

Central Missouri State University
A Component Unit of the State of Missouri

Accountants' Report and Financial Statements

June 30, 2006 and 2005

Central Missouri State University
A Component Unit of the State of Missouri
June 30, 2006 and 2005

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis.....	3
Financial Statements	
Statements of Net Assets	13
Central Missouri State University Foundation, Inc. – Statements of Financial Position.....	14
Statements of Revenues, Expenses and Changes in Net Assets	15
Central Missouri State University Foundation, Inc. – Statement of Activities – 2006.....	17
Central Missouri State University Foundation, Inc. – Statement of Activities – 2005.....	18
Statements of Cash Flows.....	19
Notes to Financial Statements.....	21



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Governors
Central Missouri State University
Warrensburg, Missouri

We have audited the accompanying basic financial statements of Central Missouri State University and its discretely presented component unit, collectively a component unit of the State of Missouri, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Central Missouri State University Foundation, Inc., a discretely presented component unit of the University, which statements reflect total assets of \$31,867,114 and \$31,192,244 as of June 30, 2006 and 2005, respectively, and total revenues of \$5,138,993 and \$5,464,432 for the years then ended. Those statements were audited by other accountants whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for Central Missouri State University Foundation, Inc., are based solely on the report of the other accountants.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for 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 Central Missouri State University Foundation, Inc., 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 and the report of the other accountants provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other accountants, the financial statements referred to above present fairly, in all material respects, the financial position of Central Missouri State University and of its discretely presented component unit as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

August 31, 2006

Central Missouri State University
A Component Unit of the State of Missouri
Management's Discussion and Analysis
Years Ended June 30, 2006 and 2005

Overview

Central Missouri State University, fully accredited by the North Central Association of Colleges and Schools, is a comprehensive, public university dedicated to student learning and committed to service and excellence. With 150 career-building programs of study, a beautiful residential campus and a welcoming hometown, Central Missouri State University is the school of choice for some 11,046 graduate and undergraduate students.

Founded as a teacher's college in 1871, Central Missouri State University has maintained a commitment to excellent teaching. The University's six-month job-placement rate for undergraduates is 93% and reflecting our excellent financial support packages, our students benefit from one of the lowest student-debt ratios in the state.

Through a foundation in the liberal arts, professional degree programs, personalized higher education experiences and use of current technologies, Central prepares a diverse body of students to be lifelong learners who are proficient in their fields of study, able to adapt to a changing world and contribute to the betterment of society. Central serves as Missouri's lead professional technology institution and is committed to acquiring, disseminating and utilizing technology to enhance the University's comprehensive educational mission and to enrich the lives of all Missourians.

University Foundation

The Central Missouri State University Foundation, Inc. (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. 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. The Foundation is considered a component unit of the University because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University. During the years ended June 30, 2006 and 2005, the Foundation provided support to the University of \$3,159,217 and \$2,489,892, respectively.

Management's Discussion and Analysis

This discussion and analysis of Central Missouri State University's (the "University") financial statements provides a comparative overview of the University's financial performance during the years ended June 30, 2006, 2005 and 2004. Since the management's discussion and analysis is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the University's basic financial statements and the footnotes. The University's financial statements and related footnotes consist of the following three statements:

Statement of Net Assets
Statement of Revenues, Expenses and Changes in Net Assets (SRECNA)
Statement of Cash Flows

During the year ended June 30, 2004, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*. GASB Statement No. 39 generally requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit such as a foundation. Thus the University's Annual Report includes reporting the following two University Foundation financial statements which are prepared in accordance with Financial Accounting Standards Board (FASB):

Statement of Financial Position
Statement of Activities

Statement of Net Assets

The statement of net assets presents the consolidated financial position of the University at a point in time. The statement of net assets has three major components which include 1.) assets, 2.) liabilities and 3.) net assets. A description of each component is as follows:

Assets – Current assets are those anticipated to be liquidated within one year or less and include items such as cash and cash equivalents, investments, accounts receivable, inventories, loans to students and prepaid expenses. Noncurrent assets include that portion of accounts receivable, investments, loans to students and prepaid expenses not expected to liquidate within one year plus capital assets such as buildings, building improvements, infrastructure, equipment etc.

Liabilities – Current liabilities are those anticipated to be recognized within one year or less and include items such as accounts payable and accrued liabilities, accrued compensated absences, deferred revenue, interest payable, student deposits, the current portion of long-term debt and accrued settlements. Noncurrent liabilities include that portion of accrued liabilities, compensated absences, long-term debt and settlements that are not due within one year.

Net Assets – Net assets represent University total assets less total liabilities. Net assets are classified in three major categories which include 1.) invested in capital assets, 2.) restricted, and 3.) unrestricted.

1.) Invested in capital assets represents buildings, building improvements, equipment, etc., that is net of accumulated depreciation and related debt.

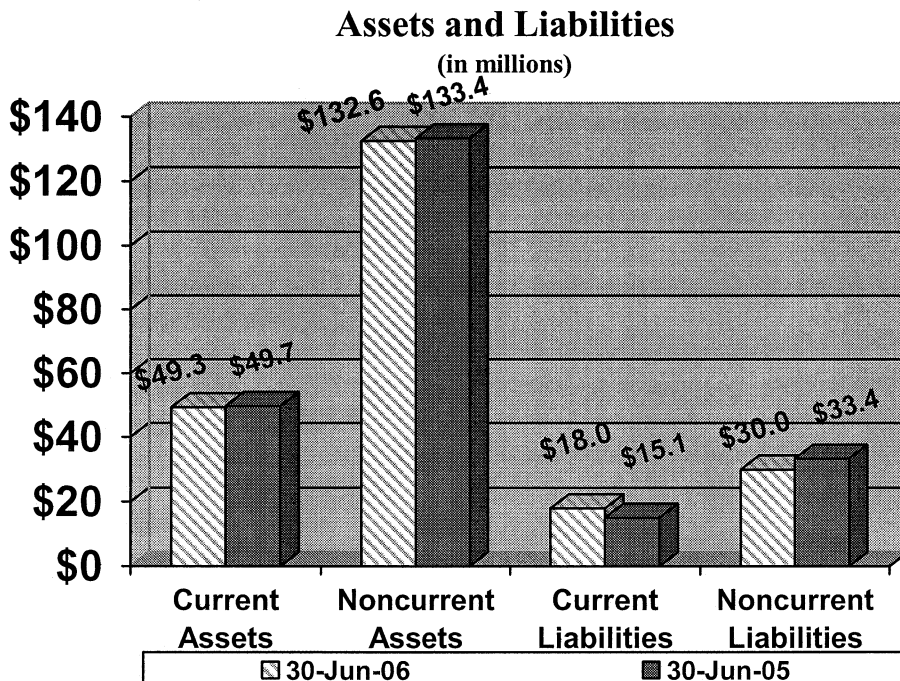
2.) Restricted net assets are those whose purpose has been determined by an outside party for a specific use such as scholarships, loans and capital projects.

3.) Unrestricted net assets represent balances from operational activities that have not been restricted by parties external to the University. This includes funds that have been designated for specific purposes as well as amounts that have been contractually committed for goods and services not yet received.

A summary of the University's assets, liabilities and net assets at June 30, 2006 and 2005:

Statements of Net Assets
As of June 30, 2006 and 2005
(In Millions)

	June 30, 2006	June 30, 2005
Current Assets	\$ 49.3	\$ 49.7
Noncurrent Assets	<u>132.6</u>	<u>133.4</u>
Total Assets	<u>\$ 181.9</u>	<u>\$ 183.1</u>
Current Liabilities	\$ 18.0	\$ 15.1
Noncurrent Liabilities	<u>30.0</u>	<u>33.4</u>
Total Liabilities	<u>\$ 48.0</u>	<u>\$ 48.5</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 92.3	\$ 89.3
Restricted	8.0	8.1
Unrestricted	<u>33.6</u>	<u>37.2</u>
Total net assets	<u>\$ 133.9</u>	<u>\$ 134.6</u>



Comparative Analysis of Fiscal Years 2006 and 2005

Current Assets – Current assets for Fiscal Year 2006 totaled \$49.3 which is comparable to Fiscal Year 2005 current assets of \$49.7 million. The University did see a shift from cash and cash equivalents to short-term investments. Cash and cash equivalents decreased by \$20.2 million while short-term investments increased by \$18.8 million resulting from investing cash in short-term government and corporate securities which earned a higher interest yield than the University’s money market fund.

Interest receivable increased by approximately \$0.2 million as a result of accrued interest income on short-term government and corporate bonds as of June 30, 2006.

The state appropriation receivable decreased by approximately \$0.3 as a result of the University receiving funds from the State of Missouri for the Wood building renovation project.

Prepaid expenses increased approximately \$1.5 million as a result of the University prepaying on June 30 the Fiscal Year 2007 Grounds and Maintenance Contract with our outside vendor in order to obtain a cash discount that was advantageous to the University.

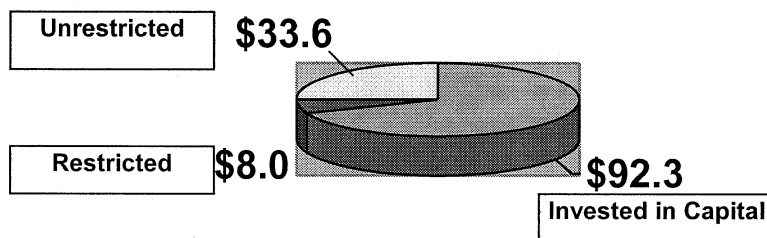
Noncurrent Assets – Total noncurrent assets decreased approximately \$0.8 million. The decrease is primarily due to the decrease in Perkins Loan Fund Notes Receivable of approximately \$0.4 million, decrease in capital assets of \$0.3 million as a result of certain capital assets becoming fully depreciated and the annual amortization of bond issue costs of approximately \$0.1 million.

Current Liabilities – Current liabilities increased by approximately \$2.9 million. This increase is primarily attributed to the fact the University’s new financial system allows the carryforward of accounts payable from one fiscal year to the next. In prior years, the University paid 100% of its vendor payables prior to fiscal year end due to the prior financial system’s inability to rollforward vendor payables. At fiscal year end, the University is now able to maximize its cash flow and earn interest income on this cash flow with the ability to pay vendor payables when they are actually due per the vendor credit terms.

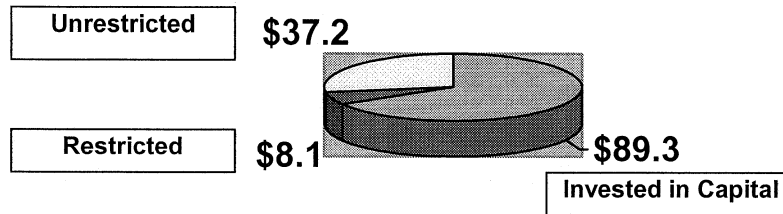
Noncurrent Liabilities – As of June 30, 2006, the University’s long-term debt decreased by \$3.4 million from June 30, 2005, as the result of scheduled bond payments.

Net Assets

Fiscal Year 2006 - Net Assets (in millions)



**Fiscal Year 2005 - Net Assets
(in millions)**



Comparative Analysis of Fiscal Years 2005 and 2004

Current Assets – Current assets for Fiscal Year 2005 totaled \$49.7 which is comparable to Fiscal Year 2004 current assets of \$49.3 million. As of June 30, 2005, the University’s unrestricted cash and cash equivalents decreased by approximately \$7.8 million while short-term investments increased \$8.2 million. This reallocation of cash and investments was the result of investing in government and corporate bonds which began yielding a higher rate of return than the University’s money market fund in Fiscal Year 2005.

Short-term investments increased by approximately \$8.2 million primarily from the reallocation mentioned above and certificates of deposit maturing and the proceeds being placed into the University’s money market fund with a guaranteed interest rate of 2.5%.

Federal and state grants receivable as of June 30, 2005, decreased by approximately \$1.6 million below June 30, 2004, primarily resulting from financial assistance applied to student accounts but not yet drawn down by the University.

State appropriations receivable decreased by approximately \$0.5 million as a result of capital expenditures incurred for the Wood renovation project.

Noncurrent Assets – For the year ended June 30, 2005, long-term investments increased by approximately \$1.9 million above June 30, 2004, due to a change in investment strategy as discussed above.

As of June 30, 2005, the University had recorded \$245 million in gross capital assets and \$120.6 million in accumulated depreciation resulting in \$124.4 million in net capital assets. During Fiscal 2005, the University completed renovation of the Todd, Panhellenic and Fraternity residence halls (\$1.7 million), renovation of the Union Central Court (\$0.2 million), completed the SHS energy savings program (\$7.6 million), completed the Crane Stadium Improvements (\$0.1 million), installed the computer hardware and software of the Enterprise Resource Planning integration (\$3.5 million) and other miscellaneous projects totaling approximately \$0.3 million. Construction in progress at June 30, 2005, includes renovation of the WCM Lab (\$0.4 million), renovation of Ward Edwards Ground Floor (\$1.4 million), installation of turf at Crane Stadium (\$0.5 million) financed by CMSU Foundation, renovations to the Wood building (\$0.9 million) and other miscellaneous projects (total of \$0.7 million).

Current Liabilities – As of June 30, 2005, the University’s accounts payable and accrued liabilities increased by approximately \$2.1 million from June 30, 2004, primarily resulting from an overdraw of financial aid student loan program (\$1.5 million), increase in deferred salary payable, other accrued expenses and unclaimed property payable. The student loan program overdraw was refunded August 2005. The current portion of long-term debt increased by approximately \$0.2 million, primarily resulting from bond payments due under the Student Housing System Energy Savings Program.

Noncurrent Liabilities – As of June 30, 2005, the University’s long-term debt decreased by approximately \$3.4 million below June 30, 2004, as the result of scheduled bond payments.

Operating Results

The statement of revenues, expenses and changes in net assets (SRECNA) present the operating results of the University as a whole. The statements, prepared in accordance with GASB, distinguish revenues and expenses between operating and nonoperating categories and provide a view of the University’s operating margin. Comparative summary statements of revenue, expenses and changes in net assets for the years ended June 30, 2006 and 2005, are as follows:

Operating Results Years Ended June 30, 2006 and 2005 (In Millions)

	June 30, 2006	June 30, 2005
Operating Revenue		
Tuition and fees	\$ 44.1	\$ 41.6
Federal grants and contracts	8.1	8.7
State grants and contracts	0.1	0.4
Auxiliary enterprises	22.1	21.5
Other	4.8	6.3
Total Operating Revenues	79.2	78.5
Operating Expenses	143.1	136.9
Operating Loss	(63.9)	(58.4)
Nonoperating Revenue (Expenses)		
State appropriations	52.2	52.4
Federal grants and contracts	5.4	4.0
State grants and contracts	1.2	1.5
Other grants and contracts	1.2	1.1
Contributions	2.3	1.8
Loss on disposal of net assets	(0.1)	(5.1)
Investment income	1.5	1.1
Interest on capital asset – related debt	(1.2)	(1.3)
Other nonoperating revenues (expenses)	(0.2)	0.3
Net Nonoperating Revenues	62.3	55.8
Decrease in Net Assets	(1.6)	(2.6)
Capital Grants and Gifts	0.8	1.0
Net Assets, Beginning of Year	134.7	136.2
Net Assets, End of Year	\$ 133.9	\$ 134.6

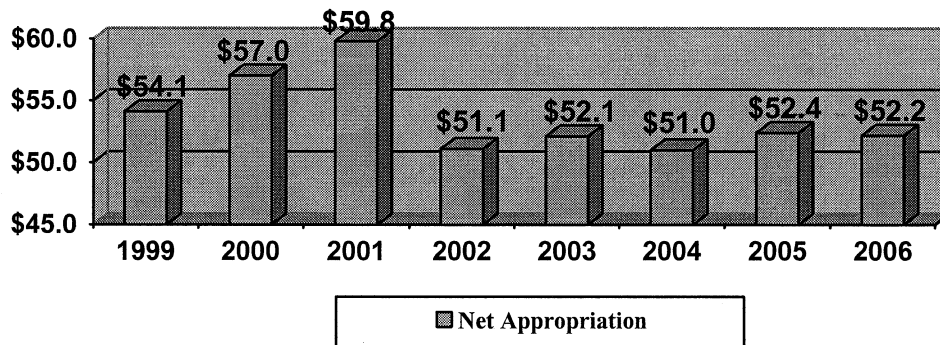
Comparative Analysis of Fiscal Years 2006 and 2005

Operating Revenues – For the year ended June 30, 2006, tuition and fee revenues (net of scholarship allowances and bad debt expense) were approximately \$2.5 million above the year ended June 30, 2005, primarily resulting from increased enrollment coupled with tuition and fee increases. Fiscal Year 2005 tuition and fees were approximately \$1.6 million above the year ended June 30, 2004, as the result of increased enrollment coupled with rate increases.

Federal grants and contracts decreased from \$8.7 million in Fiscal Year 2005 to \$8.1 million in Fiscal Year 2006 as a result of an approximate \$0.2 million decrease in SEOG Grants, Work Study decreased \$0.1 million and Pell grants decreased approximately \$0.3 million.

Nonoperating Revenues – Although state appropriations are considered part of the University’s budgeting process and specifically included as general operating funds, the Governmental Accounting Standards Board require state appropriations to be separately reported as nonoperating revenue.

The University’s financial position is closely tied to the State of Missouri and the associated general revenue and lottery proceeds appropriated by the Legislature. During Fiscal Years 2006 and 2005, the Legislature appropriated \$53.8 million each year but subsequent 3% withholdings totaling \$1.6 million decreased the net appropriation received by the University to \$52.2 million. The Fiscal Year 2006 state appropriation of \$53.8 million is still below the 1999 appropriation of \$55.8 million as the result of prior year cuts in state funding of higher education. Following is a historical trend of the University’s state appropriation funding (net of withholdings).

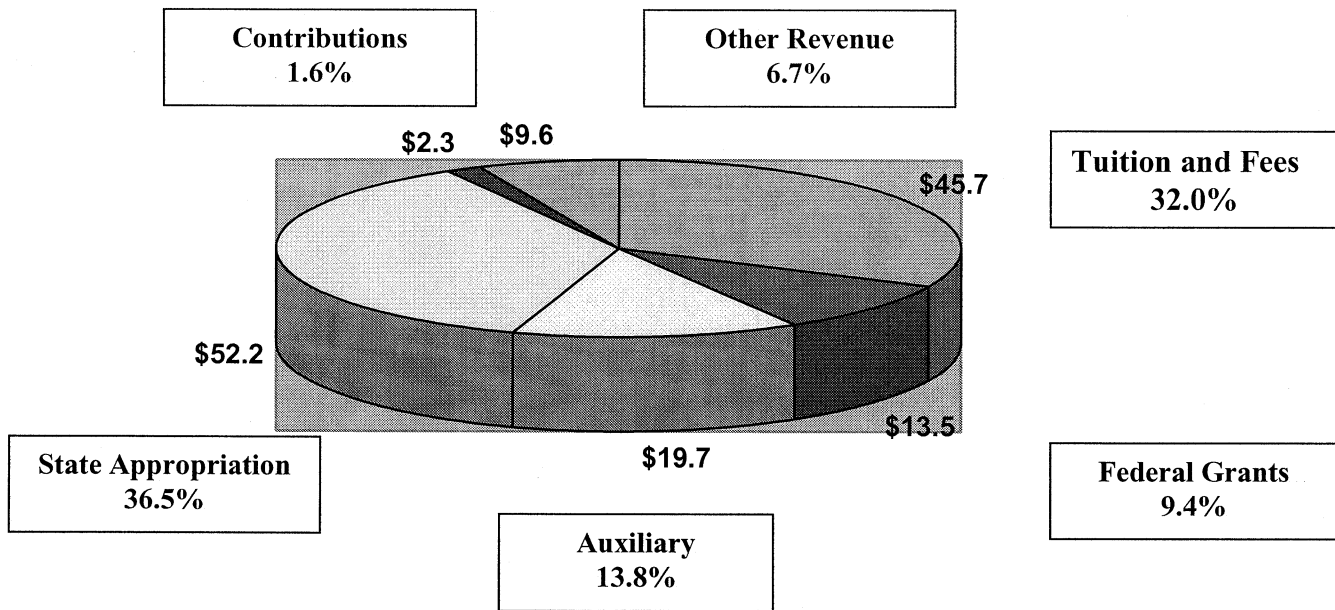


Federal grants and contracts increased from \$4 million in 2005 to \$5.4 million in 2006. This increase is attributed to increased Missouri Safety Center grants and other new grant funding initiatives.

In Fiscal Year 2005, The University recognized a loss on disposal of capital assets of \$5.1 million as a result of a change in capitalization policy. The asset capitalization policy was increased from \$1,000 per item to a minimum capitalization amount of \$5,000. In Fiscal Year 2005, items between \$1,000 and \$5,000 were expensed as a result of the new capitalization policy.

Fiscal Year 2006 investment income of \$1.5 million represents an approximate \$0.4 million increase over the prior year amount of \$1.1 million. This increase is attributed to increased interest rates in the CD and government and corporate bond markets. Interest income was flat from Fiscal Year 2004 to Fiscal Year 2005 as interest rates experienced only modest increases in late Fiscal Year 2005.

The following graph summarizes the University's Fiscal Year 2006 sources of revenues:



**Operating Expenses
Years Ended June 30, 2006 and 2005**

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Compensation and benefits	\$ 89.7	\$ 81.8
Contractual services	10.5	10.1
Supplies and materials	11.9	11.3
Scholarships and fellowships	4.2	3.5
Depreciation	10.4	11.4
Utilities	5.1	4.4
Other	<u>11.3</u>	<u>14.4</u>
Total	\$ <u>143.1</u>	\$ <u>136.9</u>

Operating Expenses – Total operating expenses increased from \$136.9 million in Fiscal Year 2005 to \$143.1 million in Fiscal Year 2006 which represents a \$6.2 million increase.

Compensation and benefits increased \$7.9 million as the result of a 29% increase in health care premiums, increased retirement benefits and added positions.

Contractual services includes \$5.5 million in food service, \$1.6 million in grounds and custodial management services and \$2.1 million in information systems services. The University implemented a new Banner ERP system which includes a new finance system and chart of accounts. The new Banner chart of accounts provides a better definition for account coding of expenditures. As a result, individual variations are seen between years for contractual services, supplies and materials and other expenses as

departments were able to better classify their expenditures. In aggregate, these three categories total \$33.7 million in Fiscal Year 2006 versus \$35.8 million in Fiscal Year 2005; a \$2.1 million decrease in expenditures.

Scholarships and fellowships increased by \$0.7 million primarily as a result of the increase in financial aid programs.

Utilities experienced a \$0.7 million increase between fiscal years as the result of approximately 30% increase in natural gas rates and a 14% increase in electricity rates.

For the year ended June 30, 2005, operating expenses increased by approximately \$12.2 million above the year ended June 30, 2004. This increase is primarily related to increased expenses for compensation and benefits (\$4.4 million) resulting from improved salaries and benefits and supplies and materials expenses (\$4.5 million) resulting from utilization of budget money "carried" forward from the prior year.

Cash Flows
Years Ended June 30, 2006 and 2005
(in millions)

	June 30, 2006	June 30, 2005
Cash Provided By (Used In)		
Operating activities	\$ (52.0)	\$ (46.5)
Noncapital financing activities	62.8	63.0
Capital and related financing activities	(13.5)	(14.7)
Investing activities	(17.5)	(9.1)
Increase (Decrease) in Cash and Cash Equivalents	(20.2)	(7.3)
Cash and Cash Equivalents, Beginning of Year	27.2	34.5
Cash and Cash Equivalents, End of Year	\$ 7.0	\$ 27.2

The statement of cash flows shows the sources and uses of University cash. The statement presents a beginning and ending cash balance only and does not include the University's investment in CD's or government securities. For instance, the University's total cash of \$7.0 million plus investments of \$31.7 million totals \$38.7 million in cash and investments for Fiscal Year 2006. In Fiscal Year 2005, total cash of \$27.2 plus investments of \$12.9 million totaled \$40.1 million in Fiscal Year 2005. With the increase in investment yields, the University reallocated its cash and investments from primarily money market (cash) funds in Fiscal Year 2005 to government and corporate bonds in Fiscal Year 2006.

During the year ended June 30, 2006, cash used in operating activities amounted to (\$52.0) million, which resulted from tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprises and associated collections that were offset by payments to suppliers, utilities, employees, scholarships and fellowships and other payments. Cash provided by noncapital financing activities of \$62.8 million includes state appropriations, gifts and grants for other than capital purposes and other receipts. Cash used for capital and related financing activities was (\$13.5) million. This included purchases of capital assets (\$9.4 million), principal and interest on capital debt and leases (\$4.8 million) which were partially offset by gifts and grants for capital purposes (\$0.4 million) and state appropriations for capital purposes (\$0.3 million). Cash and cash equivalents at June 30, 2006, were \$7.0 million, which decreased by \$20.2 million from June 30, 2005.

During the year ended June 30, 2005, cash used in operating activities amounted to (\$46.5) million, which resulted from receipts from tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprises, student loans and associated collections that were offset by payments to suppliers, utilities, employees and other payments. Cash provided by noncapital financing activities of \$63.0 million includes state appropriations, gifts and grants for other than capital purposes and other receipts. Cash used for capital and related financing activities was (\$14.7) million. This included purchases of capital assets (\$10.6 million), principal and interest on capital debt and leases (\$4.7 million) which were partially offset by gifts and grants for capital purposes (\$0.1 million) and state capital appropriations (\$0.5 million). Cash and cash equivalents at June 30, 2005, were \$27.2 million, which decreased by \$7.3 million from June 30, 2004.

Central Missouri State University
A Component Unit of the State of Missouri
Statements of Net Assets
June 30, 2006 and 2005

Assets

	2006	2005
Current assets		
Cash and cash equivalents	\$ 6,062,053	\$ 26,378,093
Restricted cash and cash equivalents	900,943	782,757
Short-term investments	29,736,786	10,938,062
Accounts receivable, net of allowance; 2006 – \$1,867,922; 2005 – \$1,411,929	4,216,635	4,194,641
Interest receivable	274,993	35,702
Federal and state grants receivable	1,217,079	1,861,553
State appropriations receivable	40,847	369,462
Due from Foundation – current portion	50,000	50,000
Inventories	3,072,637	2,889,034
Loans to students, net	1,562,787	1,538,895
Prepaid expenses	<u>2,207,652</u>	<u>703,250</u>
Total current assets	<u>49,342,412</u>	<u>49,741,449</u>
 Noncurrent assets		
Other long-term investments	1,935,000	1,973,001
Loans to students, net	5,340,921	5,726,142
Due from Foundation	608,405	633,080
Capital assets, net	124,039,654	124,375,896
Deferred bond issue costs, net	<u>629,992</u>	<u>714,891</u>
Total noncurrent assets	<u>132,553,972</u>	<u>133,423,010</u>
Total assets	<u>\$ 181,896,384</u>	<u>\$ 183,164,459</u>

See Notes to Financial Statements

Liabilities

	<u>2006</u>	<u>2005</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,377,676	\$ 6,274,963
Accrued compensated absences	1,675,984	1,537,573
Deferred revenue	2,586,053	2,258,580
Interest payable	392,164	427,977
Long-term debt – current portion	3,487,779	3,469,974
Accrued settlement – current portion	50,000	50,000
Student deposits	<u>326,953</u>	<u>1,066,988</u>
Total current liabilities	<u>17,896,609</u>	<u>15,086,055</u>
Noncurrent liabilities		
Accrued compensated absences	1,319,943	1,291,653
Accrued settlement	608,405	633,080
Other long-term liability	100,000	—
Long-term debt	<u>28,041,013</u>	<u>31,469,977</u>
Total noncurrent liabilities	<u>30,069,361</u>	<u>33,394,710</u>
Total liabilities	<u>47,965,970</u>	<u>48,480,765</u>

Net Assets

Invested in capital assets, net of related debt	92,325,409	89,301,120
Restricted for		
Nonexpendable		
Loans	6,704,442	6,529,805
Expendable		
Scholarships and fellowships	83,214	126,957
Loans	1,091,903	1,071,295
Capital projects	40,847	369,462
Other	38,644	41,693
Unrestricted	<u>33,645,955</u>	<u>37,243,362</u>
Total net assets	<u>\$ 133,930,414</u>	<u>\$ 134,683,694</u>

Central Missouri State University Foundation, Inc.

Statements of Financial Position

June 30, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 2,615,422	\$ 1,510,460
Investments	27,895,334	28,630,721
Contributions receivable, net	692,148	383,615
Cash surrender value of life insurance	203,680	177,583
Accrued investment income	164,444	153,462
Assets held in trust	294,430	332,903
Prepaid expenses	<u>1,656</u>	<u>3,500</u>
Total assets	<u>\$ 31,867,114</u>	<u>\$ 31,192,244</u>

Liabilities and Net Assets

Liabilities

Annuities payable	\$ 1,783,634	\$ 1,843,773
Accrued expenses	<u>336,640</u>	<u>412,017</u>
Total liabilities	<u>2,120,274</u>	<u>2,255,790</u>

Net Assets

Unrestricted	6,283,985	6,317,364
Temporarily restricted	9,876,801	9,517,548
Permanently restricted	<u>13,586,054</u>	<u>13,101,542</u>
Total net assets	<u>29,746,840</u>	<u>28,936,454</u>
Total liabilities and net assets	<u>\$ 31,867,114</u>	<u>\$ 31,192,244</u>

Central Missouri State University
A Component Unit of the State of Missouri
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Tuition and fees, net of scholarship allowances; 2006 – \$9,773,689, 2005 – \$9,389,063 and bad debt expense; 2006 – \$640,918, 2005 - \$596,240	\$ 44,114,657	\$ 41,565,960
Federal grants and contracts	8,065,083	8,704,093
State grants and contracts	153,790	419,965
Interest on student loans receivable	113,095	216,782
Sales and services of educational activities	943,302	1,185,256
Auxiliary enterprises		
Housing, net of scholarship allowances; 2006 – \$2,644,227; 2005 – \$2,829,431	13,416,079	13,003,675
Bookstore	5,084,002	4,845,195
Other auxiliaries	3,557,519	3,709,340
Other operating revenues	<u>3,736,356</u>	<u>4,881,176</u>
Total operating revenues	<u>79,183,883</u>	<u>78,531,442</u>
Operating Expenses		
Compensation and benefits	89,690,951	81,790,024
Contractual services	10,552,880	10,065,269
Supplies and materials	11,859,108	11,328,538
Scholarships and fellowships	4,188,015	3,537,383
Depreciation	10,407,071	11,367,040
Utilities	5,121,391	4,385,528
Other	<u>11,278,955</u>	<u>14,417,135</u>
Total operating expenses	<u>143,098,371</u>	<u>136,890,917</u>
Operating Loss	<u>(63,914,488)</u>	<u>(58,359,475)</u>
Nonoperating Revenues (Expenses)		
State appropriations	52,212,654	52,447,654
Federal grants and contracts	5,425,447	4,004,723
State grants and contracts	1,261,674	1,446,702
Other grants and contracts	1,165,778	1,071,411
Contributions	2,322,011	1,838,823
Loss on disposal of capital assets	(114,841)	(5,126,092)
Investment income	1,464,454	1,136,248
Interest on capital asset – related debt	(1,228,482)	(1,348,805)
Other nonoperating revenues	—	451,286
Other nonoperating expenses	<u>(199,480)</u>	<u>(114,081)</u>
Net nonoperating revenues (expenses)	<u>62,309,215</u>	<u>55,807,869</u>

Central Missouri State University
A Component Unit of the State of Missouri
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Loss Before Other Revenues, Expenses, Gains or Losses	\$ (1,605,273)	\$ (2,551,606)
Capital Grants and Gifts	<u>851,993</u>	<u>987,393</u>
Decrease in Net Assets	(753,280)	(1,564,213)
Net Assets, Beginning of Year	<u>134,683,694</u>	<u>136,247,907</u>
Net Assets, End of Year	<u>\$ 133,930,414</u>	<u>\$ 134,683,694</u>

Central Missouri State University Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Monetary contributions	\$ 568,954	\$ 1,881,933	\$ 509,236	\$ 2,960,123
In-kind contributions	10,398	738,965	—	749,363
Other income	279	7,587	—	7,866
Interest and dividends	215,935	530,520	232	746,687
Investment income – assets held in trust	—	6,906	—	6,906
Net realized and unrealized gain on investments	385,018	253,201	29,829	668,048
Net assets released from restrictions				
Satisfaction of program restrictions	<u>3,016,513</u>	<u>(3,016,513)</u>	<u>—</u>	<u>—</u>
Total revenue and other support	<u>4,197,097</u>	<u>402,599</u>	<u>539,297</u>	<u>5,138,993</u>
Expenses				
Foundation expenses				
General administrative expenses	367,911	—	—	367,911
Fundraising expenses	<u>258,192</u>	<u>—</u>	<u>—</u>	<u>258,192</u>
Total Foundation expenses	<u>626,103</u>	<u>—</u>	<u>—</u>	<u>626,103</u>
Contributions to the University for the following purposes				
Program expenses				
Scholarships	536,204	—	—	536,204
Academic support – TV/Radio	581,068	—	—	581,068
Student services – athletics	1,020,352	—	—	1,020,352
Instruction and other departmental	796,652	—	—	796,652
Support services				
Institutional support – plant facilities	<u>657,993</u>	<u>—</u>	<u>—</u>	<u>657,993</u>
Total contributions to the University	<u>3,592,269</u>	<u>—</u>	<u>—</u>	<u>3,592,269</u>
Total expenses	<u>4,218,372</u>	<u>—</u>	<u>—</u>	<u>4,218,372</u>
Increase (Decrease) in Net Assets Before Other Changes	<u>(21,275)</u>	<u>402,599</u>	<u>539,297</u>	<u>920,621</u>
Other Changes				
Adjustments to actuarial liability of annuities payable	—	(25,325)	(84,910)	(110,235)
Other	<u>(12,104)</u>	<u>(18,021)</u>	<u>30,125</u>	<u>—</u>
	<u>(12,104)</u>	<u>(43,346)</u>	<u>(54,785)</u>	<u>(110,235)</u>
Increase (Decrease) in Net Assets	(33,379)	359,253	484,512	810,386
Net Assets, June 30, 2005	<u>6,317,364</u>	<u>9,517,548</u>	<u>13,101,542</u>	<u>28,936,454</u>
Net Assets, June 30, 2006	<u>\$ 6,283,985</u>	<u>\$ 9,876,801</u>	<u>\$ 13,586,054</u>	<u>\$ 29,746,840</u>

Central Missouri State University Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Monetary contributions	\$ 339,297	\$ 2,349,905	\$ 515,516	\$ 3,204,718
In-kind contributions	1,466	709,592	—	711,058
Other income	—	8,149	—	8,149
Interest and dividends	256,052	338,313	15,119	609,484
Investment income – assets held in trust	—	196,810	—	196,810
Net realized and unrealized gain on investments	79,844	247,622	414,864	742,330
Net realized and unrealized gain – assets held in trust	—	(8,117)	—	(8,117)
Net assets released from restrictions				
Satisfaction of program restrictions	<u>2,489,892</u>	<u>(2,489,892)</u>	<u>—</u>	<u>—</u>
Total revenue and other support	<u>3,166,551</u>	<u>1,352,382</u>	<u>945,499</u>	<u>5,464,432</u>
Expenses				
Foundation expenses				
General administrative expenses	359,709	—	—	359,709
Fundraising expenses	<u>256,090</u>	<u>—</u>	<u>—</u>	<u>256,090</u>
Total Foundation expenses	<u>615,799</u>	<u>—</u>	<u>—</u>	<u>615,799</u>
Contributions to the University for the following purposes				
Program expenses				
Scholarships	423,609	—	—	423,609
Academic support – TV/Radio	435,642	—	—	435,642
Student services – athletics	674,356	—	—	674,356
Instruction and other departmental	672,448	—	—	672,448
Support services				
Institutional support – plant facilities	<u>1,009,525</u>	<u>—</u>	<u>—</u>	<u>1,009,525</u>
Total contributions to the University	<u>3,215,580</u>	<u>—</u>	<u>—</u>	<u>3,215,580</u>
Total expenses	<u>3,831,379</u>	<u>—</u>	<u>—</u>	<u>3,831,379</u>
Increase in Net Assets Before Other Changes	<u>(664,828)</u>	<u>1,352,382</u>	<u>945,499</u>	<u>1,633,053</u>
Other Changes				
Adjustments to actuarial liability of annuities payable	—	23,840	64,662	88,502
Other	<u>(3,105)</u>	<u>33,443</u>	<u>58,562</u>	<u>88,900</u>
	<u>(3,105)</u>	<u>57,283</u>	<u>123,224</u>	<u>177,402</u>
Increase (Decrease) in Net Assets	(667,933)	1,409,665	1,068,723	1,810,455
Net Assets, June 30, 2004, As Reclassified	<u>6,985,297</u>	<u>8,107,883</u>	<u>12,032,819</u>	<u>27,125,999</u>
Net Assets, June 30, 2005	<u>\$ 6,317,364</u>	<u>\$ 9,517,548</u>	<u>\$ 13,101,542</u>	<u>\$ 28,936,454</u>

Central Missouri State University
A Component Unit of the State of Missouri

Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Operating Activities		
Tuition and fees	\$ 43,968,883	\$ 41,351,846
Grants and contracts	8,218,873	9,124,058
Sales and services of educational activities	943,302	1,185,256
Payments to suppliers	(22,026,710)	(19,818,111)
Payments for utilities	(5,121,391)	(4,385,528)
Payments to employees	(88,452,299)	(81,682,181)
Payments for scholarships and fellowships	(4,188,015)	(3,537,383)
Loans issued to students	(2,770,978)	(2,222,175)
Collection of loans to students	3,245,402	2,025,265
Sales and services of auxiliary enterprises	21,681,508	20,955,356
Other payments	<u>(7,542,599)</u>	<u>(9,535,959)</u>
Net cash used in operating activities	<u>(52,044,024)</u>	<u>(46,539,556)</u>
Noncapital Financing Activities		
State appropriations	52,212,654	52,447,654
Gifts and grants for other than capital purposes	10,769,769	10,175,296
Other receipts	<u>(114,581)</u>	<u>421,105</u>
Net cash provided by noncapital financing activities	<u>62,867,842</u>	<u>63,044,055</u>
Capital and Related Financing Activities		
Gifts and grants for capital purposes	393,633	52,266
Capital appropriations – state	328,615	526,875
Purchase of capital assets	(9,399,473)	(10,585,504)
Principal paid on capital debt and leases	(3,469,974)	(3,293,037)
Interest paid on capital debt and leases	<u>(1,338,913)</u>	<u>(1,444,409)</u>
Net cash used in capital and related financing activities	<u>(13,486,112)</u>	<u>(14,743,809)</u>

Central Missouri State University
A Component Unit of the State of Missouri
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Investing Activities		
Investment income	\$ 1,023,898	\$ 1,107,414
Proceeds from sales and maturities of investments	22,975,000	2,677,545
Purchases of investments	<u>(41,534,458)</u>	<u>(12,894,370)</u>
Net cash used in investing activities	<u>(17,535,560)</u>	<u>(9,109,411)</u>
Decrease in Cash and Cash Equivalents	(20,197,854)	(7,348,721)
Cash and Cash Equivalents, Beginning of Year	<u>27,160,850</u>	<u>34,509,571</u>
Cash and Cash Equivalents, End of Year	\$ <u>6,962,996</u>	\$ <u>27,160,850</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	\$ 6,062,053	\$ 26,378,093
Restricted cash and cash equivalents – current	<u>900,943</u>	<u>782,757</u>
Total cash and cash equivalents	<u>\$ 6,962,996</u>	<u>\$ 27,160,850</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (63,914,488)	\$ (58,359,475)
Depreciation expense	10,407,071	11,367,040
Changes in operating assets and liabilities		
Receivables, net	346,113	(1,236,224)
Inventories	(183,603)	(206,163)
Prepaid expenses	(1,504,402)	(408,439)
Accounts payable and accrued liabilities	2,073,283	2,190,298
Deferred revenue	233,385	(118,143)
Accrued salaries and benefits	1,238,652	107,843
Student deposits	<u>(740,035)</u>	<u>123,707</u>
Net Cash Used in Operating Activities	<u>\$ (52,044,024)</u>	<u>\$ (46,539,556)</u>
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchases	\$192,304	\$134,825
Capital assets donated	\$595,285	\$746,424

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

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

Nature of Operations

Central Missouri State University (the “University”) is a state educational institution organized and existing under the laws of the state of Missouri and is a component unit of the State of Missouri. The University was founded in 1871 and is one of 13 four-year, public-supported institutions of higher education in Missouri. The University’s main campus is located in the city of Warrensburg and offers a variety of programs and services at multiple locations.

Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Direct Loan and Federal Perkins Loan Programs. The University extends unsecured credit to students.

Basis of Accounting and Presentation

The financial statements of the University have been prepared on the accrual basis of accounting. 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 federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. 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.

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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 and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2006 and 2005, cash equivalents consisted primarily of money market funds.

Investments and Investment Income

Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit are carried at cost.

Investment income consists of interest income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable are recorded net of estimated uncollectible amounts.

Deferred Bond Issue Costs

Bond issue costs incurred on outstanding revenue bond issues have been deferred and are being amortized over the life of the bonds using the straight-line method. Total amortization was \$84,400 for the years ended June 30, 2006 and 2005.

Inventories

Inventories include bookstore merchandise, golf equipment and consumable supplies. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$719,050 and \$730,123 at June 30, 2006 and 2005, respectively.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Prior to 2006, depreciation was computed using the straight-line method (half-year convention) over the estimated useful life of each asset. Under the half-year convention, if an asset was placed in service or disposed of during the current year, one-half year's depreciation was reported regardless of the actual date the asset was placed in or removed from service.

The following estimated useful lives are being used by the University:

Land improvements	15 years
Buildings and improvements	15 – 40 years
Infrastructure	15 years
Furniture, fixtures and equipment	5 – 15 years
Library materials	10 years

The University capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowing for projects not funded with tax-exempt debt. For those projects funded with tax-exempt debt, interest costs of borrowing specifically for the project are capitalized net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized for the years ended June 30, 2006 and 2005, was \$133,433 and \$120,508, respectively.

During the year ended June 30, 2005, the University changed its capitalization policy to only capitalize items greater than \$5,000 and wrote off all items less than \$5,000. The effect of the change was a \$5,126,092 decrease in net assets for 2005.

Compensated Absences

University policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Revenue

Deferred revenue represents unearned student fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Net Assets

Net assets of the University are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital assets which include those that are expendable that must be used for a particular purpose as specified by creditors, grantors or donors external to the University, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings and those that are not expendable that include the federal portion of loan funds and funds held for which the income is used to provide scholarships. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted.

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 tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises and (3) interest on student loans.

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

Scholarship Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship allowances in the statements of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees for the years ended June 30, 2006 and 2005, were \$9,773,689 and \$9,389,063, respectively. The scholarship allowances on housing for the years ended June 30, 2006 and 2005, were \$2,644,227 and \$2,829,431, respectively.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

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 and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Accrued Settlement

In 2001, the University was named the beneficiary of an estate, which was contested by a relative of the deceased. During Fiscal Year 2003, the University settled the dispute. The University has recorded a liability at June 30, 2006 and 2005, of \$658,405 and \$683,080, respectively, which represents the present value of the future annuity obligations under the settlement agreement. The liability has been determined using a discount rate of 3.6% and applicable mortality tables. This liability is to be funded by proceeds of the estate which are held by Central Missouri State University Foundation (*Note 6*).

Foundation

Central 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 Foundation Board of Directors consists of elected members of alumni, friends and other supporters of the University.

Although the University does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the years ended June 30, 2006 and 2005, the Foundation provided \$3,159,217 and \$2,489,892, respectively, of support to the University. Complete financial statements of the Foundation may be obtained from its Administrative Office at the following address: CMSU Smiser Alumni Center, Warrensburg, Missouri 64093.

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 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.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Reclassifications

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

Note 2: Deposits, Investments and Investment Return

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 must comply with the provisions of state policy which requires all deposits placed in financial institutions to be at least 100% collateralized with securities that are acceptable to the Missouri State Governor, Missouri State Treasurer and the Missouri State Auditor. All securities, which serve as collateral against the deposits of a depository institution, must be safe kept at a nonaffiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts.

At June 30, 2006 and 2005, respectively, the University's bank balances were \$14,320,193 and \$36,089,509. None of these deposits were exposed to custodial credit risk at June 30, 2006 or 2005.

Investments

The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

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

Type	Fair Value	June 30, 2006			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$20,714,370	\$18,779,370	\$ 1,935,000	\$ —	\$ —
Corporate bond	6,940,159	6,940,159	—	—	—
Mutual fund	27,257	—	—	—	—
	<u>\$27,681,786</u>	<u>\$25,719,529</u>	<u>\$ 1,935,000</u>	<u>\$ 0</u>	<u>\$ 0</u>

Central Missouri State University
A Component Unit of the State of Missouri

Notes to Financial Statements
June 30, 2006 and 2005

Type	June 30, 2005				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	\$ 9,924,513	\$ <u>9,924,513</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Mutual fund	<u>23,549</u>				
	<u>\$ 9,948,062</u>				

Interest Rate Risk – Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The University’s investment policy does not address interest rate risk.

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 investments in corporate bonds to “A”, “AA” and “AAA” as rated by Standard and Poor’s and Moody’s Investors Services. At June 30, 2006, the University’s investments in corporate bonds were rated between “AA-” and “AAA” by Fitch Ratings. The University’s investments in U.S. agencies obligations not directly guaranteed by the U.S. government at June 30, 2006 and 2005, were rated AAA by Moody’s and Standard & Poor’s. Ratings for the University’s investments in mutual funds at June 30, 2006 and 2005, are not available.

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. All of the University’s investments at June 30, 2006 and 2005, are held in the University’s name. The University’s investment policy does not address in whose name securities are to be held.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The University’s investment policy permits it to hold up to 25% of total investments including certificates of deposit in corporate bonds, with no more than 5% of its investments to be invested with any one issuer. The University’s investment policy requires the ratio of investments in corporate bonds to be reviewed on an annual basis. The University places no restrictions on investments in direct obligations of the U.S. government, U.S. agency issues, U.S. government guaranteed securities or repurchase agreements that are collateralized 101% with U.S. treasury bills, bonds or notes and are entered into for periods of 180 days or less. At June 30, 2006 and 2005, the University’s investment in corporate bonds constituted 21.91% and 0%, respectively, of its total investments, including certificates of deposit.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Summary of Carrying Values

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

	2006	2005
Carrying value		
Deposits	\$ 10,952,996	\$ 30,123,851
Investments	<u>27,681,786</u>	<u>9,948,062</u>
	<u>\$ 38,634,782</u>	<u>\$ 40,071,913</u>
Included in the following statements of net assets captions		
Cash and cash equivalents	\$ 6,062,053	\$ 26,378,093
Restricted cash and investments – current	900,943	782,757
Short-term investments	29,736,786	10,938,062
Noncurrent cash and investments	<u>1,935,000</u>	<u>1,973,001</u>
	<u>\$ 38,634,782</u>	<u>\$ 40,071,913</u>

Investment Income

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

	2006	2005
Interest and dividend income	\$ 1,517,509	\$ 1,149,078
Net decrease in fair value of investments	<u>(53,055)</u>	<u>(12,830)</u>
	<u>\$ 1,464,454</u>	<u>\$ 1,136,248</u>

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Note 3: Capital Assets

Capital assets activity for the years ended June 30, 2006 and 2005, were:

	Beginning Balance	2006			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 11,348,870	\$ 65,467	\$ —	\$ —	\$ 11,414,337
Collections	2,775,422	9,230	—	—	2,784,652
Infrastructure	12,865,588	104,638	—	994,263	13,964,489
Buildings and improvements	177,647,762	—	—	1,241,600	178,889,362
Furniture, fixtures and equipment	26,495,424	1,591,876	154,545	2,142,999	30,075,754
Library materials	10,159,767	1,517,869	742,105	—	10,935,531
Construction in progress	<u>3,710,929</u>	<u>6,896,590</u>	<u>—</u>	<u>(4,378,862)</u>	<u>6,228,657</u>
	<u>245,003,762</u>	<u>10,185,670</u>	<u>896,650</u>	<u>0</u>	<u>254,292,782</u>
Less accumulated depreciation					
Infrastructure	6,836,310	750,169	—	—	7,586,479
Buildings and improvements	93,171,790	6,246,989	—	—	99,418,779
Furniture, fixtures and equipment	16,106,842	2,279,255	39,704	—	18,346,393
Library materials	<u>4,512,924</u>	<u>1,130,658</u>	<u>742,105</u>	<u>—</u>	<u>4,901,477</u>
	<u>120,627,866</u>	<u>10,407,071</u>	<u>781,809</u>	<u>—</u>	<u>130,253,128</u>
Net capital assets	\$ <u>124,375,896</u>	\$ <u>(221,401)</u>	\$ <u>114,841</u>	\$ <u>0</u>	\$ <u>124,039,654</u>

Central Missouri State University
A Component Unit of the State of Missouri

Notes to Financial Statements
June 30, 2006 and 2005

	Beginning Balance	2005			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 11,098,994	\$ 249,876	\$ —	\$ —	\$ 11,348,870
Collections	2,775,422	—	—	—	2,775,422
Infrastructure	12,865,588	—	—	—	12,865,588
Buildings and improvements	168,682,528	158,510	760,039	9,566,763	177,647,762
Furniture, fixtures and equipment	40,622,553	3,019,722	20,696,365	3,549,514	26,495,424
Library materials	9,582,570	1,386,381	809,184	—	10,159,767
Construction in progress	<u>10,454,038</u>	<u>6,373,168</u>	<u>—</u>	<u>(13,116,277)</u>	<u>3,710,929</u>
	<u>256,081,693</u>	<u>11,187,657</u>	<u>22,265,588</u>	<u>0</u>	<u>245,003,762</u>
Less accumulated depreciation					
Infrastructure	5,980,676	855,634	—	—	6,836,310
Buildings and improvements	87,831,939	6,099,890	760,039	—	93,171,790
Furniture, fixtures and equipment	28,252,716	3,424,399	15,570,273	—	16,106,842
Library materials	<u>4,334,991</u>	<u>987,117</u>	<u>809,184</u>	<u>—</u>	<u>4,512,924</u>
	<u>126,400,322</u>	<u>11,367,040</u>	<u>17,139,496</u>	<u>—</u>	<u>120,627,866</u>
Net capital assets	<u>\$ 129,681,371</u>	<u>\$ (179,383)</u>	<u>\$ 5,126,092</u>	<u>\$ 0</u>	<u>\$ 124,375,896</u>

Central Missouri State University
A Component Unit of the State of Missouri

Notes to Financial Statements
June 30, 2006 and 2005

Note 4: Long-term Liabilities

The following is a summary of long-term obligation transactions for the University for the years ended June 30, 2006 and 2005:

	Beginning Balance	2006		Ending Balance	Current Portion
		Additions	Deductions		
Revenue bonds					
Student Housing System, Series 2002A	\$ 14,665,000	\$ —	\$ 1,275,000	\$ 13,390,000	\$ 1,230,000
Telecommunication System, Series 2002B	660,000	—	325,000	335,000	335,000
Education Facility, Series 1999	4,465,000	—	765,000	3,700,000	805,000
Stadium Facility, Series 1999	2,680,000	—	225,000	2,455,000	235,000
Advance Refunding of Library Facility, Series 1995 Bond Issue, 15-Year Alternative, Series 2002	6,165,000	—	395,000	5,770,000	405,000
Student Housing System, Energy Savings Program, Series 2002	6,930,000	—	445,000	6,485,000	450,000
Capital lease obligations	<u>67,753</u>	<u>—</u>	<u>39,974</u>	<u>27,779</u>	<u>27,779</u>
	35,632,753	—	3,469,974	32,162,779	3,487,779
Unamortized discount on bonds payable	<u>(692,802)</u>	<u>—</u>	<u>(58,815)</u>	<u>(633,987)</u>	<u>—</u>
Total bonds, notes and capital leases	<u>34,939,951</u>	<u>—</u>	<u>3,411,159</u>	<u>31,528,792</u>	<u>3,487,779</u>
Other noncurrent liabilities					
Accrued compensated absences	2,829,226	1,704,274	1,537,573	2,995,927	1,675,984
Accrued settlement	683,080	—	24,675	658,405	50,000
Other long-term liability	<u>—</u>	<u>300,000</u>	<u>100,000</u>	<u>200,000</u>	<u>100,000</u>
Total other noncurrent liabilities	<u>3,512,306</u>	<u>2,004,274</u>	<u>1,662,248</u>	<u>3,854,332</u>	<u>1,825,984</u>
Total long-term debt and other obligations	<u>\$ 38,452,257</u>	<u>\$ 2,004,274</u>	<u>\$ 5,073,407</u>	<u>\$ 35,383,124</u>	<u>\$ 5,313,763</u>

Central Missouri State University
A Component Unit of the State of Missouri

Notes to Financial Statements
June 30, 2006 and 2005

	Beginning Balance	2005		Ending Balance	Current Portion
		Additions	Deductions		
Revenue bonds					
Student Housing System, Series 2002A	\$ 15,835,000	\$ —	\$ 1,170,000	\$ 14,665,000	\$ 1,275,000
Telecommunication System, Series 2002B	975,000	—	315,000	660,000	325,000
Education Facility, Series 1999	5,195,000	—	730,000	4,465,000	765,000
Stadium Facility, Series 1999	2,895,000	—	215,000	2,680,000	225,000
Advance Refunding of Library Facility, Series 1995 Bond Issue, 15-Year Alternative, Series 2002	6,555,000	—	390,000	6,165,000	395,000
Student Housing System, Energy Savings Program, Series 2002	7,365,000	—	435,000	6,930,000	445,000
Capital lease obligations	<u>105,790</u>	<u>—</u>	<u>38,037</u>	<u>67,753</u>	<u>39,974</u>
	38,925,790	—	3,293,037	35,632,753	3,469,974
Unamortized discount on bonds payable	<u>(751,148)</u>	<u>—</u>	<u>(58,346)</u>	<u>(692,802)</u>	<u>—</u>
 Total bonds, notes and capital leases	 <u>38,174,642</u>	 <u>—</u>	 <u>3,234,691</u>	 <u>34,939,951</u>	 <u>3,469,974</u>
Other noncurrent liabilities					
Accrued compensated absences	2,828,788	1,709,659	1,709,221	2,829,226	1,537,573
Accrued settlement	<u>706,920</u>	<u>—</u>	<u>23,840</u>	<u>683,080</u>	<u>50,000</u>
 Total other noncurrent liabilities	 <u>3,535,708</u>	 <u>1,709,659</u>	 <u>1,733,061</u>	 <u>3,512,306</u>	 <u>1,587,573</u>
 Total long-term debt and other obligations	 <u>\$ 41,710,350</u>	 <u>\$ 1,709,659</u>	 <u>\$ 4,967,752</u>	 <u>\$ 38,452,257</u>	 <u>\$ 5,057,547</u>

Revenue Bonds Payable

On December 23, 2002, the University issued \$14,340,000 of revenue bonds. The bonds bear interest, payable semiannually, at rates of 1.25% to 4.35%, which began April 1, 2003. Principal maturities began October 1, 2003, and continue until 2017. Proceeds from the issuance of these bonds were used to fund the Student Housing Energy Savings Program and to refund the Library Facility, Series 1995 Bonds which mature in 2025. The bonds are secured by the net revenues available for debt service of the University and other funds pledged to the payment of the bonds. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

On January 15, 2002, the University issued \$17,850,000 of bonds. The bonds bear interest, payable semiannually, at rates of 1.5% to 4.6%, which began September 1, 2002. Principal maturities began September 1, 2002, and continue until 2015. Proceeds from the issuance of these bonds were used to refund the Student Housing System Refunding Revenue Series 1993 Bonds. The bonds are secured by the net revenues available for debt service of the housing system of the University. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

On January 15, 2002, the University issued \$1,605,000 of bonds. The bonds bear interest, payable semiannually, at rates of 2.00% to 3.85%, which began September 1, 2002. Principal maturities began September 1, 2002, and continue until 2006. Proceeds from the issuance of these bonds were used to acquire and install certain improvements to the telecommunications system. The bonds are secured by the net revenues available for debt service of the telecommunications system of the University.

On December 1, 1999, the University issued \$7,200,000 of bonds. The bonds bear interest, payable semiannually, at rates of 4.25% to 5.05% and are due in semiannual installments, which began August 1, 2000. Principal maturities began August 1, 2001, and continue until 2010. Proceeds from the issuance of these bonds were used to purchase, acquire, construct, improve, renovate and/or equip (1) 16 airplanes used in the University's flight instruction program; (2) a 2,000 foot television tower utilized by the University's public television station, KMOS, in complying with the FCC requirements that public television stations convert from analog transmissions to digital transmissions and (3) an extension instruction facility in Lee's Summit, Missouri. The bonds are secured by the net revenues available for debt service of the University and other funds pledged to the payment of the bonds. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

On February 5, 1999, the University issued \$3,915,000 of bonds. The bonds bear interest, payable semiannually, at rates of 3.0% to 4.5% and are due in semiannual installments, which began April 1, 1999. Principal maturities began October 1, 1999, and continue until 2014. Proceeds from the issuance of these bonds were used to reconstruct, renovate and equip the stadium facility. The bonds are secured by the net revenues available for debt service of the stadium facility, including a designated portion of student fees. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The University is also required to maintain certain rate covenants related to the bonds.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

The debt service requirements as of June 30, 2006, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	\$ 4,685,058	\$ 3,460,000	\$ 1,225,058
2008	4,341,173	3,235,000	1,106,173
2009	4,336,904	3,355,000	981,904
2010	3,979,866	3,125,000	854,866
2011	3,986,399	3,260,000	726,399
2012 – 2016	15,121,808	13,265,000	1,856,808
2017 – 2018	<u>2,541,524</u>	<u>2,435,000</u>	<u>106,524</u>
	<u>\$ 38,992,732</u>	<u>\$ 32,135,000</u>	<u>\$ 6,857,732</u>

Capital Lease Obligations

The University is obligated under a lease accounted for as a capital lease. Assets under capital lease at June 30, 2006 and 2005, totaled \$58,298 and \$81,617, respectively, net of accumulated depreciation of \$58,298 and \$34,979, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at the rate of 7% together with the present value of the future minimum lease payments as of June 30, 2006:

Year Ending June 30,	
2007	\$ <u>28,298</u>
Total minimum lease payments	28,298
Less amount representing interest	<u>519</u>
Present value of future minimum lease payments	<u>\$ 27,779</u>

Note 5: Defeasance of Debt

In prior years, the University defeased the Library Facility, Series 1995 and certain Student Housing System Revenue bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. On June 30, 2006 and 2005, \$245,000 and \$3,618,000, respectively, of bonds outstanding are considered defeased.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Note 6: Related Party Transactions

At June 30, 2006 and 2005, the University had a receivable from the Foundation in the amount of \$658,405 and \$683,080, respectively, to fund accrued settlement charges related to a trust held by the Foundation.

The University pays payroll expenses for some employees that are subsequently reimbursed by the Foundation. The total amount of wages paid by the University on behalf of the Foundation was \$326,795 and \$439,262 for the years ended June 30, 2006 and 2005, respectively. In addition, University employees provided services to the Foundation valued at \$277,904 and \$247,545 for the years ended June 30, 2006 and 2005, respectively, which were not reimbursed by the Foundation. Included in accounts receivable at June 30, 2006 and 2005, were receivables from the Foundation for reimbursements due of \$36,104 and \$48,719, respectively, for wages and benefits.

Additionally, the Foundation funded work related to replacing the field turf at Walton Stadium. Included in accounts receivable at June 30, 2006 and 2005, were receivables from the Foundation of \$9,107 and \$332,669, respectively, for work completed. The University also has receivables from the Foundation at June 30, 2006 and 2005, of \$284,720 and \$30,115, respectively for miscellaneous services performed on behalf of the Foundation.

During 2006 and 2005, the Foundation donated approximately \$647,000 and \$844,000, respectively, of capital assets to the University which has been recorded in the accompanying financial statements.

Note 7: Employee Health and Welfare Benefits

The University had obtained employee health and welfare insurance through membership in the Missouri State Colleges and Universities Group Insurance Consortium, Inc. (the "Consortium"), a consortium formed for the benefit of qualified state colleges and universities in the state of Missouri who wished to pool their resources under Section 176.510 of the revised Statutes of Missouri. The Consortium and its members jointly and severally agreed to assume and discharge all employee health and welfare claims entered against any member of the Consortium. As of January 1, 2005, the University withdrew from the Consortium and obtained employee health and welfare insurance coverage through Blue Cross and Blue Shield of Kansas City. Employee health and welfare expense was \$5,424,554 and \$4,140,026 for the years ended June 30, 2006 and 2005, respectively.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Note 8: Pension Plans

MOSERS

The University contributes to the Missouri State Employees' Retirement System (MOSERS), a cost-sharing, multiple-employer, defined benefit pension plan administered by the state of Missouri. Pension expense is recorded for the amount the University is contractually required to contribute for the year. The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. State law assigns the authority to establish and amend benefit provisions to the plan's Board of Trustees, which is appointed by the governor with the approval of the state legislature. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at P.O. Box 209, Jefferson City, Missouri, 65102, or by calling 573 632-6100 or 800 827-1063.

The authority to establish and amend requirements of plan members and the University is set forth in state law and is vested in the plan's Board of Trustees. The University is required to contribute at an actuarially determined rate; the rate was 12.59% and 10.64% of annual covered payroll for 2006 and 2005, respectively. The University's contributions to the plan for the years ended June 30, 2006, 2005 and 2004, were \$6,507,978, \$5,548,356 and \$4,709,677, respectively. The amounts for 2006, 2005 and 2004 included \$0, \$0 and \$67,630, respectively, of contributions that related to prior years.

CURP

As of July 1, 2002, all faculty on full-time, regular appointment were enrolled in the College and University Retirement Plan (CURP) if they had not previously been enrolled in MOSERS. CURP is a noncontributory 401(a) defined contribution retirement plan that uses TIAA-CREF as its third-party administrator. In 2006 and 2005, the University contributed 7.81% and 7.57% respectively, of the participant's salary to CURP each month. The University's contribution to the plan for the years ended June 30, 2006, 2005 and 2004, were \$483,215, \$363,667 and \$276,730, 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 MOSERS.

Note 9: Postemployment Benefits

The University pays health insurance premiums for qualified retired employees who have chosen to participate in the early retirement program established by the Board of Governors until the employee reaches the age of 65. During the years ended June 30, 2006 and 2005, the University paid \$875,654 and \$816,539, respectively, of reimbursements under this plan. At June 30, 2006 and 2005, there were 115 and 118 retirees, respectively, eligible to participate in the program.

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Note 10: Commitments and Contingencies

Claims and Litigation

The University is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The University administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the University. At June 30, 2006 and 2005, there was no accrual recorded in the statements of net assets.

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 Contracts

The University had outstanding commitments of approximately \$490,000 related to construction contracts at June 30, 2006.

Note 11: 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 and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation and natural disasters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The state of Missouri self-insures workers' compensation benefits for all state employees, including University employees. Claims are administered by the Missouri Office of Administration, Risk Management Section.

Central Missouri State University
A Component Unit of the State of Missouri

Notes to Financial Statements

June 30, 2006 and 2005

Note 12: Central Missouri State University Foundation, Inc.

Financial Statement Position

The financial statements of the Foundation are presented in accordance with the provisions of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* and No. 117, *Financial Statements of Not-for-Profit Organizations*. Statement No. 116 requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also required recognition of contributions, including contributed services meeting certain criteria, at fair values. Statement No. 117 establishes standards for external financial statements of not-for-profit organizations and requires a statement of position, a statement of activities and a statement of cash flows.

Investments

The Foundation's investment portfolio at June 30, 2006 and 2005, is composed of the following:

	June 30, 2006 Fair Value	June 30, 2005 Fair Value
Corporate bonds	\$ 5,274,104	\$ 5,008,025
U.S. government obligations	6,581,042	6,597,410
Common stocks	14,936,121	15,438,237
Certificates of deposit	999,067	1,469,549
Donated real estate	105,000	117,500
	<u>\$ 27,895,334</u>	<u>\$ 28,630,721</u>

The following summary reflects the placement of investments among certain classifications:

	June 30, 2006 Fair Value	June 30, 2005 Fair Value
Unrestricted	\$ 5,892,857	\$ 4,777,514
Temporarily restricted	9,262,047	9,416,989
Permanently restricted	12,740,430	14,436,218
	<u>\$ 27,895,334</u>	<u>\$ 28,630,721</u>

Permanently restricted investments include \$545,869 and \$532,779, respectively, of assets held in trust and administered by an outside fiscal agent under the terms of an irrevocable trust arrangement at June 30, 2006 and 2005. The Foundation is a beneficiary of this trust, and as such, receives periodic distributions of its income.

Central Missouri State University
A Component Unit of the State of Missouri

Notes to Financial Statements
June 30, 2006 and 2005

Contributions Receivable

Contributions receivable consists of unconditional gifts and bequests to be received in future periods and have been discounted to their present value based on anticipated payment streams. The present value of the annual amount of contributions receivable to be realized at June 30, 2006 and 2005, is as follows:

June 30, 2006	Discounted
2007	\$ 187,350
2008	132,601
2009	85,466
Thereafter	286,731
	\$ <u>692,148</u>

June 30, 2005	Discounted
2006	\$ 199,745
2007	64,517
2008	20,620
Thereafter	98,733
	\$ <u>383,615</u>

Contributions receivable are reflected above in the financial statements, net of an allowance for uncollectible balances of \$49,602 and \$48,104 as of June 30, 2006 and 2005, respectively.

Assets Held in Trust

In prior years, the Foundation received gifts from an estate totaling \$3,821,293 which was held in trust until such time the estate is settled. The Foundation received distributions from the trust totaling \$49,127 and \$3,993,443 in 2006 and 2005, respectively. At June 30, 2006 and 2005, the fair value of the undistributed assets remaining in the trust was \$294,430 and \$332,903, respectively. The assets held in trust consist of cash and equivalents. These assets have been recorded in the accompanying financial statements as temporarily restricted net assets to be used for the nutrition program.

Central Missouri State University
A Component Unit of the State of Missouri

Notes to Financial Statements
June 30, 2006 and 2005

Net Assets

The following classifications reflect the nature of restrictions on temporarily and permanently restricted net assets at June 30, 2006 and 2005:

	June 30, 2006		June 30, 2005	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Instruction	\$ 5,811,755	\$ 2,662,585	\$ 5,739,961	\$ 2,679,539
Scholarships	3,622,364	10,873,503	3,365,310	10,372,377
Academic support – TV/Radio	39,992	—	171,260	—
Institutional support – plant facilities	362,082	—	198,874	—
Student services – athletics	40,608	49,966	42,143	49,626
	<u>\$ 9,876,801</u>	<u>\$ 13,586,054</u>	<u>\$ 9,517,548</u>	<u>\$ 13,101,542</u>

Reclassification

During the year ended June 30, 2006, management determined that accumulated undistributed unitized pool income in investment Pool A, had been previously classified as permanently restricted net assets. However, in the transition to the unitized pool method of accounting for investments, it was determined that the undistributed unitized pool income from these Pool A investments should be classified as unrestricted until which time they are allocated to the funds based upon the approved spending rate. Accordingly, a reclassification was made to reflect the nature of the net assets. The following is a schedule showing the reclassifications made and the reclassified balances included in the statement of activities and changes in net assets as of June 30, 2004:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2004, as previously reported	\$ 5,496,465	\$ 8,107,883	\$ 13,521,651	\$ 27,125,999
Restatement	<u>1,488,832</u>	<u>—</u>	<u>(1,488,832)</u>	<u>—</u>
Net assets, June 30, 2004, as restated	<u>\$ 6,985,297</u>	<u>\$ 8,107,883</u>	<u>\$ 12,032,819</u>	<u>\$ 27,125,999</u>

Central Missouri State University
A Component Unit of the State of Missouri
Notes to Financial Statements
June 30, 2006 and 2005

Note 13: Future Change in Accounting Principle

The Governmental Accounting Standards Board recently issued its Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement provides accounting and disclosure requirements for postemployment benefit plans in which the University participates. GASB No. 45 generally requires recognition of expenses for postemployment benefits as services are performed, regardless of the timing of the related benefit payments. The University expects to first apply GASB No. 45 during the year ending June 30, 2008, using a prospective recognition method. Under this method, the University's net unfunded obligation under the plan at the effective date will be amortized over a period not to exceed 30 years. The impact of applying the Statement has not been determined.