

**Annual Financial Report Highlights
Midwestern State University
For the Year Ended August 31, 2013**

We are enclosing the Midwestern State University Annual Financial Report (AFR), Unaudited, for the year ended August 31, 2013 for your review. The report reflects a stable financial position for the university even with the reduction in enrollment and its associated revenues. Overall operating revenues increased by \$2.6M. The largest area of increase was in net tuition and fees which grew \$2M. Non-operating revenues remained flat at \$35.2M with a change of only \$41,000 less than the previous year. Other contributions and additions provided an additional \$3.5M in funds. Operating expenses also increased by \$3.8M to \$84.9M. The change in net assets between years was a positive \$1.1M, with net assets growing from \$95.9M to \$97M.

The Annual Financial Report provides financial and non-financial data for the year ended August 31, 2013. It includes enrollment trend analyses for student headcount and related semester credit hours, an important component of calculating the institution's financial position and stability. This report included the mandatory primary schedules of financial performance, consistent with the Governmental Accounting Standards Board, as well as reporting requirements by the Texas State Comptroller.

The Annual Financial Report includes: Comparative Statement of Net Position (Exhibit I), Comparative Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit II), and Statement of Cash Flows (Exhibit III). There is also management's discussion and analysis, cash flow discussion, summary of significant accounting policies, capital assets (including investments) and debt administration schedules, federal funds schedules and other financial notes.

1. Exhibit I – Comparative Net Assets or Balance Sheet

- This schedule reflects the assets that MSU owns, its obligations or liabilities and the resultant net assets or the net worth of the institution's financial position. Net assets, as previously mentioned, increased by \$2M, 2%, from the previous year. Current assets increased \$5.7M with almost \$2.7M increase in short-term investments, \$.9M in student receivables, \$.5M in pledges receivable and \$.7M in pre-paid expenses. Non-current assets decreased by \$7.4M between the years with the largest decreases in land and construction in progress (\$1.8M) and buildings and building improvements (\$4M).
- Current liabilities for the institution increased between years from \$35.M to \$37.6M with the largest increase in accrued liabilities (\$1.1M) and deferred revenues (\$.9M). Noncurrent liabilities however decreased between years by \$5.4M with repayment of revenues bonds payable and paying off of outstanding constitutional appropriation bonds. Overall liabilities for the institution decreased \$2.9M
- Net assets are broken into several categories. The largest category, Invested in Capital Assets (net of related debt) decreased from \$50.2M to \$48.9M. This decrease is primarily due to depreciation expense. Net assets are further broken down into restricted and unrestricted. Restricted assets grew by \$1.9M due to gifts from donors for restricted purposes. Unrestricted net assets remained flat changing from \$28.2M to \$28.8M.

2. Exhibit II – Comparative Statement of Revenues, Expenses, and Changes in Net Assets (Income Statement)

- This statement breaks revenue into two categories: operating and non-operating. The State and the Governmental Accounting Standards Board require that state appropriations, HEAF appropriations, gifts and certain federal grants all be categorized

as non-operating income or capital contributions, additions to the endowment and special items. Because of this, the university shows a net operating loss of \$37.6M (operating revenue less operating expenses) before these major revenue sources are included. After these non-operating revenues are included, the institution shows an increase in net assets of \$1.1M.

- The increase of net assets of \$1.1M reflects a change from a larger increase in net assets from the previous year (\$7M). This swing was primarily due to a large amount of gifts for capital projects in the FY2012.

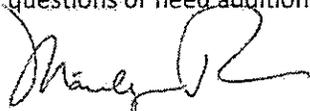
3. Exhibit III – Statement of Cash Flows

- This statement reflects the inflows and outflows of cash received and used by the university with the net result of ending cash balances. Cash flow shows how cash is being brought in and/or used in four different areas: operating activities, noncapital financing activities, capital and related financing activities, and investing activities.
- The institution uses over \$26.9 million more in cash on operating activities than it takes in. This shortfall is offset by cash received from noncapital financing activities (primarily state appropriations, non-operating grants, and gifts). Cash is also used in capital and related financing activities. Relative to the amounts of cash moving through the institution, little net cash was made from investing activities.
- The cash flow statement shows the vulnerability of the institution to declines in state appropriations and gift funds. The amounts of cash received from state appropriations (including HEAF), gifts and capital gifts this year was over \$33.2M or almost \$3 million more than was received from students in tuition and fees.
- The other cash item to watch is the growth in the amount of scholarships. Currently scholarships paid, \$10.4M is equivalent to 34% of the amount of proceeds received from the students, \$30.5M. Last year the ratio was 29%.
- Overall cash for the institution grew from \$6.8M to \$8.0M, an increase of \$1.2M.

4. Subsequent Events

- Senate Bill 1019 passed the 83rd legislature and allowed Midwestern State University to pool its investments with another governing board. After considering several university systems in the state, the university entered into an agreement with Texas A&M University System to invest its idle cash. Investment returns are expected to grow from less than 1% to around 3% over the coming year.
- The university retired its HEAF bonds on September 13, 2013. As a result, the institution will have an additional \$1.4M each year in HEAF funds to be spent on capital projects, equipment or library materials.

For additional highlights and information on the financial status of the institution, please read the Management's Discussion and Analysis that provides narratives following each of the major schedules, and the notes to the financial statements at the end of the report. Please let me know if you have any questions or need additional information.



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