Support Services	84.042A	NA	-	245,008
TRIO – Talent Search	84.044A	NA	-	234,641
TRIO – Upward Bound	84.047A	NA	-	277,636
Total TRIO Cluster			-	757,285
Total forward			-	38,261,881

Missouri Southern State University
(A Component Unit of the State of Missouri)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenses
Total forward			\$ -	\$ 38,261,881
U.S. Department of Agriculture/ Missouri Department of Health and Senior Services/ Child and Adult Care Food Program	10.558	ERS46110060	-	34,356
Department of Transportation – National Highway Traffic Safety Administration/State and Community Highway Safety	20.60X	None	-	64,819
Small Business Administration/ University of Missouri/ Small Business Development Centers	59.037	51641	-	155,888
U.S. Department of Education/ Career and Technical Education – Basic Grants to States	84.048A	None	-	117,123
Department of Health and Human Services/ Child Care and Development Block Grant/Child Care and Development Fund	93.575	1701MOCCDF	-	20,000
Department of Health and Human Services/ Foster Care Title IV-E	93.658	None	-	13,300
Department of Health and Human Services/Injury Prevention and Control Research and State and Community Based Programs	93.136	CE002427-04	-	3,374
National Endowment for the Humanities/ Digital Imaging Grant	45.310	LS0018002618	-	328
			\$ -	\$ 38,671,069

The accompanying notes are an integral part of this Schedule.

Missouri Southern State University
(A Component Unit of the State of Missouri)
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Missouri Southern State University under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Missouri Southern State University, it is not intended to and does not present the financial position, changes in net position or cash flows of Missouri Southern State University.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Missouri Southern State University has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. The federal loan programs listed subsequently are administered directly by Missouri Southern State University, and balances and transactions relating to these programs are included in Missouri Southern State University’s basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2018, consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2018
84.038	Federal Perkins Loan Program	\$3,473,752

**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of Governors
Missouri Southern State University
Joplin, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Missouri Southern State University (the "University"), a component unit of the State of Missouri, as of and for the years ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 12, 2018, which contained an "Emphasis of Matter" paragraph regarding the adoption of a new accounting standard. Our report also includes a reference to other auditors who audited the financial statements of the discretely presented component unit as described in our report on the University's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Governors
Missouri Southern State University

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
October 12, 2018

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Governors
Missouri Southern State University
Joplin, Missouri

Report on Compliance for Each Major Federal Program

We have audited Missouri Southern State University's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Missouri Southern State University's major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Missouri Southern State University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Board of Governors
Missouri Southern State University

Opinion on Each Major Federal Program

In our opinion, Missouri Southern State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2018.

Reports on Internal Control Over Compliance

Management of Missouri Southern State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
October 12, 2018

Missouri Southern State University
(A Component Unit of the State of Missouri)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

7. The University's major programs were:

Cluster/Program	CFDA Number
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Federal Teacher Education Assistance for College and Higher Education Grants (TEACH)	84.379
TRIO Cluster:	
TRIO – Student Support Services	84.042A
TRIO – Talent Search	84.044A
TRIO – Upward Bound	84.047A

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The University qualified as a low-risk auditee? Yes No

Missouri Southern State University
(A Component Unit of the State of Missouri)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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No matters are reportable.

Missouri Southern State University
(A Component Unit of the State of Missouri)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
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No matters are reportable.

MISSOURI SOUTHERN STATE UNIVERSITY

Summary Schedule of Prior Audit Findings Year Ended June 30, 2018

Reference Number	Finding	Status
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No matters are reportable.