

FINANCIAL STATEMENTS

**For the year ended
June 30, 2006**



**SOUTHEAST MISSOURI UNIVERSITY
FOUNDATION**

Basic Financial Statements

June 30, 2006

(with Independent Auditor's Report thereon)

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION

June 30, 2006

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SOUTHEAST MISSOURI UNIVERSITY FOUNDATION
Management's Discussion and Analysis
Year Ended June 30, 2006

This discussion and analysis of Southeast Missouri University Foundation's (the "Foundation") basic financial statements provides an overview of the Foundation's financial performance during the years ended June 30, 2006 and 2005. The Management's Discussion and Analysis is designed to focus on current activities and resulting changes, and should be read in conjunction with the Foundation's basic financial statements.

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*.

The Statement of Net Assets includes the assets, liabilities, and net assets of the Foundation 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 Foundation's net assets (the difference between assets and liabilities) is one indicator of the Foundation's financial health.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two major categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. The purpose of the statement is to present the revenues received by the organization, both operating and nonoperating, and the expenses paid by the organization, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the

Current liabilities decreased from approximately \$955,000 at June 30, 2005 to \$888,000 at June 30, 2006 due primarily to a decrease in transfers due to the University.

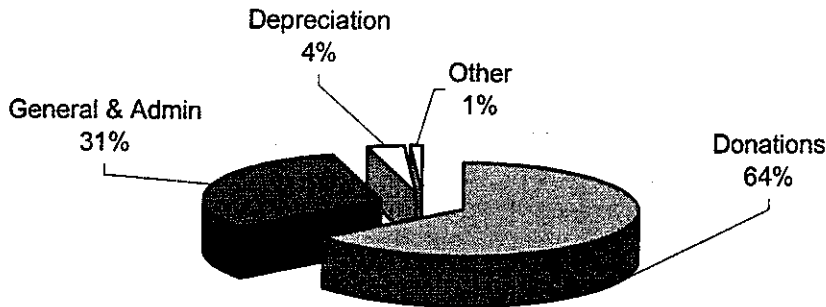
Noncurrent liabilities consist primarily of deferred revenues and a due to the University of \$4,013,447 and \$4,213,340 at June 30, 2006 and 2005, respectively, which represents the true and quasi endowment funds the Foundation manages with other Foundation endowment funds.

Net assets represent the residual interest in the Foundation's assets after liabilities are deducted. Invested in capital assets, net of related debt represents the Foundation's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Total net assets increased approximately \$3.2 million from \$31.2 million in June 30, 2005 to \$34.4 million at June 30, 2006.

The following schedule reflects the condensed revenues and expenses of the Foundation for fiscal years 2006 and 2005:

Operating Activities		
Year Ended June 30		
	2006	2005
Operating revenue		
Cash and securities contributions	\$ 2,471,141	\$ 1,698,991
Real estate & personal property contributions	<u>342,542</u>	<u>447,980</u>
Total operating revenue	2,813,683	2,146,971
Operating expenses		
Donations	3,475,517	2,427,352
General and administrative	1,667,621	1,378,952
Depreciation	189,317	170,926
Other operating expenses	<u>52,354</u>	<u>97,330</u>
Total operating expenses	5,384,809	4,074,560
Operating loss	(2,571,126)	(1,927,589)
Nonoperating revenues (expenses)		
Income from investment activities	3,657,093	1,382,673
Rental income	463,087	289,473
Miscellaneous income	951,057	462,283
Nonoperating expenses	<u>(182,395)</u>	<u>(292,466)</u>
Net nonoperating revenues (expenses)	4,888,842	1,841,963

Following is a graphic illustration of operating expenses by source for the year ended June 30, 2006:



Bonds and Notes Payable

During fiscal year 2005, the Foundation entered into a Promissory Note to finance the purchase of a demonstration farm. At June 30, 2006, the Foundation had outstanding notes payable of \$1,339,000. The current liability of this amount is \$40,096. Please refer to the Long Term Obligations footnote (Note 6) in the notes to the basic financial statements for additional disclosures.

Capital Assets

At June 30th the Foundation's investment in capital assets were as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Land	\$ 4,812,734	\$ 4,624,347
Buildings and improvements	6,099,681	6,083,378
Equipment	315,633	288,784
Infrastructure	127,083	127,083
Less: Accumulated depreciation	<u>(2,680,959)</u>	<u>(2,510,583)</u>
	<u>\$ 8,674,172</u>	<u>\$8,613,009</u>

The management's discussion and analysis on pages 1 through 5 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Yours truly,

A handwritten signature in cursive script that reads "Hillin & Clark, P.C." with a stylized flourish at the end.

HILLIN AND CLARK, P.C.

Cape Girardeau, Missouri
September 12, 2006

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION
(Component Unit of Southeast Missouri State University)
Statement of Revenues, Expenses, and Changes in Net Assets

	For the Year Ended June 30	
	2006	2005
REVENUES		
Operating revenues:		
Cash and securities contributions	\$ 2,471,141	\$ 1,698,991
Personal property contributions	180,042	156,513
Real estate contributions	162,500	291,467
Total operating revenues	2,813,683	2,146,971
EXPENSES		
Operating expenses:		
Donations to Southeast Mo State University	3,443,572	1,848,484
Donations-Other	31,945	578,868
General and administrative	1,667,621	1,378,952
Repairs and maintenance	0	6,763
Life insurance premiums	0	692
Adjustment of actuarial liability for annuities payable	52,354	89,875
Depreciation	189,317	170,926
Total operating expenses	5,384,809	4,074,560
Operating income (loss)	(2,571,126)	(1,927,589)
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,407,046	756,312
Net gain (loss) on investment transactions	2,250,047	626,361
Rental income	463,087	289,473
Special event income	57,474	75,295
Motor vehicle license fees	245,093	386,988
Miscellaneous income	648,490	(166,533)
Special events expense	(86,971)	(115,806)
Interest expense	(95,424)	(10,127)
Net nonoperating revenues (expenses)	4,888,842	1,841,963
Gain (Loss) before other revenues, expenses, gains or losses	2,317,716	(85,626)
Additions to University endowment		(67,224)
Capital contributions and additions to permanent and term endowments	848,873	1,411,932
Increase (Decrease) in net assets	3,166,589	1,259,082
NET ASSETS		
Net assets—beginning of year	31,193,777	29,934,695
Net assets—end of year	\$ 34,360,366	\$ 31,193,777

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

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION
Statement of Cash Flows
(continued)

	For the Year Ended June 30	
	2006	2005
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$2,571,126)	(\$1,927,589)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Donations to Southeast Missouri University	166,086	151,647
Contributions	0	0
Depreciation expense	189,317	170,926
Personal property contributions	(180,042)	(156,513)
Adjustment of actuarial liability for annuities payable	52,354	89,875
Real estate contributions	(162,500)	(291,467)
Restricted transfer elimination	(94,599)	(19,397)
Change in assets and liabilities:		
Accounts receivable	8,337	269,679
Investments	6,497	(578,609)
Property	31,945	0
Due from related organization	0	110,000
Deferred revenue	0	12,757
Cash surrender value of life insurance	(23,420)	(23,420)
Accounts payable	15,107	(34,716)
Deferred charges	(16,345)	0
Due to related organization	(4,068)	99,454
Net cash provided (used) by operating activities	<u>\$ (2,582,457)</u>	<u>\$ (2,127,373)</u>

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

Reporting Entity

In evaluating how to define the Foundation, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Foundation is able to exercise oversight responsibility. Based upon the application of these criteria, the Foundation has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in this report.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund.

Fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds designated to specific purposes by action of the Board of Directors.

Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Board of Directors retains full control to use in achieving any of its purposes.

All gains and losses arising from the sale, collection or other disposition of investments and other noncash assets are accounted for in the funds which own such assets. Ordinary income derived from the investments, receivables and the like, is accounted for in the fund owning such assets except for income derived from investments in the endowment and similar funds, which incomes is accounted for as revenue in the current funds.

All other unrestricted revenue is accounted for in the unrestricted current fund. Uses of unrestricted funds for plant acquisitions and debt service payments are accounted for as transfers to plant funds.

Restricted gifts and other restricted resources are deemed to be earned and reported as revenues when the Foundation has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred revenues.

Description of Funds

The following funds are used by the Foundation:

- A. Current Funds include unrestricted and restricted resources of the Foundation which are currently expendable for purposes of performing the primary objectives of the Foundation.

estimated useful lives of the buildings and equipment which range from five to forty years and two to five years, respectively.

At retirement or sale, the cost of the assets and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations.

Annuities Payable

Annuities payable represents the present value of the aggregate actuarial liability computed based upon the payment terms of the annuities and the estimated life expectancy of the grantors.

Pledges

As of July 1, 2000, the Foundation records pledges in accordance with GASB Statement No. 33, *Exchange and Nonexchange Transactions*. Revenue from pledges is recognized when all time and purpose restrictions have been met. Pledges receivable are approximately \$369,935 and \$334,168 at June 30, 2006 and 2005 respectively.

Unearned Income

Unearned income consists primarily of deferred pledges, undistributed, unrealized annuity gains and losses, and deferred restricted revenues.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may 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 Foundation's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At June 30, 2006 and 2005, none of the Foundation's bank balances held by the current depository, a United States financial institution having a branch in the state of Missouri, were exposed to custodial credit risk. All of these deposits were fully collateralized at the end of fiscal year 2006 and 2005.

Foreign Currency Risk. The risk related to adverse affects on the fair value of a deposit from changes in exchange rates. The Foundation's exposure to foreign currency risk did not exist at June 30, 2006 or 2005 because the Foundation had no deposits held by international banks.

Pooled Investments

Funds treated as endowment by the Foundation are managed as a pooled investment fund. The various subsidiary accounts hold a percentage of the portfolio based on the principal value of the endowment as a percentage of the market value of the pool. The

Summary of Fair Values

The fair value of deposits and investments are included in the Statement of Net Assets as follows:

Fair value	2006	2005
Cash and cash equivalents	\$ 277,582	\$ 763,653
Investments	37,011,192	34,430,245
	\$37,288,774	\$35,193,898

Included in the following Statement of Net Assets captions:

	2006	2005
Cash and cash equivalents	\$277,582	\$ 763,653
Short-term investments	4,258,183	2,880,269
Long term investments	32,753,009	31,549,976
	\$37,288,774	\$35,193,898

At June 30th the Foundation investments are summarized below:

Type	2006	2005
Certificates of Deposit	\$275,000	\$ 275,000
U.S. Government Obligations	1,657,121	3,141,913
U. S. Government Agencies	3,130,605	1,351,302
Common Stocks	23,085,352	20,111,038
Corporate Bonds	2,269,405	3,554,069
International/Other	732,561	2,838,916
Investments in Mutual Funds	5,861,148	3,433,007
Totals at June 30, 2006	\$37,011,192	\$ 34,705,245

At June 30, 2006 maturities on the investments having a stated period were as follows:

Investment Type	June 30, 2006				
	Maturities in Years				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Gov't Obligations	\$1,657,121	\$0	\$739,534	\$366,609	\$550,978
U.S. Gov't Agency Obligations	3,130,605	0	136,668	260,422	2,733,515
Corporate Bonds	2,269,405	0	948,489	415,086	905,830
Certificates of Deposits	275,000	275,000			
	\$7,332,131	\$275,000	\$1,824,691	\$1,042,117	\$4,190,323

The Foundation manages the University's \$2,000,141 and \$2,104,454 true endowment funds and \$2,012,246 and \$2,108,661 quasi endowment funds as of June 20, 2006 and 2005 respectively, with other Foundation endowment funds. All interest earned from these funds has been recorded in the accounting records of the Foundation and is periodically remitted to the University. The University endowments are included in Due to Southeast Missouri State University in the Foundation's statement of financial position.

Deductions:	
Restricted expenditures	3,541,971
Unearned income	277
Transfers	25,339
	<u>\$ 3,567,587</u>

Deferred restricted revenues, June 30, 2006 \$ 5,983,170

Note 7 – Long Term Obligations

Following is a summary of bonds and notes payable transactions of the Foundation for the year ended June 30, 2006:

	General Obligation	Revenue	Total
Balance at July 1, 2005	\$ 1,457,493	\$ 0	\$ 1,457,493
Long-term obligations added	0	0	0
Long-term obligations retired	118,493	0	118,493
Balance at June 30, 2006	<u>\$1,339,000</u>	<u>\$ 0</u>	<u>\$1,339,000</u>

On May 17, 2005, the Foundation purchased a 254.67 acre farm to be used as the University Demonstration Farm. The Foundation plans to convert the existing demonstration farm into a research park. To finance the purchase, the Foundation entered into a promissory note with First Missouri State Bank in the amount of \$1,462,500.00. This is a five year variable interest rate note that matures on May 17, 2010. There will be 59 regular payments of \$12,149.08 and one irregular last payment estimated at \$1,118,580.99. The interest rate of the Promissory Note is .250 percentage points below the prime rate. As of June 30, 2006, the prime rate was 8.25% resulting in an interest rate of 8%.

Fiscal Year	Principal	Interest
2007	\$ 40,096	\$ 105,693
2008	43,423	102,366
2009	47,028	98,761
2010	1,208,453	87,217
	<u>\$ 1,339,000</u>	<u>\$ 394,037</u>

Note 8 – Leases

The Foundation leases certain plant assets to the University under leases accounted for as operating leases. The carrying value net of accumulated depreciation of these plant assets is approximately \$8,410,092 as of June 30, 2006.