

A decorative graphic consisting of a series of overlapping wireframe spheres, resembling a globe or a series of interconnected nodes, positioned horizontally across the middle of the page. The spheres are rendered in a light gray color and are set against a dark gray background that forms a horizontal band.

2005 – 2006 Financial Report

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Missouri State University is a statewide university system with a mission in public affairs, whose purpose is to develop educated persons while achieving five major goals:

- ❖ democratizing society
- ❖ incubating new ideas
- ❖ imagining Missouri's future
- ❖ making Missouri's future
- ❖ modeling ethical and effective behavior as a public institution

Management's Discussion and Analysis



Dr. Michael T. Nietzel
Missouri State University
President

We are providing Missouri State University's (the University) discussion and analysis of our financial statements and related notes as of June 30, 2006 and 2005, and for the fiscal years then ended. Three statements are described in the following discussion and analysis: The Statement of Net Assets, which presents the assets, liabilities, and net assets of the institution as of the end of the fiscal year; the Statement of Revenues, Expenses, and Changes in Net Assets, which reflects revenues and expenses recognized during the fiscal year; and the Statement of Cash Flows, which provides information on all of the cash inflows and outflows for the institution by major category during the fiscal year.

We hope this information will assist you as you seek to understand the University's financial position and operating activities, accomplishments and challenges. We are also presenting financial information of the Missouri State University Foundation, Inc. (the Foundation). The Foundation is a legally separate support organization that raises and holds funds to support the University. As you read through the next few pages, please review and refer to the Statements of Net Assets, Revenues, Expenses and Changes in Net Assets, and Cash Flows in addition to the Notes to the Financial Statements that we have described above.

Financial Overview

In the fiscal year ended June 30, 2006, student enrollment was slightly less than the previous year. Combined with an increase in required student fee charges, the University's net student tuition and fees increased in fiscal year 2006 by \$7 million or 11.75%. This is the third year of substantial increases in required student fees. The University received all of the \$77.9 million State of Missouri appropriations. State appropriations were virtually the same as the prior year ended June 30, 2005. Fiscal year 2005 saw a modest 3.27% growth in state support totaling \$2.5 million.

Fiscal Year 2006's operating revenues of \$147.7 million was \$8.2 million more than the \$139.5 million operating revenues in fiscal year 2005 and \$22.1 million more than the operating revenues of \$125.6 million in fiscal year 2004. Operating expenses for the year ended June 30, 2006 increased \$11.4 million to \$215.4 million from \$204.0 million in fiscal year 2005. Operating

expenses for fiscal year 2004 totaled \$196.9 million. As was the case last year, the increases in salaries, fringe benefits and grant and contracts supplies and services accounted for the change in operating expenses in fiscal year 2006. Net non-operating revenues and capital gifts, grants and contracts totaled \$93.6, \$86.1 and \$78.6 million in fiscal years 2006, 2005 and 2004, respectively. The increase in fiscal year 2006 over 2005 was primarily from increases in investment revenue and the absence of a loss from the write off of undepreciated capital assets that resulted from fiscal year 2005's change in the equipment capitalization threshold from \$1,000 to \$5,000. Most of the fiscal year 2005 increase over 2004 came from federal transportation administration grants to construct an intermodal transfer facility. Net assets increased \$25.9 million for the year ended June 30, 2006, compared to \$21.7 million for the year ended June 30, 2005, and \$7.3 million for the year ended June 30, 2004.

	University			Foundation		
	2006	2005	2004	2006	2005	2004
Total operating revenues	\$ 147,735,581	\$ 139,527,475	\$ 125,617,248	\$ 9,091,014	\$ 8,652,506	\$ 7,758,222
Total operating expenses	215,434,312	203,992,700	196,859,433	3,613,463	4,056,219	4,697,300
Net operating income (loss)	(67,698,731)	(64,465,225)	(71,242,185)	5,477,551	4,596,287	3,060,922
Total nonoperating revenues (expenses) and capital endowment activities	93,559,289	86,146,141	78,574,760	5,951,298	1,467,315	3,167,180
Increase in net assets	\$ 25,860,558	\$ 21,680,916	\$ 7,332,575	\$11,428,849	\$ 6,063,602	\$ 6,228,102

Net assets on June 30, 2006, totaled \$293.0 million compared to \$267.1 million on June 30, 2005 and \$245.4 million on June 30, 2004. From June 30, 2004 to June 30, 2006, net assets increased \$47.6 million. Unrestricted net assets increased \$25.7 million, restricted assets increased \$1.3 million and the University's investment in capital assets, net of related debt increased \$20.6 million.

At the end of fiscal year 2005, the Foundation completed its first comprehensive fund-raising campaign with the attainment of the \$50 million goal for *The Campaign for SMS: Imagine the Possibilities*. The Foundation announced that \$51,340,744 was received or committed for the campaign. Gifts increased in fiscal year 2006 to \$8.1 million from \$7.6 million in fiscal year 2005 which was approximately \$900 thousand more than the \$6.7 million recorded in fiscal year 2004. The strengthening equity markets resulted in substantial investment gains and other investment income totaling \$5.2 million during fiscal year June 30, 2006 and \$4.6 million during fiscal year June 30, 2005 compared to \$5.5 million during fiscal year June 30, 2004. Net assets increased more than \$11 million in fiscal year 2006 to more than \$68 million on June 30, 2006.

The University's current assets on June 30, 2006 of \$96.4 million were \$10.1 million (11.7%) more than the \$86.3 million on June 30, 2005 and \$41.8 million (76.6%) more than the \$54.6 million on the same date in 2004. The large change from 2004 to 2005 reflects the short-term nature of current investments and the expectation of completing several capital projects in progress at the end of the year. The growth from the end of fiscal year 2005 to 2006 reflects a strengthening of the University's financial condition. The value of non-current assets on June 30, 2006, 2005 and 2004 were \$284.7 million, \$272.7 million, and \$273.1 million, respectfully. Current liabilities on June 30, 2006 of \$35.7 million were just over \$1.1 million more than on June 30, 2005. Current liabilities on June 30, 2004 totaled \$30.5 million. Non-current liabilities at June 30, 2005, reflecting a capital lease payable for a utility system upgrade, increased \$5.5 million from \$51.7 to \$57.2 million. Non-current liabilities were \$4.8 million less on June 30, 2006 at \$52.4 million. Total liabilities on June 30, 2006 of \$88.1 million were \$3.8 million less than the \$91.9 million on June 30, 2005. Total liabilities on June 30, 2005, were approximate \$9.6 million more than the amount on June 30, 2004.

Assets of the Foundation exceeded \$70 million on June 30, 2006, approximately \$11 million more than the \$59 million on June 30, 2005 and \$16 million more than the \$54 million on June 30, 2004. The Foundation's liabilities totaled \$1.6 million, \$1.8 million and \$2.5 million on June 30, 2006, 2005 and 2004, respectfully.

	University			Foundation		
	2006	2005	2004	2006	2005	2004
Current assets	\$ 96,360,923	\$ 86,312,969	\$ 54,592,705	\$ 14,224,049	\$ 12,247,008	\$ 11,482,785
Noncurrent assets						
Endowment and other investments	582,134	618,178	12,108,130	54,631,923	45,305,192	40,634,580
Capital assets, net	281,589,628	268,824,888	256,919,415	1,312,967	1,388,098	1,467,342
Other	2,533,569	3,246,721	4,046,252		622	2,045
Total assets	381,066,254	359,002,756	327,666,502	70,168,939	58,940,920	53,586,752
Current liabilities	35,726,015	34,648,507	30,548,131	867,755	1,051,659	1,558,076
Noncurrent liabilities	52,367,726	57,242,294	51,687,332	694,878	711,804	914,821
Total liabilities	88,093,741	91,890,801	82,235,463	1,562,633	1,763,463	2,472,897
Net assets	\$ 292,972,513	\$ 267,111,955	\$ 245,431,039	\$ 68,606,306	\$ 57,177,457	\$ 51,113,855

Statement of Net Assets

Comparing the current assets on June 30, 2006 with current assets as of June 30, 2005, cash and investments are \$81.4 million, an increase of \$8.1 million. The increase from June 30, 2004 to June 30, 2005 was \$31.3 million. Accounts receivable, net of related allowances for uncollectible accounts decreased a little less than \$300 thousand from June 30, 2004 to 2005 and decreased a little less than \$100 thousand from June 30, 2005 to 2006. Inventories increased approximately \$500 thousand from June 30, 2004 to 2005 and decreased

\$1.2 million from June 30, 2005 to 2006. Non-current investments decreased in 2005 by approximately \$11.5 million and remained approximately the same at the end of fiscal year 2006. Construction in progress at the end of fiscal year 2006 totaled \$8.8 million and at the end of fiscal year 2005 totaled \$31 million. At the end of June 30, 2004, construction in progress totaled \$10 million.

The following table shows the breakdown of net assets at June 30, 2006, 2005 and 2004 for both the University and Foundation.

Amounts in \$ millions	University			Foundation		
	2006	2005	2004	2006	2005	2004
Invested in Capital Assets, Net of Related Debt	\$ 226.1	\$ 207.3	\$ 205.5	\$ 1.3	\$ 1.2	\$ 1.0
Restricted						
Unexpendable	3.2	3.6	3.6	28.9	22.5	20.6
Expendable	6.5	14.3	4.8	34.8	30.2	27.3
Unrestricted	57.2	41.9	31.5	3.6	3.3	2.2
Total Net Assets	\$ 293.0	\$ 267.1	\$ 245.4	\$ 68.6	\$ 57.2	\$ 51.1

Capital and Debt Activities

During the fiscal year ended June 30, 2006, the University acquired capital assets totaling approximately \$25.4 million, including \$228 thousand in land, infrastructure, and buildings, \$2.0 million of furniture, fixtures and equipment, \$2.3 million in library materials, and \$20.9 million of construction. During the fiscal year 2006, assets that cost \$1.7 million with an undepreciated value of \$526 thousand were sold, abandoned or otherwise retired. Construction projects with a cost totaling approximately \$43.4 million were capitalized. Note 10, Capital Assets, shows the capital asset changes for the fiscal years ended June 30, 2006 and 2005.

During the year, depreciation expense, the systematic allocation of a capital asset's cost over its estimated useful life, totaling \$12.2 million was recorded in the financial statements. This is \$3.3 million less than the \$15.5 million recorded during the fiscal year ended June 30, 2005.

On June 30, 2006, the University had 8 construction projects in progress with costs totaling approximately \$8.8 million incurred to date. The remaining project costs budgeted for these projects totals \$17.8 million. These projects are being funded by restricted net assets of \$5.9 million and unrestricted net assets of \$11.9 million. A table of the construction projects is provided for your analysis.

During 2006, the University did not issue any additional bonded debt. Total bonds payable decreased \$5.4 million from \$48.3 million to \$42.9 million. Compensated absences, earned but untaken vacation and vested sick leave, increased slightly from \$6.9 million on June 30, 2005 to \$7.3 million on June 30, 2006. Capital lease obligations remained unchanged at \$11.1 million. Note 8, Long-term Liabilities, illustrate the changes in long-term liabilities for the fiscal years ended June 30, 2006 and 2005.

Project Name	Project Budget (Not Previously Capitalized)	Amount Expended (Construction in Progress)	Project Balance
Jordan Valley Innovation Center	\$ 11,393,520	\$ 5,509,716	\$ 5,883,804
Darr Agriculture Center Phase II	3,200,000	2,190,344	1,009,656
Recreation/Wellness Center	75,000	42,410	32,590
Alumni Center Leasehold Improvement	478,210	204,712	273,498
Freudenburger East Wing Renovation	1,206,518	619,137	587,381
JQH Arena	8,289,166	79,987	8,209,179
Carrington Hall Exterior Repairs	1,253,499	158,844	1,094,655
Fuel Oil Tank Replacement – Power House	710,666	30,223	680,443
Property Acquisition	10,000	10,000	
Total	\$ 26,616,579	\$ 8,845,373	\$ 17,771,206

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the University's results of operations, as well as the non-operating revenues and expenses. State appropriations are classified as non-operating revenues as required by the Governmental Accounting Standards Board accounting principles even though these revenues are used to support the operations of the University.

Revenues from operating and non-operating sources (total revenues) totaled \$243.2 million for the year ended June 30, 2006, \$231.7 million for June 30, 2005, and \$206.8 million for June 30, 2004. State Appropriations, Student Fees net of scholarships and Sales and Services of Educational and Auxiliary Activities make up the lion's share of our sources of funds. Student Fees, after subtracting \$26.1 million of scholarship allowances, were \$7.2 million more in FY 2006 than FY 2005 and generated 27.99% of these revenues (compared to 26.29% for the prior year). When comparing the same amounts to FY 2004, the increase is \$13.2 million.

Increases in Net Student Fees made up 62.6% of the \$11.5 million increase in total revenues in FY 2006 when compared with FY 2005. The State of Missouri provided 32.05% of total revenues (down from 33.62% in FY 2005 and 36.47% in FY 2004). Sales and services (residence hall, intercollegiate athletics, student union, parking, bookstore) revenues made up 17.97% of the funds in FY 2006. Our grants and contracts revenue for FY 2006 totals 13.45% of our total revenues. Approximately \$10.0 million of the \$32.7 million grants and contracts revenue in FY 2006 was generated from Pell grants. More than \$5 million of the grants and contracts revenue resulted from research and development grants and contracts.

Statement of Cash Flows

The Statement of Cash Flows reports the major sources and uses of cash and reveals further information for assessing the University's ability to meet financial obligations as they become due. Inflows and outflows of cash are summarized by operating, non-capital financing, capital and related financing, and investing activities.

Year Ended June 30, 2006			
	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 68,077,481		\$ 68,077,481
State appropriations		\$ 77,933,951	77,933,951
Grants and contracts	32,708,059		32,708,059
Sales and services	43,708,167		43,708,167
Gifts		4,154,974	4,154,974
Investment income		3,663,654	3,663,654
Other	3,241,874		3,241,874
Revenues supporting core activities	147,735,581	85,752,579	233,488,160
Expenses			
Compensation and benefits	137,986,858		137,986,858
Scholarships and benefits	7,289,934		7,289,934
Supplies and services	51,615,601		51,615,601
Utilities	6,367,494		6,367,494
Interest expense		1,741,847	1,741,847
Depreciation	12,174,425		12,174,425
Expenses associated with core activities	215,434,312	1,741,847	217,176,159
Income (loss) from core activities	(67,698,731)	84,010,732	16,312,001
Other Nonoperating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets		(141,838)	(141,838)
Capital gifts		1,312,854	1,312,854
Capital grants and contracts		8,377,541	8,377,541
Increase in net assets	\$ (67,698,731)	\$ 93,559,289	25,860,558
Net assets			
Beginning of Year			267,111,955
End of Year			\$ 292,972,513

Year Ended June 30, 2005			
	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 60,917,422		\$ 60,917,422
State appropriations		\$ 77,909,024	77,909,024
Grants and contracts	33,844,179		33,844,179
Sales and services	41,760,930		41,760,930
Gifts		4,150,553	4,150,553
Investment income		1,375,883	1,375,883
Other	3,004,944		3,004,944
Revenues supporting core activities	139,527,475	83,435,460	222,962,935
Expenses			
Compensation and benefits	132,712,981		132,712,981
Scholarships and benefits	6,212,675		6,212,675
Supplies and services	43,948,502		43,948,502
Utilities	5,661,230		5,661,230
Interest expense		1,479,059	1,479,059
Depreciation	15,457,312		15,457,312
Expenses associated with core activities	203,992,700	1,479,059	205,471,759
Income (loss) from core activities	(64,465,225)	81,956,401	17,491,176
Other Nonoperating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets		(4,570,550)	(4,570,550)
Capital gifts		575,542	575,542
Capital grants and contracts		8,184,748	8,184,748
Increase in net assets	\$ (64,465,225)	\$ 86,146,141	21,680,916
Net assets			
Beginning of Year			245,431,039
End of Year			\$ 267,111,955

Year Ended June 30, 2004			
	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 54,901,269		\$ 54,901,269
State appropriations		\$ 75,441,324	75,441,324
Grants and contracts	29,627,857		29,627,857
Sales and services	38,325,866		38,325,866
Gifts		2,655,775	2,655,775
Investment income		630,935	630,935
Other	2,762,256		2,762,256
Revenues supporting core activities	125,617,248	78,728,034	204,345,282
Expenses			
Compensation and benefits	128,761,914		128,761,914
Scholarships and benefits	6,947,508		6,947,508
Supplies and services	40,783,156		40,783,156
Utilities	5,081,510		5,081,510
Interest expense		2,565,871	2,565,871
Depreciation	15,285,345		15,285,345
Expenses associated with core activities	196,859,433	2,565,871	199,425,304
Income (loss) from core activities	(71,242,185)	76,162,163	4,919,978
Other Nonoperating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets		(79,895)	(79,895)
Capital gifts		1,738,241	1,738,241
Capital grants and contracts		754,251	754,251
Increase in net assets	\$ (71,242,185)	\$ 78,574,760	7,332,575
Net assets			
Beginning of Year			238,098,464
End of Year			\$ 245,431,039

Economic Factors That Will Affect the Future

In September 2006, Missouri State University's Board of Governors adopted its strategic plan, *Imagining and Making Missouri's Future, A Long-Range Vision and Five-Year Plan (2006–2011)*. The plan confirmed the University's statewide mission in public affairs, whose purpose is to develop educated persons while achieving five goals:

- ◆ **Democratizing Society** – Higher education will be increasingly crucial to individuals being successful participants in 21st century society, and Missouri State will accomplish this goal by ensuring access to high-quality public education for well-prepared students from diverse backgrounds. A Missouri State education will enable its graduates to live successful, mindful lives in what will be a more challenging and demanding world.
- ◆ **Incubating New Ideas** – Universities will continue to be the source of most new scientific discoveries and technological innovations. Toward that end, Missouri State will expand and focus its research investments so that its faculty and students will be able to discover, advance, and synthesize knowledge. We will become an engine for knowledge.
- ◆ **Imagining Missouri's Future** – Missouri State will be an institution where we educate one another about the crucial issues and choices that confront the modern world. We will be an institution that encourages students to weigh priorities, explore alternative views, and ultimately understand the basis for their personal values through open and informed dialogue and scholarly engagement. We will promote imaginative learning.
- ◆ **Making Missouri's Future** – Missouri State graduates should be well-informed, confident and conscientious leaders, prepared not just to take good jobs upon graduation, but to make good jobs through the application of their knowledge and the pursuit of their ambitions. Missouri State will cultivate these leaders through a breadth of opportunities and a depth of learning that comes from rigorous standards in the classroom, in research, and in extracurricular activities. Our graduates will be committed to learning throughout their lifetimes, pursuing the personal curiosities that were awakened at Missouri State.
- ◆ **Modeling Ethical and Effective Institutional Behavior** – To be true to the University's statewide mission in public affairs, we must be an institution known not just for the quality of our outcomes, but also the constant integrity of how we do our work, especially when it comes to inclusiveness, social progress, and the effective stewardship of our resources. Missouri State University will maintain and publish a Public Scorecard of important outcomes by which all stakeholders will be able to monitor and judge the institution's progress in becoming a public university that is respected for the way it conducts its business.

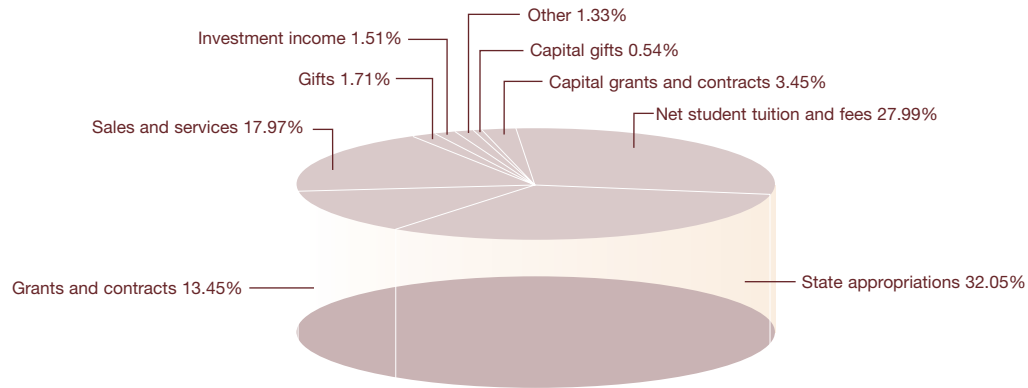
In order to accomplish these five goals, Missouri State will focus on six priorities:

- ◆ **Faculty and Staff Salaries** – Attracting and retaining outstanding faculty and staff is key to the University's success now and in the future. Unfunded growth has not allowed salaries to keep pace with competition.
- ◆ **Instructional and Research Equipment** – Annual expenditures for laboratory apparatus maintenance, repair and replacement are necessary to provide relevant educational experiences and enhance research success.
- ◆ **Distance Learning and Instructional Technology** – Missourians benefit from the availability of high-quality affordable distance learning opportunities. To be successful with distance learning, the University must have the necessary technology infrastructure.
- ◆ **West Plains Campus** – The two-year campus in West Plains serves the educational needs of seven counties in south central Missouri. To continue providing these opportunities, salaries for faculty and staff must be enhanced.
- ◆ **Library** – An outstanding library is the foundation for excellence by both faculty and students. The library also supports the expanding research enterprise.
- ◆ **Strengthening the Graduate Program** – The University provides quality graduate programs for Missouri. In order to support the expanding program, additional funds are needed for the recruitment and support of graduate assistants and the research activities that are a cornerstone of premier graduate programs.

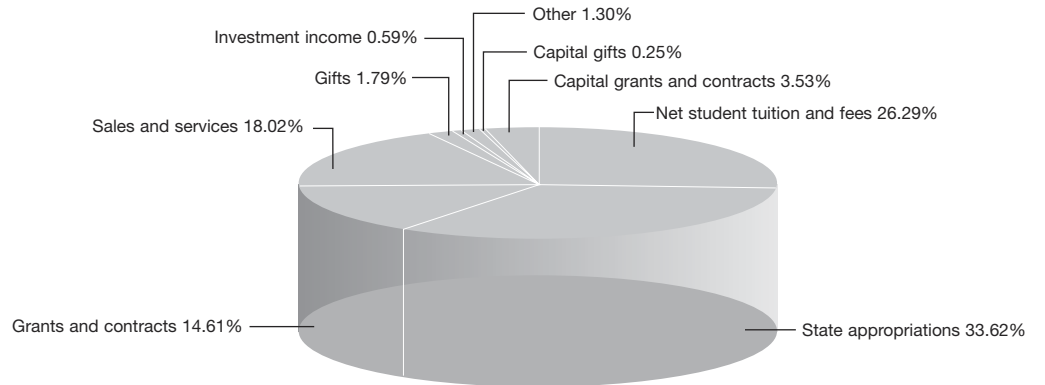
The state of Missouri appropriates funds each year to the University for operating costs and capital expenditures. For the year ending June 30, 2007, the University was appropriated an increase of two percent more than the previous year. This level of state appropriations for fiscal year 2007 (\$79.4 million) is still \$5.3 million less than the amount received in fiscal year 2001. The economy of Missouri is continuing to improve and the University is hopeful this improvement will result in additional appropriations for fiscal year 2008 and beyond. However, as in prior years, there is the possibility that state funding will fall short. When this happens, the state withholds payments to institutions of higher education and state agencies as directed by the governor. If the state were to withhold state appropriations, the University would implement various cost-saving measures to balance its budget.

Economic pressures of rising retirement plan costs and health care benefits appear to have tapered off for fiscal year 2007. Unfortunately, utility costs due to rising costs of natural gas, coal and transportation will require substantially more resources during the next few years. Rising gasoline prices will also have a negative effect on travel and other transportation expenses, such as our transit system. The University was able to fund a four percent salary increase pool through reallocations and from the increase in student fees and state appropriations.

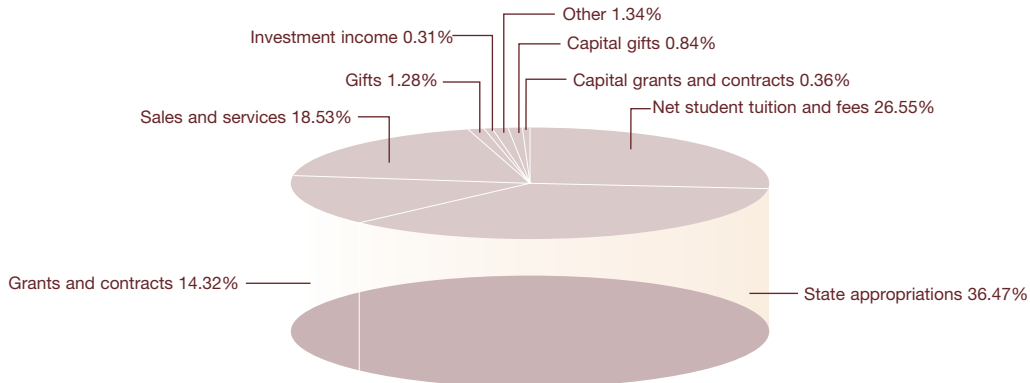
FY 2006 Operating and Nonoperating Revenues



FY 2005 Operating and Nonoperating Revenues



FY 2004 Operating and Nonoperating Revenues





Independent Accountants' Report on Financial Statements and Supplementary Information

The Board of Governors
Missouri State University
Springfield, Missouri

We have audited the accompanying basic financial statements of Missouri State University (University) and its discretely presented component unit, collectively a component unit of the State of Missouri, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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. The financial statements of Missouri State University Foundation, which comprises the financial statements of the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Missouri State University and of its discretely presented component unit as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows thereof 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 8, 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.

BKD, LLP

September 8, 2006

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Statements of Net Assets

June 30, 2006 and 2005

	University 2006	University 2005	Component Unit Foundation 2006	Component Unit Foundation 2005
Assets				
Current assets:				
Cash and cash equivalents	\$ 44,722,956	\$ 43,465,563	\$ 8,499,276	\$ 7,241,605
Restricted cash and cash equivalents	4,584,123	6,144,680		98,774
Short-term investments	27,677,777	21,116,750	2,798,785	2,851,001
Restricted short-term investments	4,429,818	2,580,241		
Funds held in trust	244,544	247,270		
Accounts receivable, net	5,636,429	5,707,757	330,925	38,909
Pledges receivable, net			1,809,388	1,629,316
Grants receivable	3,408,593	895,624		
Accrued interest receivable-unrestricted	358,825	23,302	71,167	44,896
Accrued interest receivable-restricted	43,167	56,857		249
Inventories	3,123,741	4,284,430		
Loans to students, net	625,463	602,504		
Deposits recoverable	18,657	23,500		
Prepaid expenses	1,486,830	1,164,491		
Assets for resale			714,508	342,258
Total current assets	96,360,923	86,312,969	14,224,049	12,247,008
Noncurrent assets:				
Restricted cash and cash equivalents			1,943,559	1,986,063
Pledges receivable, net			5,975,856	3,452,401
Restricted long-term investments			45,224,970	38,288,586
Investments held in trust			1,024,209	1,132,126
Other long-term investments	382,372	418,416	463,329	446,016
Appropriations due from State of Missouri		6,419		
Deferred bond issue costs and discounts	828,992	997,231		622
Loans to students, net	1,704,577	2,243,071		
Due from Foundation	199,762	199,762		
Construction in progress	8,845,373	31,309,573		
Capital assets, net	272,744,255	237,515,315	1,312,967	1,388,098
Total noncurrent assets	284,705,331	272,689,787	55,944,890	46,693,912
Total assets	381,066,254	359,002,756	70,168,939	58,940,920
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	7,339,674	7,611,394	812,367	806,543
Accrued compensated absences	4,065,215	3,484,033		
Accrued payroll	8,348,719	7,639,408		
Deferred revenue	8,385,383	7,828,466		
Deposits	540,762	527,680		
Accrued interest payable	1,224,933	816,631		583
Long-term liabilities-current portion	4,859,040	5,699,831	55,388	244,533
Insurance claims payable	962,289	1,041,064		
Total current liabilities	35,726,015	34,648,507	867,755	1,051,659
Noncurrent liabilities:				
Accrued compensated absences	3,213,391	3,448,558		
Annuity obligations			495,116	512,042
Capital lease obligations	10,998,557	10,902,115		
Revenue bonds payable	38,155,778	42,891,621		
Due to Missouri State University			199,762	199,762
Total noncurrent liabilities	52,367,726	57,242,294	694,878	711,804
Total liabilities	88,093,741	91,890,801	1,562,633	1,763,463
Net Assets				
Invested in capital assets, net of related debt	226,109,260	207,329,203	1,312,967	1,188,098
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	199,762	199,762	18,214,233	15,087,048
Loans	2,973,359	3,372,229		
Other			10,621,302	7,375,364
Expendable:				
Research	1,023,871	331,838		
Scholarships and fellowships		53,771	14,819,064	12,348,792
Loans	208,494	208,274		
Capital projects	2,845,874	11,115,843		
Debt service	2,442,458	2,600,000		
Other			20,007,199	17,868,684
Unrestricted	57,169,435	41,901,035	3,631,541	3,309,471
Total net assets	\$ 292,972,513	\$ 267,111,955	\$ 68,606,306	\$ 57,177,457

See Notes to Financial Statements

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2006 and 2005

	University 2006	University 2005	Component Unit Foundation 2006	Component Unit Foundation 2005
Operating Revenues				
Student tuition and fees	\$ 94,192,525	\$ 86,742,074	\$	\$
less scholarship allowances	(26,115,044)	(25,824,652)		
Total student tuition and fees	68,077,481	60,917,422		
Sales and services of educational departments	12,764,088	12,554,939		
Federal grants and contracts	23,479,713	24,079,148		
State and local grants and contracts	2,197,198	2,595,058		
Nongovernmental grants and contracts	7,031,148	7,169,973		
Gifts and contributions			8,090,392	7,579,650
Auxiliary enterprises:				
Residential life (net of scholarship allowances of \$2,506,584 in 2006 and \$2,563,003 in 2005)	19,265,559	18,550,247		
Bookstore (net of scholarship allowances of \$434,232 in 2006 and \$391,885 in 2005)	2,800,652	2,187,857		
Parking (net of scholarship allowances of \$180,760 in 2006 and \$202,440 in 2005)	2,783,518	2,674,227		
Athletics	5,111,811	4,871,582		
Recreational facilities	196,522	190,112		
Student Union	786,017	731,966		
Other operating revenues	3,241,874	3,004,944	1,000,622	1,072,856
Total operating revenues	147,735,581	139,527,475	9,091,014	8,652,506
Operating Expenses				
Salaries	107,653,975	104,123,489		
Benefits	30,332,883	28,589,492		
Scholarships and fellowships	7,289,934	6,212,675	1,180,034	1,052,456
Utilities	6,367,494	5,661,230	129,863	127,706
Supplies and other services	51,615,601	43,948,502	2,228,435	2,787,813
Depreciation	12,174,425	15,457,312	75,131	88,244
Total operating expenses	215,434,312	203,992,700	3,613,463	4,056,219
Operating income (loss)	(67,698,731)	(64,465,225)	5,477,551	4,596,287
Nonoperating Revenues (Expenses)				
State appropriations	77,933,951	77,909,024		
Gifts	4,154,974	4,150,553		
Investment income	3,663,654	1,375,883	5,214,889	4,515,641
Interest on capital asset-related debt	(1,741,847)	(1,479,059)	(2,625)	(10,850)
Gain (loss) on assets held in trust			(8,951)	35,002
Other nonoperating expenses and losses			(157,310)	(246,279)
Expenditures to Missouri State University			(4,154,974)	(4,150,553)
Loss on disposal of fixed assets	(141,838)	(4,570,550)		
Net nonoperating revenues	83,868,894	77,385,851	891,029	142,961
Income before other revenues, expenses, gains, or losses	16,170,163	12,920,626	6,368,580	4,739,248
Capital gifts	1,312,854	575,542		
Capital projects to Missouri State University			(1,312,854)	(575,542)
Capital grants and contracts	8,377,541	8,184,748		
Additions to permanent endowments			6,373,123	1,899,896
Increase in net assets	25,860,558	21,680,916	11,428,849	6,063,602
Net Assets				
Net assets — beginning of year	267,111,955	245,431,039	57,177,457	51,113,855
Net assets — end of year	\$ 292,972,513	\$ 267,111,955	\$ 68,606,306	\$ 57,177,457

See Notes to Financial Statements

Statements of Cash Flows

For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities		
Tuition and fees	\$ 68,727,953	\$ 62,447,808
Sales and services of educational departments	12,764,088	12,554,939
Federal grants and contracts	20,966,744	24,724,967
State grants and contracts	2,197,198	2,595,058
Nongovernmental grants and contracts	7,031,148	7,169,973
Payments to suppliers	(64,732,112)	(56,698,557)
Payments to employees	(136,931,532)	(132,186,041)
Loans issued to students	(164,931)	(883,500)
Collection of loans to students	685,309	663,463
Auxiliary enterprise charges:		
Residential life	19,265,559	18,550,247
Bookstore	2,800,652	2,187,857
Parking	2,783,518	2,674,227
Athletics	5,111,811	4,871,582
Recreational facilities	196,522	190,112
Student Union	786,017	731,966
Other receipts	3,163,099	2,717,240
Net cash used by operating activities	(55,348,957)	(47,688,659)
Cash Flows From Noncapital Financing Activities		
State appropriations	77,933,951	77,909,024
Gifts and grants received for other than capital purposes	4,154,974	4,150,553
Net cash flows provided by noncapital financing activities	82,088,925	82,059,577
Cash Flows From Capital and Related Financing Activities		
Cash received from disposal of fixed assets	384,329	893,417
Purchase of capital assets	(4,590,181)	(6,943,960)
Construction in progress	(20,058,024)	(23,268,735)
Capital appropriation		1,061,207
Capital grants and contracts	8,377,541	8,184,748
Gifts of cash	1,312,854	286,582
Proceeds from capital debt		32,850,000
Cash paid to defease outstanding debt		(30,795,000)
Cash paid for debt defeasance escrow		(1,416,102)
Proceeds from capital lease financing		10,902,115
Principal paid on capital debt and lease	(5,914,793)	(5,674,022)
Interest paid on capital debt and lease	(1,522,119)	(1,301,842)
Deferred bond issuing expense		(711,993)
Net cash used by capital and related financing activities	(22,010,393)	(15,933,585)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	30,745,925	27,865,580
Purchase of investments	(38,881,099)	(27,784,530)
Interest on investments	3,102,435	1,432,980
Net cash (used) provided by investing activities	(5,032,739)	1,514,030
Net (decrease) increase in cash and cash equivalents	(303,164)	19,951,363
Cash and cash equivalents—beginning of year	49,610,243	29,658,880
Cash and cash equivalents—end of year	\$ 49,307,079	\$ 49,610,243

Statements of Cash Flows (continued)

For the Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (67,698,731)	\$ (64,465,225)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	12,174,425	15,457,312
Change in operating assets and liabilities		
Accounts receivable	71,328	271,521
Loans to students	520,378	(220,037)
Funds held in trust	2,726	(247,270)
Appropriations due from State of Missouri	6,419	(6,419)
Federal and state grant receivable	(2,512,969)	645,819
Inventories	1,160,689	(509,003)
Prepaid expenses	(322,339)	(550,747)
Accounts payable and accrued expenses	(297,433)	183,600
Accrued compensated absences	346,015	341,523
Accrued payroll	709,311	185,417
Deferred revenue	556,917	1,512,055
Deposits	13,082	499
Insurance claims payable	(78,775)	(287,704)
Net cash used by operating activities	\$ (55,348,957)	\$ (47,688,659)
Supplemental Cash Flows Information		
Increase in accounts payable incurred for capital asset purchases	\$ 25,713	\$ 1,889,864
Gifts in kind of capital assets		\$ 288,960

See Notes to Financial Statements

Notes to Financial Statements June 30, 2006 and 2005

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Institution

Missouri State University, previously Southwest Missouri State University, (the University) is a state assisted University with campuses in Springfield, West Plains and Mountain Grove, Missouri. An eight-member Board of Governors, appointed by the Governor and confirmed by the Senate of the State of Missouri, governs the University, a component unit of the State of Missouri.

Component Unit

The Missouri State University Foundation Inc. (the Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation's primary function is to raise and hold funds to support the University and its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the University.

Although the University does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the University. Because these restricted 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.

During the years ended June 30, 2006 and 2005, the Foundation provided \$5,467,828 and \$4,726,095, respectively, of support to the University. Complete financial statements of the Foundation may be obtained from its Administrative Office at the following address: 901 S. National, Springfield, MO 65897.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the University's financial reporting entity for these differences.

Basis of Presentation

The financial statements have been prepared to incorporate all fund groups utilized internally by the University. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB. Pursuant to GASB Statement No. 20, these reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Measurement Focus and Basis of Accounting

The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place while those from government-mandated nonexchange transactions (principally state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Government-mandated nonexchange transactions that are not program specific such as state appropriations, gifts, investment income, and interest on capital asset-related debt are included in nonoperating revenues and expenses. Revenues for nonexchange transactions are recognized when all eligibility requirements have been satisfied. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating revenues of the University consist of student fees, sales and services of educational activities, grants and contracts that are exchange transactions and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities and state appropriations are components of nonoperating income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents.

Investments

The University accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

Notes to Financial Statements June 30, 2006 and 2005

Student Accounts and Notes Receivable

Student accounts receivable consists of fees charged to students and charges for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts of \$1,778,877, and \$1,998,713 at June 30, 2006 and 2005, respectively. The University writes off accounts that have no activity within the last year and are at least 90 days past due.

Student accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Required student fees and residence hall charges are due at the beginning of the semester unless the student is enrolled in the Deferred Payment Plan. Fee payment deadlines vary depending upon when the student registers. If the required student fees are not paid in full by that date, a finance charge is assessed on the remaining balance. Miscellaneous charges are due when billed. A finance charge is assessed on the next statement date after a miscellaneous charge is first billed. Charges that are past due without payments for one year and have had no response to the due diligence process are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist of amounts due under the Federal Perkins Loan Program and institutional loan programs and are stated at their outstanding principal amount, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need for both Perkins and institutional loans and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. Principal and interest payments on Federal Perkins Loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for doubtful notes which is based upon a review of outstanding loans, historical collection information and existing economic conditions. Interest income is recorded as received which is not materially different from the amount that would have been recognized on the accrual basis. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent institutional loans are written off based on individual credit evaluation and specific circumstances of the student. Loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$1,393,839 and \$1,343,284 at June 30, 2006, and 2005, respectively.

Inventories

Nonauxiliary inventories consist of supplies for use by the University and merchandise available for sale consisting of art supplies and pharmacy stock. These inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Auxiliary enterprises inventories consist of merchandise available for sale at the bookstore, student union and recreation facilities. These inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Land is stated at cost. Buildings and improvements are stated at June 30, 1953, replacement costs with subsequent additions stated at cost. Library books are stated at June 30, 1978, estimated historical cost, with subsequent additions stated at cost.

Building additions and improvements with a cost in excess of \$200,000 are capitalized if the life of the building is extended. Equipment with a cost in excess of \$5,000 with a useful life greater than one year is capitalized. Donated assets are transferred from the Missouri State University Foundation and are recorded at the fair value at the date of donation to the Foundation. Infrastructure assets are included in the financial statements and are depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. Expenditures for construction in progress are capitalized when the project is completed. The following estimated useful lives are being used by the University:

Land improvements	20 years
Buildings and improvements	7–40 years
Furniture, fixtures and equipment	3–15 years
Infrastructure	20 years
Library materials	10 years

The University capitalizes interest costs as a component of construction in progress, based on either the weighted-average rates paid for long-term borrowing or the rates associated with specific debt. Interest expense is capitalized net of interest income earned on resources set aside for this purpose. Total interest capitalized for the year ended June 30, 2006 was \$571,775 and for the year ended June 30, 2005 was \$435,233.

Foundation Real Estate and Equipment

Buildings, improvements and equipment are depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method. Real estate and equipment includes tenant remodeling improvements of \$74,695 and equipment of \$442,208. Real estate and equipment also includes \$220,000 for a residence on the West Plains campus used to house administration. Depreciation for the residence for the years ended June 30, 2006 and 2005, totaled \$5,263 and is included in institutional support.

Foundation Valuation of Gifts of Property

Gifts of real and personal property are reported at their estimated fair value as of the date the property is received. Fair value is determined either by a staff member of the University with expertise in the valuation of the particular property, or by appropriate documentation furnished by the donor.

Notes to Financial Statements June 30, 2006 and 2005

Deferred Revenue

Deferred revenue represents unearned student fees and advances on program tickets.

Compensated Absences

It is the University's policy to permit employees to accumulate earned but unused sick and vacation pay benefits using the vesting method. Accrued vacation is the amount earned by all eligible employees through June 30. All eligible employees can accrue an unlimited amount of sick leave. Employees who retire under one of the University's public retirement plans will be paid for 40 percent of any accumulated unused sick leave rounded up or down to the nearest full day (up to a maximum of 48 days) and the remaining unused sick leave will be reported to Missouri State Employees' Retirement System (MOSERS) for inclusion as creditable service in accordance with MOSERS' policies regarding the reporting of unused sick leave. Accrued sick leave is based on a historic factor with these policies taken into consideration.

Deferred Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method. Total amortization for the year ended June 30, 2006 was \$383,202 and for the year ended June 30, 2005, was \$334,519.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt — This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - nonexpendable — Nonexpendable restricted net assets consist of the federal portion of the Federal Perkins Loan program and endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The endowment funds represent the amount of endowment given to the University before the organization of the Missouri State University Foundation.

Restricted net assets - expendable — Restricted expendable net assets include resources in which the University is legally and contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets — Unrestricted net assets represent resources derived from student fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. Auxiliary enterprises, which are substantially self-supporting activities, provide services for students, faculty and staff.

The Foundation's net assets, which under FASB standards are reported as either unrestricted, temporarily restricted, or permanently restricted based on the presence or absence of donor restrictions, have been presented based on the GASB classifications with like characteristics.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) interest on student loans, and (4) grants and contracts meeting certain criteria.

Nonoperating revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as grants, gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Funds Accounting*, and GASB No. 34, such as state appropriations and investment income.

Federal Financial Assistance Programs

The University participates in the following federal student financial aid programs: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Family Education Loan, Federal Direct Loan, and Federal Perkins Loan Programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U. S. Office of Management and Budget Revised Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Compliance Supplement*.

Scholarship Allowances

Student tuition and fees and auxiliary enterprise revenues, presented net of scholarships and fellowships of \$29,236,620 and \$28,981,980 at June 30, 2006 and 2005, respectively, are applied to student accounts, while stipends and other payments made directly to students are reported as scholarships and fellowships expense. Net tuition and fees, except for summer session, are recognized as revenues as they are assessed. The portion of summer session tuition and fees applicable to the following fiscal year is deferred.

Notes to Financial Statements June 30, 2006 and 2005

Bad Debt Expense

Bad debt expense is \$428,225 and \$1,591,340 for the years ended June 30, 2006 and 2005, respectively, and is shown as a reduction of tuition and other fee revenues.

Income Taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code; however, income generated from activities unrelated to the University's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B).

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on net earnings.

Note 2: Deposits and Investments

Deposits

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 or 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 and 2005, none of the University's bank balances held by the current depository, a United States financial institution, were exposed to custodial credit risk. All of these domestic deposits were fully collateralized at the end of fiscal year 2006 and 2005. The funds held by international banks for the University's foreign education activities were not collateralized. The University is exposed to custodial credit risk for these deposits as follows:

	2006	2005
Uninsured and uncollateralized	\$ 467,778	\$ 295,456

Foreign Currency Risk. This risk relates to adverse affects on the fair value of a deposit from changes in exchange rates. The University does not have any policies related to foreign currency risk. The University has \$467,778 and \$295,456 of foreign deposits denominated in Chinese Yuan and the Hong Kong Dollar at June 30, 2006 and 2005, respectively.

Investments

The University may invest in United States Treasury and Federal Agency securities, repurchase agreements, corporate bonds, commercial paper, and bankers acceptances.

At June 30, 2006 and 2005, the University had the following investments and maturities:

June 30, 2006					
Maturities in Years					
Type	Fair Value	Less than 1	1–5	6–10	More than 10
U.S. Treasury obligations	\$ 382,372	\$	\$ 85,971	\$ 296,401	
U.S. agencies obligations	32,107,595	32,107,595			
	\$ 32,489,967	\$ 32,107,595	\$ 85,971	\$ 296,401	

June 30, 2005					
Maturities in Years					
Type	Fair Value	Less than 1	1–5	6–10	More than 10
U.S. Treasury obligations	\$ 418,416	\$	\$ 103,108	\$ 315,308	
U.S. agencies obligations	28,658,990	28,658,990			
	\$ 29,077,406	\$ 28,658,990	\$ 103,108	\$ 315,308	

Interest Rate Risk. As a means of limiting its exposure to fair value losses, the University’s investment policy limits the type of investments to those which are not exposed to fair value losses arising from increasing interest rates. The maturities are structured to meet the cash flow needs of the University. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk. Investment trading in response to changes in market value or market direction is warranted under active portfolio managements. Interest rate risk is not specifically discussed in the University’s investment policy.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the University’s policy to limit its investment in bankers acceptances to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2006 and 2005, the University’s investments not directly guaranteed by the U.S. government were rated either A1+ or Aaa by Standard & Poor’s and/or either P1 or Aaa by Moody’s Investors Service and/or F1+ or Aaa by Fitch Investors Service.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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. The University had no investments exposed to custodial credit risk at the end of June 30, 2006 or 2005.

Notes to Financial Statements June 30, 2006 and 2005

Concentration of Credit Risk. The University's investment places maximum percentages on the total investment funds held in each type of instrument. The type of investments that can be held in the University's portfolio include U.S. Treasury and Federal Agency Securities, repurchase agreements, corporate bonds, commercial paper and bankers acceptance. It is the University's policy that no more than 15% of the total portfolio will be held in any one bank. There are no restrictions on direct obligations of the U.S. Government, U.S. Government Agency issues or U.S. Government guaranteed securities.

There are no restrictions for repurchase agreements which are fully collateralized by U.S. Government securities. No more than 20% of the portfolio will be held in corporate bonds or bankers acceptances with no more than 5% of the portfolio to be held with any one issuer. No more than 30% of the portfolio will be held in commercial paper, with no more than 5% of the portfolio to be held with any one issuer.

Foreign Currency Risk. This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. The University's exposure to foreign currency risk did not exist at June 30, 2006 or 2005 because there were no foreign investments in the University's investment portfolio at any time during these two fiscal years.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net assets as follows:

	2006	2005
Carrying Value:		
Deposits	\$ 49,307,079	\$ 44,648,244
Investments	32,489,967	29,077,406
	\$ 81,797,046	\$ 73,725,650

Included in the following statements of net assets captions

	2006	2005
Cash and cash equivalents	\$ 44,722,956	\$ 43,465,563
Restricted cash and cash equivalents	4,584,123	6,144,680
Short-term investments	27,677,777	21,116,750
Restricted short-term investments	4,429,818	2,580,241
Long-term investments	382,372	418,416
Cash, cash equivalents and investments total	\$ 81,797,046	\$ 73,725,650

Investment Income

Investment income for the years ended June 30, 2006 and 2005, consisted of:

	2006	2005
Interest and dividend income	\$ 3,422,760	\$ 1,424,183
Net increase (decrease) in fair value of investments	240,894	(48,300)
	\$ 3,663,654	\$ 1,375,883

Foundation Pooled Investments

Funds treated as endowment by the Foundation are managed as a pooled investment fund. The various subsidiary accounts purchase shares in the investment pool when additions are received. The investment pool is operated on a unit market basis. The following schedule summarizes data related to the investment pool as of and for the years ended June 30:

	2006	2005
Pooled investment at market value	\$ 46,790,891	\$ 39,965,318
Number of pool shares	178,945	162,898
Market value per pool share	\$ 261.48	\$ 245.34
Time weighted total return	11.1%	12.0%
Interest and dividend earnings	\$ 354,859	\$ 357,394
Net gains	\$ 4,422,990	\$ 3,926,702

Endowment assets consist of the following as of June 30, 2006 and 2005:

Pooled assets from above	\$ 46,790,891	\$ 39,965,318
Non-pooled endowment assets	5,264,823	2,744,645
Total endowment assets	\$ 52,055,714	\$ 42,709,963

Notes to Financial Statements June 30, 2006 and 2005

Foundation Investments and Investment Return

Investments in equity securities and debt securities are carried at fair value.

While the Foundation does not invest directly in derivative securities, it may, through investment holdings with various money managers, indirectly hold these securities. The Foundation has significant investments in marketable securities, which are subject to price fluctuation. These instruments could potentially subject the Foundation to significant concentrations of market risk. This risk is controlled through a diversified portfolio and regular monitoring procedures.

Investments are summarized as follows at June 30:

	2006	2005
Accrued income	\$ 153,616	\$ 69,285
Money market accounts	5,449,024	5,229,522
Mutual funds	36,975,543	31,527,607
Real estate	3,287,084	2,687,115
U.S. Treasury securities	2,360,118	1,925,352
Corporate bonds	1,554,641	1,996,899
Hedge funds	3,846,369	3,002,615
Other	3,500	3,500
	<u>\$ 53,629,895</u>	<u>\$ 46,441,895</u>
Investment return consists of the following:		
Investment income	\$ 845,315	\$ 601,333
Net realized and unrealized gains on investments reported at fair value	4,369,574	3,914,308
	<u>\$ 5,214,889</u>	<u>\$ 4,515,641</u>

Investments held in trust are deposited with A. G. Edwards' balanced fund or are in municipal bonds and other investments.

Investment expenses incurred for the years ended June 30, 2006 and 2005 totaled \$119,742 and \$120,363, respectively.

Note 3: Foundation Pledges Receivable

Pledges receivable for the Foundation are a credit risk to the extent donors choose not to complete their pledge payments. Pledges receivable consist of the following unconditional promises to give at June 30:

	2006	2005
Due in less than one year	\$ 3,828,016	\$ 2,509,160
Due in one to five years	4,164,169	2,379,241
Due in more than five years	641,613	732,036
	<hr/> 8,633,798	<hr/> 5,620,437
Less: Allowance for doubtful accounts	217,805	155,839
Unamortized discount	630,749	382,881
	<hr/> 848,554	<hr/> 538,720
	<hr/> <hr/> \$ 7,785,244	<hr/> <hr/> \$ 5,081,717

Note 4: Related Party Transactions

In 1982, the University’s Board of Regents authorized the transfer of its endowment fund of \$199,762 to the Foundation for management purposes. This balance is shown on the University’s statements of net assets as noncurrent assets. All investment earnings from these funds have been recorded in the accounting records of the Foundation and are not shown on the University’s financial statements. All endowment additions since 1982, including gifts and other income, have been recorded in the Foundation’s accounting records. The total endowment fund managed by the Foundation at June 30, 2006, is \$52,055,714 and at June 30, 2005 was \$42,709,963.

Additionally, the Foundation owed the University approximately \$488,000 and \$784,000 at June 30, 2006 and 2005, respectively for pledges receivable and expenses paid by the University for costs to be funded by the Foundation. The balance is shown on the University’s statements of net assets as current assets, and is included in accounts receivable.

Note 5: Pension and Post-Retirement Plan

The University participates in the Missouri State Employees’ Retirement System (MOSERS), a cost-sharing, multiple-employer, defined-benefit, public employee retirement system. MOSERS is administered by an 11-member Board of Trustees. A publicly available financial report that includes the financial statements and required supplemental information is issued. This report may be obtained by writing to P.O. Box 209, Jefferson City, MO 65102, or calling (573) 751-2342.

MOSERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute which may be changed by the Missouri legislature with concurrence of the Governor.

The University was required to contribute 12.59, 10.64 and 9.35 percent of eligible salaries for the years ended June 30, 2006, 2005 and 2004, respectively. No employee contributions are required or permitted. Contributions, which equaled the contribution requirements for years ended June 30, 2006, 2005, and 2004 were \$10,734,570, \$9,057,228, and \$7,843,524, respectively.

Notes to Financial Statements June 30, 2006 and 2005

Beginning July 1, 2002, all faculty on full-time, regular appointment are enrolled in the College and University Retirement Plan (CURP) if they have not previously been enrolled in MOSERS. CURP is a non-contributory 401(a) defined contribution retirement plan which uses TIAA-CREF as its third party administrator. The University was required to contribute 7.81%, 7.57% and 7.47% of the participants salary to CURP for the years ended June 30, 2006, 2005 and 2004 respectively. The total contributed for years ended June 30, 2006, 2005, and 2004 was \$723,167, \$490,395, and \$354,272, respectively. CURP provides a retirement program which offers interstate portability, immediate vesting, and no minimum service requirement. Contributions made by the University are self-directed by participants into their selected individual accounts. After participating in CURP for at least six years, a faculty member may elect to become a member of the Missouri State Employees' Retirement System (MOSERS).

In addition to the pension benefits described above, the Board of Governors has authorized the University to provide post-retirement health care benefits to enrolled employees who are eligible for normal retirement under either MOSERS or the Public School Retirement System (PSR), who have applied for and have been accepted to the program, and who have retired by a specified date. Currently, a limited number of retirees meet those eligibility requirements. The University pays the retirees' health insurance premiums through the month of their 65th birthday. Expenditures for post-retirement health care benefits are recognized as the premiums are paid and are not considered material. This program is currently closed to additional participants.

Note 6: Risk Management

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, dental and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to general liability, workers' compensation, natural disasters and employee health benefits.

Settled claims have not exceeded this commercial coverage in any of the three preceding years. Additional coverage is provided through the State Self Insurance program, through the Risk Management Division of the Department of Administration Services, in Jefferson City. The State of Missouri self-insures the workers' compensation benefits for all state employees, including University employees. Claims are administered by the Missouri Office of Administration, Risk Management Section.

Liabilities for employee health and dental benefits are included in liabilities for claims incurred but not yet reported or paid. The liability is estimated based on subsequent payments and historical information. Changes in the balance of claims liabilities for the years ended June 30, 2006 and 2005, is summarized as follows:

	2006	2005
Balance at beginning of year	\$ 1,041,064	\$ 1,328,768
Health and dental claims	10,997,148	10,902,996
Health insurance payments	(11,075,923)	(11,190,700)
Balance at end of year	<u>\$ 962,289</u>	<u>\$ 1,041,064</u>

Note 7: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2006 and 2005 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2006 Total	2005 Total
Instruction	\$ 54,567,801	\$ 15,960,653	\$ 320,395	\$ 15,994	\$ 9,775,157	\$	\$ 80,640,000	\$ 74,370,814
Research	3,964,129	1,095,495	76,893	2,012	5,358,504		10,497,033	9,250,437
Public service	3,439,694	1,093,891	151,138	116,103	3,625,423		8,426,249	8,443,658
Academic support	12,851,911	4,127,298	139,695	1,329	6,249,270		23,369,503	21,743,324
Student services	6,824,410	2,132,467	185,071		5,177,952		14,319,900	12,568,699
Institutional support	11,443,616	1,075,018	34,459	12,119	2,554,692		15,119,904	16,067,823
Operation and maintenance of plant	4,841,535	1,772,469	1,432	3,849,019	4,681,316		15,145,771	11,601,056
Scholarships and fellowships	182,237	5,772	5,060,985		49,330		5,298,324	4,462,789
Auxiliary enterprises	9,538,642	3,069,820	1,319,866	2,370,918	14,143,957		30,443,203	30,026,788
Depreciation						12,174,425	12,174,425	15,457,312
Total operating expenses for fiscal year 2006	<u>\$ 107,653,975</u>	<u>\$ 30,332,883</u>	<u>\$ 7,289,934</u>	<u>\$ 6,367,494</u>	<u>\$ 51,615,601</u>	<u>\$ 12,174,425</u>	<u>\$ 215,434,312</u>	
Total operating expenses for fiscal year 2005	<u>\$ 104,123,489</u>	<u>\$ 28,589,492</u>	<u>\$ 6,212,675</u>	<u>\$ 5,661,230</u>	<u>\$ 43,948,502</u>	<u>\$ 15,457,312</u>		<u>\$ 203,992,700</u>

Notes to Financial Statements June 30, 2006 and 2005

Note 8: Long-term Liabilities

Long-term debt and other obligations consist of the following as of June 30, 2006:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	\$ 1,985,733	\$	\$ 126,968	\$ 1,858,765	\$ 130,805
2002	A	1.45 to 3.2%	2010	11,200,000		2,740,000	8,460,000	2,810,000
2005	A	2.0 to 4.05%	2025	32,850,000		2,460,000	30,390,000	1,665,000
				46,035,733		5,326,968	40,708,765	4,605,805
Classroom Building 2002		1.35 to 4.35%	2016	4,765,000		335,000	4,430,000	345,000
Total Bonds Payable				50,800,733		5,661,968	45,138,765	4,950,805
Unamortized loss on prior bond defeasance				(2,462,106)		(214,962)	(2,247,144)	(214,962)
Total Bonds Payable less unamortized loss				48,338,627		5,447,006	42,891,621	4,735,843
Compensated absences				6,932,591	4,964,679	4,618,664	7,278,606	4,065,215
Capital lease obligations		4.392%		11,154,940	219,639	252,825	11,121,754	123,197
Total other obligations				18,087,531	5,184,318	4,871,489	18,400,360	4,188,412
Total long-term debt and other obligations				\$ 66,426,158	\$ 5,184,318	\$ 10,318,495	\$ 61,291,981	\$ 8,924,255

Long-term debt and other obligations consist of the following as of June 30, 2005:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	\$ 2,108,976	\$	\$ 123,243	\$ 1,985,733	\$ 126,968
1997	A	4.2 to 5.1%	2018	14,920,000		14,920,000		
1999	A	4.0 to 5.2%	2020	17,515,000		17,515,000		
2002	A	1.45 to 3.2%	2010	13,885,000		2,685,000	11,200,000	2,740,000
2005	A	2.00 to 4.05%	2025		32,850,000		32,850,000	2,460,000
				48,428,976	32,850,000	35,243,243	46,035,733	5,326,968
Classroom Building 2002		1.35 to 4.35%	2016	5,090,000		325,000	4,765,000	335,000
Total Bonds Payable				53,518,976	32,850,000	35,568,243	50,800,733	5,661,968
Unamortized loss on prior bond defeasance				(731,165)	(2,203,750)	(472,809)	(2,462,106)	(214,962)
Total Bonds Payable less unamortized loss				52,787,811	30,646,250	35,095,434	48,338,627	5,447,006
Compensated absences				6,591,068	4,164,016	3,822,493	6,932,591	3,484,033
Capital lease obligations		4.392% to 5.9%		1,153,604	10,902,115	900,779	11,154,940	252,825
Total other obligations				7,744,672	15,066,131	4,723,272	18,087,531	3,736,858
Total long-term debt and other obligations				\$ 60,532,483	\$ 45,712,381	\$ 39,818,706	\$ 66,426,158	\$ 9,183,864

The University has bonds, notes, and capital lease obligations due in the total amount of \$54,013,375 and \$59,493,567 as of June 30, 2006 and 2005, respectively. These bonds and notes bear interest at rates ranging from 1.35 percent to 5.9 percent annually, and mature at various dates through fiscal year 2025. The revenue bonds are payable, both as to principal and interest, solely and only out of net income arising from the operation of the various revenue funds.

The revenue bond issues and the 1988 Housing System note payable require the University to establish and fund various Debt Service Reserve Funds. At June 30, 2006 and 2005, all Debt Service Reserve Funds have been fully funded. The University also is required to maintain certain rate covenants related to the Auxiliary Enterprise System bonds.

During 1991, revenue bonds totaling \$8,106,000 were defeased. At June 30, 2006 and 2005, the current outstanding balance of these defeased bonds was \$251,000, and \$331,000, respectively.

During 1998, Recreation Building 1991 bonds of \$4,475,000 and Parking System 1993 bonds of \$2,990,000 were defeased. At June 30, 2006 and 2005, the current outstanding balance of these defeased bonds was \$3,490,000 and \$4,035,000, respectively.

During 2003, Auxiliary System bonds, series 1993A and 1993B of \$5,295,000 and \$14,235,000 respectively and Classroom Building 1996 bonds of \$5,155,000 were defeased. At June 30, 2006 and 2005, the current outstanding balance of these defeased bonds was \$15,685,000 and \$18,840,000, respectively.

During 2005, Auxiliary System bonds series 1997A and 1999A of \$13,960,000 and \$16,835,000 respectively were defeased. At June 30, 2006 and 2005, the current outstanding balance of these defeased bonds was \$29,075,000 and \$30,795,000, respectively.

In accordance with accounting principles generally accepted in the United States of America, the outstanding balances of the defeased bonds are not reflected on the statement of net assets of the University.

The principal and interest requirements on notes and bonds payable to maturity at June 30, 2006 are as follows:

	Principal	Interest	Total
2007	\$ 4,950,805	\$ 1,375,768	\$ 6,326,573
2008	3,364,758	1,277,284	4,642,042
2009	3,453,832	1,188,122	4,641,954
2010	3,558,028	1,089,013	4,647,041
2011	3,517,350	982,399	4,499,749
2012–2016	17,596,315	3,184,111	20,780,426
2017–2021	7,717,677	537,707	8,255,384
2022–2025	980,000	80,560	1,060,560
	<u>\$ 45,138,765</u>	<u>\$ 9,714,964</u>	<u>\$ 54,853,729</u>

Notes to Financial Statements June 30, 2006 and 2005

Capital Lease Obligations

The University is obligated under leases accounted for as capital leases. Assets under capital leases at June 30, 2006 and 2005, totaled \$15,997,672 and \$16,403,491, respectively, net of accumulated depreciation of \$1,501,020 in 2006 and 2005. The following is a schedule by year of future minimum lease payments under the capital leases including interest at the rate of 4.392% together with the present value of the future minimum lease payments as of June 30, 2006:

Year ending June 30, 2006

2007	\$ 1,101,869
2008	1,101,869
2009	1,101,869
2010	1,096,869
2011 – 2015	5,283,983
2016 – 2020	5,259,344
2021 – 2025	1,051,869
Total minimum lease payments	15,997,672
Less amount representing interest	4,875,918
Present value of future minimum lease payments	<u>\$11,121,754</u>

Foundation Leases

Noncancelable leases for space in the Kenneth E. Meyer Alumni Center expire in various years through 2008. Several of these leases contain renewal options for periods ranging from one to three years. Future minimum lease income at June 30, 2006, is as follows: 2007–\$515,645; 2008–\$67,132

Note 9: Auxiliary Enterprise System

The outstanding debt of the University consists of Auxiliary Enterprise System Revenue Bonds. The most recent Auxiliary Enterprise System Revenue Bonds were issued in accordance with a Resolution adopted by the Board of Governors in March 2005. The Resolution provides that the bonds are payable from the gross income and revenues derived from the housing, parking and recreational facilities serving the University and its students. The housing facilities consist of 14 residence halls, four dining facilities, and the Student Union Building. The parking facilities consist of all facilities, lots and equipment for the parking of vehicles and the movement of passengers around campus. The recreational facilities include the Hammons Student Center, the Plaster Sports Complex and the athletic programs of the University. The Auxiliary Enterprise System also includes the University's Bookstore and certain auxiliary operations at the University's West Plains campus.

Financial information for the Auxiliary Enterprise System for June 30, 2006 and 2005 is summarized as follows:

	2006	2005
Condensed Statement of Net Assets		
Assets:		
Current assets	\$ 22,159,231	\$ 21,949,467
Noncurrent assets	91,018,188	92,255,451
Total assets	113,177,419	114,204,918
Liabilities:		
Current liabilities	9,316,838	12,938,826
Noncurrent liabilities	34,079,459	38,134,289
Total liabilities	43,396,297	51,073,115
Net assets:		
Invested in capital assets, net of related debt	55,001,120	45,160,831
Restricted -		
Expendable	2,725,522	7,740,237
Unrestricted	12,054,480	10,230,735
Total net assets	69,781,122	63,131,803
Total liabilities and net assets	\$ 113,177,419	\$ 114,204,918

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2006	2005
Operating revenues	\$ 30,984,211	\$ 31,821,801
Operating expenses:		
Depreciation	2,811,929	1,796,108
All other operating expenses	30,443,204	30,089,856
Total operating expenses	33,255,133	31,885,964
Operating income (loss)	(2,270,922)	(64,163)
Nonoperating revenues (expenses)	3,370,558	9,111,899
Excess (deficit) of revenues over expenses	1,099,636	9,047,736
Transfer from other University units	5,549,683	3,951,961
Increase in net assets	6,649,319	12,999,697
Net assets, beginning of year	63,131,803	50,132,106
Net assets, end of year	\$ 69,781,122	\$ 63,131,803

Notes to Financial Statements June 30, 2006 and 2005

Note 10: Capital Assets

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

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 29,072,604	\$	\$ 27,020	\$ 183,914	\$ 29,229,498
Infrastructure	15,307,915			18,478,174	33,786,089
Buildings	280,938,574	227,910	745,319	24,741,534	305,162,699
Furniture, fixtures, and equipment	26,109,814	1,971,292	916,714		27,164,392
Library materials	37,435,520	2,054,742			39,490,262
Capitalized collections	119,892	271,966			391,858
Construction in progress	31,309,573	20,939,422		(43,403,622)	8,845,373
Total	420,293,892	25,465,332	1,689,053		444,070,171

Less accumulated depreciation:

Infrastructure	7,113,591	773,120			7,886,711
Buildings	97,116,536	7,531,648	411,482		104,236,702
Furniture, fixtures, and equipment	20,122,769	1,943,939	751,404		21,315,304
Library materials	27,056,162	1,913,729			28,969,891
Capitalized collections	59,946	11,989			71,935
Total accumulated depreciation	151,469,004	12,174,425	1,162,886		162,480,543
Capital assets, net	\$ 268,824,888	\$ 13,290,907	\$ 526,167		\$ 281,589,628

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 28,666,254	\$ 406,350	\$	\$	\$ 29,072,604
Infrastructure	13,553,449	288,961		1,465,505	15,307,915
Buildings	279,114,509	10,253		1,813,812	280,938,574
Furniture, fixtures, and equipment	51,599,856	4,869,714	31,083,217	723,461	26,109,814
Library materials	35,439,831	1,995,689			37,435,520
Capitalized collections	119,892				119,892
Construction in progress	10,056,566	25,255,785		(4,002,778)	31,309,573
Total	418,550,357	32,826,752	31,083,217		420,293,892

Less accumulated depreciation:

Infrastructure	6,492,273	621,318			7,113,591
Buildings	89,806,019	7,310,517			97,116,536
Furniture, fixtures, and equipment	40,092,085	5,649,934	25,619,250		20,122,769
Library materials	25,192,608	1,863,554			27,056,162
Capitalized collections	47,957	11,989			59,946
Total accumulated depreciation	161,630,942	15,457,312	25,619,250		151,469,004
Capital assets, net	\$ 256,919,415	\$ 17,369,440	\$ 5,463,967		\$ 268,824,888

The capitalization policy for furniture, fixtures and equipment was increased from \$1,000 to \$5,000 effective June 30, 2005. The value of equipment was reduced by \$27,133,648 for items less than \$5,000 as of June 30, 2005. Accumulated depreciation for these items was reduced by \$22,004,200, for a net loss of \$5,129,448 which is included in the loss on disposal of fixed assets in the statements of revenue, expenses and changes in net assets.

Note 11: Commitments and Contingencies

Claims and Litigation

As is common with most large governmental entities, various parties have asserted claims against the University through litigation and by other means. The University is vigorously defending each of these matters, the eventual outcomes of which management presently believes will not be material.

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

Construction Commitments

The University has outstanding commitments for various construction contracts at June 30, 2006, including a major outstanding contract of approximately \$9 million at June 30, 2006, related to the Jordan Valley Innovation Center. Of this contract, approximately \$6.6 million is still to be incurred at June 30, 2006.

Conditional Pledge – Foundation

In 2006, the Foundation received a gift agreement for \$25,000,000 from Mr. John Q. Hammons that is to be used for a proposed University arena, the JQH Arena. This gift is conditional upon the Board of Governors of Missouri State University entering into a contract for project construction on or before December 31, 2006. ■

Private Giving

It was a tremendous year for the Missouri State University Foundation. Alumni and friends continued to generously support the University in numerous ways. Donors contributed 34,582 gifts for a record \$11,826,286 (cash basis) in outright gifts. An additional \$446,143 was recorded in deferred gift commitments during the fiscal year. This kind of commitment and participation of alumni, faculty, staff, students, parents, businesses, foundations, and the community allow the University and its students many opportunities to advance and excel.

Growth in the endowment was certainly a highlight for this past fiscal year. Endowment earnings for the year were 11.1 percent, bringing the market value of the endowment pool up to \$46,790,891. Significant gifts and pledges to endowments for chairs, professorships, and scholarships, were added in fiscal year 2006, increasing the ability of the University to strengthen opportunities for students and faculty.

Gifts this past fiscal year came in several shapes and sizes. A large estate gift was received for the benefit of the Music Department, and will provide ongoing support for a concert series and scholarship. An extensive gift of Frisco Railroad materials, including books, postcards, and railroad artifacts was added to the Ozarkiana Collection in the Duane G. Meyer Library. A number of scholarships were established to benefit students at the West Plains campus, including two restricted scholarships for the new Associate of Applied Science degree program in Fire Science Technology. The Department of Defense and Strategic Studies received gifts from several companies in the Washington D.C. area to assist with an expanded curriculum, classroom and faculty support as the department moved their offices to Northern Virginia. Other annual gifts continued for critical support of programs in the areas of KSMU, Ozarks Public Television, The Performance Society and The Bears Fund.

Whatever the gift may be, there is no such thing as a small gift, because they all make a difference. Gifts received in Fiscal Year 2006 were for the benefit of students, academic programs, university centers of excellence, all three campuses, facilities and faculty. Donor support often provides the extra edge or fulfills an opportunity that would otherwise be missed. Alumni, students, faculty, staff, parents and friends have made 2006 a banner year at Missouri State University. ■

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