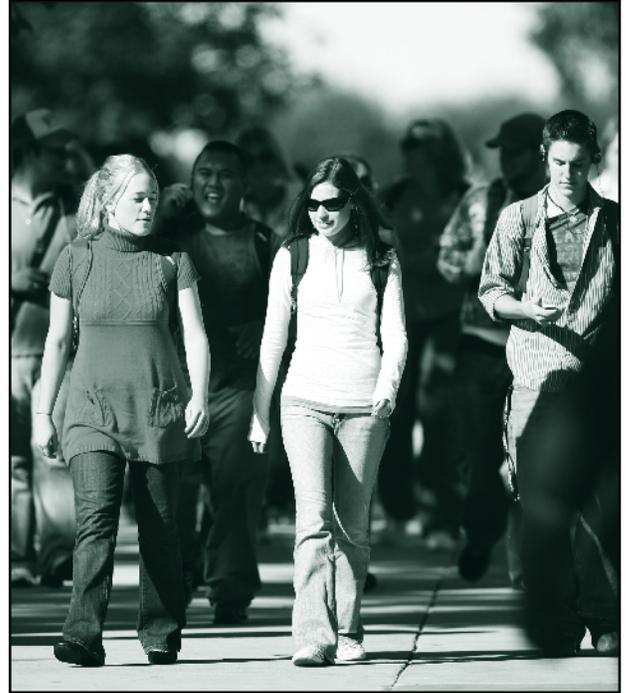
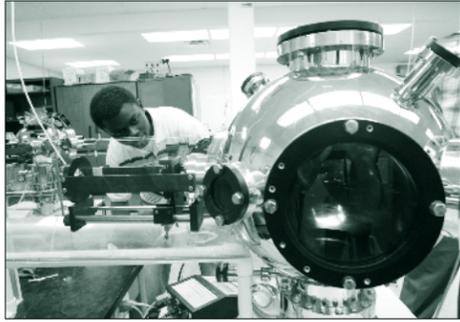


Missouri State[™]

U N I V E R S I T Y



2007–2008 FINANCIAL REPORT



Missouri State University is a public, comprehensive 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, 2008 and 2007, 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.

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Financial Overview

In the fiscal year ended June 30, 2008, the University experienced an increase in student enrollment. Combined with an increase in required student fee charges, the University's net student tuition and fees increased in fiscal year 2008 by almost \$2 million or 2%. This is the fifth year of increases in tuition and fees revenues. The University received \$85 million State of Missouri appropriations (a 6.5% increase) compared with \$79.8 million in the fiscal year 2007 and \$77.9 million in fiscal year 2006.

Fiscal Year 2008's operating revenues of \$172.4 million were \$8.7 million more than the \$163.7 million operating revenues in fiscal year 2007, which were \$16 million more than the operating revenues of \$147.7 million in fiscal year 2006. Operating expenses for the year ended June 30, 2008 increased \$15.8 million to \$247.2 million from \$231.4 million in fiscal year 2007. Operating expenses for fiscal year 2006 totaled \$215.4 million. As was the case in prior years, the increases in salaries, fringe benefits and grant and

contracts supplies and services accounted for the change in operating expenses in fiscal year 2008. Net non-operating revenues and capital gifts, grants and contracts totaled \$99.3, \$95.2, and \$93.6 million in fiscal years 2008, 2007 and 2006, respectively. The increase in fiscal year 2008 over 2007 was primarily from increases in state appropriations, gifts and investment revenue net of a reduction in capital grants and contracts. Most of the fiscal year 2007 increase over 2006 came from similar sources. Net assets increased \$24.5 million for the year ended June 30, 2008, compared to \$27.4 million for the year ended June 30, 2007, and \$25.9 million for the year ended June 30, 2006.

Net assets on June 30, 2008, totaled \$345 million compared to \$320.4 million on June 30, 2007 and \$293.0 million on June 30, 2006. From June 30, 2006 to June 30, 2008, net assets increased \$52 million. Unrestricted net assets increased \$31.4 million, restricted assets increased \$4.1 million and the University's investment in capital assets, net of related debt increased \$16.4 million.

	University			Foundation		
	2008	2007	2006	2008	2007	2006
Total operating revenues	\$ 172,406,500	\$ 163,654,322	\$ 147,735,581	\$ 14,344,746	\$ 42,172,969	\$ 9,091,014
Total operating expenses	247,175,242	231,394,347	215,434,312	4,745,577	4,299,204	3,613,463
Net operating income (loss)	(74,768,742)	(67,740,025)	(67,698,731)	9,599,169	37,873,765	5,477,551
Total nonoperating revenues (expenses) and capital endowment activities	99,321,770	95,173,221	93,559,289	(8,398,343)	4,714,580	5,951,298
Increase (decrease) in net assets	24,553,028	\$ 27,433,196	\$ 25,860,558	1,200,826	\$ 42,588,345	\$ 11,428,849

The Foundation revenue from gifts totaled \$13.2 million in fiscal year 2008. In fiscal year 2007, due to a \$30 million pledge of a gift for the construction of a new arena, revenue from gifts reached an all-time high of \$41.1 million. This is \$33 million more than the \$8.1 million in fiscal year 2006. The weak equity markets resulted in investment losses of \$2.3 million during fiscal year June 30, 2008 while strong markets during fiscal year 2007 resulted in substantial investment gains and other investment income totaling \$8.6 million compared to \$5.2 million during fiscal year June 30, 2006. Net assets increased \$1.2 million in fiscal year 2008 to \$112.4 million on June 30, 2008 as compared to a net assets increase of more than \$42.6 million in fiscal year 2007 to more than \$111.2 million on June 30, 2007.

The University's current assets on June 30, 2008 of \$149.5 million were \$3.6 million (2.4%) less than the \$153.1 million on June 30, 2007 and \$53.1 million (55.1%) more than the \$96.4 million on the same date in 2006. The large change from 2006 to 2007 reflects the short-term nature of current investments from unspent bond proceeds for the construction of an arena and the continued strengthening of the University's financial condition. The decrease of current assets represents in fiscal year 2008 the spending of bond proceeds from the construction of the JQH Arena. The University's

financial condition continues to be strong. The value of non-current assets on June 30, 2008, 2007 and 2006 were \$343.7 million, \$312.9 million, and \$284.7 million, respectfully. Current liabilities on June 30, 2008 of \$44.4 million were over \$7.3 million more than on June 30, 2007. Current liabilities on June 30, 2007 totaled \$37.1 million and \$35.7 million on June 30, 2006. Non-current liabilities at June 30, 2008 of \$103.8 million include \$58.1 million of the \$59.4 million revenue bonds for the construction of an arena. Non-current liabilities were \$108.6 million on June 30, 2007 which is \$56.2 million more than the \$52.4 million on June 30, 2006. Total liabilities on June 30, 2008 of \$148.2 million were \$2.6 million more than the \$145.6 million on June 30, 2007. Total liabilities on June 30, 2007, were approximately \$57.5 million more than the amount on June 30, 2006. Again, the increase in total liabilities in fiscal year 2007 over fiscal year 2006 was due to the sale of \$59.4 million of revenue bonds.

Assets of the Foundation exceeded \$113.5 million on June 30, 2008, approximately \$1.2 million more than the \$112.3 million on June 30, 2007 and \$43.5 million more than the \$70 million on June 30, 2006. The Foundation's liabilities totaled \$1.16 million, \$1.13 million and \$1.56 million on June 30, 2008, 2007 and 2006, respectfully.

	University			Foundation		
	2008	2007	2006	2008	2007	2006
Current assets	\$ 149,518,570	\$ 153,129,801	\$ 96,360,923	\$ 23,271,368	\$ 18,412,440	\$ 14,224,049
Noncurrent assets						
Endowment and other investments	455,612	13,536,339	582,134	89,061,966	92,871,947	54,631,923
Capital assets, net	340,560,139	296,630,426	281,589,628	1,226,675	1,042,577	1,312,967
Other	2,656,451	2,743,125	2,533,569			
Total assets	493,190,772	466,039,691	381,066,254	113,560,009	112,326,964	70,168,939
Current liabilities	44,426,124	37,056,603	35,726,015	506,227	455,434	867,755
Noncurrent liabilities	103,805,911	108,577,379	52,367,726	658,305	676,879	694,878
Total liabilities	148,232,035	145,633,982	88,093,741	1,164,532	1,132,313	1,562,633
Net assets	344,958,737	\$ 320,405,709	\$ 292,972,513	112,395,477	\$ 111,194,651	\$ 68,606,306

Statement of Net Assets

Comparing the current assets on June 30, 2008 with current assets as of June 30, 2007, cash and investments are \$133.7 million, a decrease of \$2.7 million. The increase from June 30, 2006 to June 30, 2007 was \$55 million. Accounts receivable, net of related allowances for uncollectible accounts increased almost \$2 million from June 30, 2006 to 2007 and increased almost \$1.4 million from June 30, 2007 to 2008. Inventories increased \$587 thousand from June 30, 2006 to 2007 and decreased \$149 thousand from June 30, 2007 to 2008. Non-current investments were \$382 thousand at the end of

fiscal year 2006. They increased \$13 million to \$13.3 million at the end of fiscal year 2007. Non-current investments were at \$255 thousand at the end of fiscal year 2008. The short-term investment rates were better as of June 30, 2008 than the long-term rates. Construction in progress at the end of fiscal year 2007 totaled \$24.4 million and at the end of fiscal year 2006 totaled \$8.8 million. At the end of June 30, 2008, construction in progress totaled \$57.3 million.

The following table shows the breakdown of net assets at June 30, 2008, 2007 and 2006 for both the University and Foundation.

Amounts in \$ millions	University			Foundation		
	2008	2007	2006	2008	2007	2006
Invested in Capital Assets, Net of Related Debt	\$ 242.5	\$ 236.8	\$ 226.1	\$ 1.2	\$ 1.0	\$ 1.3
Restricted						
Unexpendable	0.2	0.2	3.2	33.8	31.5	28.9
Expendable	13.6	11.1	6.5	71.9	73.5	34.8
Unrestricted	88.6	72.3	57.2	5.5	5.2	3.6
Total Net Assets	\$ 344.9	\$ 320.4	\$ 293.0	\$ 112.4	\$ 111.2	\$ 68.6

Capital and Debt Activities

During the fiscal year ended June 30, 2008, the University acquired capital assets totaling approximately \$58.5 million, including \$3.4 million of furniture, fixtures and equipment, \$2.2 million in library materials, and \$52.9 million of construction. During the fiscal year 2008, assets that cost \$874 thousand with an undepreciated value of \$598 thousand were sold, abandoned or otherwise retired. Construction projects with a cost totaling approximately \$20 million were placed in service. Note 10, Capital Assets, shows the capital asset changes for the fiscal years ended June 30, 2008 and 2007.

During the year, depreciation expense, the systematic allocation of a capital assets cost over its estimated useful life, totaling \$14.2 million was recorded in the financial statements. This is \$.6 million more than the \$13.6 million recorded during the fiscal year ended June 30, 2007.

On June 30, 2008, the University had 21 construction projects in progress with costs totaling approximately \$57.3 million incurred to

date. The remaining project costs budgeted for these projects totals \$55.3 million. These projects are being funded by restricted net assets of \$46.7 million and unrestricted net assets of \$8.6 million. A table of the construction projects is provided for your analysis.

During 2007, the University issued taxable and nontaxable auxiliary enterprise system revenue bonds at a net premium of \$1.6 million with a par value of \$3 million and \$56.4 million, respectively. The University is using the proceeds of these bonds and gift revenue to construct a \$67 million arena. Total bonds payable increased \$56.2 million from \$42.9 million to \$99.1 million as of June 30, 2007. At June 30, 2008, total bonds payable equaled \$94.6 million. Compensated absences, earned but untaken vacation and vested sick leave, increased slightly from \$7.9 million on June 30, 2007 to \$8.4 million on June 30, 2008. Capital lease obligations decreased from \$11.0 million at June 30, 2007, to \$10.5 million at June 30, 2008. Note 8, Long-term Liabilities, illustrate the changes in long-term liabilities for the fiscal years ended June 30, 2008 and 2007.

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 \$276.2 million for the year ended June 30, 2008, \$261.5 million for June 30, 2007, and \$243.2 million for June 30, 2006. 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 \$29.5 million of scholarship allowances, were \$1.8 million more in FY 2008 than FY 2007 and generated 28.74% of these revenues (compared to 29.69% for the prior year). When comparing the same amounts to FY 2006, the increase is \$9.4 million. Increases in Net Student Fees made up 12.0% of the \$14.7 million increase in total revenues in FY 2008

when compared with FY 2007. The State of Missouri provided 30.78% of total revenues (up from 30.51% in FY 2007 and down from 32.05% in FY 2006). Sales and services (including residence hall, intercollegiate athletics, student union, parking, bookstore, health center) revenues made up 16.85% of the funds in FY 2008 as compared to 17.62% in fiscal year 2007. Our grants and contracts revenue for FY 2008 totals 15.71% of our total revenues while the grants and contracts revenue for FY2007 totaled 14.18% of the total revenues. Approximately \$11.1 million of the \$43.4 million grants and contracts revenue in FY 2008 was generated from Pell grants. Almost \$7.4 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.

Project Name	Project Budget (Not Previously Capitalized)	Amount Expended (Construction in Progress)	Project Balance
Power House Bolier Replacement	\$ 3,000,000	\$ 1,966,715	\$ 1,033,285
University Recreation Center	1,500,000	80,496	1,419,504
JQH Arena	67,000,000	48,027,618	18,972,382
Blair Shannon East Wall Repair	875,000	687,847	187,153
Jordan Valley Innovation Center	542,480	279,230	263,250
Classroom upgrades	450,000	221,537	228,463
JQH Arena scoreboard	1,568,810	463,665	1,105,145
Plaster Sports Complex scoreboard	598,190	154,555	443,635
Freudenburger Renovation - Main	1,255,000	535,745	719,255
Hill Hall Roof Replacement	150,000	111	149,889
Blair Shannon East Wall Repair	875,000	432,422	442,578
Bear Park North Repairs	500,000	130,400	369,600
Darr Agriculture Center Phase III	2,000,000	17,510	1,982,490
Hammons Student Center Roof Repairs	400,000	316	399,684
Lewis & Clark Project Management	375,000	2,253	372,747
Hammons Student Center HPER Renovation	3,000,026	51,643	2,948,383
Siceluff Renovation	8,885,000	479,441	8,405,559
Hass-Hoover Renovation - West Plains	5,798,000	77,526	5,720,474
Gohn-Wood Renovation - West Plains	2,015,000	101,162	1,913,838
Business Incubator - Jordon Valley Innov. Center	5,000,000	412,191	4,587,809
Enterprise Resource Planning System	6,766,370	3,145,075	3,621,295
Total	\$ 112,553,876	\$ 57,267,458	\$ 55,286,418

Year Ended June 30, 2008			
	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 79,399,259	\$	\$ 79,399,259
State appropriations		85,015,416	85,015,416
Grants and contracts	43,398,481		43,398,481
Sales and services	46,555,167		46,555,167
Gifts		5,413,824	5,413,824
Investment income		6,441,558	6,441,558
Other	3,053,593		3,053,593
Revenues supporting core activities	172,406,500	96,870,798	269,277,298
Expenses			
Compensation and benefits	154,316,660		154,316,660
Scholarships and benefits	11,809,016		11,809,016
Supplies and services	60,554,201		60,554,201
Utilities	6,247,545		6,247,545
Interest expense		4,376,132	4,376,132
Depreciation	14,247,820		14,247,820
Expenses associated with core activities	247,175,242	4,376,132	251,551,374
Income (loss) from core activities	(74,768,742)	92,494,666	17,725,924
Other Nonoperating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets		(135,722)	(135,722)
Capital gifts		2,475,632	2,475,632
Capital grants and contracts		4,487,194	4,487,194
Increase in net assets	\$ (74,768,742)	\$ 99,321,770	24,553,028
Net assets			
Beginning of Year			320,405,709
End of Year			\$ 344,958,737

Year Ended June 30, 2007			
	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 77,624,110	\$	\$ 77,624,110
State appropriations		79,792,171	79,792,171
Grants and contracts	37,076,873		37,076,873
Sales and services	46,076,558		46,076,558
Gifts		4,738,063	4,738,063
Investment income		5,394,985	5,394,985
Other	2,876,781		2,876,781
Revenues supporting core activities	163,654,322	89,925,219	253,579,541
Expenses			
Compensation and benefits	144,702,496		144,702,496
Scholarships and benefits	10,215,742		10,215,742
Supplies and services	57,105,669		57,105,669
Utilities	5,751,294		5,751,294
Interest expense		2,673,293	2,673,293
Depreciation	13,619,146		13,619,146
Expenses associated with core activities	231,394,347	2,673,293	234,067,640
Income (loss) from core activities	(67,740,025)	87,251,926	19,511,901
Other Nonoperating Activities and Changes in Net Assets			
Gain (loss) on disposal of fixed assets		87,864	87,864
Capital gifts		1,749,554	1,749,554
Capital grants and contracts		6,083,877	6,083,877
Increase in net assets	\$ (67,740,025)	\$ 95,173,221	27,433,196
Net assets			
Beginning of Year			292,972,513
End of Year			\$ 320,405,709

Year Ended June 30, 2006			
	Operating	Nonoperating	Total
Revenues			
Net student tuition and fees	\$ 68,225,134	\$	\$ 68,225,134
State appropriations		77,933,951	77,933,951
Grants and contracts	32,693,596		32,693,596
Sales and services	43,574,977		43,574,977
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

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 the following priorities:

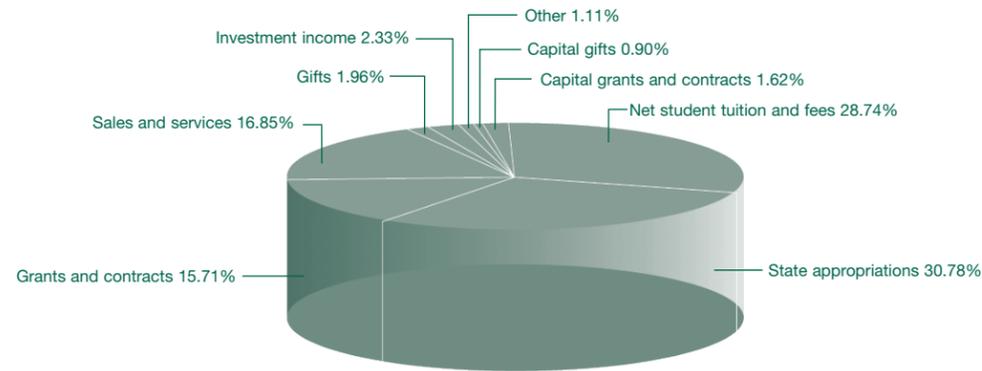
- ◆ **Faculty and Staff Salaries (including associated fringe benefits)** – Attracting and retaining outstanding faculty and staff is essential to the University's success now and in the future. Unfunded growth has not allowed salaries to keep pace with competition.
- ◆ **Instructional, Research, Service, Facilities, and Academic, Student and Institutional Support Expenses** – The Consumer Price Index, as published by the Bureau of Labor Statistics, for All Urban Consumers (CPI-U) increased by 5% for the one year period ending June 2008 (www.bls.gov/cpi). The percentage increases in costs of medical care, other goods and services, energy and food exceeded 4%. In order to provide an unchanged level of service to our students, an increase in funding these expenses is necessary.
- ◆ **Utilities** – The cost of utilities has increased at a rate far greater than the consumer price index. Although the University has invested in energy saving measures through the installation of a chill-loop heating and cooling system and centralized building control thermostats, we continue to experience increases of 8% in the cost of providing this necessary and essential service.
- ◆ **Institutional Scholarships, Fellowships and Waivers** – The University has implemented a number of competitive and need-based scholarships, fellowships and waivers designed to attract, assist and retain students. An increase in funding for these programs equal to the increase in student fees is necessary.

The State of Missouri appropriates funds each year to the University for operating costs and capital expenditures. For the year ending June 30, 2009, the University was appropriated an increase of 4.2 percent more than the previous year. This level of state appropriations for fiscal year 2008 (\$84 million) is still \$688 thousand less than the amount received in fiscal year 2001. The University is hopeful that improvement in the Missouri economy will result in increased appropriations for fiscal year 2010 and beyond. However, as in prior years, there is the possibility that state funding will fall short. When this happens, the state often 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.

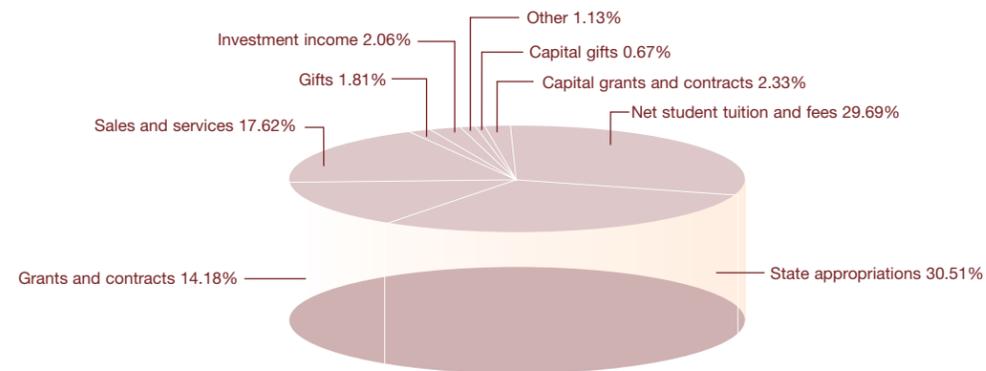
Economic pressures of rising retirement plan costs and health care benefits appear to have tapered off for fiscal year 2008. Unfortunately, utility costs due to rising costs of natural gas, coal and transportation will require substantially more resources during the next few years. Rising gasoline prices 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 through reallocations and from the increase in student fees and state appropriations.



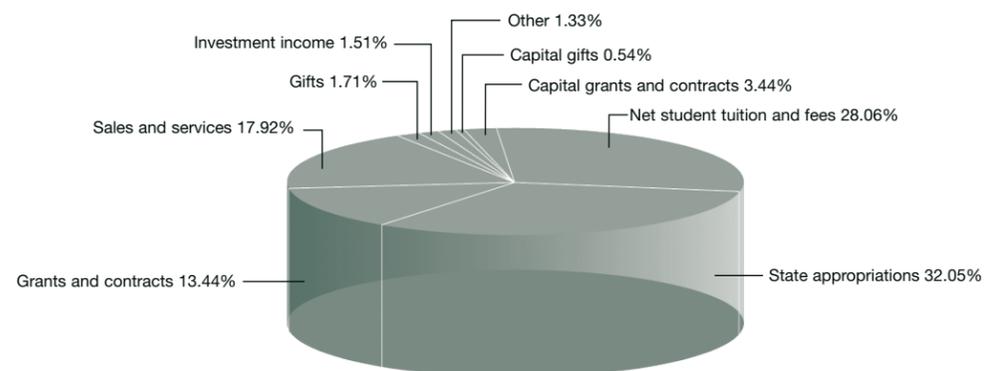
FY 2008 Operating and Nonoperating Revenues



FY 2007 Operating and Nonoperating Revenues



FY 2006 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 statements of net assets as of and for the years ended June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows (the 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, 2008 and 2007. 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, 2008 and 2007, and the respective changes in its financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 6*, the University changed its method of accounting for other postemployment benefit obligations and adopted the provisions of GASB Statement No. 45 in 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2008, 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 and other postemployment benefit information are not a required part of the basic financial statements but are 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 12, 2008

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Beyond Your Numbers



Statements of Net Assets

June 30, 2008 and 2007

	University 2008	University 2007	Component Unit Foundation 2008	Component Unit Foundation 2007
Assets				
Current assets:				
Cash and cash equivalents	\$ 93,621,199	\$ 50,874,745	\$ 12,203,485	\$ 10,164,279
Restricted cash and cash equivalents	22,614,281	54,514,069		
Short-term investments	12,795,986	25,910,180	2,675,869	2,809,109
Restricted short-term investments	4,667,363	5,111,680		
Accounts receivable, net	8,911,807	7,550,927	19,742	28,061
Pledges receivable, net			7,805,096	4,647,469
Grants receivable	1,321,878	3,335,353		
Accrued interest receivable-unrestricted	766,259	787,943	83,668	98,903
Accrued interest receivable-restricted	25,130	16,176		
Inventories	3,561,283	3,711,215		
Loans to students, net	544,656	622,532		
Deposits recoverable	18,657	18,657		
Prepaid expenses	670,071	676,324		
Assets for resale			483,508	664,619
Total current assets	149,518,570	153,129,801	23,271,368	18,412,440
Noncurrent assets:				
Restricted cash and cash equivalents			2,583,002	2,836,535
Pledges receivable, net			33,398,800	35,417,051
Restricted long-term investments			51,682,206	53,124,611
Investments held in trust			876,272	1,002,321
Other long-term investments	255,850	13,336,577	521,686	491,429
Deferred bond issue costs and discounts	1,138,646	1,345,530		
Loans to students, net	1,517,805	1,397,595		
Due from Foundation	199,762	199,762		
Construction in progress	57,267,458	24,405,118	252,877	
Capital assets, net	283,292,681	272,225,308	973,798	1,042,577
Total noncurrent assets	343,672,202	312,909,890	90,288,641	93,914,524
Total assets	493,190,772	466,039,691	113,560,009	112,326,964
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	13,479,003	7,272,630	447,649	399,904
Accrued compensated absences	4,429,776	4,285,057		
Accrued payroll	8,445,968	7,871,497		
Deferred revenue	9,722,754	9,309,461		
Deposits	519,948	531,856		
Accrued interest payable	1,339,628	1,367,617		
Long-term liabilities-current portion	5,438,010	5,243,936	58,578	55,530
Insurance claims payable	1,051,037	1,174,549		
Total current liabilities	44,426,124	37,056,603	506,227	455,434
Noncurrent liabilities:				
Accrued compensated absences	4,024,074	3,640,586		
Annuity obligations			458,543	477,117
Capital lease obligations	9,777,251	10,372,294		
Revenue bonds payable	89,845,137	94,564,499		
Other long-term liabilities	159,449			
Due to Missouri State University			199,762	199,762
Total noncurrent liabilities	103,805,911	108,577,379	658,305	676,879
Total liabilities	148,232,035	145,633,982	1,164,532	1,132,313
Net Assets				
Invested in capital assets, net of related debt	242,548,549	236,803,822	1,226,675	1,042,577
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	199,762	199,762	20,859,602	19,959,876
Other			12,957,895	11,557,731
Expendable:				
Research	445,288	853,191		
Scholarships and fellowships			14,625,263	18,717,311
Loans	2,882,566	2,984,079		
Capital projects	5,801,062	3,346,032		
Debt service	4,483,489	3,959,799		
Other			57,275,030	54,730,291
Unrestricted	88,598,021	72,259,024	5,451,012	5,186,865
Total net assets	\$ 344,958,737	\$ 320,405,709	\$ 112,395,477	\$ 111,194,651

See Notes to Financial Statements

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2008 and 2007

	University 2008	University 2007	Component Unit Foundation 2008	Component Unit Foundation 2007
Operating Revenues				
Student tuition and fees	\$ 108,914,293	\$ 101,784,529	\$	\$
less scholarship allowances	(29,515,034)	(24,160,419)		
Total net student tuition and fees	79,399,259	77,624,110		
Sales and services of educational departments	12,732,949	12,596,222		
Federal grants and contracts	25,003,326	27,787,381		
State and local grants and contracts	4,937,812	1,772,990		
Nongovernmental grants and contracts	13,457,343	7,516,502		
Gifts and contributions			13,213,987	41,088,635
Auxiliary enterprises:				
Residential life (net of scholarship allowances of \$3,229,288 in 2008 and \$3,137,109 in 2007)	19,928,116	19,840,182		
Bookstore (net of scholarship allowances of \$658,645 in 2008 and \$572,008 in 2007)	3,114,683	3,016,817		
Parking (net of scholarship allowances of \$115,811 in 2008 and \$194,704 in 2007)	2,903,708	3,062,663		
Taylor Health and Wellness Center (net of scholarship allowances of \$2,330 in 2008 and \$125,793 in 2007)	1,590,656	1,240,278		
Athletics	5,198,871	5,138,676		
Recreational facilities	178,073	262,984		
Student Union	908,111	918,736		
Other operating revenues	3,053,593	2,876,781	1,130,759	1,084,334
Total operating revenues	172,406,500	163,654,322	14,344,746	42,172,969
Operating Expenses				
Salaries	119,085,090	112,535,237		
Benefits	35,231,570	32,167,259		
Scholarships and fellowships	11,809,016	10,215,742	1,601,401	1,442,866
Utilities	6,247,545	5,751,294		129,166
Supplies and other services	60,554,201	57,105,669	2,951,839	2,654,036
Depreciation	14,247,820	13,619,146	68,779	73,136
Total operating expenses	247,175,242	231,394,347	4,745,577	4,299,204
Operating income (loss)	(74,768,742)	(67,740,025)	9,599,169	37,873,765
Nonoperating Revenues (Expenses)				
State appropriations	85,015,416	79,792,171		
Gifts	5,413,824	4,738,063		
Investment income (loss)	6,441,558	5,394,985	(2,304,846)	8,663,934
Interest on capital asset-related debt	(4,376,132)	(2,673,293)		
Gain (loss) on assets held in trust			(5,796)	3,479
Other nonoperating expenses and losses			(335,135)	(147,288)
Expenditures to Missouri State University			(5,413,824)	(4,738,063)
Gain (loss) on disposal/impairment of fixed assets	(135,722)	87,864	(163,000)	
Net nonoperating revenues	92,358,944	87,339,790	(8,222,601)	3,782,062
Income before other revenues, expenses, gains, or losses	17,590,202	19,599,765	1,376,568	41,655,827
Capital gifts	2,475,632	1,749,554	(2,475,632)	(1,749,554)
Capital grants and contracts	4,487,194	6,083,877		
Additions to permanent endowments			2,299,890	2,682,072
Increase in net assets	24,553,028	27,433,196	1,200,826	42,588,345
Net Assets				
Net assets — beginning of year	320,405,709	292,972,513	111,194,651	68,606,306
Net assets — end of year	\$ 344,958,737	\$ 320,405,709	\$ 112,395,477	\$ 111,194,651

See Notes to Financial Statements

Statements of Cash Flows

For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Tuition and fees	\$ 79,248,957	\$ 76,624,784
Sales and services of educational departments	12,732,949	12,596,222
Federal grants and contracts	27,016,801	27,860,621
State grants and contracts	4,937,812	1,772,990
Nongovernmental grants and contracts	13,457,343	7,516,502
Payments to suppliers	(78,293,366)	(71,878,890)
Payments to employees	(153,054,533)	(144,532,681)
Loans issued to students	(440,226)	(275,446)
Collection of loans to students	397,892	585,359
Auxiliary enterprise charges:		
Residential life	19,928,116	19,840,182
Bookstore	3,114,683	3,016,817
Parking	2,903,708	3,062,663
Taylor Health and Wellness Center	1,590,656	1,240,278
Athletics	178,073	5,138,676
Recreational facilities	5,198,871	262,984
Student Union	908,111	918,736
Other receipts	2,930,081	3,089,041
Net cash used by operating activities	(57,244,072)	(53,161,162)
Cash Flows From Noncapital Financing Activities		
State appropriations	85,015,416	79,792,171
Gifts and grants received for other than capital purposes	5,413,824	4,738,063
Net cash provided by noncapital financing activities	90,429,240	84,530,234
Cash Flows From Capital and Related Financing Activities		
Cash received from disposal of fixed assets	139,757	256,500
Purchase of capital assets	(4,986,267)	(5,645,986)
Construction in progress	(46,629,855)	(23,451,411)
Capital grants and contracts	3,678,001	6,083,877
Gifts of cash	2,063,632	1,415,766
Proceeds from capital debt		59,420,000
Cash received on bond premium		1,581,852
Principal paid on capital debt and lease	(5,311,780)	(5,024,002)
Interest paid on capital debt and lease	(4,385,516)	(2,378,778)
Deferred bond issuing expense		(669,543)
Net cash (used) provided by capital and related financing activities	(55,432,028)	31,588,275
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	51,408,700	66,608,387
Purchase of investments	(24,774,149)	(78,677,108)
Interest on investments	6,458,975	5,193,109
Net cash provided (used) by investing activities	33,093,526	(6,875,612)
Net increase in cash and cash equivalents	10,846,666	56,081,735
Cash and cash equivalents—beginning of year	105,388,814	49,307,079
Cash and cash equivalents—end of year	\$ 116,235,480	\$ 105,388,814

Statements of Cash Flows (continued)

For the Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	\$ (74,768,742)	\$ (67,740,025)
Adjustments to reconcile net loss to net cash used by operating activities:		
Funds held in trust		244,544
Depreciation expense	14,247,820	13,619,146
Change in operating assets and liabilities		
Accounts receivable	(551,687)	(1,914,498)
Loans to students	(42,334)	309,913
Federal and state grants receivable	2,013,475	73,240
Inventories	149,932	(587,474)
Prepaid expenses	6,253	810,506
Accounts payable and accrued expenses	320,660	726,239
Accrued compensated absences	528,207	647,037
Accrued payroll	574,471	(477,222)
Deferred revenue	413,293	924,078
Deposits	(11,908)	(8,906)
Insurance claims payable	(123,512)	212,260
Net cash used by operating activities	\$ (57,244,072)	\$ (53,161,162)
Supplemental Cash Flows Information		
Increase (decrease) in accounts payable incurred for capital asset purchases	\$ 6,045,162	\$ (793,283)
Gifts in kind of capital assets	\$ 412,000	\$ 333,788
Capital leases incurred for capital asset purchases	\$ 94,365	

See Notes to Financial Statements

Notes to Financial Statements June 30, 2008 and 2007

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

Nature of Institution

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 Units

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, 2008 and 2007, the Foundation provided \$7,889,456 and \$6,487,617, 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.

JVIC, Inc., A Missouri Innovation Center, is a legally separate, tax-exempt component unit of the University. The mission of JVIC, Inc. is to support advanced product development with a focus on advancing the competitiveness of Missouri-based industries and supporting technology based entrepreneurs while providing interdisciplinary work experiences for Missouri State University students. The board of JVIC, Inc. is self-perpetuating and consists of graduates and friends of the University.

The University does not control the timing or amount of transactions for JVIC, Inc. Since this entity will establish resources to maintain a Missouri innovation center program at Missouri State University and provide work experiences for Missouri State University students, JVIC, Inc. is considered a component unit of the University and will be discretely presented in the University's financial statements.

There were no financial transactions for JVIC, Inc. for the fiscal years ended June 30, 2008 and 2007. If financial transactions occur in the future, JVIC, Inc. is a private nonprofit organization which will report 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 will be made to the JVIC, Inc. 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.

Notes to Financial Statements June 30, 2008 and 2007

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.

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 \$1,814,705 and \$1,804,509 at June 30, 2008 and 2007, 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 consists 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 \$1,514,322 and \$1,425,030 at June 30, 2008, and 2007, 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, estimated 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 with depreciation beginning 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, 2008 was \$285,363 and for the year ended June 30, 2007 was \$190,678.

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.

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.

Deferred Revenue

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

Notes to Financial Statements June 30, 2008 and 2007

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, 2008 was \$362,237 and for the year ended June 30, 2007, was \$367,968.

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 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 \$33,521,108 and \$28,190,035 at June 30, 2008 and 2007, 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.

Bad Debt Expense

Bad debt expense is \$506,253 and \$399,903 for the years ended June 30, 2008 and 2007, 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).

Notes to Financial Statements June 30, 2008 and 2007

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 having a population of not less than 2,000, 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, 2008 and 2007, none of the University's bank balances held by the current domestic 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 2008 and 2007. 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:

	2008	2007
Uninsured and uncollateralized	\$ 788,226	\$ 72,037

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 \$788,226 and \$72,037 of foreign deposits denominated in Chinese Yuan and the Hong Kong Dollar at June 30, 2008 and 2007, 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, 2008 and 2007, the University had the following investments and maturities:

Type	Fair Value	June 30, 2008 Maturities in Years		
		Less than 1	1-5	6-10
U.S. Treasury obligations	\$ 255,849	\$	\$ 69,307	\$ 186,542
U.S. agencies obligations	17,463,350	17,463,350		
	\$ 17,719,199	\$ 17,463,350	\$ 69,307	\$ 186,542

Type	Fair Value	June 30, 2007 Maturities in Years		
		Less than 1	1-5	6-10
U.S. Treasury obligations	\$ 345,633	\$	\$ 67,746	\$ 277,887
U.S. agencies obligations	44,012,804	31,021,860	12,990,944	
	\$ 44,358,437	\$ 31,021,860	\$ 13,058,690	\$ 277,887

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, 2008 and 2007, 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, 2008 or 2007.

Concentration of Credit Risk. The University's investment policy 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, 2008 or 2007 because there were no foreign investments in the University's investment portfolio at any time during these two fiscal years.

Notes to Financial Statements June 30, 2008 and 2007

Summary of Carrying Values

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

	2008	2007
Carrying Value:		
Deposits	\$116,235,480	\$105,388,814
Investments	17,719,199	44,358,437
	<u>\$133,954,679</u>	<u>\$149,747,251</u>

Included in the following statements of net assets captions

	2008	2007
Cash and cash equivalents	\$ 93,621,199	\$ 50,874,745
Restricted cash and cash equivalents	22,614,281	54,514,069
Short-term investments	12,795,986	25,910,180
Restricted short-term investments	4,667,363	5,111,680
Long-term investments	255,850	13,336,577
Cash, cash equivalents and investments total	<u>\$133,954,679</u>	<u>\$149,747,251</u>

Investment Income

Investment income for the years ended June 30, 2008 and 2007, consisted of:

	2008	2007
Interest and dividend income	\$ 6,487,852	\$ 5,593,748
Net increase (decrease) in fair value of investments	(46,294)	(198,763)
	<u>\$ 6,441,558</u>	<u>\$ 5,394,985</u>

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:

	2008	2007
Pooled investments at market value	\$ 53,258,894	\$ 55,299,440
Number of pool shares	201,858	189,783
Market value per pool share	\$ 263.84	\$ 291.38
Fiscal year return	-4.8%	16.7%
Interest and dividend earnings	\$ 257,143	\$ 340,202
Net gains (losses)	\$ (2,970,129)	\$ 7,683,372

Endowment assets consist of the following as of June 30, 2008 and 2007:

Pooled investments from above	\$ 53,258,894	\$ 55,299,440
Non-pooled endowment assets	5,256,154	5,593,788
Total endowment assets	<u>\$ 58,515,048</u>	<u>\$ 60,893,228</u>

Foundation Investments and Investment Return

Investments in equity securities and debt securities are carried at fair value. All other investments are valued at estimated fair value. The estimated fair value of investments in hedge funds, where a readily determinable market price is not available, is based on valuations conducted by the management group of each underlying fund.

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:

	2008	2007
Accrued income	\$ 125,663	\$ 172,979
Money market accounts	5,917,359	6,447,219
Mutual funds	44,061,498	47,502,478
Real estate	3,503,134	2,699,851
U.S. Treasury securities	1,008,659	787,515
Corporate bonds	1,025,634	1,014,906
Hedge funds	4,516,770	4,337,161
Private Equity	185,000	-
Other	3,500	3,500
	<u>\$ 60,347,217</u>	<u>\$ 62,965,609</u>

Investment return consists of the following:

Investment income	\$ 831,909	\$ 970,344
Net realized and unrealized gains (losses) on investments reported at fair value	(3,136,755)	7,693,590
	<u>\$ (2,304,846)</u>	<u>\$ 8,663,934</u>

Investments held in trust are deposited with Wachovia Bank balanced fund or are in municipal bonds and other investments.

Investment expenses incurred for the years ended June 30, 2008 and 2007 totaled \$144,678 and \$149,163, respectively.

Notes to Financial Statements June 30, 2008 and 2007

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:

	2008	2007
Due in less than one year	\$ 7,956,651	\$ 6,236,342
Due in one to five years	14,519,297	15,439,158
Due in more than five years	38,703,909	39,933,936
	<u>61,179,857</u>	<u>61,609,436</u>
Less: Allowance for doubtful accounts	325,373	298,996
Unamortized discount	19,650,588	21,245,920
	<u>19,975,961</u>	<u>21,544,916</u>
	<u>\$ 41,203,896</u>	<u>\$ 40,064,520</u>

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, 2008 is \$58,515,048 and at June 30, 2007, was \$60,893,228.

Additionally, the Foundation owed the University approximately \$250,000 and \$350,000 at June 30, 2008 and 2007, 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 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 is required to contribute to MOSERS at an actuarially determined rate; the rate was 12.84, 12.78 and 12.59 percent of annual covered payroll for the years ended June 30, 2008, 2007 and 2006, respectively. No employee contributions are required or permitted. Contributions, which equaled the contribution requirements for years ended June 30, 2008, 2007, and 2006 were \$11,297,989, \$10,559,054 and \$10,734,570, respectively. The MOSERS funded status ratio was 86.8% and 85.3% as of June 30, 2007 and 2006, respectively.

The MOSERS funding policy provides for actuarially determined and board approved, employer contributions using the entry-age normal cost method, consisting of normal cost and amortization of any unfunded accrued liabilities over an open 30-year period. Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by State statute to be funded in advance. Employees do not contribute to MOSERS. Any amendments to the plan are established by changes in State statute.

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 7.87%, 7.84% and 7.81% of the participants salary to CURP for the years ended June 30, 2008, 2007 and 2006 respectively. The total contributed for years ended June 30, 2008, 2007, and 2006 was \$1,037,231, \$860,910 and \$723,167, 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).

Note 6: Postemployment Healthcare Plan

Plan Description. Missouri State University Employee Benefit Plan (MSUEBP) is a single-employer defined benefit plan administered by Missouri State University. MSUEBP provides medical benefits to eligible retirees and their spouses. The Missouri State Board of Governors provides the authority to Missouri State University to establish and amend benefit provisions. The postemployment healthcare plan information is included in the Missouri State University Annual Financial Report and can be obtained by contacting Missouri State University's Financial Services department.

Funding Policy. The contribution requirements of plan members are established by the Missouri State Board of Governors. The postemployment healthcare benefits are funded on a pay-as-you-go basis. Missouri State University funds on a cash basis as benefits are paid. For fiscal year 2008 Missouri State University contributed \$666,352 to the postemployment retirement plan portion of the MSUEBP and the retirees contributed \$558,506 through their required monthly contributions of \$389.26 for retiree and \$290.91 for spouse for the medical portion. No assets have been segregated and restricted to provide postretirement benefits within the definition of Plan Assets under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

Annual OPEB Cost and Net OPEB Obligation. Missouri State University's annual OPEB expense is calculated based upon the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

Notes to Financial Statements June 30, 2008 and 2007

The following table shows the components of Missouri State University's annual OPEB expense for the year:

	2008
Amortization of Unfunded Actuarial	
Value of Assets (UAAL)	\$ 382,453
Normal Cost (with interest)	428,050
Interest on Amortization of UAAL	15,298
Annual Required Contribution (ARC)	825,801
Interest on Net OPEB Obligation	
Adjustment to the ARC	
Annual OPEB Cost (Expense)	825,801
Contributions Made	(666,352)
Increase in Net OPEB Obligation	159,449
Net OPEB Obligation—Beginning of Year	
Net OPEB Obligation—End of Year	\$ 159,449

Missouri State University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008, the first year of required reporting are as follows:

	2008
Annual OPEB Cost	\$ 825,801
Net Employer Contributions	\$ 666,352
Percentage Contributed	80.69%
End of Year Net OPEB Obligation	\$ 159,449

Funded Status and Funding Progress. As of June 30, 2008 the Actuarial Accrued Liability (AAL) was \$6,901,400. No assets have been segregated and restricted to provide postretirement benefits within the definition of Plan Assets under GASB Statement No. 45. The covered payroll (annual payroll of active employees covered by the plan) was \$106,672,261, and the ratio of the UAAL to the covered payroll was 6.47%.

Actuarial Methods and Assumptions. Actuarial valuations reflect a long-term perspective and involve estimates of the value reported amounts and assumptions about the probability of events far into the future. Actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. These calculations are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. A Schedule of Funding Progress, presented as Required Supplementary Information, follows the notes to the financial statements. The Schedule of Funding Progress will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As allowed by GASB, this reporting requirement is being implemented prospectively. Data is not available for prior years. The actuarial calculations have been based on the substantive plan in place at the time of valuation and on the pattern of cost sharing between the employers and members to that point.

Benefit obligations shown in this report are computed using the projected unit credit method. Benefits are attributed to service based on the plan's benefit eligibility provisions. The beginning of the attribution period is the date of hire and the end is the full eligibility date. The unfunded actuarial accrued liability is amortized over a 30 year open period in level dollar amounts. Cumulative gains and losses are amortized over the same 30 year period as other UAAL. Other assumptions are as follows:

Discount rate 4.00% per annum

Health care cost trend rates

	Medical/Rx	Admin/Stop Loss
2008-2009	10.0%	10.0%
2009-2010	9.5%	9.5%
2010-2011	9.0%	9.0%
2011-2012	8.5%	8.5%
2012-2013	8.0%	8.0%
2013-2014	7.5%	7.5%
2014-2015	7.0%	7.0%
2015-2016	6.5%	6.5%
2016-2017	6.0%	6.0%
2017-2018	5.5%	5.5%
2018 and Beyond	5.0%	5.0%

Note 7: 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, 2008 and 2007, is summarized as follows:

	2008	2007
Balance at beginning of year	\$ 1,174,549	\$ 962,289
Health and dental claims	13,068,424	11,778,798
Health insurance payments	(13,191,936)	(11,566,538)
Balance at end of year	\$ 1,051,037	\$ 1,174,549

Notes to Financial Statements June 30, 2008 and 2007

Note 8: Operating Expenses by Function

Operating expenses by functional classification for the year ended June 30, 2008 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2008 Total
Instruction	\$ 59,610,701	\$ 16,749,376	\$ 125,787	\$ 35,102	\$ 11,038,895	\$	\$ 87,559,861
Research	4,545,265	1,262,431	15,386	2,976	9,460,508		15,286,566
Public service	3,921,591	1,215,834	270,663	117,076	3,964,330		9,489,494
Academic support	14,224,775	4,414,056	118,806	2,508	6,233,920		24,994,065
Student services	5,523,115	1,806,549	116,383		4,675,323		12,121,370
Institutional support	12,860,103	4,064,473	69,158	15,507	2,181,742		19,190,983
Operation and maintenance of plant	5,244,202	2,149,302	4,360	3,839,573	8,285,080		19,522,517
Scholarships and fellowships	174,756	4,591	9,638,191		25,584		9,843,122
Auxiliary enterprises	12,980,582	3,564,958	1,450,282	2,234,803	14,688,819		34,919,444
Depreciation						14,247,820	14,247,820
Total operating expenses for fiscal year 2008	\$ 119,085,090	\$ 35,231,570	\$ 11,809,016	\$ 6,247,545	\$ 60,554,201	\$ 14,247,820	\$ 247,175,242

Operating expenses by functional classification for the year ended June 30, 2007 are summarized as follows:

	Salaries	Benefits	Scholarships and Fellowships	Utilities	Supplies and other Services	Depreciation	2007 Total
Instruction	\$ 56,337,591	\$ 15,611,442	\$ 100,007	\$ 42,857	\$ 10,165,387	\$	\$ 82,257,284
Research	4,336,428	1,272,777	25,060	2,203	9,091,695		14,728,163
Public service	3,588,780	1,106,554	233,497	113,135	3,577,981		8,619,947
Academic support	13,355,396	4,028,807	140,722	1,106	5,561,034		23,087,065
Student services	5,191,270	1,701,108	142,446		4,428,841		11,463,665
Institutional support	12,146,106	3,198,281	23,054	17,461	2,910,495		18,295,397
Operation and maintenance of plant	4,816,925	1,877,142	1,539	3,399,268	6,733,913		16,828,787
Scholarships and fellowships	186,136	3,888	8,184,076		41,148		8,415,248
Auxiliary enterprises	12,576,605	3,367,260	1,365,341	2,175,264	14,595,175		34,079,645
Depreciation						13,619,146	13,619,146
Total operating expenses for fiscal year 2007	\$ 112,535,237	\$ 32,167,259	\$ 10,215,742	\$ 5,751,294	\$ 57,105,669	\$ 13,619,146	\$ 231,394,347

Note 9: Long-term Liabilities

Long-term debt and other obligations consist of the following as of June 30, 2008:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	\$ 1,727,960	\$	\$ 134,758	\$ 1,593,202	\$ 138,832
2002	A	2.75 to 3.2%	2010	5,650,000		1,355,000	4,295,000	1,390,000
2005	A	2.60 to 4.05%	2025	28,725,000		1,525,000	27,200,000	1,565,000
2007	A	4.0 to 5.0%	2032	56,420,000			56,420,000	
2007	B	5.0 to 5.04%	2010	3,000,000		1,300,000	1,700,000	1,365,000
				95,522,960		4,314,758	91,208,202	4,458,832
Classroom Building 2002		3.10 to 4.35%	2016	4,085,000		350,000	3,735,000	360,000
Total Bonds and Notes Payable				99,607,960		4,664,758	94,943,202	4,818,832
Unamortized premium on bond issue				1,556,390		101,245	1,455,145	98,859
Unamortized loss on prior bond defeasance				(2,032,178)		(198,328)	(1,833,850)	(198,331)
Total Bonds and Notes Payable less unamortized loss				99,132,172		4,567,675	94,564,497	4,719,360
Compensated absences				7,925,643	5,464,729	4,936,522	8,453,850	4,429,776
Capital lease obligations		4.392%	2011-2021	11,048,557	94,365	647,021	10,495,901	718,650
Other long-term liabilities					159,449		159,449	
Total other obligations				18,974,200	5,718,543	5,583,543	19,109,200	5,148,426
Total long-term debt and other obligations				\$ 118,106,372	\$ 5,718,543	\$ 10,151,218	\$ 113,673,697	\$ 9,867,786

Long-term debt and other obligations consist of the following as of June 30, 2007:

	Bond Series	Interest Rate	Maturity	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Current Portion
Revenue Issue								
Auxiliary Enterprise System								
1988 Note Payable		3%	2018	\$ 1,858,765	\$	\$ 130,805	\$ 1,727,960	\$ 134,759
2002	A	1.45 to 3.2%	2010	8,460,000		2,810,000	5,650,000	1,355,000
2005	A	2.0 to 4.05%	2025	30,390,000		1,665,000	28,725,000	1,525,000
2007	A	4.0 to 5.0%	2032		56,420,000		56,420,000	
2007	B	5.0 to 5.16%	2010		3,000,000		3,000,000	1,300,000
				40,708,765	59,420,000	4,605,805	95,522,960	4,314,759
Classroom Building 2002		1.35 to 4.35%	2016	4,430,000		345,000	4,085,000	350,000
Total Bonds and Notes Payable				45,138,765	59,420,000	4,950,805	99,607,960	4,664,759
Unamortized premium on bond issue					1,581,852	25,462	1,556,390	101,245
Unamortized loss on prior bond defeasance				(2,247,144)		(214,966)	(2,032,178)	(198,331)
Total Bonds and Notes Payable less unamortized loss				42,891,621	61,001,852	4,761,301	99,132,172	4,567,673
Compensated absences				7,278,606	5,185,308	4,538,271	7,925,643	4,285,057
Capital lease obligations		4.392%		11,121,754		73,197	11,048,557	676,263
Total other obligations				18,400,360	5,185,308	4,611,468	18,974,200	4,961,320
Total long-term debt and other obligations				\$ 61,291,981	\$ 66,187,160	\$ 9,372,769	\$ 118,106,372	\$ 9,528,993

Notes to Financial Statements June 30, 2008 and 2007

The University has bonds, notes, and capital lease obligations due in the total amount of \$105,060,398 and \$110,180,729 as of June 30, 2008 and 2007, respectively. These bonds and notes bear interest at rates ranging from 2.75 percent to 5.04 percent annually, and mature at various dates through fiscal year 2032. The notes payable and 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, 2008 and 2007, 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, 2008 and 2007, the current outstanding balance of these defeased bonds was \$81,000 and \$166,000, 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, 2008 and 2007, the current outstanding balance of these defeased bonds was \$2,300,000 and \$2,915,000, 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, 2008 and 2007, the current outstanding balance of these defeased bonds was \$10,365,000 and \$12,350,000, respectively.

During 2005, Auxiliary System bonds series 1997A and 1999A of \$13,960,000 and \$16,835,000 respectively were defeased. At June 30, 2008 and 2007, the current outstanding balance of these defeased bonds was \$26,415,000 and \$27,685,000, 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, 2008 are as follows:

	Principal	Interest	Total
2009	\$ 4,818,832	\$ 3,851,749	\$ 8,670,581
2010	4,993,028	3,684,390	8,677,418
2011	5,057,351	3,516,893	8,574,244
2012	5,001,805	3,346,747	8,348,552
2013	5,176,393	3,170,733	8,347,126
2014-2018	27,135,794	12,922,101	40,057,895
2019-2023	12,759,999	8,942,180	21,702,179
2024-2028	15,355,000	5,550,483	20,905,483
2029-2032	14,645,000	1,658,686	16,303,686
	<u>\$ 94,943,202</u>	<u>\$ 46,643,962</u>	<u>\$ 141,587,164</u>

Capital Lease Obligations

The University is obligated under leases accounted for as capital leases. Assets under capital leases at June 30, 2008 and 2007, totaled \$10,848,704 and \$11,391,100, respectively, net of accumulated depreciation of \$1,258,139 in 2008 and \$621,377 in 2007. 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, 2008:

2009	\$ 1,172,627
2010	1,117,627
2011	1,097,265
2012	1,072,627
2013	1,051,869
2014 - 2018	5,259,344
2019 - 2021	3,155,606
Total minimum lease payments	13,926,965
Less amount representing interest	3,431,064
Present value of future minimum lease payments	<u>\$10,495,901</u>

Foundation Leases

Noncancelable leases for space in the Kenneth E. Meyer Alumni Center expire in various years through 2011. Several of these leases contain renewal options for periods ranging from one to three years. Future minimum lease income at June 30, 2008, is as follows: 2009-\$488,229; 2010-\$63,143; 2011-\$10,083.

Note 10: 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 April 2007. The Resolution provides that the bonds are payable from the gross income and revenues derived from the housing, parking, health center 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 health center consists of a Taylor Health and Wellness Center facility which provides medical and wellness services to students and their spouses, and University employees and their spouses and eligible dependents. The recreational facilities include the Hammons Student Center, the Plaster Sports Complex, the JQH Arena 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.

Notes to Financial Statements June 30, 2008 and 2007

Financial information for the Auxiliary Enterprise System for June 30, 2008 and 2007 is summarized as follows:

	2008	2007
Condensed Statement of Net Assets		
Assets:		
Current assets	\$ 52,089,867	\$ 81,569,440
Noncurrent assets	137,722,758	99,244,408
Total assets	189,812,625	180,813,848
Liabilities:		
Current liabilities	17,812,177	12,063,247
Noncurrent liabilities	87,096,409	91,290,708
Total liabilities	104,908,586	103,353,955
Net assets:		
Invested in capital assets, net of related debt	56,902,384	55,205,718
Restricted -		
Expendable	8,794,284	6,473,920
Unrestricted	19,207,371	15,780,255
Total net assets	84,904,039	77,459,893
Total liabilities and net assets	\$ 189,812,625	180,813,848

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007
Operating revenues	\$ 47,756,307	\$ 35,542,755
Operating expenses:		
Depreciation	2,818,538	2,760,948
All other operating expenses	34,919,444	34,079,645
Total operating expenses	37,737,982	36,840,593
Operating income (loss)	10,018,325	(1,297,838)
Nonoperating revenues (expenses)	3,396,699	2,592,958
Excess (deficit) of revenues over expenses	13,415,024	1,295,120
Transfer (to) from other University units	(5,970,878)	5,347,841
Increase in net assets	7,444,146	6,642,961
Net assets, beginning of year	77,459,893	70,816,932
Net assets, end of year	\$ 84,904,039	\$ 77,459,893

Note 11: Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 29,504,880	\$	\$	\$ 176,660	\$ 29,681,540
Infrastructure	34,867,425			1,543,999	36,411,424
Buildings	311,552,886			18,200,207	329,753,093
Furniture, fixtures, and equipment	29,497,317	3,358,873	874,397	89,992	32,071,785
Library materials	41,509,788	2,220,941			43,730,729
Capitalized collections	391,858				391,858
Construction in progress	24,405,118	52,873,198		(20,010,858)	57,267,458
Total	471,729,272	58,453,012	874,397		529,307,887
Less accumulated depreciation:					
Infrastructure	9,510,004	1,642,872			11,152,876
Buildings	112,040,684	8,295,579			120,336,263
Furniture, fixtures, and equipment	22,548,107	2,361,893	598,918		24,311,082
Library materials	30,888,930	1,908,290			32,797,220
Capitalized collections	111,121	39,186			150,307
Total accumulated depreciation	175,098,846	14,247,820	598,918		188,747,748
Capital assets, net	\$ 296,630,426	\$ 44,205,192	\$ 275,479		\$ 340,560,139

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 29,229,498	\$ 103,000	\$	\$ 172,382	\$ 29,504,880
Infrastructure	33,786,089			1,081,336	34,867,425
Buildings	305,162,699	348,010		6,042,177	311,552,886
Furniture, fixtures, and equipment	27,164,392	3,502,404	1,169,479		29,497,317
Library materials	39,490,262	2,019,526			41,509,788
Capitalized collections	391,858				391,858
Construction in progress	8,845,373	22,855,640		(7,295,895)	24,405,118
Total	444,070,171	28,828,580	1,169,479		471,729,272
Less accumulated depreciation:					
Infrastructure	7,886,711	1,623,293			9,510,004
Buildings	104,236,702	7,803,982			112,040,684
Furniture, fixtures, and equipment	21,315,304	2,233,646	1,000,843		22,548,107
Library materials	28,969,891	1,919,039			30,888,930
Capitalized collections	71,935	39,186			111,121
Total accumulated depreciation	162,480,543	13,619,146	1,000,843		175,098,846
Capital assets, net	\$ 281,589,628	\$ 15,209,434	\$ 168,636		\$ 296,630,426

Notes to Financial Statements June 30, 2008 and 2007

Note 12: 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, 2008, including major outstanding contracts of approximately \$52 million at June 30, 2008 related to the construction of the JQH Arena. Of these contracts, approximately \$15.8 million are still to be incurred at June 30, 2008.

Required Supplementary Information for the Postemployment Healthcare Plan

Missouri State University Employee Benefit Plan is a single-employer defined benefit plan administered by Missouri State University. Please refer to *Note 6* for more detailed information.

	Year Ended June 30, 2008
Actuarial Valuation Date	July 1, 2007
Actuarial Cost Method	Projected Unit Credit
Actuarial accrued liability	\$6,901,400
Actuarial value of assets	-
Total Unfunded Actuarial Liability	\$6,901,400
Funded Ratio	0.00%
Annual Covered Payroll	\$106,672,261
Ratio of Unfunded Actuarial Liability to Covered Payroll	6.47%
Participant Summary:	
Active employees	2,091
Retirees	217
Spouses of retirees	84
Total	2,392

Actuarial Assumptions:

UAAL amortization method	Level % of Pay
UAAL amortization period, closed/open	30 years, open
Investment return (discount) rate	4.00%

Health care cost trend rates

	Medical/Rx	Admin/Stop Loss
2008-2009	10.0%	10.0%
2009-2010	9.5%	9.5%
2010-2011	9.0%	9.0%
2011-2012	8.5%	8.5%
2012-2013	8.0%	8.0%
2013-2014	7.5%	7.5%
2014-2015	7.0%	7.0%
2015-2016	6.5%	6.5%
2016-2017	6.0%	6.0%
2017-2018	5.5%	5.5%
2018-beyond	5.0%	5.0%

PRIVATE GIVING

The loyalty of alumni and friends of the University was evident during Fiscal Year 2008. Over 26,000 donors, which included a record number 8,030 alumni donors, contributed \$14,050,400 (cash basis) to the Missouri State University Foundation for students, faculty and programs at Missouri State University. As part of that number, the Annual Fund, which supports annual needs of academic and other programs, received \$6,015,004. The other \$8,035,396 million was designated for special campaigns or were one-time gifts. An additional \$567,258 was recorded in deferred gift commitments during the fiscal year, which will provide further support at some point in the future. These kinds of commitments 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.

Endowed funds are essential to ongoing institutional planning and support. At the end of the fiscal year, the market value of the endowment pool assets stood at \$53,258,894. In addition to providing scholarship support, endowments provide critical program support, fund ongoing maintenance and equipment needs, bring in guest artists and lecturers, and fund faculty growth and development. Continued growth in the endowment parallels continued progress for the University.

The gifts received this past fiscal year came in many sizes and benefited students and programs across all campuses. Several donors established or contributed to endowed funds and scholarships to support programs including: the Guy Mace Endowed Professorship in Engineering, the Missouri State Libraries General Book Fund, gifts from the Darr Family Foundation and Journagan Construction for the Darr Agricultural Center, the Missouri State Promise Scholarship, and the John and Fredna Mahaffey Operation Promise Scholarship for military veterans injured after Sept. 11, 2001. Also, several funds and scholarships were established or continued receiving support in the areas of accounting, art and design, business, industrial management, libraries, and music, just to name a few. Additionally, annual gifts continued for critical support of programs in the areas of Greenwood, Jordan Valley Innovation Center, JQH Arena, KSMU, Ozarks Public Television, the West Plains campus, The Performance Society and The Bears Fund.

Whether gifts are made for immediate use, designated for permanent needs by funding endowments or planned through a deferred gift vehicle, all gifts are important to Missouri State University, both now and in the future. Across the University, many giving opportunities exist along with a range of giving vehicles, from cash to stock to deferred. All gifts advance the possibilities for Missouri State University students and enhance the University.

Fiscal Year 2008 was a tremendous year in which alumni, parents and friends of Missouri State demonstrated their loyalty to the University and its students, faculty and programs, with their gifts. ■

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Missouri State University is a community of people with respect for diversity. The University emphasizes the dignity and equality common to all persons and adheres to a strict nondiscrimination policy regarding the treatment of individual faculty, staff, and students. In accord with federal law and applicable Missouri statutes, the University does not discriminate on the basis of race, color, religion, sex, national origin, ancestry, age, disability, or veteran status in employment or in any program or activity offered or sponsored by the University. In addition, the University does not discriminate on any basis (including, but not limited to, political affiliation and sexual orientation) not related to the applicable educational requirements for students or the applicable job requirements for employees. • This policy shall not be interpreted in a manner as to violate the legal rights of religious organizations or military organizations associated with the Armed Forces of the United States of America. • The University maintains a grievance procedure incorporating due process available to any person who believes he or she has been discriminated against. Missouri State University is an Equal Opportunity/Affirmative Action employer. Inquiries concerning the grievance procedure, Affirmative Action Plan, or compliance with federal and state laws and guidelines should be addressed to Jana Estergard, Equal Opportunity Officer, Park Central Office Building Ste. 111, 901 South National Avenue, Springfield, Missouri 65897, 417-836-4252. Printed on recycled paper. FNS 38 09