FINANCIAL STATEMENTS

For the year ended
June 30, 2007

SOUTHEAST MISSOURI
UNIVERSITY
FOUNDATION

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION

Basic Financial Statements

June 30, 2007

(with Independent Auditor's Report thereon)

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION

June 30, 2007

Table of Contents

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION
Management's Discussion and Analysis - Unaudited
Year Ended June 30, 2007

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, 2007 and 2006. 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

organization. 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 final statement presented is the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the Foundation's cash receipts and payments summarized by operating, capital and related financing, noncapital financing and investing activities.

Financial Analysis of the Foundation

The following table reflects the Net Assets for the Foundation as of June 30, 2007 and 2006:

	2007	2006
Current Assets	$ 6,195,510	$ 4,693,207
Noncurrent Assets		
Capital assets, net of depreciation	8,704,483	8,674,172
Endowment investments	37,659,026	32,753,009
Other	1,073,936	1,049,951
Total assets	$ 53,632,955	$ 47,170,339
Current Liabilities	$ 666,294	$ 888,855
Noncurrent Liabilities	6,494,400	6,283,186
Total liabilities	$ 7,160,694	$ 7,172,041
Net Assets		
Invested in capital assets, net of related debt	$ 7,404,188	$ 7,335,172
Restricted	38,545,909	32,244,259
Unrestricted	522,165	418,867
Total net assets	$ 46,472,262	$ 39,998,298

Current assets increased from $4.6 million at June 30, 2006 to $6.1 million at June 30, 2007. Current assets consist primarily of operating cash and investments and accounts receivable, including accrued interest receivable. The majority of noncurrent assets are capital assets which are recorded net of accumulated depreciation and endowment investments. Endowment investments, recorded at fair market value, increased by approximately $4.9 million from $32.7 million at June 30, 2006 to $37.6 million at June 30, 2007. Please refer to Note 3 in the footnotes to the basic financial statements for more information regarding the Foundation's investment holdings.

Current liabilities consist primarily of accounts payable, due to Southeast Missouri State University (the University) and the current portion of annuities and notes payable.

Current liabilities decreased from approximately $888,000 at June 30, 2006 to $666,000 at June 30, 2007 due primarily to a decrease in transfers due to the University.

Noncurrent liabilities consist primarily of notes payable and a due to the University of $4.1 and $4.0 at June 30, 2007 and 2006, 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 $6.5 million from $39.9 million in June 30, 2006 to $46.4 million at June 30, 2007.

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

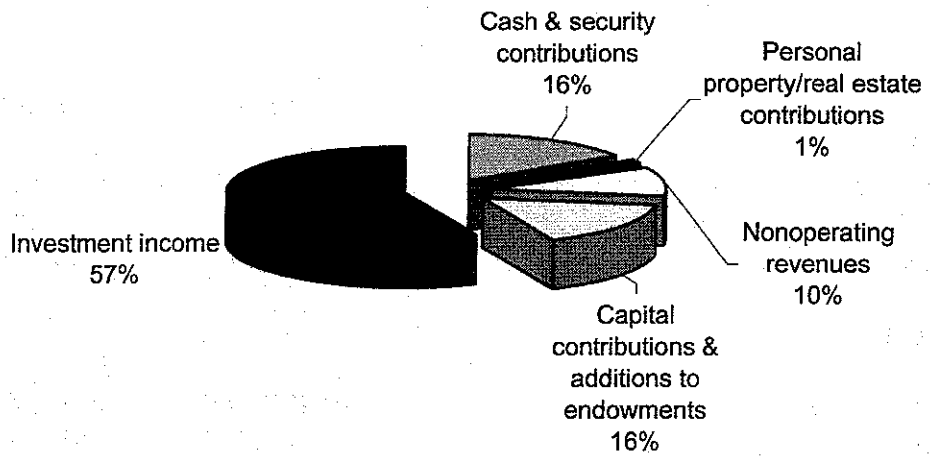
Operating Activities
Year Ended June 30

	2007	2006
Operating revenue		
Cash and securities contributions	$ 1,741,448	$ 1,861,664
Real estate & personal property contributions	124,256	342,542
Total operating revenue	1,865,704	2,204,206
Operating expenses		
Donations	2,632,247	3,475,517
General and administrative	1,458,749	1,152,743
Depreciation	194,263	189,317
Other operating expenses	(6,431)	52,354
Total operating expenses	4,278,828	4,869,931
Operating loss	(2,413,124)	(2,665,725)
Nonoperating revenues (expenses)		
Income from investment activities	6,192,001	3,200,682
Rental income	440,847	463,087
Miscellaneous income	703,348	410,841
Nonoperating expenses	(152,632)	(182,395)
Net nonoperating revenues (expenses)	7,183,564	3,892,215

Operating Activities (cont.)
Year Ended June 30

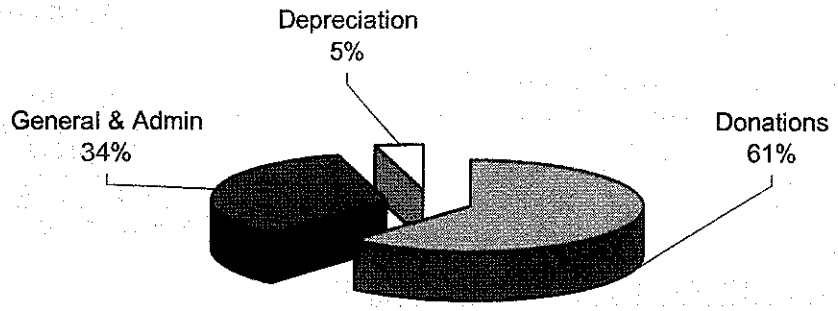
	2007	2006
Other revenues	1,703,524	848,873
Increase in net assets	6,473,964	2,075,363
Net assets adjustment due to policy change	0	6,729,158
Net assets beginning of year	39,998,298	31,193,777
Net assets end of year	$ 46,472,262	$ 39,998,298

Total revenues for fiscal year 2007 were $10.9 million which consisted of operating revenues of $1.8 million, nonoperating revenues of $7.3 million and other revenues of $1.7 million. Following is a graphic illustration of total revenue by source for the year ended June 30, 2007:



Operating expenses of the Foundation totaled $4.2 million and $4.8 million for the fiscal year ended June 30, 2007 and 2006, respectively. Donations and general administrative expenses accounted for 61.5% and 34.1%, respectively, of total operating expenses during fiscal year 2007. Donations and general and administrative expenses accounted for 71.3% and 23.6%, respectively, of total operating expenses during fiscal year 2006.

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



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, 2007, the Foundation had outstanding notes payable of $1,300,295. The current liability of this amount is $43,308. 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 30, the Foundation's investment in capital assets were as follows:

	June 30, 2007	June 30, 2006
Land	$ 4,965,210	$ 4,812,734
Buildings and improvements	6,152,867	6,099,681
Equipment	319,836	315,633
Infrastructure	127,083	127,083
Less: Accumulated depreciation	(2,860,513)	(2,680,959)
	$ 8,704,483	$8,674,172

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Southeast Missouri University Foundation

We have audited the accompanying statements of net assets of Southeast Missouri University Foundation (a nonprofit organization), component unit of Southeast Missouri State University, as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Southeast Missouri University Foundation'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 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Missouri University Foundation as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2007, on our consideration of Southeast Missouri University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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,

Hillin and Clark, PC

HILLIN AND CLARK, P.C.

Cape Girardeau, Missouri
September 10, 2007

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION
(Component Unit of Southeast Missouri State University)
Statement of Net Assets

	June 30	
	2007	**2006**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 276,937	$ 277,582
Short-term investments	5,708,070	4,258,183
Accounts receivable	120,383	68,845
Accrued interest receivable	85,860	73,525
Deferred charges	4,260	15,072
Total current assets	6,195,510	4,693,207
Noncurrent assets:		
Endowment investments	37,659,026	32,753,009
Cash surrender value of life insurance	173,436	140,449
Property held for resale and development	601,856	602,220
Capital assets, net of accumulated depreciation	8,704,483	8,674,172
Deferred charges	0	4,260
Pledges receivable	298,644	303,022
Total noncurrent assets	47,437,445	42,477,132
Total assets	53,632,955	47,170,339
LIABILITIES		
Current liabilities:		
Accounts payable	88,035	41,226
Due to Southeast Mo State University	400,023	641,259
Deferred revenues	45,088	82,865
Annuities payable	89,840	83,409
Notes payable	43,308	40,096
Total current liabilities	666,294	888,855
Noncurrent liabilities:		
Deferred revenues	761,748	653,912
Annuities payable	283,623	317,983
Notes payable	1,256,987	1,298,904
Due to Southeast Mo State University	4,192,042	4,012,387
Total noncurrent liabilities	6,494,400	6,283,186
Total liabilities	7,160,694	7,172,041
NET ASSETS		
Invested in capital assets, net of related debt	7,404,188	7,335,172
Restricted for:		
Nonexpendable:		
Scholarships	22,458,294	20,553,456
Other	709,407	652,951
Expendable:		
Scholarships	10,235,266	5,311,815
Loans	96,825	88,105
Other	5,046,117	5,637,932
Unrestricted	522,165	418,867
Total net assets	$ 46,472,262	$ 39,998,298

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

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	
	2007	**2006**
REVENUES		
Operating revenues:		
Cash and securities contributions	$ 1,741,448	$ 1,861,664
Personal property contributions	124,256	180,042
Real estate contributions	0	162,500
Total operating revenues	1,865,704	2,204,206
EXPENSES		
Operating expenses:		
Donations to Southeast Mo State University	2,632,247	3,443,572
Donations-Other	0	31,945
General and administrative	1,458,749	1,152,743
Adjustment of actuarial liability for annuities payable	(6,431)	52,354
Depreciation	194,263	189,317
Total operating expenses	4,278,828	4,869,931
Operating income (loss)	(2,413,124)	(2,665,725)
NONOPERATING REVENUES (EXPENSES)		
Investment income	788,091	950,635
Net gain (loss) on investment transactions	5,403,910	2,250,047
Rental income	440,847	463,087
Special event income	75,067	57,474
Motor vehicle license fees	238,194	245,093
Miscellaneous income	390,087	108,274
Special events expense	(47,265)	(86,971)
Interest expense	(105,367)	(95,424)
Net nonoperating revenues (expenses)	7,183,564	3,892,215
Gain (Loss) before other revenues, expenses, gains or losses	4,770,440	1,226,490
Additions to University endowment		
Capital contributions and additions to permanent and term endowments	1,703,524	848,873
Increase (Decrease) in net assets	6,473,964	2,075,363
NET ASSETS		
Net assets adjustment due to policy change	0	6,729,158
Net assets--beginning of year	39,998,298	31,193,777
Net assets--end of year	$ 46,472,262	$ 39,998,298

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

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION
Statement of Cash Flows

	For the Year Ended June 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash and securities contributions	$1,741,448	$1,861,665
Donations to Southeast MO Univ	(2,793,163)	(3,286,447)
General and Administrative	(1,276,650)	(1,118,772)
Life insurance premiums	(30,140)	(18,084)
Receipts (payments) Booster tickets and advertising	21,631	(34)
Receipts (payments) health insurance	(21,230)	(20,785)
Net cash provided (used) by operating activities	(2,358,104)	(2,582,457)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital lease receivable	0	9,311
Purchases of properties	0	(91,054)
Purchases of capital assets	(19,731)	(45,855)
Repayment of notes payable	(38,705)	(118,493)
Interest expense	(107,084)	(93,557)
Net cash flows provided (used) by capital and related financing activities	(165,520)	(339,648)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and mature investments	75,000	12,887
Sale of tax credits	0	665,211
Proceeds from life insurance	0	304,120
Purchases of investments	0	(275,000)
Investment income (expense)	16,506	173,661
Net gain (loss) investment	(10,827)	(4,395)
Payments to investment managers	(67,086)	(93,789)
Additions to permanent endowments	1,703,524	848,873
Net cash provided (used) by investing activities	1,717,117	1,631,568
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Rental income	440,847	529,314
Special event income	75,067	57,474
Motor vehicle license fees	238,194	245,093
Miscellaneous income	184,427	108,274
Special event expense	(47,265)	(82,233)
Receipts (payments) on trusts	(21,285)	2,758
Receipts (payments) on annuities	(64,123)	(56,214)
Net cash provided (used) by non-operating activities	805,862	804,466
Net decrease in cash	(645)	(486,071)
Cash-beginning of year	277,582	763,653
Cash-end of year	$ 276,937	$ 277,582

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

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION
Statement of Cash Flows
(continued)

	For the Year Ended June 30	
	2007	2006
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	($2,413,124)	($2,571,126)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activites:		
Donations to Southeast Missouri University	124,256	166,086
Depreciation expense	194,263	189,317
Personal property contributions	(124,256)	(180,042)
Adjustment of actuarial liability for annuities payable	(6,431)	52,354
Real estate contributions		(162,500)
Restricted transfer elimination		(94,599)
Change in assets and liabilities:		
Accounts receivable	1,787	8,337
Investments	65,403	6,497
Property		31,945
Cash surrender value of life insurance	(23,420)	(23,420)
Accounts payable	50,362	15,107
Deferred charges	15,072	(16,345)
Due to related organization	(242,016)	(4,068)
Net cash provided (used) by operating activities	$ (2,358,104)	$ (2,582,457)

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

Southeast Missouri University Foundation
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2007

Note 1 - Organization

The Southeast Missouri University Foundation (the "Foundation") was formed in l983 to assist in the physical and functional development and advancement of Southeast Missouri State University (the "University") and the performance of its educational and charitable functions.

Note 2 – Summary of Significant Accounting Policies

For financial reporting purposes the Southeast Missouri University Foundation is considered a governmental entity. According to Statement No. 29 of the Governmental Accounting Standards Board, a governmental entity has the option to apply the governmental model or if they have applied not-for-profit accounting and financial principles in the past, they may apply the not-for-profit model, but with certain required governmental disclosures. The Foundation has elected to apply the not-for-profit model with the applicable required governmental disclosures.

Effective July 1, 2001, the Foundation has implemented the required governmental disclosures and reporting requirements outlined 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 –and Management's Discussion and Analysis-for Public Colleges and Universities.*

Effective July 1, 2003, the University 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 Foundation meets the criteria set forth for component units under GASB Statement No. 39 and is discretely presented in the University's financial statements. 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.

Accrual Basis

The financial statements of the Foundation have been prepared on the accrual basis.

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.

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.

B. Endowment and Similar Funds include those resources and related transactions which are invested in accordance with donor restrictions and only the income earned thereon may be expended.

C. Plant Funds include resources to be used for the acquisition of properties; funds for the renewal and replacement of plant assets; funds restricted or designated for retirement of indebtedness incurred in connection with the acquisition of properties; and the Foundation's investment in institutional properties and related indebtedness.

Pooled Cash and Cash and Cash Equivalents

The Foundation maintains demand deposit accounts under the pooled cash concept. Balances among various funds are maintained for budget and control purposes, all of which are a part of the actual bank accounts.

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents.

Bad Debts

The Foundation utilizes the direct write-off method to account for its bad debts. Management determines which accounts are uncollectible and writes them off through a bad debt expense account. Management has determined there is no material effect on income in using this method rather than the allowance method. The Foundation anticipates collection of 100% of the receivable balances as of June 30, 2007.

Investments

Effective July 1, 1997, the Foundation changed its method of accounting for the carrying value of all investments to fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Fair value of investments is based on quoted market prices. Changes in fair value of investments are recognized as revenue in the current period.

Properties Held For Resale or Development

Certain land contributed to the Foundation is currently held for resale or development. The carrying value of these properties was recorded based on their appraised values at the time of their contributions. The carrying value of these properties is reported at the lower of cost or market value.

Capital Assets

Land, buildings and equipment are stated at cost if purchased and fair market value at the time of donation if donated. Depreciation is provided on a straight-line basis over the 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 $343,731 and $369,935 at June 30, 2007 and 2006 respectively.

Unearned Income

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

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, 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. As of June 30, 2007, $30,345 of the Foundation's bank balance of $893,064 was exposed to custodial credit risk.

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, 2007 or 2006 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 following schedule summarizes data related to the investment pool for the years ended June 30:

	2007	2006
Pooled investment at market value	$43,092,096	$37,011,192
Number of subsidiary accounts	490	460
Interest and dividend earnings	$725,082	$747,346
Net gains	$2,027,404	$778,488

Interest Rate Risk. As a means of ensuring the safety of principal invested, the Foundation's investment policy is to diversify investments within established ranges by asset class. The fixed income and equity portions of the portfolio shall be diversified in order to provide reasonable assurance that a single security (investment) or class of securities (investments) will not have a disproportionate or material impact on the total portfolio.

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 Foundation's policy that equity investments will be based with companies with an above average return over a three to five year period. No more than fifteen percent of the net assets of the funds shall be invested in securities of issues having a record of less than three years of operation. Concentration in any single industry and in any company shall not exceed fifteen percent and five percent respectively of the market value of the fund at the time of investment without prior written approval of the Foundation. The portfolio should be comprised of high quality issues consisting of Moody's investment grade rating and above or equivalent. The credit risk ratings of the fixed income securities that the Foundation holds as of June 30, 2007, ranges between Moody's ratings BAA3 and AAA. The average credit quality of the fixed income portfolio is AA+.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counter party, the Foundation 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 Foundation 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).

Concentration of Credit Risk. According to the Foundation'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 investment policy of the Foundation establishes an asset mix (excluding real estate) that will range within the following limits: large cap equity, 25% - 35%; small cap equity, 16% - 24%; developed international equity, 7% - 13%; emerging markets international equity, 3% - 7%; real estate securities, 7% - 13%; international fixed income, 3% - 7%; core fixed income, 16% - 24%; and cash 0% - 5%.

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 Foundation had no exposure to foreign currency risk as there were no foreign investments in the Foundation's portfolio.

Summary of Fair Values

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

Fair value	2007	2006
Cash and cash equivalents	$ 276,937	$ 277,582
Investments	43,367,096	37,011,192
	$43,644,033	$37,288,774

Included in the following Statement of Net Assets captions:

	2007	2006
Cash and cash equivalents	$276,937	$ 277,582
Short-term investments	5,708,070	4,258,183
Long term investments	37,659,026	32,753,009
	$43,644,033	$37,288,774

At June 30th the Foundation investments are summarized below:

Type	2007	2006
Certificates of Deposit	$275,000	$ 275,000
U.S. Government Obligations	1,281,730	1,657,121
U. S. Government Agencies	4,002,149	3,130,605
Common Stocks	27,277,254	23,085,352
Corporate Bonds	2,155,211	2,269,405
International/Other	1,268,160	732,561
Investments in Mutual Funds	7,107,592	5,861,148
Totals at June 30	$43,367,096	$ 37,011,192

At June 30, 2007 maturities on the investments having a stated period were as follows:

June 30, 2007					
		Maturities in Years			
Investment Type	Fair Value	Less than 1	1 – 5	6 - 10	More than 10
U.S. Gov't Obligations	$1,281,730	$0	$253,173	$551,087	$477,470
U.S. Gov't Agency Obligations	4,002,149	0	985,771	345,187	2,671,191
Corporate Bonds	1,949,272	0	688,594	376,626	884,052
Certificates of Deposits	275,000	275,000			
	$7,508,151	$275,000	$1,927,538	$1,272,900	$4,032,713

The Foundation manages the University's $2,094,137 and $2,000,141 true endowment funds and $2,097,905 and $2,012,246 quasi endowment funds as of June 30, 2007 and 2006 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.

Note 4 – Capital Assets

A summary of changes in capital assets in 2007 follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Land & Improvements	$4,812,734	$152,476		$4,965,210
Buildings	6,099,681	53,186		6,152,867
Infrastructure	127,083			127,083
Equipment	315,633	30,931	26,728	319,836
	11,355,131	236,593	26,728	11,564,996
Less: Accumulated depreciation	2,680,959	193,899	14,345	2,860,513
	$8,674,172	$42,694	$12,383	$8,704,483

A summary of changes in capital assets in 2006 follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Land & Improvements	$ 4,624,347	$220,332	$31,945	$4,812,734
Buildings	6,083,378	16,303		6,099,681
Infrastructure	127,083			127,083
Equipment	288,784	59,680	32,831	315,633
	11,123,592	296,315	64,776	11,355,131
Less: Accumulated depreciation	2,510,583	187,220	16,844	2,680,959
	$ 8,613,009	$109,095	$47,932	$8,674,172

Note 5 – Accounts Receivable

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

Pledges	$ 343,876
University Endowment Addition	75,150
Total	$ 419,026

Note 6 – Long Term Obligations

Following is a summary of bonds and notes payable transactions of the Foundation for the year ended June 30, 2007:

	General Obligation	Revenue	Total
Balance at July 1, 2006	$ 1,339,000	$ 0	$ 1,339,000
Long-term obligations added	0	0	0
Long-term obligations retired	38,705	0	38,705
Balance at June 30, 2007	$1,300,295	$ 0	$1,300,295

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, 2007, the prime rate was 8.25% resulting in an interest rate of 8%.

Fiscal Year	Principal	Interest
2008	$ 43,308	$ 102,481
2009	46,903	98,886
2010	1,210,084	87,341
	$ 1,300,295	$ 288,708

Note 7 – 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 $8,463,265 as of June 30, 2007.

Note 8 – Primary Government

The Foundation functions as the official gift-receiving organization for the University. As such, it solicits and receives gifts for the University, manages the funds received and disburses restricted funds in accordance with donor restrictions. The Foundation contributed $2,632,247 of cash and gifts-in-kind to the University during the year ended June 30, 2007. The Foundation allows the University to use various properties for a nominal charge. The Foundation receives various services such as personnel, office space and administrative services from the University at no charge.

During fiscal year 2007, certain properties leased to Southeast Missouri State University as capital leases were transferred back to the Foundation at a net book value of $205,662. These properties are now leased to Southeast Missouri State University under operating lease agreements.

The Foundation also receives, manages and disburses the funds of the Southeast Athletic Booster Club, of which $513,957 and $507,568 is held in the endowment funds of the Foundation as of June 30, 2007 and 2006 respectively.

Note 9 – Spending Policy

During 1993, the Foundation adopted a policy for allocating endowment income with the objective of preserving the principal of the endowment and providing a percentage of income to cover a portion of overhead expenses. The policy provides for a 5.0% annual spending rate which is satisfied first from endowment interest and dividend earnings. To the extent these earnings are inadequate to meet the annual spending rate, a portion of cumulative realized net gains may be made available for current use. Any interest and dividend earnings in excess of the 5.0% annual spending rate are reinvested and maintained in the endowment fund balance. In addition, an amount equivalent to 0.5% of principal is assessed to the endowment to cover overhead costs.

During 2007 and 2006, the current year interest and dividend earnings of $725,082 and $747,346 respectively were inadequate to meet the annual spending rate as determined by the spending policy. The Foundation distributed $637,171 and $140,376 of endowment net capital gains to the restricted and unrestricted fund balance, respectively, in 2007 as provided by the spending policy. The Foundation distributed $525,284 and $131,403 of endowment net capital gains to the restricted and unrestricted fund balance, respectively, in 2006 as provided by the spending policy.

Note 10 – Change in Accounting Principle

The Foundation made a voluntary change in accounting principle in the recognition of restricted revenues and applied those standards on a retroactive basis. The balance that was previously reported as restricted deferred revenue has been reclassified to restricted expendable net assets. Both methods are in conformity with generally accepted accounting principles but the Foundation believes this change more clearly reflects the restricted net assets and the financial position of the Foundation. Following this paragraph, the June 30, 2006 Statement of Revenues, Expenses, and Changes in Net Assets are compared with the revised June 30, 2006 Statement of Revenues, Expenses, and Changes in Net Assets illustrating the amount of change where effected.

	For the Year Ended June 30		Amount of
	2006	Revised 2006	Change
REVENUES			
Operating revenues:			
Cash and securities contributions	$ 2,471,141	$ 1,861,664	(609,477)
Personal property contributions	180,042	180,042	0
Real estate contributions	162,500	162,500	0
Total operating revenues	2,813,683	2,204,206	(609,477)
EXPENSES			
Operating expenses:			
Donations to Southeast Mo State University	3,443,572	3,443,572	0
Donations-Other	31,945	31,945	0
General and administrative	1,667,621	1,152,743	(514,878)
Adjustment of actuarial liability			0
for annuities payable	52,354	52,354	0
Depreciation	189,317	189,317	0
Total operating expenses	5,384,809	4,869,931	(514,878)
Operating income (loss)	(2,571,126)	(2,665,725)	(94,599)
NONOPERATING REVENUES (EXPENSES)			
Investment income	1,407,046	950,635	(456,411)
Net gain (loss) on investment transactions	2,250,047	2,250,047	0
Rental income	463,087	463,087	0
Special event income	57,474	57,474	0
Motor vehicle license fees	245,093	245,093	0
Miscellaneous income	648,490	108,274	(540,216)
Special events expense	(86,971)	(86,971)	0
Interest expense	(95,424)	(95,424)	0
Net nonoperating revenues (expenses)	4,888,842	3,892,215	(996,627)
Gain (Loss) before other revenues, expenses, gains or losses	2,317,716	1,226,490	(1,091,226)
Additions to University endowment			
Capital contributions and additions to permanent and term endowments	848,873	848,873	0
Increase (Decrease) in net assets	3,166,589	2,075,363	(1,091,226)
NET ASSETS			
Net assets adjustment due to policy change	0	6,729,158	6,729,158
Net assets--beginning of year	31,193,777	31,193,777	0
Net assets--end of year	$ 34,360,366	$ 39,998,298	$ 5,637,932