

**Southeast Missouri State University
System Facilities**

Accountants' Report and Financial Statements

Year Ended June 30, 2007



Independent Accountants' Report

Board of Regents
Southeast Missouri State University
Cape Girardeau, Missouri

We have audited the accompanying basic financial statements of the Southeast Missouri State University System Facilities, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements of the Southeast Missouri State University System Facilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of Southeast Missouri State University that is attributable to the Southeast Missouri State University System Facilities. They do not purport to, and do not, present fairly the financial position of Southeast Missouri State University as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Missouri State University System Facilities, as of June 30, 2007, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Regents
Southeast Missouri State University
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Our audit was conducted for the purpose of forming an opinion on the University's basic financial statements. The accompanying supplementary information 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 has not been subjected to the procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on it.

BKD, LLP

November 9, 2007

SOUTHEAST MISSOURI STATE UNIVERSITY
System Facilities

June 30, 2007

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SOUTHEAST MISSOURI STATE UNIVERSITY SYSTEM FACILITIES

Management's Discussion and Analysis Year Ended June 30, 2007

This discussion and analysis of Southeast Missouri State University's System Facilities' basic financial statements provides an overview of the System Facilities' financial performance during the year ended June 30, 2007. The Management's Discussion and Analysis is designed to focus on current activities and resulting changes, and should be read in conjunction with the System Facilities' basic financial statements.

Using this Report

This report consists of a series of basic financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. The Statement of Net Assets includes the assets, liabilities, and net assets of the System Facilities as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and the expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating, nonoperating or other. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the basic financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents the System Facilities' flows of cash. The primary purpose of the Statement of Cash Flows is to provide information about the System Facilities' cash receipts and payments summarized by operating, capital and related financing, noncapital financing and investing activities.

Financial Analysis of the System Facilities

The following table reflects the Net Assets for the System Facilities as of June 30:

Condensed Statement of Net Assets As of June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---------------|---------------|
| Current Assets | \$ 17,972,015 | \$ 18,627,626 |
| Noncurrent Assets | | |
| Capital assets, net of depreciation | 79,624,885 | 75,546,129 |
| Other | 848,485 | 1,132,535 |
| Total assets | \$ 98,445,385 | \$ 95,306,290 |
| Current Liabilities | \$ 4,897,859 | \$ 2,996,659 |
| Noncurrent Liabilities | 57,418,065 | 59,097,082 |
| Total liabilities | \$ 62,315,924 | \$ 62,093,741 |
| Net Assets | | |
| Invested in capital assets, net of related debt | \$ 28,109,287 | \$ 27,031,893 |
| Restricted | 705,475 | 182,026 |
| Unrestricted | 7,314,699 | 5,998,630 |
| Total net assets | \$ 36,129,461 | \$ 33,212,549 |

Current assets consist primarily of cash and cash equivalents and short-term investments. Current assets totaled \$17.97 million at June 30, 2007, a decrease of approximately \$660,000 from the \$18.63 million total current assets at June 30, 2006. Total assets increased approximately \$3.14 million from \$95.31 million at June 30, 2006 to \$98.45 million at June 30, 2007.

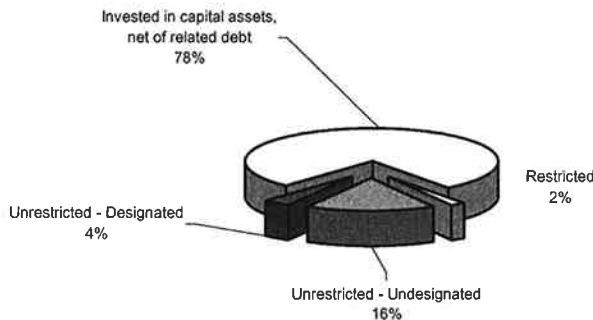
Current liabilities consist primarily of accounts payable, accrued compensation and accrued interest payable. Current liabilities totaled \$4.90 million at June 30, 2007, an increase of approximately \$1.91 million from the \$2.99 million total current liabilities at June 30, 2006. The increase is due primarily to construction in progress which included the Aquatic Center with substantial accounts payable at June 30, 2007. Current liabilities also includes the current portion of bonds payable.

Noncurrent liabilities consist of long-term debt, which totaled \$57.42 million at June 30, 2007 and \$59.10 million at June 30, 2006.

Net assets represent the residual interest in the System Facilities' assets after liabilities are deducted.

| Net assets: | June 30, 2007 | June 30, 2006 |
|---|----------------------|----------------------|
| Invested in capital assets, net of related debt | \$ 28,109,287 | \$ 27,031,893 |
| Restricted: | | |
| Expendable for capital projects | 705,475 | 182,026 |
| Unrestricted: | | |
| Designated | 1,294,088 | 1,042,904 |
| Undesignated | <u>6,020,611</u> | <u>4,955,726</u> |
| Total Unrestricted | <u>7,314,699</u> | <u>5,998,630</u> |
| Total Net Assets | <u>\$ 36,129,461</u> | <u>\$ 33,212,549</u> |

Following is a breakdown of net assets at June 30, 2007:



Net assets invested in capital assets, net of related debt represent the System Facilities' capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net assets invested in capital assets increased approximately \$1.08 million from \$27.03 million at June 30, 2006 to \$28.11 million at June 30, 2007. The increase is primarily due to the construction of the Aquatic Center.

Although unrestricted net assets are not subject to externally imposed stipulations, approximately \$1.29 million and \$1.04 million was internally designated for investment in inventories as of June 30, 2007 and 2006, respectively. Unrestricted-undesignated net assets of the System were approximately \$6.02 million at June 30, 2007, an increase of \$1.06 million from \$4.96 million at June 30, 2006.

The following schedule reflects the condensed revenues and expenses of the System Facilities for fiscal years 2007 and 2006:

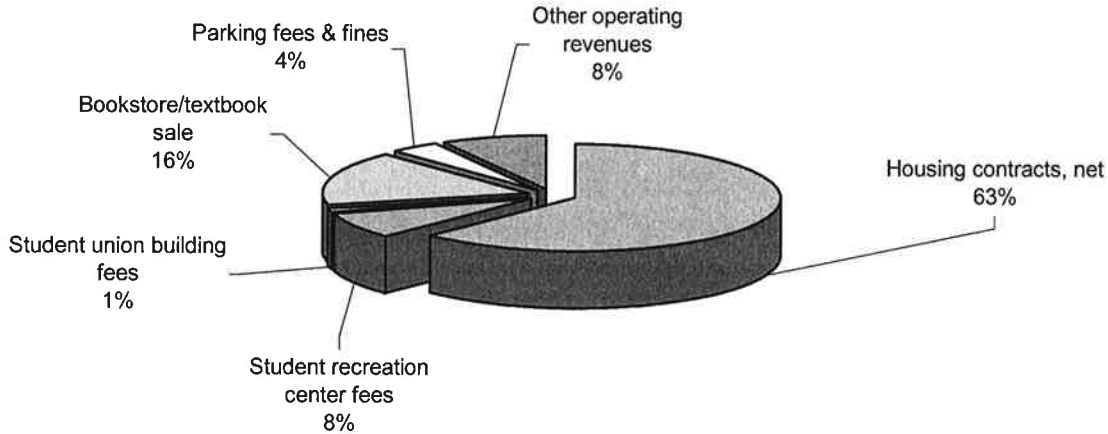
**Condensed Statements of Revenues,
Expenses and Changes in Net Assets
Years ended June 30, 2007 and June 30, 2006**

| | June 30, 2007 | June 30, 2006 |
|---|--------------------|--------------------|
| Operating revenue | | |
| Housing contracts, net of scholarship allowance | \$ 12,890,519 | \$ 12,792,293 |
| Bookstore/textbook sales & rentals | 3,390,222 | 3,364,500 |
| Student recreation center fees | 1,593,336 | 1,357,715 |
| Parking fees & fines | 826,958 | 917,543 |
| Student union building fees | 237,122 | 237,363 |
| Other operating revenue | <u>1,700,606</u> | <u>1,736,352</u> |
| Total operating revenue | \$ 20,638,763 | \$ 20,405,766 |
| Operating expenses | | |
| Personal service | 3,963,604 | 3,970,073 |
| Contract food service | 3,815,871 | 3,933,091 |
| Utilities and maintenance | 1,062,090 | 1,070,423 |
| Book purchases | 2,372,524 | 2,346,602 |
| Depreciation | 1,712,650 | 1,646,055 |
| Other operating expenses | <u>3,151,453</u> | <u>3,074,636</u> |
| Total operating expenses | \$ 16,078,192 | \$ 16,040,880 |
| Operating income | 4,560,571 | 4,364,886 |
| Nonoperating revenues (expenses) | | |
| Investment income | 987,539 | 452,783 |
| Interest on capital asset-related debt | <u>(2,665,618)</u> | <u>(2,481,262)</u> |
| Net nonoperating expenses | (1,678,079) | (2,028,479) |
| Other revenues | <u>34,420</u> | <u>390,402</u> |
| Increase in net assets | 2,916,912 | 2,726,809 |
| Net assets beginning of year | <u>33,212,549</u> | <u>30,485,740</u> |
| Net assets end of year | \$ 36,129,461 | \$ 33,212,549 |

Total revenues for fiscal years 2007 and 2006 were \$21.66 million and \$21.25 million. The most significant sources of revenue for the System Facilities are housing contracts, student fees, and

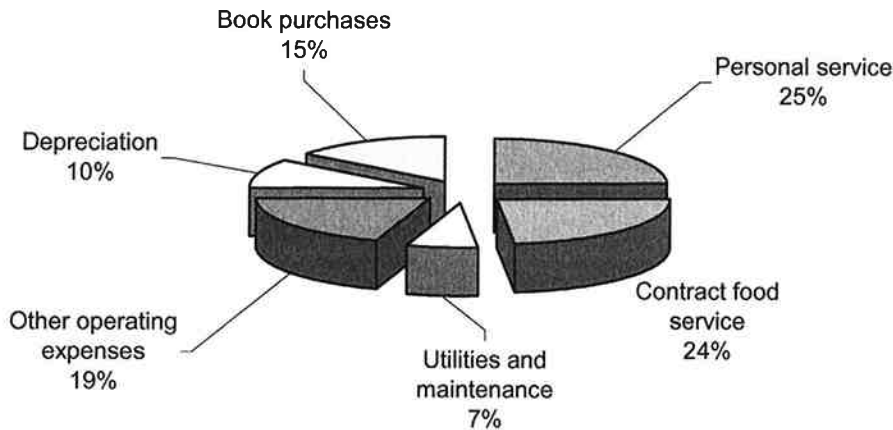
bookstore/textbook sales and rentals. Other operating revenue, which decreased \$35,000 from \$1.74 million in fiscal year 2006 to \$1.70 million in fiscal year 2007, includes revenue from camps, conferences and coin operating campus sales.

Following is a graphic illustration of operating revenue by source for fiscal year 2007:



Operating expenses of the System Facilities totaled \$16.08 million for the fiscal year ending June 30, 2007 and \$16.04 million for the fiscal year ending June 30, 2006. Personal service costs and contract food service costs accounted for 49% of the total operating expenses in fiscal year 2007 and 50% of the total operating expenses in fiscal year 2006.

Following is a graphic illustration of operating expenses by source for the period ending June 30, 2007:



Bonds and Notes Payable

At June 30, 2007, the System had outstanding bonds of approximately \$59.13 million. At June 30, 2006, the System had outstanding bonds of approximately \$60.56 million and outstanding notes payable of \$0. The University issued \$8.92 million in bonds for the System Facilities Revenue Bond Series 2006A during fiscal year 2006. During fiscal year 2006, the note payable balance of \$362,811 was forgiven as part of a new food service contract.

The University's financial strength is rated "Aaa" by Moody's Investors Services and "AAA" by Standard & Poor's Rating Services and Fitch, Inc at June 30, 2007.

Capital Assets

At June 30, 2007 and 2006, the System's investment in capital assets totaled \$79.62 million and \$75.55 million, respectively, as follows:

| | June 30, 2007 | June 30, 2006 |
|--------------------------------|---------------------|---------------------|
| Buildings and improvements | \$ 86,371,216 | \$ 85,785,544 |
| Infrastructure | 4,395,025 | 3,989,989 |
| Construction in progress | 6,035,018 | 1,234,320 |
| Less: Accumulated depreciation | (17,176,374) | (15,463,724) |
| | <u>\$79,624,885</u> | <u>\$75,546,129</u> |

At June 30, 2007, the University had initiated plans and incurred certain contractual commitments related to the construction of various facilities. The costs to complete these projects are estimated at \$4.73 million, which consists of Aquatic Center construction in the estimated amount of \$4.25 million. This project is being funded from bond proceeds and local construction funds.

At June 30, 2006, the University estimated the costs to complete construction projects in progress at \$8.24 million, which consisted of Aquatic Center construction in the estimated amount of \$8.24 million. This project is funded from bond proceeds and local construction funds.

SOUTHEAST MISSOURI STATE UNIVERSITY
System Facilities
Statement of Net Assets
June 30, 2007

ASSETS

| | |
|--------------------------------------|----------------------|
| Current assets | |
| Cash and cash equivalents | \$ 6,963,780 |
| Restricted cash and cash equivalents | 3,788,750 |
| Restricted short-term investments | 5,620,214 |
| Accrued interest receivable | 17,567 |
| Due from component unit - Foundation | 647 |
| Accounts receivable | 212,173 |
| Inventories | 1,294,088 |
| Bond issuance costs | 74,796 |
| Total current assets | <u>17,972,015</u> |
| Noncurrent assets | |
| Bond issuance costs | 848,485 |
| Capital assets, net - Depreciable | 73,589,867 |
| Capital assets - Non-depreciable | 6,035,018 |
| Total noncurrent assets | <u>80,473,370</u> |
| Total Assets | <u>\$ 98,445,385</u> |

LIABILITIES

| | |
|------------------------------|-------------------|
| Current liabilities | |
| Accounts payable | \$ 1,613,220 |
| Accrued interest payable | 717,431 |
| Accrued compensation | 229,422 |
| Unearned income | 627,786 |
| Bonds payable | 1,710,000 |
| Total current liabilities | <u>4,897,859</u> |
| Noncurrent liabilities | |
| Bonds payable | 57,418,065 |
| Total noncurrent liabilities | <u>57,418,065</u> |
| Total liabilities | <u>62,315,924</u> |

NET ASSETS

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 28,109,287 |
| Restricted | |
| Expendable for capital projects | 705,475 |
| Unrestricted | 7,314,699 |
| Total net assets | <u>\$ 36,129,461</u> |

The accompanying notes are an integral part of the basic financial statements.

SOUTHEAST MISSOURI STATE UNIVERSITY
System Facilities
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2007

Revenues

| | |
|---|-------------------|
| Operating revenues | |
| Housing contracts (net of scholarship allowance of \$757,779) | \$ 12,890,519 |
| Student recreation center fees | 1,593,336 |
| Student union building fees | 237,122 |
| Student parking fees | 456,089 |
| Other fees | 671,789 |
| Textbook rental | 1,171,449 |
| Bookstore/textbook sales | 2,218,773 |
| Coin operating sales | 170,149 |
| Fines/parking tickets | 370,869 |
| Camps | 189,504 |
| Rental income | 136,340 |
| Other operating revenues | 532,824 |
| Total operating revenues | <u>20,638,763</u> |

Expenses

| | |
|---------------------------|-------------------|
| Operating expenses | |
| Personal service | 3,963,604 |
| Contract food service | 3,815,871 |
| Utilities and maintenance | 1,062,090 |
| Book purchases | 2,372,524 |
| Coin operating expenses | 63,357 |
| Depreciation | 1,712,650 |
| Other operating expenses | 3,088,096 |
| Total operating expenses | <u>16,078,192</u> |
| Operating income | <u>4,560,571</u> |

Nonoperating revenues (expenses)

| | |
|---|-----------------------------|
| Investment income | 987,539 |
| Interest on capital asset-related debt | <u>(2,665,618)</u> |
| Total nonoperating expenses, net | <u>(1,678,079)</u> |
| Income before other revenues, expenses, gains, losses, and transfers | 2,882,492 |
| Capital gifts | 34,420 |
| Increase in net assets | <u>2,916,912</u> |
| Net assets--beginning of year | <u>33,212,549</u> |
| Net assets--end of year | <u><u>\$ 36,129,461</u></u> |

The accompanying notes are an integral part of the basic financial statements.

SOUTHEAST MISSOURI STATE UNIVERSITY
System Facilities
Statement of Cash Flows
For the Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|---|----|--------------|
| Student fees | \$ | 15,292,018 |
| Other receipts | | 5,387,531 |
| Payments to vendors and suppliers | | (10,176,295) |
| Payments to employees | | (3,960,658) |
| Net cash provided by operating activities | | 6,542,596 |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

-

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | | |
|---|--|-------------|
| Purchases of capital assets and payments to contractors | | (3,474,185) |
| Principal paid on capital debt | | (1,465,000) |
| Interest paid on capital debt | | (3,285,789) |
| Net cash (used) by capital and related financing activities | | (8,224,974) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|---|--|--------------|
| Proceeds from sales and maturities of investments | | 13,137,236 |
| Interest on investments | | 751,855 |
| Purchase of investments | | (10,140,278) |
| Net cash provided by investing activities | | 3,748,813 |

| | | |
|--------------------------------|----|------------|
| Net increase in cash | | 2,066,435 |
| Cash--beginning of year | | 8,686,095 |
| Cash--end of year | \$ | 10,752,530 |

Reconciliation of net operating income to net cash provided by operating activities:

| | | |
|---|-----------|------------------|
| Operating income | \$ | 4,560,571 |
| Adjustments to reconcile operating income to net cash provided (used) | | |
| by operating activities: | | |
| Depreciation expense | | 1,712,650 |
| Change in assets and liabilities: | | |
| Receivables | | (74,166) |
| Inventories | | 242,709 |
| Accounts payable | | (17,066) |
| Deferred revenues | | 114,952 |
| Accrued compensation | | 2,946 |
| Net cash provided by operating activities | \$ | 6,542,596 |

The accompanying notes are in integral part of the basic financial statements.

Southeast Missouri State University

SYSTEM FACILITIES

NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2007

Note 1 - Organization

The basic financial statements include the accounts of Southeast Missouri State University (the “University”) established by the terms of the bond resolution for the System Facilities Revenue Bonds Series 1998A dated January 15, 1998; the System Facilities Revenue Bonds Series 1998B dated September 1, 1998; the System Facilities Revenue Bonds Series 2001 dated August 30, 2001; the System Facilities Revenue Bonds Series 2002 dated April 1, 2002 and the System Facilities Revenue Bond Series 2006A dated May 10, 2006. The basic financial statements reflect only the assets, liabilities, net assets, revenues and expenses of the System Facilities.

The System Facilities is composed of the Housing System, the Student Union facility (University Center), the Student Recreation Center, the Aquatic Center, and the Outdoor Recreation Fields. The resolution of the System Facilities Revenue Bonds Series 2002 added the Parking and Transit system to the System Facilities. The Housing System is composed of all residence halls and related dining facilities, including Dearthmont Quadrangle, Myers Hall, Cheney Hall, Group Housing, the Towers High Rise Housing and Vandiver Hall. The University Center includes the operations of the University Bookstore and textbook rental operation. Revenue derived from the operation of these facilities is pledged for the retirement of the outstanding Series 1998A, Series 1998B, Series 2001, Series 2002 and Series 2006A bonds and payment of interest thereon semi-annually on April 1 and October 1.

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies:

Basis of Presentation:

The basic financial statements of the System Facilities have been prepared using the economic resource measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for publicly owned colleges and universities and is presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – Management’s Discussion and Analysis for Public Colleges and Universities*. The System Facilities follows the “business-type” activities requirements of GASB Statement No. 34. This approach requires the following components:

- Management's Discussion and Analysis
- Basic Financial Statements including a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows for the System Facilities
- Notes to the basic financial statements

GASB Statement No. 34 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
Nonexpendable – Net assets subject to externally imposed stipulations that the System Facilities maintain them permanently.
Expendable – Net assets whose use by the System Facilities is subject to externally imposed stipulations that will be fulfilled by actions of the System Facilities pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. A portion of unrestricted net assets are designated for investment in inventories.

In accordance with GASB Statement No. 20, the System Facilities is required to follow all applicable GASB pronouncements. In addition, the System Facilities applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The System Facilities has elected not to apply FASB pronouncements issued after November 30, 1989.

Summary of Significant Accounting Policies:

Capital Assets – Physical properties are recorded at cost or, when donated, at fair market value at date of gift. All financially material building and infrastructure additions and improvement are capitalized if the life of the capital asset is extended. Additionally, all purchases of equipment, furnishings and other personal property with a useful life greater than one year and costing one thousand dollars or greater are capitalized. Depreciation is computed using the straight-line method, with a full-year expense in the year after acquisition and none in the year of disposal. Capital assets are depreciated over the estimated useful lives as follows:

| <u>Capital Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 10 to 50 |
| Infrastructure | 10 to 50 |

When capital assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts.

Inventories – Inventories generally consist of textbooks and merchandise available for resale in the University Center's bookstore. Bookstore resale inventories are recorded at the lower of cost (using the first-in, first-out method) or market (net realizable value). Textbooks available for rental are recorded at cost and amortized over their estimated useful lives.

Cash and Cash Equivalents – These assets represent all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents and restricted cash and cash equivalents are combined on the statement of cash flows and represent cash and repurchase agreements.

Investments – Investments in publicly traded securities are stated at fair value as established by major securities markets. All investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under the terms of the bond resolution, available funds in any of the accounts established pursuant to the terms of the bond resolutions may be invested in any lawful investment as described in the bond resolutions.

Compensated Absences – System Facilities employees earn vacation benefits based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation pay based upon the nature of separation (death, retirement or termination). Certain limitations have been placed on the hours of vacation that employees may accumulate and carry over for payment at termination, retirement or death. Unused hours exceeding these limitations are forfeited.

Eliminations – In preparing the basic financial statements, the System Facilities eliminates inter-fund assets and liabilities that would otherwise be reflected twice in the Statement of Net Assets. Similarly, revenues and expenses related to internal service activities are also eliminated from the

Statement of Revenues, Expenses, and Changes in Net Assets. Consequently, housing contract fees are presented net of scholarships applied to student accounts.

Operating and Nonoperating Revenues – The System Facilities’ policy for defining operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Operating revenues include various auxiliary services, such as housing, and various general fees. Nearly all of the System Facilities’ expenses are from exchange transactions. Certain revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 34. Nonoperating revenues include revenues from activities that have the characteristics of nonexchange transactions such as investment income.

Unearned Income – Unearned income consists primarily of summer school general fees not earned during the current year.

Use of Estimates – The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the basic financial statements and the accompanying notes. Actual results could differ from those estimates.

Bond Issuance Costs – These costs are amortized over the life of the bond liability based on a method that approximates the effective interest rate method. For the year ended June 30, 2007 total charges to net assets balances related to the amortization of such costs was \$76,280.

Bond Premiums – Premiums on bonds payable are amortized over the life of the bond based on a method that approximates the effective interest rate method. For the year ended June 30, 2007 amortization related to bond premiums was \$14,569.

Amortization – The deferred amount on refunding is amortized as interest on capital related debt using the bonds outstanding method.

Note 3 - Deposits and Investments

Deposits:

Custodial credit risk. 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 of the state of Missouri; bonds of any city, county, school district or special road district of the state of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2007, none of the System Facilities' bank balances held by the current depository, a United States financial institution having a branch in the state of Missouri, was exposed to custodial credit risk. All of these deposits were fully collateralized as of June 30, 2007.

Foreign Currency Risk. The risk related to adverse affects on the fair value of a deposit from changes in exchange rates. At June 30, 2007, the System Facilities had no exposure to foreign currency risk as the University had no deposits held by international banks.

Investments:

The University may invest in United States Treasury Securities, United States Agency Securities, repurchase agreements, collateralized public deposits (certificates of deposits) and banker's acceptances.

At June 30, 2007, the System Facilities had the following investments and maturities:

| Investment Type | June 30, 2007 | | | | |
|---------------------------|---------------|---------------------|-------|--------|--------------|
| | Fair Value | Maturities in Years | | | |
| | | Less than 1 | 1 – 5 | 6 – 10 | More than 10 |
| U.S. Treasury obligations | \$ 187,574 | \$ 187,574 | \$ 0 | \$ 0 | \$ 0 |
| U.S. Agency obligations | 2,394,236 | 2,394,236 | 0 | 0 | 0 |
| Certificates of Deposit | 3,038,404 | 3,038,404 | 0 | 0 | 0 |
| | \$ 5,620,214 | \$5,620,214 | \$ 0 | \$ 0 | \$ 0 |

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of ensuring the safety of principal invested, the University's investment policy is to diversify investments so as to minimize the potential loss on individual securities. The maturities are structured to meet cash flow needs of the System Facilities, thereby avoiding the need to sell securities in the open market prior to maturity. Callable securities are restricted to securities callable at par only.

Credit Risk. Credit risk is the risk that the issuer or other counter party to an investment will not fulfill its obligations. It is the University's policy to limit its investment in banker's acceptance to domestic commercial banks possessing the highest rating issued by Moody's Investor Services or Standard & Poor's Corporation. Commercial paper is limited to domestic corporations that have received the highest rating issued by Moody's Investor Services or Standard & Poor's Corporation, and corporations having total assets in excess of five hundred million dollars. The System Facilities had no funds invested in commercial paper or banker's acceptance at June 30, 2007.

Credit ratings for the fixed income investments at June 30, 2007 are as follows:

| June 30, 2007 | | |
|---------------------------|---------------|-------------|
| Investment Type | Credit Rating | Fair Value |
| U.S. Treasury obligations | AAA | \$ 187,574 |
| U.S. Agency obligations | AAA/A-1+ | 2,394,236 |
| Certificates of Deposit | Not Rated | 3,038,404 |
| | | \$5,620,214 |

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counter party, the System Facilities will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Collateralization equal to at least 100% of the market value (including accrued interest) is required for certificates of deposit and repurchase agreement. The University maintains a depository contract and pledge agreement with its safekeeping bank that complies with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The System Facilities had no investments exposed to custodial credit risk at June 30, 2007.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government investment in a single issuer. According to the University's investment policy, investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. The types of investments that can be held in the System Facilities' portfolio include U.S. Treasury and Agency securities, repurchase agreements, collateralized public deposits, commercial paper and banker's acceptances. No more than 5% of the total market value of the portfolio may be invested in banker's acceptances issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

Foreign Currency Risk. This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. At June 30, 2007 the System Facilities had no exposure to foreign currency risk as there were no foreign investments in the System Facilities' portfolio.

Summary of Fair Values:

The fair value of deposits and investments are as follows:

| | |
|-----------------------|--------------|
| Fair value | |
| Repurchase Agreements | \$ 2,721,543 |
| Cash Deposits | 8,030,987 |
| Investments | 5,620,214 |
| | \$16,372,744 |

Included in the following statement of net assets captions:

| | |
|--------------------------------------|---------------------|
| Cash and cash equivalents | \$ 6,963,780 |
| Restricted cash and cash equivalents | 3,788,750 |
| Restricted short-term investments | 5,620,214 |
| | <u>\$16,372,744</u> |

Investment Income

Investment income for the year ended June 30, 2007 consisted of:

| | |
|---|-------------------|
| Interest and dividend income | \$ 744,240 |
| Realized gains on investments | 62,764 |
| Net increase in fair value of investments | <u>180,535</u> |
| | <u>\$ 987,539</u> |

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

| | Balance June 30, 2006 | Additions | Deletions | Balance June 30, 2007 |
|--|--------------------------|--------------------|--------------------|--------------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Construction in progress | \$ 1,234,320 | \$ 5,169,039 | \$ (368,341) | \$ 6,035,018 |
| Total capital assets not being depreciated | <u>1,234,320</u> | <u>5,169,039</u> | <u>(368,341)</u> | <u>6,035,018</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and improvements | 85,785,544 | 585,672 | 0 | 86,371,216 |
| Infrastructure | 3,989,989 | 405,036 | 0 | 4,395,025 |
| Total capital assets being Depreciated | <u>89,775,533</u> | <u>990,708</u> | <u>0</u> | <u>90,766,241</u> |
| <i>Less accumulated depreciation:</i> | | | | |
| Buildings and improvements | (15,293,592) | (1,632,320) | 0 | (16,925,912) |
| Infrastructure | (170,132) | (80,330) | 0 | (250,462) |
| Total accumulated depreciation | <u>(15,463,724)</u> | <u>(1,712,650)</u> | <u>0</u> | <u>(17,176,374)</u> |
| Total capital assets being depreciated, net | <u>74,311,809</u> | <u>(721,942)</u> | <u>0</u> | <u>73,589,867</u> |
| Net Capital Assets | <u>\$ 75,546,129</u> | <u>\$4,447,097</u> | <u>\$(368,341)</u> | <u>\$ 79,624,885</u> |

The estimated cost to complete construction in progress at June 30, 2007 is \$4.73 million which consists of Aquatic Center construction in the estimated amount of \$4.25 million. This project is being funded by bond proceeds and local construction funds.

Note 5 – Accounts Receivable

The composition of accounts receivable at June 30, 2007 is as follows:

| | | |
|--------------------------|----|----------------|
| JCI settlement | \$ | 77,213 |
| Food service commissions | | 78,221 |
| Bookstore sales | | <u>56,739</u> |
| | \$ | <u>212,173</u> |

Note 6 – Accounts Payable

The composition of accounts payable at June 30, 2007 is as follows:

| | |
|------------------------------|--------------------|
| Construction in progress | \$1,156,128 |
| Retainage – capital projects | 373,366 |
| Residence life operations | 69,062 |
| University Center operations | 5,788 |
| Other auxiliary operations | <u>8,876</u> |
| Total | <u>\$1,613,220</u> |

Note 7 – Bonds Payable

Bonds payable at June 30, 2007 are summarized as follows:

| | Amount Outstanding June 30, 2006 | Principal Additions | Principal Payments | Amount Outstanding June 30, 2007 |
|--|--|------------------------|-----------------------|--|
| System Facilities Revenue Bonds Series 1998A | \$ 7,415,000 | \$ 0 | \$ 200,000 | \$ 7,215,000 |
| System Facilities Revenue Bonds Series 1998B | 8,955,000 | 0 | 240,000 | 8,715,000 |
| System Facilities Revenue Bonds Series 2001 | 29,340,000 | 0 | 895,000 | 28,445,000 |
| System Facilities Revenue Bonds Series 2002 | 6,165,000 | 0 | 130,000 | 6,035,000 |
| System Facilities Revenue Bonds Series 2006A | 8,915,000 | 0 | 0 | 8,915,000 |
| | <u>\$ 60,790,000</u> | <u>\$ 0</u> | <u>\$ 1,465,000</u> | <u>\$ 59,325,000</u> |
| Less: | | | | |
| Current maturities (due within one year) | | | | \$ 1,710,000 |
| Deferred amounts on refunding | | | | 371,155 |
| Add: Premium on bonds payable | | | | <u>174,220</u> |
| | | | | <u>\$ 57,418,065</u> |

Series 2006A Bonds

On April 24, 2006, the Board of Regents issued \$8,915,000 of System Facilities Revenue Bond Series 2006A for the construction and furnishing of an Aquatic Center, swimming pool and related improvements. The Series 2006A shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2006A bonds maturing April 1, 2015 and thereafter

shall be subject to redemption on or after April 1, 2014 at a redemption price of 100% of the principal amount. The Series 2006A bonds bear interest at rates varying from 4.00% to 4.60% and mature serially through fiscal year 2036.

Series 2002 Bonds

On April 1, 2002, the University issued System Facilities Revenue Bonds Series 2002 in the aggregate principal amount of \$6,645,000 for parking system improvements. The Series 2002 bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2002 bonds maturing April 1, 2010 and thereafter shall be subject to redemption on or after April 1, 2009 at a redemption price of 100% of the principal amount. The Series 2002 bonds bear interest at rates varying from 3.75% to 5.15% and mature serially through fiscal year 2032.

Series 2001 Bonds

On June 28, 2001, the University's Board of Regents approved the construction of a 293-bed residence hall, and the sale of System Facilities Revenue Bonds to fund the project. On August 1, 2001, the Board of Regents approved the advance refunding of \$12,855,000 of Housing System Refunding and Improvement Revenue Bonds Series 1993. System Facilities Refunding and Improvement Revenue Bonds Series 2001 were issued on August 30, 2001, in the aggregate principal amount of \$30,975,000. Net proceeds in the amount of \$13,799,880 were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the \$12,855,000 of Series 1993 bonds advance refunded. As a result, this portion of the Series 1993 Housing bonds are considered to be defeased and the liability for these bonds has been removed from the accompanying financial statements. At June 30, 2007, there were no defeased Series 1993 Housing Bonds outstanding.

During 2002, the advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$647,301. This difference, reported as a reduction from revenue bonds payable, is being charged to operations through 2021 using the bonds outstanding method.

The Series 2001 bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2001 bonds maturing April 1, 2012 and thereafter shall be subject to redemption on or after April 1, 2011 at a redemption price of 100% of the principal amount. The Series 2001 bonds, collateralized by a pledge of the gross income and revenues derived from the ownership or operation of the System Facilities, bear interest at rates varying from 4.375% to 5.625% and mature serially through fiscal year 2031.

Series 1998A Bonds

On January 15, 1998, the Board of Regents issued \$8,655,000 of System Facilities Revenue Bonds Series 1998A. Bond proceeds were used to provide funding for the expansion/improvement of the Student Recreation Center and the Outdoor Recreation Fields, and to advance refund the University's Student Recreation Center Revenue Bonds, Series 1986, in the outstanding principal amount of \$1,835,000. The 1998A Series Bonds maturing on or after April 1, 2007, are subject to redemption on or after April 1, 2006, at the redemption price of