Southeast Missouri State University

Accountants' Report and Financial Statements

June 30, 2006
SOUTHEAST MISSOURI STATE UNIVERSITY

June 30, 2006

Contents

Independent Accountants' Report .................................................. 1

Management's Discussion and Analysis ........................................... 2

Basic Financial Statements

Statement of Net Assets ............................................................... 10

Statement of Revenues, Expenses, and Changes in Net Assets .......... 11

Statement of Cash Flows .............................................................. 12

Notes to Basic Financial Statements ............................................. 13
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, 2006, as listed in the table of contents. These financial statements are the responsibility of 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 the Southeast Missouri University Foundation, which represent 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 the Southeast Missouri 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, 2006, 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.
In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2006, 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.

November 21, 2006
Southeast Missouri State University
MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended June 30, 2006

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, 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 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, 2006 and 2005

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td>$ 66,102,191</td>
<td>$ 28,298,390</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets, net of depreciation</td>
<td>259,087,525</td>
<td>234,366,232</td>
</tr>
<tr>
<td>Other</td>
<td>17,250,554</td>
<td>60,573,916</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 342,440,270</td>
<td>$ 323,238,538</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 17,660,673</td>
<td>$ 15,817,602</td>
<td></td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td>110,224,785</td>
<td>106,824,736</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$ 127,885,458</td>
<td>$ 122,642,338</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>$ 182,949,171</td>
<td>$ 166,676,527</td>
</tr>
<tr>
<td>Restricted</td>
<td>4,050,499</td>
<td>2,715,599</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>27,555,142</td>
<td>31,204,074</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$ 214,554,812</td>
<td>$ 200,596,200</td>
</tr>
</tbody>
</table>

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 $66.10 million at June 30, 2006 and $28.30 million at June 30, 2005. The increase in current assets of approximately $37.80 million from June 30, 2005, is primarily due to the investment of bond proceeds in short term investments versus long term investments and an increase in investments that will mature in the next fiscal year.

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 $7.87 million of noncurrent assets at June 30, 2006. Long-term investments comprised $50.94 million of noncurrent assets at June 30, 2005.
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 $17.66 million at June 30, 2006 and $15.82 million at June 30, 2005. The increase in current liabilities of approximately $1.84 million from June 30, 2005, is primarily due to accounts payable on capital projects and supplies and other services.

Noncurrent liabilities primarily consist of long-term debt, which totaled $110.22 million at June 30, 2006 and $100.82 million at June 30, 2005. During fiscal year 2006, the University issued long-term financing for the construction of the Aquatic Center. There were no bonds issued during fiscal year 2005 and the University made all regularly scheduled bond payments.

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

<table>
<thead>
<tr>
<th>Net assets:</th>
<th>June 30, 2006</th>
<th>June 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>$182,949,171</td>
<td>$166,676,527</td>
</tr>
<tr>
<td>Restricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonexpendable</td>
<td>2,000,141</td>
<td>2,104,453</td>
</tr>
<tr>
<td>Expendable</td>
<td>2,050,358</td>
<td>611,146</td>
</tr>
<tr>
<td>Total Restricted</td>
<td>4,050,499</td>
<td>2,715,599</td>
</tr>
<tr>
<td>Unrestricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated</td>
<td>17,570,209</td>
<td>23,480,415</td>
</tr>
<tr>
<td>Undesignated</td>
<td>9,984,933</td>
<td>7,723,659</td>
</tr>
<tr>
<td>Total Unrestricted</td>
<td>27,555,142</td>
<td>31,204,074</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>$214,554,812</strong></td>
<td><strong>$200,596,200</strong></td>
</tr>
</tbody>
</table>

Following is a breakdown of net assets at June 30, 2006:

- **Unrestricted-Undesignated** 5%
- **Unrestricted-Designated** 8%
- **Restricted** 2%
- Invested in capital assets, net of related debt 85%
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 $16.27 million from $166.68 million at June 30, 2005 to $182.95 million at June 30, 2006.

Restricted net assets include the University’s permanent endowment, managed by the Southeast Missouri University Foundation, which totaled $2.00 and $2.10 million at June 30, 2006 and 2005, respectively. The slight decrease 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 55% has been internally designated as of June 30, 2006.

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

<table>
<thead>
<tr>
<th>Unrestricted – designated net assets</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Inventories</td>
<td>$2,628,283</td>
<td>$2,469,176</td>
</tr>
<tr>
<td>Future operations (including capital projects)</td>
<td>12,929,680</td>
<td>18,902,578</td>
</tr>
<tr>
<td>Quasi-endowment</td>
<td>2,012,246</td>
<td>2,108,661</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17,570,209</strong></td>
<td><strong>$23,480,415</strong></td>
</tr>
</tbody>
</table>

The total Unrestricted-undesignated net assets of the University of $9.98 million at June 30, 2006 includes balances accumulated from the operations of the auxiliary enterprises, such as the residence hall system and bookstore, which totaled $6.14 million and from general operations which totaled $3.84 million. The total Unrestricted-undesignated net assets of the University of $7.72 million at June 30, 2005 included balances accumulated from the operations of the auxiliary enterprises which totaled $3.98 million and from general operations which totaled $3.74 million. The increase in Unrestricted-undesignated net assets from auxiliary enterprises of approximately $2.16 million is a result of increase in housing occupancy and housing fees.
The following schedule reflects the condensed revenues and expenses of the University for fiscal years 2006 and 2005:

### Condensed Statements of Revenues, Expenses and Changes in Net Assets
**Years Ended June 30, 2006 and 2005**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees, net of scholarship allowance</td>
<td>$43,167,045</td>
<td>$39,717,912</td>
</tr>
<tr>
<td>Auxiliary services</td>
<td>20,158,545</td>
<td>18,839,180</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>5,534,335</td>
<td>5,525,494</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>68,859,925</td>
<td>64,082,586</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal service</td>
<td>73,432,546</td>
<td>68,512,388</td>
</tr>
<tr>
<td>Utilities and supplies</td>
<td>30,430,875</td>
<td>28,508,167</td>
</tr>
<tr>
<td>Scholarships</td>
<td>15,795,634</td>
<td>13,956,659</td>
</tr>
<tr>
<td>Depreciation</td>
<td>7,570,806</td>
<td>9,243,621</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>127,229,861</td>
<td>120,220,835</td>
</tr>
<tr>
<td>Operating loss</td>
<td>$(58,369,936)</td>
<td>$(56,138,249)</td>
</tr>
<tr>
<td>Nonoperating revenues (expenses)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations</td>
<td>42,764,082</td>
<td>42,784,030</td>
</tr>
<tr>
<td>Investment income</td>
<td>3,028,925</td>
<td>2,713,985</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>20,488,128</td>
<td>20,776,431</td>
</tr>
<tr>
<td>Gifts</td>
<td>2,213,692</td>
<td>1,908,862</td>
</tr>
<tr>
<td>Nonoperating expenses</td>
<td>(4,403,996)</td>
<td>(3,932,820)</td>
</tr>
<tr>
<td>Net nonoperating revenues</td>
<td>64,090,831</td>
<td>64,250,488</td>
</tr>
<tr>
<td>Other revenues</td>
<td>8,237,717</td>
<td>2,360,461</td>
</tr>
<tr>
<td>Increase in net assets</td>
<td>13,958,612</td>
<td>10,472,700</td>
</tr>
<tr>
<td>Net assets beginning of year</td>
<td>200,596,200</td>
<td>190,123,500</td>
</tr>
<tr>
<td>Net assets end of year</td>
<td>$214,554,812</td>
<td>$200,596,200</td>
</tr>
</tbody>
</table>

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. Total revenues for fiscal year 2005 were $134.62 million, which consisted of operating revenues of $64.08 million, nonoperating revenues of $68.18 million and other revenues of $2.36 million. The increase of approximately $6.19 million in nonoperating revenue and other revenue is attributed to an increase of $4.44 million in capital grants, an increase of $1.44 million in capital appropriations and a decrease of $2.13 in grants and contracts. 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, 2006:

![Graphic Illustration]

Student tuition and fees surpassed state appropriations as the largest source of revenue for the University at June 30, 2006. State appropriations have been declining as a percent of total revenue from 37% in fiscal year 2002 to 30% in fiscal year 2006. The University’s state appropriation for fiscal year 2007, net of the 3% governor’s reserve withholding, is $43.39 million which is below fiscal year 1999 funding levels.

Operating expenses 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. Operating expenses of the University totaled $120.22 million for the fiscal year ended June 30, 2005. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 56.9% of the total operating expenses at June 30, 2005.
Following is a graphic illustration of operating expenses by source for the year ended June 30, 2006:

![Pie chart showing operating expenses]

**Bonds and Notes Payable**

The University had outstanding bonds of approximately $96.44 million and $89.12 million at June 30, 2006 and 2005, respectively. 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. During fiscal year 2005, the University issued no new bonds. Please refer to the bonds payable footnote (Note 8) in the notes to the basic financial statements for additional disclosures.

At June 30, 2006, the University had outstanding notes payable of approximately $12.94 million, a decrease of approximately $1.82 million from June 30, 2005. In July 2004, the University entered into an agreement with the University’s contracted food service provider for the construction of a convenience store in the University Center. The University had entered into an agreement with the same provider in August 2002 for the expansion and renovation of the dining area at the University Center. The remaining principal balance on the two notes were forgiven in 2006 as part of a new contract with the University. 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, 2006.
Capital Assets

At June 30, 2006 and 2005, the University’s investment in capital assets was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$3,740,671</td>
<td>$3,893,146</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>230,724,041</td>
<td>221,399,385</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>18,514,603</td>
<td>16,304,395</td>
</tr>
<tr>
<td>Equipment</td>
<td>36,679,576</td>
<td>43,654,277</td>
</tr>
<tr>
<td>Library books</td>
<td>19,311,062</td>
<td>18,505,970</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>25,888,289</td>
<td>9,591,932</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>(75,770,717)</td>
<td>(78,982,873)</td>
</tr>
<tr>
<td></td>
<td><strong>$259,087,525</strong></td>
<td><strong>$234,366,232</strong></td>
</tr>
</tbody>
</table>

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. At June 30, 2005, the costs to complete capital projects in progress was estimated at $55.41 million and included approximately $47.58 million for construction, site improvements and equipment purchases related to the River Campus project, $2.02 million for an addition to the Sikeston Area Higher Education Center and $1.48 million for renovations to the Tower East residence hall.
## ASSETS

<table>
<thead>
<tr>
<th></th>
<th>University</th>
<th>Component Unit - Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$8,139,300</td>
<td>$277,582</td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td>10,707,070</td>
<td>-</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>12,558,911</td>
<td>4,258,183</td>
</tr>
<tr>
<td>Restricted short-term investments</td>
<td>25,251,290</td>
<td>-</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>168,763</td>
<td>73,525</td>
</tr>
<tr>
<td>Due from component unit - Foundation</td>
<td>641,259</td>
<td>-</td>
</tr>
<tr>
<td>Accounts receivable (net of allowance of $852,589)</td>
<td>3,835,560</td>
<td>68,845</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>364,664</td>
<td>-</td>
</tr>
<tr>
<td>Due from federal government</td>
<td>1,347,348</td>
<td>-</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,628,283</td>
<td>-</td>
</tr>
<tr>
<td>Net minimum lease payments receivable</td>
<td>70,439</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>288,629</td>
<td>15,072</td>
</tr>
<tr>
<td>Bond and note issuance costs</td>
<td>100,675</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>66,102,191</td>
<td>4,693,207</td>
</tr>
</tbody>
</table>

| **Noncurrent assets** |        |                            |
| Investments           | 7,874,705 | 32,753,009 |
| Other                 | -         | 742,669      |
| Due from component unit - Foundation | 4,012,387 | -              |
| Notes receivable (net of allowance of $597,467) | 4,023,343 | -              |
| Bond and note issuance costs | 1,340,119 | -              |
| Capital assets, net - Depreciable | 223,577,519 | 3,861,437 |
| Capital assets - Non-depreciable | 35,510,006 | 4,812,735 |
| Prepaid expenses       | -         | 4,260         |
| Pledges receivable     | -         | 303,022       |
| **Total noncurrent assets** | 276,338,079 | 42,477,132 |
| **Total assets**       | $342,440,270 | $47,170,339 |

## LIABILITIES

|                      |        |                            |
| **Current liabilities** |        |                            |
| Accounts payable      | $6,574,632 | $121,634     |
| Accrued compensation  | 3,881,155 | 3,001                    |
| Bond interest payable | 844,257  | -                        |
| Due to primary institution - University | - | 641,259 |
| Funds held for others | 163,451  | -                        |
| Unearned income       | 2,882,953 | 82,865             |
| Bonds payable         | 1,835,000 | -                        |
| Notes payable         | 1,479,225 | 40,096                |
| **Total current liabilities** | 17,660,673 | 888,855 |

|                      |        |                            |
| **Noncurrent liabilities** |        |                            |
| Accounts payable      | -       | 317,983                   |
| Due to primary institution - University | - | 4,012,387 |
| Unearned income       | -       | 6,291,844                |
| Bonds payable         | 94,604,231 | -                        |
| Notes payable         | 11,456,659 | 1,298,904           |
| Due to federal government | 4,163,895 | -                        |
| **Total noncurrent liabilities** | 110,224,785 | 11,921,118 |
| **Total liabilities** | 127,885,458 | 12,809,973          |

## NET ASSETS

| **Invested in capital assets, net of related debt** | 182,949,171 | 6,501,392 |
| **Restricted for:** |        |                            |
| Nonexpendable       |        |                            |
| Scholarships        | 2,000,141 | 20,553,456 |
| Other               | -       | 652,951                 |
| Expendable          |        |                            |
| Capital projects    | 528,602  | -                        |
| Scholarships        | -       | 5,311,815              |
| Loans               | -       | 88,105                 |
| Other               | 1,521,756 | -                        |
| Unrestricted        | 27,555,142 | 1,252,647 |
| **Total net assets** | $214,554,812 | $34,360,366 |

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


<table>
<thead>
<tr>
<th></th>
<th>University</th>
<th>Component Unit - Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees (net of scholarship allowance of $2,546,343)</td>
<td>$ 43,167,045</td>
<td>$ -</td>
</tr>
<tr>
<td>Sales and services of educational departments</td>
<td>2,018,006</td>
<td>-</td>
</tr>
<tr>
<td>Auxiliary enterprises:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other auxiliary (net of scholarship allowance of $198,193; $8,307,324 of revenues are used as security for revenue bonds Series 1998A, 1998B, 2001, 2002 and 2006)</td>
<td>8,219,042</td>
<td>-</td>
</tr>
<tr>
<td>Contributions and gifts</td>
<td>-</td>
<td>2,813,683</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>3,516,329</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>68,859,925</td>
<td>2,813,683</td>
</tr>
</tbody>
</table>

| **EXPENSES**           |             |                            |
| Operating expenses     |             |                            |
| Personal service       | 73,432,546  | 144,390                    |
| Scholarships           | 15,795,634  | -                          |
| Utilities              | 3,250,275   | 4,741                      |
| Supplies and other services | 27,180,600 | 1,518,490                 |
| Depreciation           | 7,570,806   | 189,317                    |
| Donations              | -            | 3,475,517                  |
| Other                  | -            | 52,354                     |
| **Total operating expenses** | 127,229,861 | 5,384,809                  |

| Operating loss         | (58,369,936) | (2,571,126)               |

| **NONOPERATING REVENUES (EXPENSES)** |             |                            |
| State appropriations     | 42,764,082  | -                          |
| Investment income        | 3,028,925   | 3,657,093                  |
| Federal grants - restricted | 15,934,466 | -                          |
| State grants and contracts - restricted | 3,142,794 | -                          |
| Nongovernmental grants and contracts - restricted | 1,418,868 | -                          |
| Contributions and gifts  | 2,213,692   | -                          |
| Interest on capital asset-related debt | (4,006,374) | (95,424)                  |
| Disposal of plant facilities | (403,622) | -                          |
| Other income             | -            | 1,327,173                  |
| **Net nonoperating revenues** | 64,090,831 | 4,888,842                  |

| Income before other revenues, expenses, gains, and losses | 5,720,895 | 2,317,716 |
| Capital appropriations | 2,530,604 | - |
| Capital grants and gifts | 5,707,113 | 848,873 |
| **Total other revenues, expenses, gains, and losses** | 8,237,717 | 848,873 |

| Increase in net assets | 13,958,612 | 3,166,589 |
| Net assets--beginning of year | 200,596,200 | 31,193,777 |
| **Net assets--end of year** | $ 214,554,812 | $ 34,360,366 |

The accompanying notes are an integral part of the basic financial statements.
<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
<td>$ 42,855,880</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>20,296,803</td>
</tr>
<tr>
<td>Other receipts</td>
<td>5,745,965</td>
</tr>
<tr>
<td>Payments to vendors and suppliers</td>
<td>(47,379,017)</td>
</tr>
<tr>
<td>Payments to employees</td>
<td>(73,383,798)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by operating activities</strong></td>
<td>(51,864,167)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State appropriations</td>
<td>42,517,048</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>20,542,325</td>
</tr>
<tr>
<td>Gifts received for other than capital purposes</td>
<td>1,924,330</td>
</tr>
<tr>
<td>Stafford direct lending and PLUS loan receipts</td>
<td>29,573,232</td>
</tr>
<tr>
<td>Stafford direct lending and PLUS loan disbursements</td>
<td>(29,573,232)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by noncapital financing activities</strong></td>
<td>64,983,703</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from capital debt</td>
<td>8,792,418</td>
</tr>
<tr>
<td>Capital gifts received</td>
<td>7,031,370</td>
</tr>
<tr>
<td>Purchases of capital assets and payments to contractors</td>
<td>(31,240,236)</td>
</tr>
<tr>
<td>Principal paid on capital debt and leases</td>
<td>(3,075,211)</td>
</tr>
<tr>
<td>Interest paid on capital debt and leases</td>
<td>(4,365,566)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by capital and related financing activities</strong></td>
<td>(22,857,225)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sales and maturities of investments</td>
<td>21,012,722</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>3,036,499</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(11,490,019)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by investing activities</strong></td>
<td>12,559,202</td>
</tr>
</tbody>
</table>

Net increase (decrease) in cash | 2,821,513  |
Cash—beginning of year | 16,024,857  |
Cash—end of year | $ 18,846,370 |

Reconciliation of operating loss to net cash provided (used) by operating activities:

<table>
<thead>
<tr>
<th>Operating loss</th>
<th>$ (58,369,936)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to reconcile operating loss to net cash provided (used) by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>7,570,806</td>
</tr>
<tr>
<td>Workers compensation and unemployment expenses paid by state</td>
<td>247,034</td>
</tr>
<tr>
<td>Gifts in kind from Southeast Missouri University Foundation</td>
<td>172,042</td>
</tr>
<tr>
<td>Change in assets and liabilities:</td>
<td></td>
</tr>
<tr>
<td>Receivables, net</td>
<td>(562,765)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(159,107)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>4,861</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(796,884)</td>
</tr>
<tr>
<td>Deferred revenues</td>
<td>196,458</td>
</tr>
<tr>
<td>Accrued compensation</td>
<td>(166,676)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by operating activities</strong></td>
<td>(51,864,167)</td>
</tr>
</tbody>
</table>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:
During the fiscal year ended June 30, 2006, the University's contracted food service provider forgave the remaining note payable in the amount of $362,811 as part of their new contract with the University.

The accompanying notes are an integral part of the basic financial statements.
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 15.
During the year ended June 30, 2006, the Foundation distributed $3,393,572 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 material 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:

<table>
<thead>
<tr>
<th>Capital assets</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and site improvements</td>
<td>10 to 50</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>10 to 50</td>
</tr>
<tr>
<td>Library books</td>
<td>30</td>
</tr>
<tr>
<td>Machinery and tools</td>
<td>5 to 20</td>
</tr>
<tr>
<td>Office equipment and furnishings</td>
<td>5 to 20</td>
</tr>
<tr>
<td>Scientific equipment and other</td>
<td>5 to 50</td>
</tr>
<tr>
<td>Computer hardware and software</td>
<td>4 to 5</td>
</tr>
<tr>
<td>Vehicles</td>
<td>4 to 6</td>
</tr>
</tbody>
</table>

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, 2006, total charges to net assets balances related to the amortization of such costs were $130,087.

**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, 2006, 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, 2006.
Foreign Currency Risk. The risk related to adverse affects on the fair value of a deposit from changes in exchange rates. At June 30, 2006, 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, 2006, the University had the following investments and maturities:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Credit Rating</th>
<th>Fair Value</th>
<th>Less than 1</th>
<th>1 – 5</th>
<th>6 – 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury obligations</td>
<td>AAA</td>
<td>$184,931</td>
<td>$0</td>
<td>$184,931</td>
<td>$0</td>
</tr>
<tr>
<td>U.S. Agency obligations</td>
<td>AAA/A1+</td>
<td>41,782,415</td>
<td>34,103,353</td>
<td>7,679,062</td>
<td>0</td>
</tr>
<tr>
<td>SBA Bonds and Discount Notes</td>
<td>AAA</td>
<td>17,560</td>
<td>6,848</td>
<td>9,190</td>
<td>1,522</td>
</tr>
<tr>
<td>Certificates of Deposits</td>
<td>Not Rated</td>
<td>3,700,000</td>
<td>3,700,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$45,684,906</td>
<td>$37,810,201</td>
<td>$7,873,183</td>
<td>$1,522</td>
</tr>
</tbody>
</table>

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, 2006.

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, 2006.

*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, 2006, 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:

<table>
<thead>
<tr>
<th>Fair value</th>
<th>Deposits</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repurchase Agreements and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash In Bank</td>
<td>$11,183,799</td>
<td>$18,846,370</td>
</tr>
<tr>
<td>Cash On Hand</td>
<td>28,704</td>
<td></td>
</tr>
<tr>
<td>Money Market Accounts</td>
<td>7,633,867</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>45,684,906</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$64,531,276</td>
</tr>
</tbody>
</table>

Included in the following statement of net assets captions:

<table>
<thead>
<tr>
<th>Net assets captions</th>
<th>Deposits</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$8,139,300</td>
<td>$18,846,370</td>
</tr>
<tr>
<td>Restricted cash and cash</td>
<td>10,707,070</td>
<td></td>
</tr>
<tr>
<td>equivalents</td>
<td></td>
<td>45,684,906</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>12,558,911</td>
<td></td>
</tr>
<tr>
<td>Restricted short-term investments</td>
<td>25,251,290</td>
<td></td>
</tr>
<tr>
<td>Long term investments</td>
<td>7,874,705</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$64,531,276</td>
</tr>
</tbody>
</table>
Investment Income
Investment income for the year ended June 30, 2006 consisted of:

| Interest and dividend income | $3,137,123 |
| Net decrease in fair value of investments | (113,198) |
| **Total** | **$3,028,925** |

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land</strong></td>
<td>$3,893,146</td>
<td>$0</td>
<td>$152,475</td>
<td>$3,740,671</td>
</tr>
<tr>
<td><strong>Library books</strong></td>
<td>5,970,566</td>
<td>0</td>
<td>(89,520)</td>
<td>5,881,046</td>
</tr>
<tr>
<td><strong>Construction in progress</strong></td>
<td>9,591,932</td>
<td>20,136,804</td>
<td>(3,840,447)</td>
<td>25,888,289</td>
</tr>
<tr>
<td><strong>Total capital assets not being depreciated</strong></td>
<td>19,455,644</td>
<td>20,136,804</td>
<td>(4,082,442)</td>
<td>35,510,006</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital assets being depreciated:</th>
<th>(221,399,385)</th>
<th>(9,394,639)</th>
<th>(69,983)</th>
<th>(230,724,041)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure</strong></td>
<td>16,304,395</td>
<td>2,210,208</td>
<td>0</td>
<td>18,514,603</td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td>43,654,277</td>
<td>4,097,580</td>
<td>(11,072,281)</td>
<td>36,679,576</td>
</tr>
<tr>
<td><strong>Library books</strong></td>
<td>12,535,404</td>
<td>894,612</td>
<td>0</td>
<td>13,430,016</td>
</tr>
<tr>
<td><strong>Total capital assets being depreciated</strong></td>
<td>293,893,461</td>
<td>16,597,039</td>
<td>(11,142,264)</td>
<td>299,348,236</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Less accumulated depreciation:</th>
<th>Balance June 30, 2005</th>
<th>Additions</th>
<th>Disposals</th>
<th>Balance June 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buildings and improvements</strong></td>
<td>(42,234,190)</td>
<td>(4,392,847)</td>
<td>16,796</td>
<td>(46,610,241)</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>(1,658,069)</td>
<td>(311,624)</td>
<td>0</td>
<td>(1,969,693)</td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td>(32,153,557)</td>
<td>(2,448,488)</td>
<td>10,766,166</td>
<td>(23,835,879)</td>
</tr>
<tr>
<td><strong>Library books</strong></td>
<td>(2,937,057)</td>
<td>(417,847)</td>
<td>0</td>
<td>(3,354,904)</td>
</tr>
<tr>
<td><strong>Total accumulated depreciation</strong></td>
<td>(78,982,873)</td>
<td>(7,570,806)</td>
<td>10,782,962</td>
<td>(75,770,717)</td>
</tr>
<tr>
<td><strong>Total capital assets being depreciated, net</strong></td>
<td>214,910,588</td>
<td>9,026,233</td>
<td>(359,302)</td>
<td>223,577,519</td>
</tr>
</tbody>
</table>

**Net capital assets** | $234,366,232 | $29,163,037 | ($4,441,744) | $259,087,525 |

The estimated cost to complete construction in progress at June 30, 2006 is $41,724,277 of which the majority is available from bond proceeds, federal grants and other local sources. Projects in progress include construction of River Campus, the Aquatic Center and multi-modal transit way.
Note 5 - Accounts Receivable

The composition of accounts receivable at June 30, 2006 is summarized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student billings</td>
<td>$2,650,384</td>
</tr>
<tr>
<td>Departmental operations</td>
<td>665,751</td>
</tr>
<tr>
<td>State &amp; private grants</td>
<td>106,081</td>
</tr>
<tr>
<td>Capital project funding (private)</td>
<td>903,902</td>
</tr>
<tr>
<td>Auxiliary operations</td>
<td>145,826</td>
</tr>
<tr>
<td>Other</td>
<td>216,205</td>
</tr>
<tr>
<td></td>
<td>4,688,149</td>
</tr>
<tr>
<td>Less: allowance for doubtful accounts</td>
<td>852,589</td>
</tr>
<tr>
<td>Net Accounts Receivable</td>
<td>$3,835,560</td>
</tr>
</tbody>
</table>

Note 6 - Notes Receivable

The composition of notes receivable at June 30, 2006 is summarized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Loan Programs</td>
<td>$4,985,474</td>
</tr>
<tr>
<td>Less: allowance for doubtful notes</td>
<td>597,467</td>
</tr>
<tr>
<td>Net Notes Receivable</td>
<td>$4,388,007</td>
</tr>
</tbody>
</table>

Note 7 - Accounts Payable

The composition of accounts payable at June 30, 2006 is summarized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment purchases</td>
<td>$ 192,534</td>
</tr>
<tr>
<td>Supplies and operating services</td>
<td>2,776,082</td>
</tr>
<tr>
<td>Capital improvements</td>
<td>1,749,721</td>
</tr>
<tr>
<td>Retainage – capital projects</td>
<td>1,856,295</td>
</tr>
<tr>
<td>Total</td>
<td>$6,574,632</td>
</tr>
</tbody>
</table>
Note 8 - Bonds Payable

Bonds payable at June 30, 2006 are summarized as follows:

<table>
<thead>
<tr>
<th>Amount Outstanding June 30, 2005</th>
<th>Principal Additions</th>
<th>Principal Payments</th>
<th>Amount Outstanding June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing System Refunding and Improvement Revenue Bonds Series 1993</td>
<td>$350,000</td>
<td>$0</td>
<td>$350,000</td>
</tr>
<tr>
<td>System Facilities Revenue Bonds Series 1998A</td>
<td>7,605,000</td>
<td>0</td>
<td>190,000</td>
</tr>
<tr>
<td>System Facilities Revenue Bonds Series 1998B</td>
<td>9,185,000</td>
<td>0</td>
<td>230,000</td>
</tr>
<tr>
<td>System Facilities Revenue Bonds Series 2001</td>
<td>29,845,000</td>
<td>0</td>
<td>505,000</td>
</tr>
<tr>
<td>System Facilities Revenue Bonds Series 2002</td>
<td>6,290,000</td>
<td>0</td>
<td>125,000</td>
</tr>
<tr>
<td>Educational Facilities Revenue Bonds Series 2003A - Fixed Rate</td>
<td>9,740,000</td>
<td>0</td>
<td>230,000</td>
</tr>
<tr>
<td>Variable Rate Demand Educational Facilities Revenue Bonds Series 2003B</td>
<td>26,360,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>System Facilities Revenue Bonds Series 2006A</td>
<td>0</td>
<td>8,915,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$89,375,000</strong></td>
<td><strong>$8,915,000</strong></td>
<td><strong>$1,630,000</strong></td>
</tr>
</tbody>
</table>

Less:
- Current maturities (due within one year) | $1,835,000
- Deferred amounts on refunding | 416,708
- Add: Premium on bonds payable | 195,939

**Total Adjustments** | **$94,604,231**

On April 24, 2006, the Board of Regents issued $8,915,000 of System Facilities Revenue Bond Series 2006A for the construction and furnishing of an Aquatic Center, swimming pool and related improvements. The Series 2006A bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2006A bonds maturing April 1, 2015 and thereafter shall be subject to redemption on or after April 1, 2014 at a redemption price of 100% of the principal amount. The Series 2006A bonds bear interest at rates varying from 4.00% to 4.60% and mature serially through fiscal year 2036.
On December 13, 2002, the Board of Regents approved the planning, design and construction of a School of Visual and Performing Arts at the River Campus, and the issuance of Series A fixed-rate bonds and Series B variable-rate bonds through the Missouri Development Finance Board. On October 1, 2003, the Missouri Development Finance Board issued $9,975,000 Educational Facilities Revenue Bonds (Southeast Missouri State University River Campus Project) Series 2003A and $26,360,000 Variable Rate Demand Educational Facilities Revenue Bonds (Southeast Missouri State University River Campus Project) Series 2003B. The Series 2003A bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2003A bonds maturing October 1, 2012, and thereafter shall be subject to redemption on or after October 1, 2013 at a redemption price of 100% of the principal amount. The Series 2003B bonds shall bear interest at variable rates to be determined by the remarketing agent on a weekly basis based on the BMA (Bond Market Association) Municipal Swap Index. The interest rate period shall commence on Wednesday of each week and end on Tuesday of the following week. The Series 2003B bonds are subject to redemption prior to maturity on any business day at a redemption price of 100% of the principal amount. The Series 2003A and Series 2003B bonds are collateralized by an annual appropriation by the University. The University, subject to annual appropriation, will receive amounts from the City of Cape Girardeau, Missouri’s hotel/motel tax to pay debt service on the Series 2003A bonds. The University expects to receive amounts from the State designated for the project, if available, and donations made to the University and Southeast Missouri University Foundation, to pay debt service on the Series 2003B bonds.

On April 1, 2002 the University issued System Facilities Revenue Bonds Series 2002 in the aggregate principal amount of $6,645,000 for parking system improvements. The Series 2002 bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2002 bonds maturing April 1, 2010 and thereafter shall be subject to redemption on or after April 1, 2009 at a redemption price of 100% of the principal amount. The Series 2002 bonds bear interest at rates varying from 3.60% to 5.15% and mature serially through fiscal year 2032.

On June 28, 2001, the University’s Board of Regents approved the construction of a 293-bed residence hall, and the sale of System Facilities Revenue Bonds to fund the project. On August 1, 2001, the Board of Regents approved the advance refunding of $12,855,000 of Housing System Refunding and Improvement Revenue Bonds Series 1993. System Facilities Refunding and Improvement Revenue Bonds Series 2001 were issued on August 30, 2001, in the aggregate principal amount of $30,975,000. Net proceeds in the amount of $13,799,880 were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the $12,855,000 of Series 1993 bonds advance refunded. As a result, this portion of the Series 1993 Housing bonds are considered to be defeased and the liability for these bonds has been removed from the accompanying basic financial statements. At June 30, 2006, there were no defeased Series 1993 Housing Bonds outstanding.

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

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

On January 15, 1998, the Board of Regents issued $8,655,000 of System Facilities Revenue Bonds Series 1998A. Bond proceeds were used to provide funding for the expansion/improvement of the Student Recreation Center and the Outdoor Recreation Fields, and to advance refund the University’s Student Recreation Center Revenue Bonds, Series 1986, in the outstanding principal amount of $1,835,000. The 1998A Series Bonds maturing on or after April 1, 2007, are subject to redemption on or after April 1, 2006, at the redemption price of 100% of the principal amount. The Series 1998A bonds bear interest at rates varying from 4.30% to 5.00% and mature serially through fiscal year 2028.

On April 29, 1998, the Board of Regents approved the renovation/expansion of certain student housing facilities including the Central Towers Complex and Greek Housing, and the sale of System Facilities Revenue Bonds to fund a portion of the project. System Facilities Revenue Bonds Series 1998B were issued on September 1, 1998, in the aggregate principal amount of $10,605,000. The Series 1998B Bonds shall pay interest semiannually on April and October 1. At the option of the University, the Series 1998B Bonds maturing April 1, 2009 and thereafter shall be subject to redemption on or after April 1, 2008 at a redemption price of 100% of the principal amount. The Series 1998B bonds bear interest at rates varying from 4.20% to 5.00% and mature serially through fiscal year 2028.

The Series 1993 Housing System Refunding and Improvement Revenue Bonds, dated February 1, 1993, were issued in the aggregate principal amount of $17,550,000. The Series 1993 bonds were used to provide funding for residence hall renovation and to advance refund $4,635,000 of outstanding Housing System Revenue Bonds. The bonds matured in fiscal year 2006.

In prior years, the University defeased certain housing system revenue bonds by placing United States Government securities acquired with University reserves and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University’s basic financial statements. At June 30, 2006, defeased bonds aggregating $71,000 were outstanding.

The System Facilities is composed of the Housing System, the Student Union Facility (University Center), the Student Recreation Center, the Outdoor Recreation Fields, and the Parking and Transit system. The provisions of the bond resolution for the 1993 Series Bonds were amended, so that revenue derived from the operation of these facilities is pledged for the retirement of the outstanding 1993 Series Bonds, 1998A Series Bonds, 1998B Series Bonds, 2001 Series Bonds, and the 2002 Series Bonds. Under the provisions of these bond resolutions, the University covenants to establish rates for the use and services of the System Facilities sufficient to fund operations, maintain reserves, and provide revenues to pay principal and interest on the bonds.

Interest expense was $3,443,990 for 2006, net of capitalized interest of $433,556. Scheduled fiscal year maturities of System Facilities and Educational Facilities Fixed Rate bonds payable and related interest are as follows:
<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$1,835,000</td>
<td>$3,256,875</td>
</tr>
<tr>
<td>2008</td>
<td>2,095,000</td>
<td>3,217,315</td>
</tr>
<tr>
<td>2009</td>
<td>2,180,000</td>
<td>3,124,028</td>
</tr>
<tr>
<td>2010</td>
<td>2,290,000</td>
<td>3,024,516</td>
</tr>
<tr>
<td>2011</td>
<td>2,395,000</td>
<td>2,917,791</td>
</tr>
<tr>
<td>2012-2016</td>
<td>13,775,000</td>
<td>12,869,875</td>
</tr>
<tr>
<td>2017-2021</td>
<td>17,345,000</td>
<td>9,402,178</td>
</tr>
<tr>
<td>2022-2026</td>
<td>13,505,000</td>
<td>5,513,842</td>
</tr>
<tr>
<td>2027-2031</td>
<td>12,065,000</td>
<td>2,466,341</td>
</tr>
<tr>
<td>2032-2036</td>
<td>2,815,000</td>
<td>362,665</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$70,300,000</strong></td>
<td><strong>$46,155,426</strong></td>
</tr>
</tbody>
</table>

Scheduled fiscal year maturities of Educational Facilities Variable Rate bonds payable and related interest, based upon the 3.95% interest rate effective June 30, 2006, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0</td>
<td>$1,041,220</td>
</tr>
<tr>
<td>2008</td>
<td>0</td>
<td>1,041,220</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>1,041,220</td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>1,041,220</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
<td>1,041,220</td>
</tr>
<tr>
<td>2012-2016</td>
<td>0</td>
<td>5,206,100</td>
</tr>
<tr>
<td>2017-2021</td>
<td>0</td>
<td>5,206,100</td>
</tr>
<tr>
<td>2022-2024</td>
<td>26,360,000</td>
<td>2,603,050</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$26,360,000</strong></td>
<td><strong>$18,221,350</strong></td>
</tr>
</tbody>
</table>

**Note 9 - Notes Payable**

Notes payable at June 30, 2006 are summarized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount Outstanding June 30, 2005</th>
<th>Principal Additions</th>
<th>Principal Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>L. D. Brodsky - Library Additions</td>
<td>$152,196</td>
<td>$0</td>
<td>$39,243</td>
</tr>
<tr>
<td>Installment purchase – North Chiller Plant Expansion</td>
<td>491,865</td>
<td>0</td>
<td>119,338</td>
</tr>
<tr>
<td>Installment Payment Contract Certificates Series 2002</td>
<td>13,610,000</td>
<td>0</td>
<td>1,195,000</td>
</tr>
<tr>
<td>Chartwells – U. C. Dining Additions</td>
<td>332,710</td>
<td>0</td>
<td>332,710</td>
</tr>
<tr>
<td>Chartwells – Convenience Store Renovation</td>
<td>125,000</td>
<td>0</td>
<td>125,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$14,711,771</td>
<td>$0</td>
<td>$1,811,291</td>
</tr>
</tbody>
</table>

Less: Current payments (due within one year)  $1,479,225
Add: Premium on notes payable  35,404

**Total**  $11,456,659
In 1988, the University entered into an agreement with L.D. Brodsky for the acquisition of the Brodsky-Faulkner Collection of rare books. As part of this agreement, the University is to pay Mr. Brodsky a total of $498,140 over a 20-year period plus interest at an annual rate of 8.00%. In addition, in 1988 the University appointed Mr. Brodsky as curator of the collection for a 20-year period. The University will compensate Mr. Brodsky a total of $800,000 over 20 years in consideration for his service as curator.

On January 25, 1999, the University entered into an installment sales agreement with Siemens Building Technologies, Inc., to expand the north chiller of the power plant. This agreement was amended on February 1, 1999, with a funding date of December 22, 1999. The first payment was due on January 22, 2000, with subsequent payments due September 1 annually through 2008.

On May 1, 2002, the University issued $15,635,000 Installment Payment Contract Certificates Series 2002 for various energy savings measures. The certificates pay interest semiannually on April 1 and October 1 in each year. The certificates maturing October 1, 2010 and thereafter shall be subject to redemption at the option of the University on or after October 1, 2009 at a redemption price of 100% of the principal amount. The Series 2002 certificates bear interest at varying rates from 3.30% to 4.75% and mature serially through fiscal year 2012.

On August 1, 2002 the University entered into an agreement in the amount of $660,000 with Chartwells, the University’s contracted food service provider, for the expansion and renovation of the dining area at the University Center. During the fiscal year ended June 30, 2006, Chartwells forgave the remaining principal balance as part of their new contract with the University.

On July 1, 2004, the University entered into an agreement in the amount of $125,000 with Chartwells, the University’s contracted food service provider, for the renovation and implementation of a convenience store type facility at the University Center. The University made one annual payment of $12,500 during the fiscal year ended June 30, 2006 and the remaining principal balance was forgiven by Chartwells as part of their new contract with the University.

Interest expense was $556,384 for 2006. Scheduled fiscal year maturities on notes payable and related interest are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$1,479,224</td>
<td>$488,833</td>
</tr>
<tr>
<td>2008</td>
<td>1,580,186</td>
<td>438,228</td>
</tr>
<tr>
<td>2009</td>
<td>1,666,070</td>
<td>380,663</td>
</tr>
<tr>
<td>2010</td>
<td>1,625,000</td>
<td>318,805</td>
</tr>
<tr>
<td>2011</td>
<td>1,745,000</td>
<td>251,405</td>
</tr>
<tr>
<td>2012-2014</td>
<td>4,805,000</td>
<td>179,503</td>
</tr>
<tr>
<td></td>
<td>$12,900,480</td>
<td>$2,057,437</td>
</tr>
</tbody>
</table>
Note 10 - Capital Lease Obligations with Foundation

Capital lease obligations as of June 30, 2006 are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation capital lease property</td>
<td>$4,758</td>
<td></td>
<td>$4,758</td>
<td>$0</td>
</tr>
</tbody>
</table>

In addition, the University subleases to the State of Missouri certain other property that is leased from the Foundation. These subleases are accounted for as direct financing leases. The University’s Statement of Net Assets at June 30, 2006, reflects a net investment in minimum lease payments receivable of $70,439. Future minimum lease payments to be received under these subleases for the years ending June 30 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 72,500</td>
</tr>
<tr>
<td>Total</td>
<td>72,500</td>
</tr>
<tr>
<td>Less: Unearned income</td>
<td>2,061</td>
</tr>
<tr>
<td>Present value of net minimum lease payments receivables</td>
<td>$ 70,439</td>
</tr>
</tbody>
</table>

Note 11 - Retirement Plan

Substantially all full-time University employees are participants in the statewide Missouri State Employees’ Retirement System (“MOSERS”), a single-employer defined benefit public employees’ retirement system.

Participation in MOSERS is available to employees of all state departments, agencies, and public institutions of higher education. As such, the University considers its participation in MOSERS as substantially equivalent to that of a cost-sharing, multiple employer public employee’s retirement system. The operations and management of MOSERS are generally prescribed in the Missouri Revised Statutes and supervised by MOSERS Board of Trustees.

MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MOSERS, 906 Leslie Blvd., P. O. Box 209, Jefferson City, Missouri 65102.

MOSERS provides retirement, death and disability benefits to its members. Benefits for general State employees are fully vested after five years of credited service. Employees may retire at or after age 55 and receive a reduced benefit (or full benefits if they have 30 years or more of service). Employees
may also retire with full benefits when the sum of the employee’s years of service plus the employee’s age equals 80 or more.

State statutes require the state of Missouri to fund all contributions to MOSERS. These actuarially determined contributions are computed as a level percentage of covered payroll. The percentage for fiscal year 2006 was set at 12.59%. Contributions to MOSERS were $5,519,900, $5,051,000, and $4,363,000 for the fiscal years ending June 30, 2006, 2005 and 2004, respectively, which were equal to the required contributions each year.

**Note 12 - Contingencies and Risk Management**

The University is subject to various legal proceedings and claims which arise in the ordinary course of its operations. In the opinion of the University management, the amount of ultimate liability with respect to these actions will not materially affect the overall financial position of the University.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. It is the opinion of management that such reimbursements, if any, will not have a material effect on the University’s financial position.

University employees are covered under Worker’s Compensation by the State of Missouri. Claims are submitted to the State and paid by the State in behalf of the University. Total claims paid for Southeast Missouri State University employees for fiscal year 2005-2006 were approximately $214,548.

The majority of University employees are also covered by unemployment insurance administered by the State of Missouri Division of Employment Security.

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. The University purchases commercial insurance and also receives coverage through the State of Missouri for these risks of loss. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Members of the Missouri State Colleges and Universities Group Insurance Consortium decided during 2004 to provide employee benefits independently rather than as a group. Therefore, MSU Benefits Group, Inc. terminated all benefit plans offered to its members at the end of calendar year 2004. As a corporation, MSU Benefits Group, Inc. will be responsible for covering all eligible claims incurred prior to December 31, 2004. Effective January 1, 2005, the University contracted with a private health insurance corporation for health care coverage.
Note 13 - Net Assets

**Restricted** – In accordance with GASB Statement No. 34, net assets are restricted when constraints placed are either externally imposed, or are imposed by law or legislation. The composition of restricted net assets at June 30, 2006 were:

<table>
<thead>
<tr>
<th>Nonexpendable:</th>
<th>Expendable:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarships</td>
<td>Capital projects</td>
</tr>
<tr>
<td></td>
<td>Grants, loans and other</td>
</tr>
<tr>
<td></td>
<td>Total Expendable</td>
</tr>
</tbody>
</table>

| Total Restricted | 2,050,358 |

**Unrestricted** – Unrestricted net assets, as defined in GASB Statement No. 34, are not subject to externally imposed stipulations; however, they may be subject to internal designations. For example, unrestricted net assets may be designated for specific purposes by action of the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are internally designated for academic programs and initiatives, investment in inventories and capital programs. Designated unrestricted net assets were $17,570,209 at June 30, 2006. Undesignated unrestricted net assets, including those of auxiliary operations, were $9,984,933 at June 30, 2006.

Note 14 – Future Accounting Pronouncements

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, addresses the accounting and reporting for costs and obligations related to postemployment healthcare and other non-pension benefits. This statement is effective for the University for the fiscal year ending June 30, 2008.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, provides guidance to ascertain whether certain transactions are considered sales or collateralized borrowings. The statement will be effective for the University for the fiscal year ending June 30, 2008.
Note 15 – Southeast Missouri University Foundation

The following disclosures pertain to the University’s discretely presented component unit – Southeast Missouri University Foundation.

Accrual Basis – The Foundation’s financial statements are prepared on the accrual basis of accounting.

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.

Pledges Receivable - 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.

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

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.

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 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, 2006:

<table>
<thead>
<tr>
<th>Pooled investment at market value</th>
<th>$37,011,192</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of subsidiary accounts</td>
<td>460</td>
</tr>
<tr>
<td>Interest and dividend earnings</td>
<td>$747,346</td>
</tr>
<tr>
<td>Net gains</td>
<td>$7,788,488</td>
</tr>
</tbody>
</table>

*Interest Rate Risk.* As a means of ensuring the safety of principal invested, the Foundation, 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, 2006, 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, 2006, 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:

<table>
<thead>
<tr>
<th>Fair value</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 277,582</td>
</tr>
<tr>
<td>Investments</td>
<td>37,011,192</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$37,288,774</strong></td>
</tr>
</tbody>
</table>

Included in the following statement of net assets captions:

| Cash and cash equivalents       | $277,582|
| Short-term investments          | 4,258,183|
| Long term investments           | 32,753,009|
| **Total**                       | **$37,288,774**|

At June 30, 2006 the Foundation investments are summarized below.

<table>
<thead>
<tr>
<th>Type</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of Deposit</td>
<td>$275,000</td>
</tr>
<tr>
<td>U.S. Government Obligations</td>
<td>1,657,121</td>
</tr>
<tr>
<td>U. S. Government Agencies</td>
<td>3,130,605</td>
</tr>
<tr>
<td>Common Stocks</td>
<td>23,085,352</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>2,269,405</td>
</tr>
<tr>
<td>International/Other</td>
<td>732,561</td>
</tr>
<tr>
<td>Investments in Mutual Funds</td>
<td>5,861,148</td>
</tr>
<tr>
<td><strong>Totals at June 30, 2006</strong></td>
<td><strong>$37,011,192</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Maturities in Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value</td>
</tr>
<tr>
<td>U.S. Gov't Obligations</td>
<td>$1,657,121</td>
</tr>
<tr>
<td>U.S. Gov't Agency Obligations</td>
<td>3,130,605</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>2,269,405</td>
</tr>
<tr>
<td>Certificates of Deposits</td>
<td>275,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$7,332,131</td>
</tr>
</tbody>
</table>

The Foundation manages the University’s $2,000,141 true endowment funds and $2,012,246 quasi endowment funds as of June 20, 2006, 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 net assets.

Capital Assets
A summary of changes in capital assets in 2006 follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land &amp; Improvements</td>
<td>$ 4,624,347</td>
<td>$220,332</td>
<td>$31,945</td>
<td>$4,812,734</td>
</tr>
<tr>
<td>Buildings</td>
<td>6,083,378</td>
<td>16,303</td>
<td></td>
<td>6,099,681</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>127,083</td>
<td></td>
<td></td>
<td>127,083</td>
</tr>
<tr>
<td>Equipment</td>
<td>288,784</td>
<td>59,680</td>
<td>32,831</td>
<td>315,633</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>11,123,592</td>
<td>296,315</td>
<td>64,776</td>
<td>11,355,131</td>
</tr>
<tr>
<td></td>
<td>2,510,583</td>
<td>187,220</td>
<td>16,844</td>
<td>2,680,959</td>
</tr>
<tr>
<td></td>
<td>$ 8,613,009</td>
<td>$109,095</td>
<td>$47,932</td>
<td>$8,674,172</td>
</tr>
</tbody>
</table>

Long Term Obligations
Following is a summary of notes payable transactions of the Foundation for the year ended June 30, 2006:

<table>
<thead>
<tr>
<th></th>
<th>General Obligation</th>
<th>Revenue</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at July 1, 2005</td>
<td>$1,457,493</td>
<td>$0</td>
<td>$1,457,493</td>
</tr>
<tr>
<td>Long-term obligations added</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Long-term obligations retired</td>
<td>118,493</td>
<td>0</td>
<td>118,493</td>
</tr>
<tr>
<td>Balance at June 30, 2006</td>
<td>$1,339,000</td>
<td>$0</td>
<td>$1,339,000</td>
</tr>
</tbody>
</table>

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%.

Scheduled principal payments on notes payable and related interest are as follows:

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