

Southeast Missouri State University

Accountants' Report and Financial Statements

June 30, 2007

SOUTHEAST MISSOURI STATE UNIVERSITY

June 30, 2007

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Independent Accountants' Report

Board of Regents
Southeast Missouri State University
Cape Girardeau, Missouri

We have audited the accompanying basic financial statements of Southeast Missouri State University ("University") and its discretely presented component unit, collectively a component unit of the State of Missouri, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Southeast Missouri State University Foundation which represents all the assets and revenues of the discretely presented component unit. Those statements were audited by other accountants whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Southeast Missouri State University Foundation, is based on the report of the other accountants.

We conducted our audit 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 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 and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other accountants, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Missouri State University and of its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Regents
Southeast Missouri State University
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In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2007, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

BKD, LLP

September 20, 2007

Southeast Missouri State University

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

This discussion and analysis of Southeast Missouri State University's (the "University") basic financial statements provides a comparative overview of the University's 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 University's basic financial statements and footnotes.

Using this Report

This report consists of a series of 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*. These basic financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

The Statement of Net Assets includes the assets, liabilities, and net assets of the University 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 assets are recognized when the service is provided and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The University's net assets (the difference between assets and liabilities) is one indicator of the University's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the conditions of facilities.

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. All things being equal, a public University's dependency on state appropriations and gifts will result in operating deficits. That is because the financial reporting model prescribed by GASB No. 34 classifies state appropriations and gifts as nonoperating revenues. 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 University's flows of cash. The primary purpose of the Statement of Cash Flows is to provide information about the University's cash receipts and payments summarized by operating, capital and related financing, noncapital financing and investing activities.

Financial Analysis of the University

The following table reflects the Net Assets of the University as of June 30:

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

	2007	2006
Current Assets	\$ 52,166,176	\$ 66,102,191
Noncurrent Assets		
Capital assets, net of depreciation	285,704,140	259,087,525
Other	14,889,983	17,250,554
Total assets	<u>\$ 352,760,299</u>	<u>\$ 342,440,270</u>
Current Liabilities	\$ 21,538,191	\$ 17,660,673
Noncurrent Liabilities	106,655,908	110,224,785
Total liabilities	<u>\$ 128,194,099</u>	<u>\$ 127,885,458</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 195,378,850	\$ 182,949,171
Restricted	4,253,819	4,050,499
Unrestricted	24,933,531	27,555,142
Total net assets	<u>\$ 224,566,200</u>	<u>\$ 214,554,812</u>

Current assets consist primarily of unrestricted and restricted cash and cash equivalents, unrestricted and restricted short-term investments, accounts receivable, accrued interest receivable and inventory. Current assets totaled \$52.17 million at June 30, 2007 and \$66.10 million at June 30, 2006. The decrease in current assets of approximately \$13.93 million from June 30, 2006, is primarily due to restricted investments being expended on the River Campus and Aquatic Center as the investments matured in fiscal year ended June 30, 2007.

The majority of noncurrent assets are capital assets which are recorded net of accumulated depreciation. Please refer to Note 2 in the footnotes to the basic financial statements for more information regarding the University's policy for depreciating capital assets. In addition to capital assets, long-term investments comprised \$5.38 million of noncurrent assets at June 30, 2007. Long-term investments comprised \$7.87 million of noncurrent assets at June 30, 2006.

Current liabilities consist primarily of accounts payable, accrued compensation and unearned income. Current liabilities also includes the current portion of bonds payable. Current liabilities totaled \$21.54 million at June 30, 2007 and \$17.66 million at June 30, 2006. The increase in current liabilities of approximately \$3.88 million from June 30, 2006, is primarily due to accounts payable on capital projects and supplies and other services.

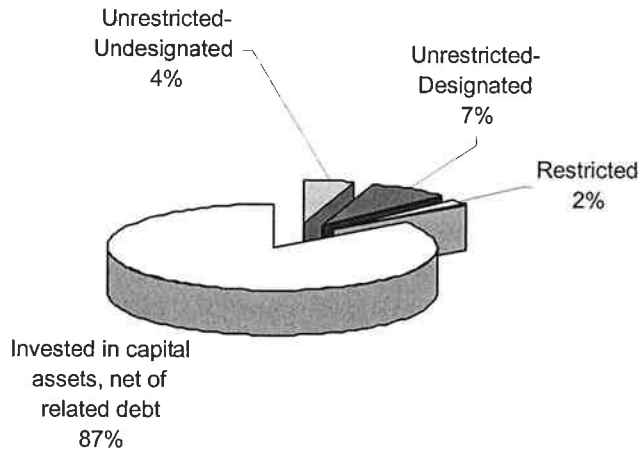
Noncurrent liabilities primarily consist of long-term debt, which totaled \$106.66 million at June 30, 2007 and \$110.22 million at June 30, 2006. There were no bonds issued during fiscal year

2007. During fiscal year 2006, the University issued long-term financing for the construction of the Aquatic Center. The University made all regularly scheduled bond payments.

Net assets represent the residual interest in the University's assets after liabilities are deducted.

Net assets:	June 30, 2007	June 30, 2006
Invested in capital assets, net of related debt	\$ 195,378,850	\$ 182,949,171
Restricted:		
Nonexpendable	2,094,137	2,000,141
Expendable	<u>2,159,682</u>	<u>2,050,358</u>
Total Restricted	4,253,819	4,050,499
Unrestricted:		
Designated	16,230,447	17,570,209
Undesignated	<u>8,703,084</u>	<u>9,984,933</u>
Total Unrestricted	<u>24,933,531</u>	<u>27,555,142</u>
Total Net Assets	\$ 224,566,200	\$ 214,554,812

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



Net assets invested in capital assets, net of related debt represent the University's 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 \$12.43 million from \$182.95 million at June 30, 2006 to \$195.38 million at June 30, 2007.

Restricted net assets include the University's permanent endowment, managed by the Southeast Missouri University Foundation, which totaled \$2.09 and \$2.00 million at June 30, 2007 and 2006, respectively. The increase in the permanent endowment is due to fluctuations in market value of investments. Although unrestricted net assets are not subject to externally imposed stipulations, approximately 65% has been internally designated as of June 30, 2007.

Following is a breakdown of designated unrestricted net assets as of June 30:

Unrestricted – designated net assets	2007	2006
Investment in Inventories	\$ 2,453,999	\$ 2,628,283
Future operations (including capital projects)	11,678,543	12,929,680
Quasi-endowment	2,097,905	2,012,246
Total	\$16,230,447	\$ 17,570,209

The total Unrestricted-undesignated net assets of the University of \$8.70 million at June 30, 2007 includes balances accumulated from the operations of the auxiliary enterprises, such as the residence hall system and bookstore, which totaled \$5.91 million and from general operations which totaled \$2.79 million. The total Unrestricted-undesignated net assets of the University of \$9.98 million at June 30, 2006 included balances accumulated from the operations of the auxiliary enterprises which totaled \$6.14 million and from general operations which totaled \$3.84 million.

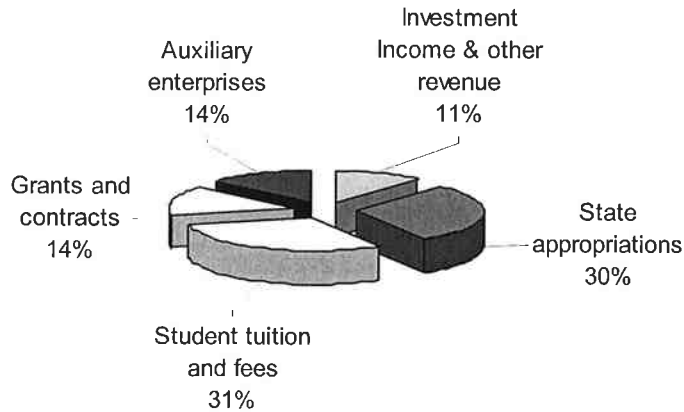
The following schedule reflects the condensed revenues and expenses of the University for fiscal years 2007 and 2006:

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

	2007	2006
Operating revenue		
Student tuition and fees, net of scholarship allowance	\$ 45,807,756	\$ 43,167,045
Auxiliary services	21,181,492	20,158,545
Other operating revenues	<u>5,854,677</u>	<u>5,534,335</u>
Total operating revenue	72,843,925	68,859,925
Operating expenses		
Personal service	76,570,518	73,432,546
Utilities and supplies	31,178,380	30,430,875
Scholarships	15,816,537	15,795,634
Depreciation	<u>7,656,597</u>	<u>7,570,806</u>
Total operating expenses	131,222,032	127,229,861
Operating loss	\$(58,378,107)	\$(58,369,936)
Nonoperating revenues (expenses)		
State appropriations	43,731,536	42,764,082
Investment income	4,444,138	3,028,925
Grants and contracts	21,119,414	20,488,128
Gifts	2,171,710	2,213,692
Nonoperating expenses	<u>(5,174,267)</u>	<u>(4,403,996)</u>
Net nonoperating revenues	66,292,531	64,090,831
Other revenues	2,096,964	8,237,717
Increase in net assets	10,011,388	13,958,612
Net assets beginning of year	<u>214,554,812</u>	<u>200,596,200</u>
Net assets end of year	\$224,566,200	\$214,554,812

Total revenues for fiscal year 2007 were \$146.41 million, which consisted of operating revenues of \$72.84 million, nonoperating revenues of \$71.47 million and other revenues of \$2.10 million. Total revenues for fiscal year 2006 were \$145.59 million, which consisted of operating revenues of \$68.86 million, nonoperating revenues of \$68.49 million and other revenues of \$8.24 million. The decrease of approximately \$3.17 million in nonoperating revenue and other revenue is attributed to a decrease of \$3.61 million in capital grants, a decrease of \$2.53 million in capital appropriations and an increase of \$2.38 in state appropriations and investment income. The most significant sources of revenue for the University are state appropriations, student tuition and fees, grants and contracts, and auxiliary services.

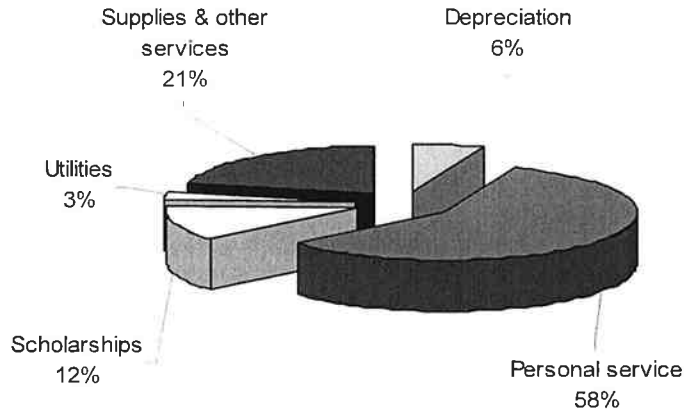
Following is a graphic illustration of total revenue by source for the year ended June 30, 2007:



Student tuition and fees surpassed state appropriations as the largest source of revenue for the University at June 30, 2007. State appropriations have been declining as a percent of total revenue from 37% in fiscal year 2002 to 30% in fiscal year 2007. The University's state appropriation for fiscal year 2008, net of the 3% governor's reserve withholding, is \$45.24 million which is below fiscal year 2000 funding levels.

Operating expenses totaled \$131.22 million for the fiscal year ended June 30, 2007. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 58.4% of the total operating expenses at June 30, 2007. Operating expenses of the University totaled \$127.23 million for the fiscal year ended June 30, 2006. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 57.7% of the total operating expenses at June 30, 2006.

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



Bonds and Notes Payable

The University had outstanding bonds of approximately \$94.63 million and \$96.44 million at June 30, 2007 and 2006, respectively. During fiscal year 2007, the University issued no new bonds. The University issued \$8.92 million in System Facilities Revenue Bonds Series 2006A bonds for the construction of an Aquatic Center during fiscal year 2006, and made all regularly scheduled debt service payments. Please refer to the bonds payable footnote (Note 8) in the notes to the basic financial statements for additional disclosures.

At June 30, 2007, the University had outstanding notes payable of approximately \$11.45 million, a decrease of approximately \$1.49 million from June 30, 2006. Please refer to the notes payable footnotes (Note 9) in the notes to the basic financial statements for additional disclosures.

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

Capital Assets

At June 30, 2007 and 2006, the University's investment in capital assets was as follows:

	2007	2006
Land	\$ 3,740,671	\$ 3,740,671
Buildings and improvements	232,795,922	230,724,041
Infrastructure	22,312,295	18,514,603
Equipment	36,665,156	36,679,576
Library books	20,028,720	19,311,062
Construction in progress	50,474,407	25,888,289
Less: Accumulated depreciation	(80,313,031)	(75,770,717)
	\$ 285,704,140	\$259,087,525

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 \$19.89 million at June 30, 2007 and are to be funded from bond proceeds, federal appropriations, private gifts, or other University funds. These projects include approximately \$8.82 million for construction, site improvements and equipment purchases related to the River Campus project, \$4.6 million for an Aquatic Center, and \$1.97 million for the Multi Modal Transfer Facility Phase III.

At June 30, 2006, 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 \$41.72 million at June 30, 2006 and are to be funded from bond proceeds, federal appropriations, private gifts, or other University funds. These projects include approximately \$29.36 million for construction, site improvements and equipment purchases related to the River Campus project, \$8.24 million for an Aquatic Center, and \$2.93 million for the Multi Modal Transfer Facility Phase III.

Southeast Missouri State University
Statement of Net Assets
June 30, 2007

	University	Component Unit - Foundation
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,058,917	\$ 276,937
Restricted cash and cash equivalents	15,057,289	-
Short-term investments	10,122,994	5,708,070
Restricted short-term investments	7,204,188	-
Accrued interest receivable	228,082	85,860
Due from component unit - Foundation	400,023	-
Accounts receivable (net of allowance of \$649,117)	3,839,464	120,383
Notes receivable	360,872	-
Due from federal government	2,953,110	-
Inventory	2,453,999	-
Prepaid expenses	365,237	4,260
Bond and note issuance costs	122,001	-
Total current assets	52,166,176	6,195,510
Noncurrent assets		
Investments	5,382,778	37,659,026
Other	-	775,292
Due from component unit - Foundation	4,192,042	-
Notes receivable (net of allowance of \$598,473)	4,127,479	-
Bond and note issuance costs	1,187,684	-
Capital assets, net - Depreciable	225,715,416	3,739,273
Capital assets - Non-depreciable	59,988,724	4,965,210
Pledges receivable	-	298,644
Total noncurrent assets	300,594,123	47,437,445
Total assets	\$ 352,760,299	\$ 53,632,955
LIABILITIES		
Current liabilities		
Accounts payable	\$ 8,588,364	\$ 174,233
Accrued compensation	5,016,891	3,642
Bond interest payable	1,002,785	-
Due to primary institution - University	-	400,023
Funds held for others	79,600	-
Unearned income	3,175,365	45,088
Bonds payable	2,095,000	-
Notes payable	1,580,186	43,308
Total current liabilities	21,538,191	666,294
Noncurrent liabilities		
Accounts payable	-	283,622
Due to primary institution - University	-	4,192,042
Unearned income	-	761,748
Bonds payable	92,539,582	-
Notes payable	9,868,142	1,256,987
Due to federal government	4,248,184	-
Total noncurrent liabilities	106,655,908	6,494,399
Total liabilities	128,194,099	7,160,693
NET ASSETS		
Invested in capital assets, net of related debt	195,378,850	7,404,188
Restricted for:		
Nonexpendable		
Scholarships	2,094,137	22,458,294
Other	-	709,407
Expendable		
Capital projects	1,015,517	-
Scholarships	-	10,235,266
Loans	-	96,825
Other	1,144,165	5,046,117
Unrestricted	24,933,531	522,165
Total net assets	\$ 224,566,200	\$ 46,472,262

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

Southeast Missouri State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2007

	University	Component Unit - Foundation
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowance of \$3,003,649)	\$ 45,807,756	\$ -
Sales and services of educational departments	2,116,428	-
Auxiliary enterprises:		
Residence life (net of scholarship allowance of \$2,965,120; \$11,686,609 of revenues are used as security for revenue bonds Series 1998A, 1998B, 2001, 2002 and 2006)	11,686,609	-
Other auxiliary (net of scholarship allowance of \$224,120; \$9,012,117 of revenues are used as security for revenue bonds Series 1998A, 1998B, 2001, 2002 and 2006)	9,494,883	-
Contributions and gifts	-	1,865,704
Other operating revenues	3,738,249	-
Total operating revenues	72,843,925	1,865,704
EXPENSES		
Operating expenses		
Personal service	76,570,518	139,803
Scholarships	15,816,537	-
Utilities	3,470,073	4,340
Supplies and other services	27,708,307	1,308,175
Depreciation	7,656,597	194,263
Donations	-	2,632,247
Total operating expenses	131,222,032	4,278,828
Operating loss	(58,378,107)	(2,413,124)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	43,731,536	-
Investment income	4,444,138	6,192,001
Federal grants - restricted	16,868,221	-
State grants and contracts - restricted	3,279,530	-
Nongovernmental grants and contracts - restricted	971,663	-
Contributions and gifts	2,171,710	-
Interest on capital asset-related debt	(4,294,878)	(105,367)
Disposal of plant facilities	(879,389)	-
Other income	-	1,096,930
Net nonoperating revenues	66,292,531	7,183,564
Income before other revenues, expenses, gains, and losses	7,914,424	4,770,440
Capital grants and gifts	2,096,964	1,703,524
Increase in net assets	10,011,388	6,473,964
Net assets--beginning of year	214,554,812	39,998,298
Net assets--end of year	\$ 224,566,200	\$ 46,472,262

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

Southeast Missouri State University
Statement of Cash Flows
For the Year Ended June 30, 2007

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 45,039,165
Auxiliary enterprises	21,197,019
Other receipts	5,334,219
Payments to vendors and suppliers	(45,220,343)
Payments to employees	(76,354,421)
Net cash used by operating activities	(50,004,361)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	43,519,786
Grants and contracts	19,554,853
Gifts received for other than capital purposes	2,431,530
Stafford direct lending and PLUS loan receipts	26,994,865
Stafford direct lending and PLUS loan disbursements	(26,994,865)
Net cash provided by noncapital financing activities	65,506,169
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital gifts received	2,528,622
Purchases of capital assets and payments to contractors	(32,098,454)
Principal paid on capital debt and leases	(3,314,224)
Interest paid on capital debt and leases	(4,592,534)
Net cash used by capital and related financing activities	(37,476,590)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	43,234,681
Interest on investments	3,940,606
Purchase of investments	(19,930,669)
Net cash provided by investing activities	27,244,618
 Net increase in cash and cash equivalents	5,269,836
Cash and cash equivalents--beginning of year	18,846,370
Cash and cash equivalents--end of year	\$ 24,116,206
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (58,378,107)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	7,656,597
Workers compensation and unemployment expenses paid by state	211,750
Gifts in kind from Southeast Missouri University Foundation	114,145
Change in assets and liabilities:	
Receivables, net	(636,474)
Inventories	174,284
Prepaid expenses	(76,608)
Accounts payable	657,625
Deferred revenues	222,179
Accrued compensation	50,248
Net cash used by operating activities	\$ (50,004,361)

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

Southeast Missouri State University

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

Note 1 - Organization

The University was established in 1873 as the Southeast Missouri Normal School. Since then the school has been named the Southeast Missouri State Teachers' College and Southeast Missouri State College. In 1972 the Missouri State legislature adopted the school's current name of Southeast Missouri State University (University). The University is a multi-purpose regional institution of higher education, which derives its authority from the people of Missouri through the state legislature. The University is considered a component unit of the State of Missouri.

The University is fully accredited by the North Central Association of Colleges and Schools and the National Council for the Accreditation of Teacher Education. The University also holds several specific program accreditations and is a member of several associations including the National Collegiate Athletic Association (NCAA). The University achieves its educational goals by offering instructional programs and other learning experiences at the certificate, associate, baccalaureate, masters and specialist levels.

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

Basis of Presentation:

The basic financial statements of the University 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 public colleges and universities and is presented in accordance with the reporting model as prescribed in 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 University 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 University as a whole
- 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 University maintain them permanently. Such assets include the University’s permanent endowment funds.
 - Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University 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. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition, the University 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 University has elected not to apply FASB pronouncements issued after November 30, 1989.

Reporting Entity:

GASB Statement No. 14, *The Financial Reporting Entity*, provides guidance as to the financial reporting of component units (legally separate organizations for which the University is financially accountable). The University has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No.14 to provide additional guidance for determining whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University. The Missouri Research Corporation and the Missouri Research Corporation II, Inc. are not included in the University’s financial statements because they do not meet the criteria set forth for component units under GASB Statement No. 14 or GASB Statement No. 39. However, both are considered related entities.

The Southeast Missouri University Foundation (Foundation) is a legally separate tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39. The Foundation provides financial support for the objectives, purposes, and programs of the University. Although the University does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) which the Foundation holds and invests are restricted to the activities of the University. Because these 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 is discretely presented in the University’s financial statements. The Foundation’s significant notes are summarized in Note 14.

During the year ended June 30, 2007, the Foundation distributed \$2,632,247 to the University for both restricted and unrestricted purposes.

Complete financial statements for the Foundation can be obtained by sending a written request to: Southeast Missouri University Foundation, Wehking Alumni Plaza, One University Plaza, Cape Girardeau, Missouri, 63701.

Summary of Significant Accounting Policies:

Cash and Cash Equivalents – The University considers 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.

Capital Assets – Physical properties are recorded at cost or, when donated, at fair market value at date of gift. All financially significant building and infrastructure additions and improvements are capitalized if the life of the building 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 on equipment is computed using the straight line method with depreciation beginning in the month after acquisition and through the month of disposal. Depreciation is computed on all other assets 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 site improvements	10 to 50
Infrastructure	10 to 50
Library books	30
Machinery and tools	5 to 20
Office equipment and furnishings	5 to 20
Scientific equipment and other	5 to 50
Computer hardware and software	4 to 5
Vehicles	4 to 6

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

Due from Component Unit – Foundation – The University bills the Foundation monthly for the use of University services. The final billing for the fiscal year is not paid by the Foundation and received by the University until the following fiscal year, therefore creating a receivable for the University. Additionally, the University participates in the Foundation’s investment pool. The investment pool is required to maintain investments in government securities with a combined market value which is at least 110% of the University’s share of the pooled investments. As the University does not have title

to these investments, their share of the investment pool is recorded as a Due from Component Unit - Foundation.

Inventories – Inventories consist of office, farm and physical plant supplies and are recorded at cost using the first-in, first-out method. 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.

Income taxes – The University is classified as a political subdivision of the State of Missouri under Internal Revenue Code Section 115(a) and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income.

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*.

Compensated Absences – University 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.

During fiscal year 2004, the University approved a one-time Voluntary Retirement Incentive Program (VRIP) for faculty. VRIP participants who retired on or before May 31, 2005 did receive an amount, at the time of their retirement, equal to the faculty member's fiscal year 2004 base salary. Participants receive retiree medical health insurance as a supplemental benefit through the University's medical plan up to five years or until the participant is hired and covered by an employer-paid health plan. If the new employer does not pay 100% of the employee premium, the University will pay the difference up to the amount of the University's monthly retiree health insurance premium. The University will provide a Medicare supplemental health insurance benefit to Medicare eligible participants for the remainder of the five-year period.

Eliminations – In preparing the basic financial statements, the University 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, student tuition and residence fees are presented net of scholarships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship expenses.

Operating and Nonoperating Revenues – The University's 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 student tuition and fees net of scholarship allowances and auxiliary activities. Nearly all of the University's expenses are from exchange transactions. Certain significant 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 state appropriations, investment income and certain federal, state and nongovernmental grants and contracts.

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

Student Tuition and Fees – Student tuition and fee revenues are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by the students or third parties on behalf of the students.

Bond and Note Issuance Costs – These costs are amortized over the life of the bond or note 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 were \$131,109.

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

Auxiliary Activities – Auxiliary activities mainly represent revenues generated from University housing and food service, bookstore sales, textbook rentals and various other departmental activities that provide services to the students, faculty, staff and general public.

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.

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 University's 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 University 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 University had the following investments and maturities:

June 30, 2007					
Maturities in Years					
Investment Type	Credit Rating	Fair Value	Less than 1	1 – 5	6 – 10
U.S. Treasury obligations	AAA	\$ 187,574	\$ 187,574	\$ 0	\$ 0
U.S. Agency obligations	AAA/A-1+	17,778,716	12,401,204	5,376,406	1,106
SBA Bonds and Discount Notes	AAA	5,266	0	5,266	0
Certificates of Deposits	Not Rated	4,738,404	4,738,404	0	0
		\$ 22,709,960	\$17,327,182	\$5,381,672	\$ 1,106

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 University, 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 University had no funds invested in commercial paper or banker's acceptance at June 30, 2007.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counter party, the University 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 University 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 University's 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 University had no exposure to foreign currency risk as there were no foreign investments in the University's portfolio.

Summary of Fair Values:

The fair value of deposits and investments are as follows:

Fair value		
Deposits		
Repurchase Agreements and		
Cash In Bank	\$10,343,782	
Cash On Hand	27,918	
Money Market Accounts	<u>13,744,506</u>	
		\$24,116,206
Investments		<u>22,709,960</u>
		\$46,826,166

Included in the following statement of net assets captions:

Cash and cash equivalents	\$9,058,917	
Restricted cash and cash equivalents	<u>15,057,289</u>	
		\$24,116,206
Short-term investments	10,122,994	
Restricted short-term investments	7,204,188	
Long term investments	<u>5,382,778</u>	
		<u>22,709,960</u>
		\$46,826,166