

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 1 – Significant Accounting Policies**

**A. Financial Statements and Reporting Entity**

The accompanying financial statements of the State of Missouri (primary government) and its component units have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The State has elected not to follow the Financial Accounting Standards Board's pronouncements issued after November 30, 1989 for proprietary activities.

The financial statements include the departments, agencies, boards, commissions, and other organizational units over which the State has financial accountability. GASB set forth the following criteria in Statement No. 14 - *The Financial Reporting Entity* for determining financial accountability: appointment of a voting majority of an organization's governing body and either: 1) the ability to impose the State's will on the organization; or 2) the organization's ability to provide specific benefits to, or impose specific burdens on, the primary government. Where the State does not appoint a voting majority of the governing body, the entity would still be included if it is fiscally dependent on the State. Statement No. 39 - *Determining Whether Certain Entities are Component Units* added a requirement to include all entities whose relationship with the State would make it misleading to exclude it.

In addition to the legislative, executive and judicial branches, the following organizations are included in these financial statements:

Component Units (Blended):

Blended component units are legally separate entities from the State, but are so intertwined with the State that they are, for all practical purposes, the same as the State. They are reported as part of the primary government and blended into the appropriate funds. The following component units are blended because they provide services entirely or almost entirely to the primary government:

Capital Projects Funds:

Fulton 54 Transportation Corporation; Missouri Highway 179 Transportation Corporation; Missouri Highway 63 Transportation Corporation; Springfield, Missouri State Highway Improvement Corporation; and Wentzville Parkway Transportation Corporation - these are reported as a part of the Missouri Road Fund. These transportation corporations are not-for-profit corporations organized under the Missouri Transportation Corporation Act. The corporations were formed to facilitate the construction of highway projects. When the purpose for which each corporation was formed has been complied with and all obligations of the corporation have been paid, the Board of the corporation shall, with the approval of the Missouri Highways and Transportation Commission, dissolve the corporation. Additional information may be requested from:

Missouri Department of Transportation  
Resource Management  
P.O. Box 270  
Jefferson City, Missouri 65102

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**Note 1 – Significant Accounting Policies (cont.)**

Internal Service Funds:

Board of Public Buildings – This is reported with the State Facility Maintenance and Operation Fund. The Board was created by state law and its governing body is made up of the Governor, the Lieutenant Governor, and the Attorney General. Its purpose is to provide state buildings by issuing revenue bonds and to supervise the operations of these facilities. All construction contracts must be approved by the Division of Facilities Management, Design and Construction and its projects must be approved by the General Assembly. The Board can require state agencies to occupy its projects. The General Assembly appropriates to the Board, on behalf of the state agencies, amounts sufficient to pay the principal and interest on the bonds, maintain certain required reserves, and pay the costs of operations. Copies of the Board of Public Buildings' financial statements may be requested from:

Office of Administration  
Division of Accounting  
P.O. Box 809  
Jefferson City, Missouri 65102

Conservation Employees' Insurance Plan – The Plan provides health and life insurance coverage to eligible employees and retirees of the Missouri Department of Conservation. The Plan is administered by a five member board of trustees made up of two members determined by the Board and Commission from insurance members, the Business and Support Services Chief, the Human Resources Division Administrator, and the Internal Auditor. Copies of the Plan's financial statements may be requested from:

Missouri Department of Conservation  
P.O. Box 180  
Jefferson City, Missouri 65102

Transportation Self-Insurance Plan – The Plan provides fleet vehicle liability, workers' compensation, and general liability insurance. The Plan is administered by the Risk Management Division of the Missouri Department of Transportation. Additional information may be requested from:

Missouri Department of Transportation  
Controller's Division  
P.O. Box 270  
Jefferson City, Missouri 65102

Missouri Consolidated Health Care Plan (MCHCP) – The Plan was created by state law to provide medical benefits to its members and is administered by a board of trustees. The board consists of two members of the Senate, two members of the House, six members appointed by the Governor; the Director of the Department of Health and Senior Services; the Director of the Department of Insurance, Financial Institutions and Professional Registration; and the Commissioner of Administration. The management of MCHCP is the responsibility of the Executive Director who is appointed by the Board. Copies of the Plan's financial statements may be requested from:

Missouri Consolidated Health Care Plan  
P.O. Box 104355  
832 Weathered Rock Court  
Jefferson City, Missouri 65110-4355

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**Note 1 – Significant Accounting Policies (cont.)**

MoDOT and MSHP Medical and Life Insurance Plan – The Plan provides health and life insurance coverage to eligible employees, retirees and their dependents of the Missouri Department of Transportation (MoDOT) and the Missouri State Highway Patrol (MSHP). The Plan is administered by a board of trustees consisting of four active MoDOT employees and one retired MoDOT employee appointed by the Director of MoDOT, two active MSHP employees and one retired MSHP employee appointed by the Superintendent of MSHP. Additional information may be requested from:

Missouri Department of Transportation  
Controller's Division  
P.O. Box 270  
Jefferson City, Missouri 65102

Pension (and other employee benefit) trust funds:

Missouri State Employees' Retirement System (MOSERS) – The System was created by state law and provides retirement, survivor, disability, and life insurance to its members and is administered by a board of trustees. The Board consists of two members of the Senate, two members of the House, two members appointed by the Governor, three members elected by the System's members, the State Treasurer, and the Commissioner of Administration. The management of MOSERS is the responsibility of the Executive Director who is appointed by the Board. Copies of the System's financial statements may be requested from:

Missouri State Employees' Retirement System  
P.O. Box 209  
907 Wildwood  
Jefferson City, Missouri 65102-0209

Missouri Department of Transportation and Highway Patrol Employees' Retirement System – The System provides retirement, death, and disability benefits to qualified employees of the Missouri Highways and Transportation Commission (includes employees of the Department of Transportation), and both uniformed and non-uniformed members of the State Highway Patrol. The System is administered by a board of trustees consisting of three members of the Missouri Highways and Transportation Commission, the Director of the Missouri Department of Transportation, the Superintendent of the State Highway Patrol, one member of the Senate, one member of the House, one member elected by MoDOT employees, one member elected by Highway Patrol employees, and one retired member elected by retirees of the system. Copies of the System's financial statements may be requested from:

Missouri Department of Transportation and  
Highway Patrol Employees' Retirement System  
P.O. Box 1930  
Jefferson City, Missouri 65102-1930

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**Note 1 – Significant Accounting Policies (cont.)**

Missouri State Public Employees' Deferred Compensation Commission – The Commission offers all employees the opportunity to participate in the Missouri State Public Employees' Deferred Compensation Plan. Under this Plan, employees are permitted to defer a portion of their current salary until future years. This Plan's fiscal year ends December 31, therefore, financial statements for its reporting period ending December 31, 2006, have been included in this report. In addition, the Commission offers eligible employees the opportunity to participate in the Missouri State Employees' Deferred Compensation Incentive Plan. Under this Plan, the State contributes \$25 per month on behalf of any employee who contributes at least that amount to the Missouri State Public Employees' Deferred Compensation Plan and who has been an employee of the State for at least one year. The Commission consists of one member of the House of Representatives, one member of the Senate, and three other members appointed by the Governor with the advice and consent of the Senate. Copies of financial statements for both Plans may be requested from:

CitiStreet  
One Heritage Drive  
North Quincy, Massachusetts 02171

Component Units (Discretely Presented):

Discretely presented component units are legally separate entities for which the State is financially accountable. The financial data for these entities is reported separately from the financial data of the primary government.

Major

College and Universities – The Coordinating Board for Higher Education has certain responsibilities for these institutions and they receive State support. Following are the public college and universities included in the financial statements:

**Harris–Stowe State University**  
3026 Laclede Avenue  
St. Louis, Missouri 63103

**Lincoln University**  
207 Young Hall  
Jefferson City, Missouri 65101

**Linn State Technical College**  
1 Technology Drive  
Linn, Missouri 65051

**Missouri Southern State University**  
3950 East Newman Road  
Joplin, Missouri 64801–1595

**Missouri State University**  
901 South National, Room 119  
Springfield, Missouri 65804

**Missouri Western State University**  
4525 Downs Drive  
St. Joseph, Missouri 64507

**Northwest Missouri State University**  
105 Administration Building  
800 University Drive  
Maryville, Missouri 64468–6001

**Southeast Missouri State University**  
One University Plaza, Mail Stop 3000  
Cape Girardeau, Missouri 63701

**Truman State University**  
McClain Hall, Room 105  
Kirksville, Missouri 63501

**University of Central Missouri**  
213 Administration Building  
Warrensburg, Missouri 64093

**University of Missouri System**  
118 University Hall  
Columbia, Missouri 65211–3020

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**Note 1 – Significant Accounting Policies (cont.)**

Non-Major

Missouri Development Finance Board – The Board was created by state law as an independent, self-supporting, body corporate and politic to promote economic development of the State and was created within the Department of Economic Development. The Board is empowered to issue taxable and tax-exempt industrial revenue bonds or notes; provide loans or loan guarantees to eligible businesses; provide loans and grants to political subdivisions to fund public infrastructure improvements; and issue tax credits against certain state income taxes in exchange for contributions made to the Board. The twelve member board is made up of the Lieutenant Governor and the Directors of the Department of Economic Development, the Department of Natural Resources, and the Department of Agriculture, who serve as ex-officio voting members, and eight members appointed by the Governor and confirmed by the Senate. Copies of the Board's financial statements may be requested from:

Missouri Development Finance Board  
Governor Office Building  
200 Madison Street, Suite 1000  
Jefferson City, Missouri 65101

Missouri Agricultural and Small Business Development Authority – The Authority was created by state law and is authorized to issue bonds to finance agricultural and small business development loans for property acquisitions/renovations and pollution control facilities throughout the State. If for any reason, the Authority ceases to exist, all rights and properties of the Authority will pass to the State. Its governing body consists of seven members appointed by the Governor with the advice and consent of the Senate. Copies of the Authority's financial statements may be requested from:

Missouri Agricultural and Small  
Business Development Authority  
P.O. Box 630  
1616 Missouri Boulevard  
Jefferson City, Missouri 65102

Missouri Transportation Finance Corporation – The Corporation is a not-for-profit corporation organized under the Missouri Nonprofit Corporation Law. The Corporation is financed by federal highway and transit dollars, plus state and local matching funds. It is authorized to issue revenue bonds. The Corporation provides loans to assist public and private entities fund highway and transportation projects throughout the State. The Missouri Highways and Transportation Commission determines which applicants are extended loans from the Missouri Transportation Finance Corporation. Copies of the Corporation's financial statements may be requested from:

Missouri Department of Transportation  
Highway Building, 2<sup>nd</sup> Floor  
105 West Capitol Avenue  
Jefferson City, Missouri 65101

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**Note 1 – Significant Accounting Policies (cont.)**

Related Organizations

Related organizations are excluded from the financial reporting entity because the State's accountability does not extend beyond appointing a voting majority of the organization's board members. Related organizations of the State of Missouri include:

Missouri Health and Educational Facilities Authority – finances health and educational facilities.

Missouri Higher Education Loan Authority – provides a secondary market for loans made under the Federal Family Education Loan Program.

Missouri Housing Development Commission – makes, purchases, and insures mortgage loans which are used to develop new or rehabilitate low and moderate income housing.

Missouri Technology Corporation – promotes the modernization of businesses through the development of science and technology applications.

Missouri Public Entity Risk Management Fund – provides liability protection to participating public entities, their officials, and employees.

Public School Retirement System – provides retirement benefits to employees of public school districts except those in St. Louis and Kansas City.

State Environmental Improvement and Energy Resources Authority – finances, acquires, constructs, and equips projects to reduce, prevent, and control pollution and develop the energy resources of the State.

Jackson County Sports Complex Authority – responsible for construction, operation, and financing of the Jackson County Sports Complex.

Kansas City Regional Sports Complex Authority – responsible for the study and review of all current major sports leagues, clubs, or franchises in Kansas City.

St. Charles County Convention and Sports Facility Authority – responsible for planning, constructing, and managing convention and sports facilities in the St. Charles area.

Missouri Cotton Growers Organization, Inc. – organized for boll weevil eradication.

KCT Intermodal Transportation Corporation – organized to pay for a railroad bridge in the Blue Valley Industrial District in Kansas City.

Lake of the Ozarks Community Bridge Corporation – organized to pay for the acquisition and construction of a toll bridge across the Lake of the Ozarks.

Westside Intermodal Transportation Corporation – organized to pay for rail additions and improvements of the Kansas City Terminal Railway.

Highway 19 Missouri River Bridge Transportation Corporation – organized to acquire, construct, own, and operate highway projects and facilities.

Universal Service Board – organized to ensure just, reasonable, and affordable rates for comparable essential local telecommunication services throughout the State.

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**Note 1 – Significant Accounting Policies (cont.)**

Interstate Commission for Adult Offender Supervision – responsible for promoting public safety and protecting the rights of victims through the control and regulation of the interstate movement of adults placed under community supervision.

Missouri Access to Higher Education Trust Board – responsible for administering the funds of the Higher Education Trust.

Missouri Health Insurance Pool – organized to provide health care coverage for residents who are unable to obtain individual health coverage.

**B. Government-Wide and Fund Financial Statements**

Government-Wide Financial Statements:

The government-wide financial statements focus on the government as a whole. The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Governmental activities include governmental type funds and internal service funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and consist of enterprise funds.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Indirect costs, such as depreciation expense, are included in the direct expenses reported for individual functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred. Fiduciary funds have been excluded from the government-wide financial statements because, by definition, the resources of these funds cannot be used to support government operations. Generally, interfund transactions have also been eliminated. Some interfund transactions, such as the exchange of services, were not eliminated because doing so would mistakenly understate both expenses of the buyer and revenues of the seller.

The difference between fund assets and liabilities is reported as "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on the governmental fund financial statements.

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**Note 1 – Significant Accounting Policies (cont.)**

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide statements. For governmental and proprietary fund financial statements, the emphasis is on major individual governmental and enterprise fund categories, with each displayed in a separate column. All remaining governmental and enterprise fund categories are aggregated and reported as non-major funds. Internal service fund categories are also aggregated and reported in a separate column on the proprietary fund financial statements.

The governmental fund financial statements are presented using the current financial resources measurement focus and modified accrual basis of accounting. With the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to pay current period liabilities. Operating statements of governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance. Material revenues susceptible to accrual include federal grants and sales and income taxes. Expenditures are recognized when the related fund liability is incurred except for the following:

- Principal and interest on general long-term debt is recorded as an expenditure when due.
- Compensated absences (accumulated vacation and compensatory time) and sick pay are recorded as expenditures when paid.
- Inventories are reported as expenditures when purchased, except for the Missouri Road Fund, which updates inventory perpetually under the consumption method.

The proprietary, pension (and other employee benefit) trust, and private-purpose trust fund financial statements are presented using the economic resources measurement focus and accrual basis of accounting. With the economic resources measurement focus, assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred. Proprietary fund-type operating statements present revenues and expenses in total net assets. Operating revenues and expenses in proprietary funds are classified as those activities that make up the primary ongoing operations associated with those funds. Non-operating revenues and expenses in proprietary funds are classified as those activities that are deemed incidental or unusual for those funds.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. The agency fund financial statements are presented on the accrual basis of accounting.

The discretely presented component unit financial statements are presented using the economic resources measurement focus and accrual basis of accounting with the following exception in regard to college and universities. Revenues and related expenditures in connection with the summer sessions in progress at June 30 are deferred at that date.

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**Note 1 – Significant Accounting Policies (cont.)**

The State reports the following major funds categories:

General Fund – accounts for all current financial resources not required by law or administrative action to be accounted for in another fund.

Public Education – provides general and special education needs of the State and other related areas such as library services and student loans.

Conservation and Environmental Protection – provides for the preservation of the State’s wildlife and environment.

Transportation and Law Enforcement – provides transportation services, road construction and maintenance, and the enforcement of vehicle laws and traffic safety.

Missouri Road Fund – accounts for revenues from highway users’ fees, federal reimbursements for highway projects, and bond proceeds to be used for costs of constructing and maintaining an adequate state highway system.

State Lottery – accounts for proceeds from the sale of lottery tickets and all other moneys credited to this fund. A minimum of 45% of the moneys are used for prizes.

Unemployment Compensation – accounts for contributions, payments, and federal loans collected under the provisions of the “Unemployment Compensation Law” to pay benefits.

Petroleum Storage Tank Insurance – accounts for moneys collected from transport load fees and participating owners of petroleum storage tanks for cleanup of contamination caused by releases from petroleum storage tanks.

**C. Basis of Presentation**

The State’s financial practices are based upon fund accounting concepts. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and fund balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The accompanying financial statements are structured into three categories of funds and discretely presented component units:

Primary Government:

Governmental Funds include the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. These funds account for the revenues and expenditures, capital outlay, and certain debt service of the State.

Proprietary Funds include enterprise funds and internal service funds. These funds account for the cost of certain services provided by the State.

Fiduciary Funds include pension (and other employee benefit) trust funds, private-purpose trust funds, and agency funds. These funds account for assets held by the State in a trustee capacity or as an agent for individuals, other governments, and other entities.

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**Note 1 – Significant Accounting Policies (cont.)**

Discretely Presented Component Units:

Major

College and Universities account for moneys from federal and state grants, debt proceeds, gifts and contributions, state appropriations, investments, and endowments. Assets and liabilities are accounted for on the Statement of Net Assets. Revenues, expenses, gains, and losses are reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

Non-Major

Non-Major Component Units account for moneys from bond proceeds, loans, contributions, gifts, and grants. Assets and liabilities are accounted for on the Statement of Net Assets. Revenues, expenses, gains, and losses are reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

**D. Cash and Cash Equivalents**

For reporting purposes, cash and cash equivalents include bank accounts, petty cash, and all investments with an original maturity of three months or less, such as certificates of deposit, money market certificates, and repurchase agreements. Cash and cash equivalents on the Proprietary Fund Statement of Cash Flows are also reported under this definition. Cash balances of most state funds are pooled and invested by the State Treasurer (see *Note 3*).

**E. Investments**

These are long-term investments which are expected to be held to maturity and redeemed at face value. The majority of investments are reported in pension (and other employee benefit) trust funds, however, investments are held in all fund types. All investments are reported at fair value (see *Note 3*).

There are multiple funds that have income from investments which are directed to the General Fund. These funds consist of special revenue, enterprise, internal service, private-purpose, and agency funds.

**F. Interfund Receivables/Payables**

The State makes various transactions between funds or between primary government and component units to distribute interest earnings, finance operations, provide services, service debt, and acquire capital assets. These receivables at June 30 are classified as “due from other funds” or “due from primary government/component units” on the Balance Sheet and Statements of Net Assets. Payables are classified as “due to other funds” or “due to primary government” on the Balance Sheet and Statements of Net Assets (see *Note 15*). These receivables/payables are eliminated if both the receivable/payable are in the same activity (Business-Type or Governmental). Any remaining interfund receivable/payable is reported as internal balances on the Government-Wide Statement of Net Assets.

**G. Advances to/from Other Funds**

Long-term interfund receivables are classified as “advances to other funds” or “advances to primary government/component units” on the Balance Sheet and Statements of Net Assets. Long-term interfund payables are classified as “advances from primary government/component units” on the Balance Sheet and Statements of Net Assets (see *Note 15*). These receivables/payables are eliminated if both the receivable/payable are in the same activity (Business-Type or Governmental). Any remaining long-term interfund receivables/payables are reported as internal balances on the Government-Wide Statement of Net Assets.

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**Note 1 – Significant Accounting Policies (cont.)**

**H. Inventories**

Inventories in the governmental funds consist of expendable supplies held for consumption, the cost of which is recorded as an expenditure at the time of purchase, except for the Missouri Road Fund, which updates inventory perpetually under the consumption method. Reserves of fund balance have been established for the inventory balances in governmental funds. Inventories in the proprietary funds consist of both expendable supplies held for consumption and the cost of goods held for resale, the cost of which is recorded as an expense as they are used. Inventories are valued at cost using various methods such as moving average, weighted average, and first-in, first-out.

**I. Restricted Assets**

These moneys are restricted by donors and applicable bond indentures:

Reserved for Budget Reserve – An account used to meet the cash flow requirements and program funding requirements of the State.

Reserved for Inventories – An account used to segregate a portion of fund balance to indicate that inventories do not represent available, spendable resources.

Reserved for Forfeited Assets – An account used to segregate a portion of fund balance to pay postclosure costs for landfill owners that have defaulted on their obligation to pay postclosure care costs (see *Note 22*) and mining reclamation costs.

Reserved for Taxes – An account used to segregate a portion of fund balance for taxes received for which payment was made under protest and for bonds filed by license holders for security against default of payment of tax liabilities.

Reserved for Debt Service – An account used to segregate a portion of fund balance for debt service resources legally restricted to the payment of general long-term debt principal and interest amounts maturing in future years.

Reserved for Loans Receivable – An account used to segregate a portion of fund balance to indicate that loans receivable do not represent available, spendable resources.

Reserved for Trust Principal – An account used to segregate a portion of fund balance to indicate the principal amount of permanent funds that is legally restricted for a specific future purpose.

**J. Capital Assets**

Capital assets, which include construction in progress, infrastructure in progress, land, land improvements, buildings, equipment, and infrastructure assets, are valued at historical cost or estimated historical cost if actual historical cost is not available. The estimate of historical cost was based on current appraised value indexed to the date of acquisition. Donated capital assets are reported at estimated fair value at the time received. Capital assets acquired through lease agreements are capitalized at the inception of the agreement (see *Notes 5 and 6*).

Infrastructure assets (including highways, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items) are capitalized. Interest costs incurred during construction of capital assets are not capitalized.

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**Note 1 – Significant Accounting Policies (cont.)**

The capitalization threshold for all capital assets is as follows: land improvements – \$15,000, buildings and improvements – \$15,000, and equipment – \$1,000. No dollar threshold is set for land or infrastructure.

Capital assets are depreciated using the straight-line method of depreciation over the following useful lives: buildings – 40 years, land improvements and building improvements – 20 years, equipment – 5 years, and infrastructure 12 to 50 years. Construction in progress, infrastructure in progress, and land are not depreciated.

Most works of art and historical treasures are not capitalized or depreciated. The State's non-capitalized collections include the historical artifacts at the various state museums and historical sites, monuments, and other art throughout the capitol grounds. Assets that were previously capitalized continue to be reported in the government-wide financial statements.

Component unit capital assets are stated at cost and are depreciated using the straight-line method of depreciation over the following useful lives: buildings – 40 years, land improvements and building improvements – 20 years, and equipment – 5 years.

**K. Deferred/Unearned Revenues**

Governmental Funds

Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met for governmental funds, which use the modified accrual basis of accounting. Therefore, such amounts are reported within the governmental fund financial statements as receivables and offset by a deferred revenue account. These amounts include \$392,053,000 within the General Fund, \$44,928,000 within the major special revenue funds, \$15,701,000 within the Missouri Road Fund, and \$6,233,000 within non-major governmental funds which totals \$458,915,000 for governmental funds. Such amounts have been deemed to be measurable but not available. All major sources of revenue, including taxes; licenses, fees, and permits; and governmental contributions; are susceptible to accrual when available within 60 days.

Deferred revenues also include amounts collected in advance of the year in which earned. The State has reported as such deferred revenues of \$42,448,000 within the General Fund, \$843,000 within major special revenue funds, and \$11,676,000 within the Missouri Road Fund.

Proprietary Funds

Unearned revenue amounts collected in advance of the year in which earned are reported in the amount of \$26,019,000 within the internal service funds included in governmental activities. Total unearned revenue for enterprise funds is \$610,000 which includes \$527,000 within the Petroleum Storage Tank Insurance Fund, and \$83,000 within the non-major enterprise funds.

Component Units

Unearned revenue amounts collected in advance of the year in which earned are reported in the amount of \$88,575,000 within the college and universities which is the total unearned revenue amount for component units.

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**Note 1 – Significant Accounting Policies (cont.)**

**L. Long-Term Debt**

Long-term liabilities that will be financed from governmental funds are not reported on the fund financial statements. However, the long-term liabilities are reported on the government-wide financial statements. The reconciliation between fund financial statements and government-wide financial statements includes a line item for the long-term liabilities of governmental funds. These long-term liabilities include the following:

1. Due to Other Entities includes outstanding principal on advances from other governments, contractual obligations to other governments, and loans from other entities. The expenditures are recorded in the appropriate governmental funds when the liability is paid (see *Note 11*).
2. Outstanding principal for general obligation debt. The expenditure for payment of principal and interest for general obligation debt is recorded in the debt service funds when paid (see *Note 12*).
3. Outstanding principal for bonds issued by the Board of Public Buildings, State Road Bonds issued by the Missouri Highways and Transportation Commission, and bonds issued by the Health and Educational Facilities Authority and the Regional Convention and Sports Complex Authority. The expenditure for payment of principal and interest for these bonds is recorded in the appropriate governmental funds when paid (see *Note 12*).
4. Bond premiums are deferred and amortized over the life of the bonds using the effective interest rate method in the government-wide financial statements. Bonds payable are reported net of the applicable bond premium.

In the fund financial statements, governmental fund types recognize bond premiums during the current period. Premiums on debt issuances are reported as other financing sources (see *Note 11*).

5. Obligations under lease/purchases reported include the present value of net minimum future lease payments, which will be paid from the General Fund, various special revenue funds, and the Missouri Road Fund (see *Notes 6 and 11*).
6. Compensated absences include accumulated unpaid vacation and compensatory time accruals and related employer payroll taxes. These amounts are not accrued in the governmental funds but are recorded as expenditures when paid (see *Note 11*).

Vacation leave is accumulated at a rate of 10 to 14 hours per month depending on the number of years of employment. Accumulated vacation leave cannot exceed twice the number of vacation hours earned annually. Compensatory time is accumulated as earned by an individual employee.

Sick leave is accumulated at a rate of 10 hours per month with no limit to the amount which can be accumulated. Accumulated sick leave is not paid upon employee termination and does not represent a liability of the State.

7. Claims and contingent liabilities include estimates of the risk of loss related to tort liability, general liability, motor vehicle liability, contractor liability, and injuries to employees. These liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Expenditures are recorded in the fund from which the liability is paid (see *Notes 11, 21, and 23*).

Long-term liabilities of all proprietary, pension (and other employee benefit) trust, and private-purpose trust funds are accounted for in the respective funds.

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**Note 1 – Significant Accounting Policies (cont.)**

**M. Net Assets**

Enabling legislation authorizes the State to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. At June 30, 2007, net assets restricted by enabling legislation equaled \$1,120,424,000 for governmental activities and \$2,964,000 for business-type activities.

**N. Revenues**

The revenues of the General Fund include federal grants and contributions of \$7,041,549,000. Revenues for all funds are reported net of refunds of \$1,689,340,000.

**O. Interfund Transactions**

During the fiscal year the State incurs various transactions between funds, including expenditures and transfers of resources to distribute interest earnings, finance operations, provide services, construct assets, and service debt. Interfund transactions basically consist of these three types:

1. Transactions that would be treated as revenues or expenditures/expenses if they involved organizations external to the State are similarly treated when involving other funds of the State. Major transactions that fall into this category include payments to internal service funds from other funds for services rendered and to agency funds for contributions for employee benefits.
2. Transactions that reimburse another fund for an expense reduce expenses of the fund that is being reimbursed and increase expenses for the fund doing the reimbursement. Therefore, they are not shown on the face of the statements.
3. Transfers from funds receiving revenues to funds through which the resources are to be expended and operating subsidies are classified as transfers (see *Note 16*). These transactions are eliminated at the Government-Wide Statement of Activities if the transfer in and transfer out are in funds within the same activity (Business-Type and Governmental).

**P. Expenditures and Expenses**

Expenditures and expenses are reported net of revenue over collections of \$1,347,001,000 and \$403,000, respectively. Expenditures and expenses are reported net of overpayments to vendors, individuals, school districts, and for cost reimbursements of \$341,003,000 and \$933,000, respectively.

**Q. Property Taxes**

Presently there is a state property tax of three cents on each hundred dollars assessed valuation on all real estate and personal property. The tax collected is deposited into the Blind Pension Fund, which is a component unit of social assistance.

The property taxes in Missouri are levied by October 31 of each year on assessed valuation as of January 1 of that year. Property taxes are due and payable by December 31 and penalties on unpaid taxes are imposed after that date. Assessed values are established by each county assessor's office and are calculated as a percent of market value except for agricultural land which is calculated on productive capability. The percentage for real property varies according to use: residential at 19%, commercial at 32%, and agricultural at 12%. Personal property is assessed according to type with the majority at 33 1/3% of market value.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 2 – Reporting Changes and Classifications**

GASB Statement No. 47, *Accounting for Termination Benefits*, gives employers assistance on how benefits should be accounted for when an employee is terminated, whether the termination is on a voluntary or involuntary basis. The requirements of this new declaration went into effect for the fiscal period after June 15, 2005 (with the exception of those provisions concerning additional postemployment benefits, which only take effect upon the execution of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*). However, this statement does not apply to the State of Missouri as the State does not pay for benefits of terminated employees that are not included in retirement or other postemployment benefits.

**Note 3 – Deposits, Investments, and Securities Lending Program**

The State Treasurer maintains a cash and short-term investment pool that is used by substantially all state funds. These funds do not include accrued interest. Certain organizational units are authorized to administer assets designated to their organization in a manner similar to the deposit and investment activities of the State as a whole. Summarized on the following page is the portfolio that represents the “Cash and Cash Equivalents,” “Investments,” “Restricted Assets – Cash and Cash Equivalents,” and “Restricted Assets – Investments” as reported at June 30, 2007.

**A. Deposits**

The State minimizes custodial credit risk by restrictions set forth in state law. Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution’s failure, the State would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. Statutes restrict the State Treasurer to deposit funds in financial institutions that are physically located in Missouri which are selected based on financial stability and community involvement. The financial institution’s loan to deposit ratio must exceed 50% at the time of deposit and deposits must be collateralized at least 100% with approved securities. Deposits must have a maturity of five years or less and earn interest at a rate equal to that paid on U.S. Treasury securities with equivalent maturities.

Primary Government

At June 30, 2007, the bank balance of the primary government’s deposits was \$975,860,000. Of the bank amount, \$16,926,000 was exposed to custodial credit risk by being uninsured and collateralized with securities held by the pledging financial institution, and \$278,000 was exposed to custodial credit risk by being uninsured and uncollateralized.

Fiduciary

At June 30, 2007, the bank balance of the deposits of the fiduciary funds was \$68,106,000. Of the bank amount, \$132,000 was exposed to custodial credit risk by being uninsured and collateralized with securities held by the pledging financial institution.

Component Units

At June 30, 2007, the bank balance of the deposits of the component units was \$248,796,000. Of the bank amount, \$16,795,000 was exposed to custodial credit risk, \$5,260,000 was insured and uncollateralized, and \$11,535,000 was uninsured and collateralized with securities held by the pledging financial institution.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 3 – Deposits, Investments, and Securities Lending Program (cont.)**

**B. Investments**

Statutes authorize the State Treasurer to invest in U.S. Treasury or Agency securities maturing within five years, commercial paper and banker's acceptances maturing within 180 days, or in repurchase agreements maturing within 90 days secured by U.S. Treasury or Agency securities of any maturity. The internal service funds, the agency and pension (and other employee benefit) trust funds, and the component units, in accordance with statutory authority, invest primarily in U.S. government securities, repurchase agreements, preferred and common stocks, bonds, real estate, and fixed income securities. There have been no violations of these investment restrictions during fiscal year 2007.

The State Treasurer minimizes credit risk, the risk of loss due to the failure of the security issuer or backer, by establishing a pre-approved list of financial institutions and companies that will be used to purchase commercial paper. The State Treasurer also conducts regular credit monitoring, pre-qualifies the financial institutions and brokers/dealers with which the Treasurer's Office will do business for broker services and repurchase agreements, and diversifies the portfolio to reduce potential losses on individual securities.

Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the State will not be able to recover the value of their investment or collateral securities that are in the possession of an outside party. The State Treasurer minimizes custodial credit risk by requiring that all securities be held in the State's name at the State's custodial bank, Bank of New York.

**Primary Government**

At June 30, 2007, the reported amount of the primary government's investments was \$3,536,844,000. Of this amount, \$10,695,000 was exposed to custodial credit risk, because it was uninsured and unregistered with securities held by the State's counterparty.

**Fiduciary**

At June 30, 2007, the reported amount of the fiduciary funds investments was \$11,657,348,000. Of the amount, \$1,941,000 was exposed to custodial credit risk due to it being uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the State's name.

**Component Units**

At June 30, 2007, the reported amount of the component units investments was \$2,253,379,000 was exposed to custodial credit risk. Of this amount, \$282,848,000 was uninsured and unregistered with securities held by the counterparty while \$56,928,000 was insured and unregistered with securities held by the counterparty's trust department or agent, but not in the name of the investor.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 3 – Deposits, Investments, and Securities Lending Program (cont.)**

The following table (in thousands of dollars) provides information about the interest rate risks associated with the State's investments. The investments include certain short-term cash equivalents, various long-term items, and restricted assets by maturity in years. The State Treasurer minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining an effective duration of less than 1.5 years, and holding at least 40% of the portfolio's total market value in securities with a maturity of 12 months or less.

	Maturities in Years					Total Fair Value
	Less than 1	1-5	6-10	More than 10	No Maturity	
All Fund Types except Fiduciary Funds and Component Units:						
U.S. Government						
Securities	\$ 1,062,580	\$ 985,384	\$ 12,780	\$ 8,688	\$ ---	\$ 2,069,432
Repurchase						
Agreements	347,797	---	---	---	---	347,797
Stocks	---	---	---	---	6,238	6,238
Bonds	348	2,289	497	---	308	3,442
Commercial Paper	1,109,675	---	---	---	---	1,109,675
Other	120	---	---	---	140	260
Subtotal	<u>2,520,520</u>	<u>987,673</u>	<u>13,277</u>	<u>8,688</u>	<u>6,686</u>	<u>3,536,844</u>
Fiduciary Funds:						
U.S. Government						
Securities	5,111	226,318	630,711	7,086	---	869,226
Repurchase						
Agreements	375,304	---	---	---	---	375,304
Stocks	---	---	---	---	1,807,838	1,807,838
Bonds	---	433,545	2,875	13,483	---	449,903
Commercial Paper	6,177	---	---	---	---	6,177
International						
Equities	1,505,270	---	---	---	---	1,505,270
Mortgages/ Real Estate	---	11,357	1,546	59,582	207,556	280,041
Short-Term						
Securities	601,625	---	---	---	---	601,625
Foreign						
Securities	---	---	---	---	119,070	119,070
Mutual Funds	---	---	---	---	1,332,032	1,332,032
Venture Capital Limited						
Partnership	---	---	---	---	3,749,481	3,749,481
Absolute Return	---	---	---	---	369,635	369,635
Tactical Fixed						
Income	---	---	---	---	80,385	80,385
Other	---	86,286	---	---	25,075	111,361
Subtotal	<u>2,493,487</u>	<u>757,506</u>	<u>635,132</u>	<u>80,151</u>	<u>7,691,072</u>	<u>11,657,348</u>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 3 – Deposits, Investments, and Securities Lending Program (cont.)**

	Maturities in Years					Total Fair Value
	Less than 1	1-5	6-10	More than 10	No Maturity	
Component Units:						
U.S. Government Securities	345,409	390,074	43,165	43,105	45,724	867,477
Repurchase Agreements	5,433	---	---	---	---	5,433
Stocks	---	---	---	---	734,390	734,390
Bonds	23,933	136,016	13,282	30,549	13,475	217,255
Mortgages	---	---	---	---	5,336	5,336
Mutual Funds	2,060	---	---	---	19,845	21,905
Commercial Paper	238,333	---	---	---	---	238,333
Other	67,399	35,165	29,329	31,356	---	163,249
Subtotal	<u>682,567</u>	<u>561,255</u>	<u>85,776</u>	<u>105,010</u>	<u>818,770</u>	<u>2,253,378</u>
Total Investments	<u>\$ 5,696,574</u>	<u>\$ 2,306,434</u>	<u>\$ 734,185</u>	<u>\$ 193,849</u>	<u>\$ 8,516,528</u>	<u>\$ 17,447,570</u>

The State minimizes concentration of credit risk, the risk attributed to the magnitude of an investment in a single issuer. State statute prohibits the State Treasurer from investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. securities and repurchase agreements. There are no restrictions in the amount that can be invested in U.S. securities, however, there can be no more than 15% of the total portfolio invested in repurchase agreements. During fiscal year 2007, the State did not have more than 5% of total investments in a single issuer.

The State Treasurer requires investments in commercial paper and bankers' acceptances have the highest letter and numerical ranking (A1/P1) as rated by Moody's Investor Service, Inc. (Moody's) and Standard & Poor's Corporation (S & P). The Treasurer does not have any additional policies regarding credit ratings of investments. The following table (in thousands of dollars) provides information on the credit ratings associated with the State's investments in debt securities.

	Moody's	S & P	Fair Value
Primary Government/Fiduciary:			
Bonds	Aaa		\$ 2,624
	Aaa	AAA	1,810,006
		AAA	65,256
		AA	481,395
		A+	992
		A	268,920
		A-	1,469
		BBB+	2,145
		BBB	9,101
		BBB-	2,074
		BB+	1,567
		BB	52,589
		B	92,443
		CCC	31,815
		Unrated	7,329
		Treasury	436
	AA3		307
	Aa2		511

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 3 – Deposits, Investments, and Securities Lending Program (cont.)**

	<u>Moody's</u>	<u>S &amp; P</u>	<u>Fair Value</u>
Commercial Paper	Aa		1,980
	P-1	A-1+	675,802
	P-1	A-1	199,319
		Tier 1	9,232
		Tier 2	316,596
		Unrated	243,660
Asset-Backed Securities		AAA	405,939
		AA	4,225
		BBB	254
		Agency	3,220
Pooled Investments		Unrated	229,732
Repurchase Agreements	P-1	A-1+	142,474
	P-1	A-1	22,012
	Unrated	Unrated	200
U.S. Government	Aaa	AAA	3,541
U.S. Agencies	Aaa	AAA	20,817
	Aaa		1,240
U.S. Security	Aaa		23,425
		AAA	17,690
	Aa		135,020
		Agency	196
	Unrated		1,857
	Unrated	Unrated	3,469
Stock		AAA	30,625
		AA1	6,238
		BBB	718
		CCC	8
Other		AAA	47,306
		AA	505
		A-	294
		BBB+	345
		BBB	1,017
		BB	24,172
		B	41,633
		CCC	9,979
		Agency	119,351
		Unrated	21,588
	Unrated	155	
Subtotal			<u>5,596,813</u>
Component Units:			
Bonds and Notes	AAA	AAA	67,249
	AAA		19,569
		AA	6,021
	Aa		88,094
	A		69,221
	Baa		4,245
	Unrated		30,106
Mutual Fund		Unrated	2,091
Commercial Paper		A1+	609
	Unrated		235,230

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 3 – Deposits, Investments, and Securities Lending Program (cont.)**

	Moody's	S & P	Fair Value
U.S. Treasury Obligations	AAA	AAA	1,025
	AAA		59,213
U.S. Agency Obligations	AAA	AAA	24,795
	AAA	A1+	17,779
	AAA		472,255
	Aa		125
	Unrated		36,871
U.S. Securities	AAA	AAA	44,358
		AAA	17,462
Stock	Unrated		734,390
Other	AAA		62,795
	Aa		136
	A		23,813
	Baa		1,748
	Unrated		72,865
Equity Securities	AAA	AAA	391
	Unrated	AAA	1,154
	Unrated	Unrated	7
Subtotal			<u>2,093,617</u>
Total Rated Investments			<u>\$ 7,690,430</u>

The State Treasurer does not have a policy regarding foreign currency risk, which is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table (in thousands of dollars) provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. The State Treasurer's Office does not have any deposits or investments in foreign currency, however, the Missouri State Employees' Retirement System and the Missouri Department of Transportation and Highway Patrol Employees' Retirement System do have foreign currency deposits and investments which may be used for hedging purposes. In addition to the amounts provided in the table, the colleges had \$97,223,000 in government obligations, \$13,123,000 in bonds and notes, \$151,161,000 in corporate stocks, and \$4,477,000 in cash and cash equivalents held in foreign currencies as of June 30, 2007.

Currency	Investment Type				Total
	Cash	Equities	Fixed Income	Alternatives	
Argentina Peso	\$ 3	\$ ---	\$ ---	\$ ---	\$ 3
Australian Dollar	101	29,501	---	---	29,602
Brazilian Real	92	26,822	---	---	26,914
British Pound Sterling	(49,924)	316,370	5,197	---	271,643
Canadian Dollar	106	12,336	---	---	12,442
Czech Koruna	(725)	2,435	---	---	1,710
Danish Krone	61	7,418	---	---	7,479
Euro	5,587	537,349	16,713	73,084	632,733
Hong Kong Dollar	164	88,886	---	---	89,050
Hungarian Forint	(877)	6,427	---	---	5,550
Indian Rupee	523	3,731	---	---	4,254
Indonesion Rupiah	(33)	1,307	---	---	1,274
Israeli New Shekel	---	1,717	---	---	1,717
Japanese Yen	181,904	357,370	---	---	539,274
Malaysian Ringgit	2	17,827	---	---	17,829
Maltise Lira	---	22	---	---	22

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 3 – Deposits, Investments, and Securities Lending Program (cont.)**

Currency	Investment Type				Total
	Cash	Equities	Fixed Income	Alternatives	
Mexican Peso	2	24,923	---	---	24,925
New Zealand Dollar	7	335	---	---	342
Norweign Krone	48	29,277	---	---	29,325
Peruvian Nuevo Sol	---	6	---	---	6
Philippine Peso	60	5,471	---	---	5,531
Polish Zloty	(777)	3,459	---	---	2,682
Russian Ruble	---	2,265	---	---	2,265
Singapore Dollar	278	81,691	---	---	81,969
South African Rand	---	5,148	---	---	5,148
South Korean Won	(19)	58,370	4,324	---	62,675
Sri Lanka Rupee	---	3	---	---	3
Swedish Krona	21	58,492	---	---	58,513
Swiss Franc	2,533	97,782	---	---	100,315
Taiwan Dollar	596	39,898	---	---	40,494
Thai Baht	90	16,605	---	---	16,695
Turkish Lira	(333)	6,238	---	---	5,905
Venezuelan Bolivar	107	---	---	---	107
Total	<u>\$ 139,597</u>	<u>\$ 1,839,481</u>	<u>\$ 26,234</u>	<u>\$ 73,084</u>	<u>\$ 2,078,396</u>

**C. Securities Lending Program**

State Treasurer's Office:

The Missouri State Treasurer's Office participates in a securities lending program to augment investment income. Authority to participate rests in Section 30.260.5, RSMo. As of October 2004, Bank of New York began acting as the State Treasurer's custodial bank and securities lending agent. For securities which are received as collateral under a bonds borrowed program, at least 75% of the collateral received must match the maturities of the securities lent with a maximum duration gap between loans and investments of 15 days. The maximum life of term loans shall be 90 days.

Collateral may be in the form of cash, securities issued or guaranteed by the U.S. government or its agencies, or bank letters of credit or equivalent obligation if pre-approved by the State Treasurer's Office. Collateral must be provided in the amount of 102% of the then market value of the loaned securities and accrued interest, if any. The Custodian provides for full indemnification to the State Treasurer's Office for any losses that might occur in the program due to borrower default, insolvency, or failure to return loaned securities.

At June 30, 2007, the State Treasurer's Office had an aggregate fair value of securities lent of \$729,309,000 and an aggregate fair value of collateral received of \$743,042,000.

Missouri State Employees' Retirement System:

The Missouri State Employees' Retirement System's (MOSERS) board of trustees' investment policies permit the pension trust funds to participate in a securities lending program. Certain securities of the pension trust funds are loaned to participating brokers who provide collateral in the form of cash, U.S. Treasury or government agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% of market value for domestic loans and 105% of market value for international loans. MOSERS does not have the authority to pledge or sell collateral securities, without borrower default. On June 30, 2007, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 3 – Deposits, Investments, and Securities Lending Program (cont.)**

Credit Suisse/First Boston, New York Branch (CSFBNY) served as the agent for the fixed income domestic equity, and international equity securities lending programs. MOSERS reduces credit risk by allowing CSFBNY to lend these securities to a diverse group of dealers on behalf of MOSERS. CSFBNY provides indemnification against dealer default.

Daily monitoring of securities that are on loan ensure proper collateralization levels and mitigate counterparty risk. The majority of the security loans are open loans and can be terminated on demand by either MOSERS or the borrower. Cash collateral is invested in short-term investment funds, managed by CSFBNY. On June 30, 2007, the cash collateral fund had a market value of \$899,055,000 and a weighted average maturity of 31 days. At June 30, 2007 and 2006, MOSERS earned \$2,859,000 and \$3,677,000, respectively, on the securities lending program.

Missouri Department of Transportation and Highway Patrol Employees' Retirement System:

In accordance with the investment policies set by the board of trustees, the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System), lends its securities to broker-dealers and banks pursuant to a form of loan agreement. The System's custodial bank is authorized to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the System lent securities and received cash, securities insured or guaranteed by the U.S. government or its agencies, and irrevocable bank letters of credit as collateral. The System did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: 1) in the case of loaned securities denominated in dollars or whose primary trading market was located in the United States, 102% of the market value of the loaned securities plus any accrued interest; and 2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities plus any accrued interest.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the custodial bank made on its behalf. There were no known failures by any borrowers to return loaned securities or pay distributions thereon during the year.

The System and borrowers maintained the right to terminate all securities lending transactions on demand. The collateral held at June 30, 2007, was \$154,239,000 and the market value of securities on loan for the System was \$150,040,000.

At June 30, 2007 and 2006, the System earned \$468,000 and \$494,000, respectively, on the securities lending program.

University of Missouri System:

The University participates in a securities lending program to augment income. The program is administered by the University's custodial agent bank, which lends certain securities for a predetermined period of time, to an independent broker/dealer (borrower) in exchange for collateral. Collateral may be cash, U.S. government securities, defined letters of credit, or other collateral approved by the University. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of international securities are initially collateralized at 105% of the fair value of securities lent. The University has minimized its exposure to credit risk from borrower default by having the custodial agent bank determine daily that required collateral meets a minimum of 100% of the market value of securities on loan for domestic securities lent and 105% for international securities lent.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 3 – Deposits, Investments, and Securities Lending Program (cont.)**

The University continues to receive interest and dividends during the loan period as well as a fee from the borrower. The maturities of the investments made with the cash collateral generally match the maturities of the securities lent. At June 30, 2007, the University has no credit risk exposure since the collateral held exceeds the value of the securities lent. The University is fully indemnified by its custodial bank against any losses incurred as a result of borrower default. The University can pledge or sell cash and securities received as collateral absent a borrower default.

At June 30, 2007, letters of credit and security collateral, not meeting the criteria for inclusion on the Combined Statement of Net Assets, totaled \$11,607,000. At June 30, 2007, the aggregate fair value of the securities lent was \$138,014,000 and the aggregate fair value of the collateral received was \$144,351,000.

**D. Derivatives**

Missouri State Employees' Retirement System (MOSERS), through its external investment managers, has an investment policy which holds investments in futures contracts, swap contracts, and forward foreign currency exchange contracts. MOSERS does not anticipate additional significant market risk from the swap arrangements. The forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign equities. MOSERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MOSERS anticipates that the counterparties will be able to satisfy their obligation as credit evaluations and credit limits are monitored by the investment managers. MOSERS also invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk.

The following table (in thousands of dollars) summarizes the various contracts in MOSERS portfolio as of June 30, 2007. The investments are reported at fair value and are included on the Statement of Net Assets of the pension trust funds.

Futures Contracts:

<u>Notional Amount</u>	<u>Exposure</u>
\$10,051	\$(6)

Swaps:

<u>Notional Amount</u>	<u>Counterparty Exposure</u>
\$1,327,035	\$1,389

**Note 4 – Federal Surplus Commodities Inventory**

The federal surplus commodities inventory for the Department of Social Services was \$93,000 as of June 30, 2007. This inventory is not considered to be an asset of the State and is not included in the financial statements.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 5 – Capital Assets**

Capital asset activity for the year ended June 30, 2007, was as follows (in thousands of dollars):

	*Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
<b>Governmental Activities:</b>				
Capital Assets not being Depreciated:				
Construction in Progress.....	\$ 565,742	\$ 203,084	\$ (143,805)	\$ 625,021
Infrastructure in Progress .....	2,797,922	1,115,824	(1,179,758)	2,733,988
Land .....	<u>2,558,398</u>	<u>95,741</u>	<u>(4,945)</u>	<u>2,649,194</u>
Total Capital Assets not being Depreciated .....	<u>5,922,062</u>	<u>1,414,649</u>	<u>(1,328,508)</u>	<u>6,008,203</u>
Capital Assets being Depreciated:				
Land Improvements .....	148,797	1,517	(293)	150,021
Buildings and Improvements.....	2,380,742	59,036	(19,385)	2,420,393
Equipment.....	1,145,905	100,469	(89,020)	1,157,354
Infrastructure .....	<u>39,108,601</u>	<u>1,179,759</u>	<u>(36,879)</u>	<u>40,251,481</u>
Total Capital Assets being Depreciated.....	<u>42,784,045</u>	<u>1,340,781</u>	<u>(145,577)</u>	<u>43,979,249</u>
Less Accumulated Depreciation for:				
Land Improvements .....	(66,399)	(4,484)	143	(70,740)
Buildings and Improvements.....	(832,955)	(76,554)	8,752	(900,757)
Equipment.....	(786,795)	(97,835)	80,259	(804,371)
Infrastructure .....	<u>(19,010,923)</u>	<u>(803,873)</u>	<u>36,878</u>	<u>(19,777,918)</u>
Total Accumulated Depreciation .....	<u>(20,697,072)</u>	<u>(982,746)</u>	<u>126,032</u>	<u>(21,553,786)</u>
Total Capital Assets being Depreciated, Net .....	<u>22,086,973</u>	<u>358,035</u>	<u>(19,545)</u>	<u>22,425,463</u>
Governmental Activities Capital Assets, Net.....	<u>\$ 28,009,035</u>	<u>\$ 1,772,684</u>	<u>\$ (1,348,053)</u>	<u>\$ 28,433,666</u>
<b>Business-Type Activities:</b>				
Capital Assets not being Depreciated:				
Construction in Progress.....	\$ 4,639	\$ 880	\$ (1,443)	\$ 4,076
Land .....	<u>6,453</u>	<u>500</u>	<u>---</u>	<u>6,953</u>
Total Capital Assets not being Depreciated .....	<u>11,092</u>	<u>1,380</u>	<u>(1,443)</u>	<u>11,029</u>
Capital Assets being Depreciated:				
Land Improvements .....	6,846	298	(65)	7,079
Buildings and Improvements.....	26,600	631	---	27,231
Equipment.....	<u>47,395</u>	<u>3,889</u>	<u>(5,165)</u>	<u>46,119</u>
Total Capital Assets being Depreciated.....	<u>80,841</u>	<u>4,818</u>	<u>(5,230)</u>	<u>80,429</u>
Less Accumulated Depreciation for:				
Land Improvements .....	(3,080)	(247)	---	(3,327)
Buildings and Improvements.....	(12,449)	(769)	---	(13,218)
Equipment.....	<u>(36,735)</u>	<u>(2,507)</u>	<u>5,101</u>	<u>(34,141)</u>
Total Accumulated Depreciation .....	<u>(52,264)</u>	<u>(3,523)</u>	<u>5,101</u>	<u>(50,686)</u>
Total Capital Assets being Depreciated, Net .....	<u>28,577</u>	<u>1,295</u>	<u>(129)</u>	<u>29,743</u>
Business-Type Activities Capital Assets, Net.....	<u>\$ 39,669</u>	<u>\$ 2,675</u>	<u>\$ (1,572)</u>	<u>\$ 40,772</u>

\*Beginning balances as of July 1, 2006 have been restated (see Note 17).

**STATE OF MISSOURI  
NOTES TO THE FINANCIAL STATEMENTS  
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**Note 5 – Capital Assets (cont.)**

Depreciation expense of governmental activities was charged to functions as follows (in thousands of dollars):

General Government.....	\$ 31,262
Education .....	3,272
Natural and Economic Resources .....	13,063
Transportation and Law Enforcement .....	868,744
Human Services .....	<u>66,405</u>
Total .....	<u>\$ 982,746</u>

**Discretely Presented Component Units**

The following table summarizes net capital assets reported by the discretely presented component units (in thousands of dollars):

	College and Universities	Non-Major Component Units	Total
Capital Assets not being Depreciated:			
Construction in Progress.....	\$ 255,853	\$ ---	\$ 255,853
Land.....	133,344	9,271	142,615
Other Non-Depreciable Assets.....	<u>20,141</u>	<u>---</u>	<u>20,141</u>
Total Capital Assets not being Depreciated ....	<u>409,338</u>	<u>9,271</u>	<u>418,609</u>
Capital Assets being Depreciated:			
Land Improvements .....	19,353	---	19,353
Buildings and Improvements .....	3,602,360	57,198	3,659,558
Equipment, Fixtures, and Books .....	1,055,079	150	1,055,229
Infrastructure .....	<u>333,627</u>	<u>---</u>	<u>333,627</u>
Total Capital Assets being Depreciated .....	<u>5,010,419</u>	<u>57,348</u>	<u>5,067,767</u>
Less Total Accumulated Depreciation.....	<u>(2,094,666)</u>	<u>(4,207)</u>	<u>(2,098,873)</u>
Total Capital Assets being Depreciated, Net ...	<u>2,915,753</u>	<u>53,141</u>	<u>2,968,894</u>
Discretely Presented Component Units - Capital Assets, Net .....	<u>\$ 3,325,091</u>	<u>\$ 62,412</u>	<u>\$ 3,387,503</u>

**Capital Asset Impairments**

The net gain after insurance recovery of \$270,000 would be reported as an extraordinary item in the statement of net activities, due to the restoration of Lincoln University's Caruthersville Extension facility from tornado damage.

The net gain after insurance recovery of \$428,000 would be reported as an extraordinary item in the statement of net activities, due to the restoration of Lincoln University's Dawson Hall from fire damage.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 6 – Leases**

**Capital**

The State has entered into various agreements to lease land, buildings and equipment. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a capital asset and the incurrence of an obligation by the lessee (a capital lease).

Capital leases for the internal service and college and universities are reported as a long-term obligation in those funds along with the related assets. Capital leases and the related assets are not reported on the fund financial statements of governmental type funds. However, the capital leases and related assets of governmental funds are included on the government-wide financial statements and they are shown on the reconciliation between fund financial statements and government-wide statements.

Following is a summary of the future minimum lease payments for capital leases (in thousands of dollars):

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Funds</u>	<u>Internal Service</u> <u>Funds</u>	<u>College and</u> <u>Universities</u>
2008	\$ 14,273	\$ 2,078	\$ 2,652
2009	13,584	2,018	2,583
2010	13,038	1,507	2,551
2011	12,357	786	2,512
2012	4,351	786	2,483
2013–2017	18,204	3,666	12,358
2018–2022	6,089	2,905	7,299
2023–2027	2,000	---	---
2028–2032	1,785	---	---
After 2033	29,600	---	---
Total Minimum Lease Payments	<u>115,281</u>	<u>13,746</u>	<u>32,438</u>
Less Amount Representing Interest	<u>(46,521)</u>	<u>(2,667)</u>	<u>(11,513)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 68,760</u>	<u>\$ 11,079</u>	<u>\$ 20,925</u>

The State has entered into a lease with the Missouri Development Finance Board. The State's obligation under the lease does not constitute a general obligation or other indebtedness of the State. Payments under the lease agreement have been structured in amounts sufficient to pay principal and interest on the Leasehold Revenue Bonds issued by the Board. In November 2005, the Board issued \$28,995,000 of Leasehold Revenue Bonds Series 2005 for the purpose of purchasing one building in Florissant, one building in St. Louis, and one building in Jennings. In May 2006, the Board issued \$9,865,000 of Leasehold Revenue Bonds Series 2006 for the purpose of purchasing one building in St. Louis. The payments on this lease are subject to annual appropriation by the State legislature.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 6 – Leases (cont.)**

Following is a summary of the future minimum lease payments for the lease to pay interest and principal of the Leasehold Revenue Bonds (in thousands of dollars):

<u>Fiscal Year Ending June 30</u>	<u>Governmental Funds</u>	<u>Internal Service Funds</u>
2008	\$ 2,634	\$ 2
2009	2,622	2
2010	2,611	2
2011	2,599	2
2012	2,598	2
2013–2017	12,949	10
2018–2022	12,869	9
2023–2027	18,803	9
2028–2032	10,259	8
Total Minimum Lease Payments	<u>67,944</u>	<u>46</u>
Less Amount Representing Interest	<u>(30,092)</u>	<u>(18)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 37,852</u>	<u>\$ 28</u>

The State issued Refunding Certificates of Participation Series A 2005 dated March 1, 2005, in the amount of \$120,490,000. The Refunding Certificates of Participation refunded \$13,945,000 of Missouri Public Facilities Corporation Certificates of Participation (Acute Care Psychiatric Hospital Project) Series A 1994, \$13,400,000 of Missouri PRC Corporation Certificates of Participation (Psychiatric Rehabilitation Center Project) Series A 1995, \$9,915,000 of Northwest Missouri Public Facilities Corporation Certificates of Participation (Northwest Missouri Psychiatric Rehabilitation Center Project) Series B 1995, and \$83,480,000 of Missouri Public Facilities Corporation II Certificates of Participation (Bonne Terre Prison Project) Series A 1999. The State also issued Certificates of Participation Series 2002 dated December 15, 2002, in the amount of \$4,700,000 for the Conservation Commission of the State of Missouri Project.

The State's obligation under these leases does not constitute a general obligation or other indebtedness of the State. The certificates of participation represent proportionate ownership interests of the certificate holders in the lease agreement. The certificates do not constitute a pledge of the full faith and credit of the State. Payments under the lease agreement have been structured in amounts sufficient to pay principal and interest on the certificate, and are subject to annual appropriation by the State legislature.

Following is a summary of the future minimum lease payments for the Certificates of Participation (in thousands of dollars):

<u>Fiscal Year Ending June 30</u>	<u>Governmental Funds</u>
2008	\$ 13,776
2009	13,777
2010	13,771
2011	13,778
2012	13,833
2013–2017	59,361
2018–2020	16,922
Total Minimum Lease Payments	<u>145,218</u>
Less Amount Representing Interest	<u>(31,228)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 113,990</u>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 6 – Leases (cont.)**

Assets acquired through these capital lease agreements are recorded as capital assets at the lower of the present value of the minimum lease payments or the fair value at the time of acquisition. The following is the value of the property under capital lease by asset category as of June 30, 2007 (in thousands of dollars):

	<u>Governmental Funds</u>	<u>Internal Service Funds</u>	<u>College and Universities</u>
Buildings	\$ 209,387	\$ 4,716	\$ 21,366
Equipment	<u>46,262</u>	<u>8,266</u>	<u>632</u>
	<u>\$ 255,649</u>	<u>\$ 12,982</u>	<u>\$ 21,998</u>

**Operating**

The State has entered into various operating leases for land, buildings, and equipment. Most of these leases are classified as operating because the lease period is one year with multiple renewal options. Future minimum commitments due under operating leases as of June 30, 2007, were as follows (in thousands of dollars):

<u>Year Ending June 30</u>	<u>Primary Government</u>	<u>Component Units</u>
2008	\$ 54,864	\$ 3,308
2009	356	2,394
2010	222	1,444
2011	131	1,173
2012	109	907
2013–2017	556	3,031
2018–2022	566	---
2023–2027	578	---
After 2027	<u>590</u>	<u>---</u>
Total Minimum Commitments	<u>\$ 57,972</u>	<u>\$ 12,257</u>

Expenditures for rent under operating leases for the years ended June 30, 2007 and June 30, 2006 were \$39,888,000 and \$37,240,000, respectively.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 6 – Leases (cont.)**

**Rental Revenue**

The State leases certain state owned facilities to entities outside the State. These lessor arrangements are generally long-term commitments which either generate revenue from otherwise idle property or better serve Missouri's citizens by providing convenient access to products and services. Future minimum receivables, payable from lessor arrangements as of June 30, 2007, were as follows (in thousands of dollars):

<u>Year Ending June 30</u>	<u>Primary Government</u>	<u>Component Units</u>
2008	\$ 505	\$ 1,540
2009	445	1,540
2010	407	1,518
2011	341	1,515
2012	322	1,462
2013–2017	1,454	7,925
2018–2022	1,443	4,602
2023–2027	1,121	4,383
After 2027	<u>136</u>	<u>13,828</u>
Total Minimum Receivables	<u>\$ 6,174</u>	<u>\$ 38,313</u>

**Note 7 – Retirement Systems**

The State has two major retirement systems which cover substantially all state employees. These systems are Missouri State Employees' Retirement System (MOSERS) and Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS). The University of Missouri's Retirement Plan is included as the University is a component unit of the State. The Public School Retirement System of Missouri is included in this note disclosure as the State contributes to it.

**Plan Descriptions**

The Missouri State Employees' Plan (MSEP) and the Judicial Plan are single-employer defined benefit public employees' retirement plans administered by MOSERS. The Plans are administered in accordance with the Revised Statutes of Missouri Sections 104.010 and 104.312–104.1215, and 476.445–476.690, respectively.

The MSEP has two benefit structures known as MSEP (closed plan) and MSEP 2000 (new plan). The MSEP covers all full-time employees hired before July 1, 2000, who are not covered under another state-sponsored retirement plan. MSEP 2000 covers all full-time employees hired on or after July 1, 2000. Members in the closed plan have the option at retirement to choose between the benefit structure of the closed plan or new plan. Retirement benefits for members of the Judicial Plan are administered and paid by MOSERS.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 7 – Retirement Systems (cont.)**

MOSERS provides retirement, death, and disability benefits to its members. MOSERS employees are fully vested after 5 years of creditable service (4 years for elected officials and 6 years for legislators). The retirement eligibility requirements are as follows:

**MSEP**

Age 65 and active with 4 years of service  
Age 65 with 5 years of service  
Age 60 with 15 years of service  
Age 48 with age and service equaling 80  
or more (Rule of 80)  
Employees may retire early at age 55 with at  
least 10 years of service with reduced benefits.

**MSEP 2000**

Age 62 with 5 years of service  
Age 48 with age and service equaling 80  
or more (Rule of 80)  
Employees may retire early at age 57 with at  
least 5 years of service with reduced benefits.

**Judicial Plan**

Age 62 with 12 years of service  
Age 60 with 15 years of service  
Age 55 with 20 years of service  
Employees may retire early at age 62 with less  
than 12 years of service or age 60 with less  
than 15 years of service with reduced benefit  
that is based upon years of service relative to  
12 or 15 years.

For members hired prior to August 28, 1997, cost of living adjustments (COLAs) are provided annually based on 80% of the change in the Consumer Price Index (CPI) with a floor of 4% and a ceiling of 5%, until the cumulative amount of COLAs equals 65% of the original benefit, thereafter the 4% floor is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%. Qualified, terminated-vested members of MSEP and the Judicial Plan may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than \$10,000.

The Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) is a single-employer defined benefit public employees' retirement system administered in accordance with the Revised Statutes of Missouri Sections 104.010-104.1093.

MPERS membership is composed of qualified employees of the Missouri Department of Transportation, uniformed and non-uniformed members of the Missouri State Highway Patrol, and MPERS staff.

MPERS provides retirement, death, and disability benefits to its members. Employees are fully vested after 5 years of creditable service. The MPERS has two benefit structures known as the Closed Plan and the Year 2000 Plan. Generally, the Closed Plan covers employees hired before July 1, 2000. The Year 2000 Plan generally covers employees hired on or after July 1, 2000.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 7 – Retirement Systems (cont.)**

The retirement eligibility requirements are as follows:

**Closed Plan**

**MoDOT and non-uniformed patrol members:**

Age 65 and active with 4 or more years  
of service

Age 65 with 5 or more years of service

Age 60 with 15 or more years of service

Age 48 with sum of age and service

equaling 80 or more (Rule of 80)

**Uniformed patrol members:**

Age 55 and active with 4 or more years  
of service

Age 55 with 5 or more years of service

Age 48 with sum of age and service

equaling 80 or more (Rule of 80)

Mandatory retirement at age 60

All non-uniformed members may retire early with reduced benefits at age 55 with at least 10 years of service.

For members hired prior to August 28, 1997, cost of living adjustments (COLAs) are provided annually based on 80% of the change in the Consumer Price Index (CPI) with a minimum rate of 4% and a maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original benefit, thereafter the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the increase in the CPI up to a maximum rate of 5%.

**Year 2000 Plan**

**MoDOT and non-uniformed patrol members:**

Age 62 with 5 years of service

Age 48 with sum of age and service

equaling 80 or more (Rule of 80)

**Uniformed patrol members:**

Age 48 with sum of age and service

equaling 80 or more (Rule of 80)

Mandatory retirement at age 60 with

5 years of service

All members may retire early with reduced benefits at age 57 with at least 5 years of service. COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

Copies of financial reports issued by MOSERS and MPERS may be requested from:

Missouri State Employees' Retirement System  
P.O. Box 209  
907 Wildwood  
Jefferson City, Missouri 65102-0209

Missouri Department of Transportation and  
Highway Patrol Employees' Retirement System  
P.O. Box 1930  
Jefferson City, Missouri 65102-1930

**Funding Requirement**

MOSERS administers plans which cover substantially all State of Missouri employees. The State of Missouri is obligated by state law to make all required contributions to the System. The actuarially determined contributions are expressed as a level percentage of covered payroll. Current year actuarially determined contribution rates for the MSEP and the Judicial Plan are 12.78% and 58.48%, respectively. Actual contribution rates are the same as the actuarially determined rates.

The State of Missouri makes all required contributions to MPERS. Current year calculated contribution rates are 44.28% for uniformed members of the Highway Patrol and 31.10% for non-uniformed members of the Highway Patrol and employees of the Missouri Department of Transportation. Actual contribution rates are the same as the actuarially determined rates.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 7 – Retirement Systems (cont.)**

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation for the current year were as follows (in thousands of dollars):

	<u>MSEP</u>	<u>Judicial Plan</u>	<u>MPERS</u>
Annual required contribution	\$ 239,488	\$ 23,746	\$ 121,264
Interest on net pension obligation	5,224	3,598	---
Actuarial adjustment to annual required contribution	<u>(3,690)</u>	<u>(2,541)</u>	<u>---</u>
Annual pension cost	241,022	24,803	121,264
Contributions made	<u>(239,488)</u>	<u>(23,746)</u>	<u>(121,264)</u>
Increase in net pension obligation	1,534	1,057	---
Net pension obligation, beginning of year	<u>61,463</u>	<u>42,331</u>	<u>---</u>
Net pension obligation, end of year	<u>\$ 62,997</u>	<u>\$ 43,388</u>	<u>\$ ---</u>

The annual required contribution for MOSERS for the current year was determined as part of an actuarial valuation of the Systems as of June 30, 2005, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation for MOSERS include: (a) rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 4.0% per year annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 2.7% per year for MSEP and 0% to 1.6% for the Judicial Plan, depending on age, attributable to seniority and/or merit, and (d) the assumption that benefits will increase 4.0% per year after retirement.

The actuarial valuation of the System dated June 30, 2007, will set the required contribution rates for the fiscal year ending June 30, 2009. The actuarial value of assets was determined using a 5-year valuation method which fully recognizes expected investment return and averages unanticipated market return. The unfunded actuarial accrued liabilities are amortized on a closed basis as a level percentage of payroll over 30 years.

The annual required contribution for MPERS for the current year was determined as part of an actuarial valuation as of June 30, 2005, using the normal entry age actuarial cost method. Significant actuarial assumptions used in the valuation for MPERS include: (a) rate of return on the investment of 8.25%, and (b) projected wage inflation rate of 3.75%.

**STATE OF MISSOURI  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2007**

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**Note 7 – Retirement Systems (cont.)**

As of June 30, 2007, the actuarial valuation of assets was determined using a 3-year smoothed market average. The unfunded actuarial accrued liabilities are amortized as closed, level percentage over 30 years.

	Trend Information (in thousands of dollars)					
	MSEP			Judicial Plan		
	Fiscal Year Ending			Fiscal Year Ending		
	06/30/07	06/30/06	06/30/05	06/30/07	06/30/06	06/30/05
Annual Pension Cost (APC)	\$ 241,022	\$ 228,730	\$ 198,980	\$ 24,803	\$ 23,433	\$ 22,770
Percentage of APC Contributed	99.36%	99.35%	99.32%	95.73%	95.60%	95.97%
Net Pension Obligation	\$ 62,997	\$ 61,463	\$ 59,996*	\$ 43,388	\$ 42,331	\$ 41,300

\*Restated

	MPERS		
	Fiscal Year Ending		
	06/30/07	06/30/06	06/30/05
Annual Pension Cost (APC)	\$ 121,264	\$ 111,272	\$ 102,240
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ ---	\$ ---	\$ ---

**Public School Retirement System of Missouri:**

The State of Missouri also made employer contributions to the Public School Retirement System of Missouri which is a cost-sharing multiple-employer defined benefit public employees' retirement system. The System includes all public school districts within the State except for the two districts covering the major metropolitan areas. It also includes certain public college and universities and some state employees.

The benefit provisions include retirement annuities, death benefits, and disability benefits. A member is vested after acquiring five years of membership credit for Missouri service.

The System was created and is governed by Chapter 169 of the Revised Statutes of Missouri. State employees who elect to remain with the Public School Retirement System under the Revised Statutes of Missouri, Section 104.342, are covered by the System.

Employees of the State are not required to contribute. The State, as employer, contributed \$2,984,000, \$2,776,000, and \$2,179,000 for the years ending June 30, 2007, 2006, and 2005, respectively, to the System. These were equal to the required contributions for 2007 and 2006. Required contributions for 2005 were \$2,218,000.

Copies of the System's June 30, 2007, Comprehensive Annual Financial Report may be requested from:

Public School Retirement System of Missouri  
P.O. Box 268  
3210 West Truman Boulevard  
Jefferson City, Missouri 65102-0268

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 7 – Retirement Systems (cont.)**

**College and Universities:**

University of Missouri Retirement System

Plan Description

The University of Missouri Retirement, Disability, and Death Benefit Plan is a single-employer, defined benefit plan for all qualified employees. The University's Board of Curators establishes the terms of the Plan and administers it as authorized by State statute.

All full-time employees are eligible for benefits after five years of credited service. Full benefits are available to members who retire at age 65 or after. Early retirement may be taken, at member's option, after age 55 with at least ten years of credited service, or age 60 with five years of credited service. Benefits are reduced for those who retire early, unless they retire at age 62 or later with at least 25 years of credited service. At retirement, up to 30% of the value of the retirement annuity can be taken in a lump sum; also the single life annuity can be exchanged for an actuarially equivalent annuity option.

Separate financial statements and supplemental schedules are not prepared for the Plan.

Detailed information concerning the Plan is presented in the University's 2007 financial report, which is publicly available. Copies of this report may be requested from:

University of Missouri System  
Office of the Controller  
118 University Hall  
Columbia, Missouri 65211

Funding Requirement

The University's contributions to the Plan are equal to the actuarially determined contribution requirement, as a percent of payroll, which averaged 8.7% for the year ended June 30, 2007. The Plan is funded 100% by University contributions and does not require employee contributions. The contribution rate is updated annually at the beginning of the University's fiscal year on July 1 to reflect the actuarially determined funding requirement from the most recent valuation, as of the preceding October 1, and the adoption of any Plan amendments during the interim.

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation for the current year were as follows (in thousands of dollars):

Annual required contribution	\$ 74,736
Interest on net pension obligation	---
Actuarial adjustment to annual required contribution	---
Annual pension cost	<u>74,736</u>
Contributions made	<u>(74,736)</u>
Change in net pension obligation	---
Net pension obligation, beginning of year	<u>---</u>
Net pension obligation, end of year	<u><u>\$ ---</u></u>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 7 – Retirement Systems (cont.)**

The annual required contribution for the University for the current year was determined as part of an actuarial valuation of the System as of October 1, 2005, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include: (a) assumed rate of return on investments of 8.0% per year, (b) projected salary increases for academic and administrative employees averaging 5.2% per year, (c) projected salary increases for clerical and service employees averaging 4.5% per year, and (d) assumed no future retiree ad-hoc increases or cost of living adjustments.

Trend Information (in thousands of dollars)

	Fiscal Year Ending		
	06/30/07	06/30/06	06/30/05
Annual Pension Cost (APC)	\$ 74,736	\$ 64,399	\$ 49,075
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ ---	\$ ---	\$ ---

**Note 8 – Other Postemployment Benefits**

In addition to the retirement benefits described in *Note 7*, the State provides postemployment health care and life insurance benefits, in accordance with State statutes, to the majority of employees who either retire from the State or receive long-term disability benefits. These benefits are administered by the Missouri Consolidated Health Care Plan (MCHCP), the Missouri State Employees' Retirement System (MOSERS), the MoDOT and MSHP Medical and Life Insurance Plan (MHPML), and the Conservation Employees' Insurance Plan (CEIP). The eligible number of retirees/long-term disability claimants for MCHCP, MHPML, and CEIP for health care benefits are approximately 17,241, 5,356, and 536, respectively. The eligible number of retirees/long-term disability claimants for MOSERS, MHPML, and CEIP for life insurance benefits are 16,308, 3,427, and 365, respectively. Health care benefits are funded through both employer and employee contributions. MOSERS life insurance benefits are funded through employer and employee contributions. MHPML and CEIP life insurance benefits are funded through employee contributions. Employer contribution rates are set in accordance with Section 103.100 of the Revised Statutes of Missouri. Retiree contribution rates are established based on projected claims experience and funding provided by employer contributions. Insurance policies are purchased for life insurance benefits and are the liability of the insurance carrier. For fiscal year 2007, the State's contributions were 50.89% of the total (employer/employee) contributions made for other postemployment benefits.

Currently, the number of retirees/long-term disability claimants participating in each plan is as follows:

	Health Care	Life Insurance
MCHCP	17,241	---
MOSERS	---	16,308
MHPML	5,356	3,427
CEIP	536	365
Total	23,133	20,100

**STATE OF MISSOURI  
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**Note 8 – Other Postemployment Benefits (cont.)**

During fiscal year 2007, the State contributed the following amounts (in thousands of dollars):

	<u>Health Care</u>	<u>Life Insurance</u>
MCHCP	\$ 55,428	\$ ---
MOSERS	---	1,787
MHPML	12,489	---
CEIP	<u>1,440</u>	<u>---</u>
Total	<u>\$ 69,357</u>	<u>\$ 1,787</u>

During fiscal year 2007, the expenditures recognized by the State for (employer/employee) other postemployment benefits were as follows (in thousands of dollars):

	<u>Health Care</u>	<u>Life Insurance</u>
MCHCP	\$ 77,582	\$ ---
MOSERS	---	---
MHPML	34,551	2,662
CEIP	<u>3,050</u>	<u>124</u>
Total	<u>\$ 115,183</u>	<u>\$ 2,786</u>

The MCHCP retained PricewaterhouseCoopers, LLP to perform an actuarial valuation of its Postemployment Medical Plan for fiscal year July 1, 2007 through June 30, 2008. The valuation report provides a preliminary estimate of the State's obligations for fiscal year 2008 in accordance with GASB 45. The valuation was performed using census data and plan provisions as of July 1, 2005; the results were projected to June 30, 2008, using open group projection methodology and assuming a stable active employee population. Since the GASB requires that any such valuation must be done within 24 months of the end of the valuation year, the results are labeled "preliminary" and are not the final numbers to be used in fiscal year 2008. The valuation was performed using all six prescribed actuarial cost methods and two prescribed spread methods. The actuarial cost method chosen by the State and MCHCP is the Entry-Age Normal method. This method will produce a relatively stable normal cost as a percentage of payroll. The Annual Required Contribution (ARC) for fiscal year 2008 is projected to be \$159 million without pre-funding and \$103.3 million with pre-funding. If the obligation is fully funded each year (the State contributes the ARC to a qualified trust), then the Net OPEB Obligation (NOO) is \$0. If pre-funding does not occur for fiscal year 2009, the NOO as of June 30, 2008, is projected to be \$96.5 million. The State has appropriated \$15 million to fund the ARC in fiscal year 2008, in addition to pay as you go.

**College and Universities:**

University of Missouri System

In addition to the retirement benefits described in *Note 7*, the University provides postemployment medical care, dental care, and life insurance benefits to eligible employees who retire from the University and to employees receiving long-term disability benefits. Currently, 5,810 retirees/long-term disability claimants meet the eligibility requirements. These postemployment benefits are funded through both employer and employee contributions. For fiscal year 2007 the University's contributions were 50.46% of the total (employer/employee) contributions made for other postemployment benefits.

Currently, the numbers of retirees/long-term disability claimants participating are 4,854 for medical care, 4,609 for dental care, 2,672 for life insurance, and 3,045 for accidental death and dismemberment, dependent life and long-term care insurance. During fiscal year 2007, the University contributed \$14,318,000 for other postemployment benefits. The expenditures recognized by the University for (employer/employee) other postemployment benefits were \$30,210,000.

**STATE OF MISSOURI**  
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**Note 9 – Deferred Compensation**

**Missouri State Public Employees' Deferred Compensation Plan:**

In accordance with Internal Revenue Code Section 457, the State offers all employees the opportunity to participate in the Missouri State Public Employees' Deferred Compensation Plan. Under the Plan, employees are permitted to defer a portion of their current salary until future years.

All amounts of compensation deferred under the Plan must be held in a trust, custodial account or annuity contract for the exclusive benefit of Plan participants and their beneficiaries. Investments are managed by the Plan's trustee under one of several investment options, or a combination thereof. The choice between the investment option(s) available by the Plan is made by the participants.

Copies of the Plan's financial statements may be requested from:

CitiStreet  
One Heritage Drive  
North Quincy, Massachusetts 02171

**Missouri State Employees' Deferred Compensation Incentive Plan:**

The Plan was established by the Missouri State Public Employees' Deferred Compensation Commission in July 1995 pursuant to Section 401(a) of the Internal Revenue Code. It is administered by CitiStreet.

Under the Plan provisions, any employee of the State is eligible to participate in the Plan if he/she has been an employee of the State for at least 12 consecutive months immediately preceding any employer contributions to the Plan, and is making continuous monthly deferrals of at least \$25 to the Missouri State Public Employees' Deferred Compensation Plan. The State, subject to appropriation, contributes \$25 per month for each employee that meets these requirements. Participating employees are 100% vested.

The first employer contributions to the Plan were made in January 1996. During fiscal year 2007, employer contributions to CitiStreet were \$34,894,000. No employee contributions are made to the Plan.

Copies of the Plan's financial statements may be requested from:

CitiStreet  
One Heritage Drive  
North Quincy, Massachusetts 02171

On June 1, 2006, CitiStreet became the third-party administrator (TPA) of both Plans. The 401(a) deferred compensation plan displayed in the Pension (and Other Employee Benefit) Trust Funds statement presents 18 months of activity ended December 31, 2006, whereas the 457 deferred compensation plan presents 12 months of activity ended December 31, 2006.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 10 – Changes in Short-Term Liabilities**

The State uses a bank overdraft line of credit to compensate for timing in cash payments and receipts. Budget reserve loans are issued to the General Revenue Fund and other funds to maintain adequate cash balances for anticipated payments.

The following is a summary of the changes in short-term liabilities for the year ended June 30, 2007 (in thousands of dollars):

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
<b>Governmental Activities:</b>				
Bank Overdraft	\$ 2	\$ 586,882	\$ (586,884)	\$ ---
Budget Reserve Loans	---	6,802	(6,802)	---
Total Governmental Activities	<u>\$ 2</u>	<u>\$ 593,684</u>	<u>\$ (593,686)</u>	<u>\$ ---</u>

**Note 11 – Changes in Long-Term Liabilities**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2007 (in thousands of dollars):

	*Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
<b>Governmental Activities:</b>					
Due to Other Entities	\$ 35,308	\$ 409	\$ (1,179)	\$ 34,538	\$ 3,833
General Obligation Bonds Payable	739,935	---	(55,420)	684,515	66,395
Other Bonds Payable	1,873,140	1,314,870	(527,135)	2,660,875	109,595
Unamortized Bond Premium	104,413	77,099	(21,526)	159,986	---
Obligations under Lease/Purchases	235,164	19,964	(23,419)	231,709	22,286
Compensated Absences	159,760	182,627	(170,610)	171,777	170,610
Claims Liabilities	122,800	518,033	(447,646)	193,187	109,876
Contingent Liabilities	111,402	---	(28,480)	82,922	28,480
2 <sup>nd</sup> Injury Fund					
Contingent Liabilities	982,328	195,773	(66,078)	1,112,023	66,078
Net Pension Obligation	103,794	387,089	(384,498)	106,385	---
Total Governmental Activities	<u>\$ 4,468,044</u>	<u>\$ 2,695,864</u>	<u>\$ (1,725,991)</u>	<u>\$ 5,437,917</u>	<u>\$ 577,153</u>
<b>Business-Type Activities:</b>					
Claims Liabilities	\$ 116,929	\$ 11,292	\$ (12,165)	\$ 116,056	\$ 13,000
Grand Prize Winner Liability	108,579	41,833	(47,441)	102,971	45,273
Compensated Absences	2,146	3,143	(2,607)	2,682	2,607
Total Business-Type Activities	<u>\$ 227,654</u>	<u>\$ 56,268</u>	<u>\$ (62,213)</u>	<u>\$ 221,709</u>	<u>\$ 60,880</u>

\*Beginning balances as of July 1, 2006 have been restated (see *Note 17*).

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 12 – Bonds Payable**

Bonds are long-term liabilities and are reconciling items from governmental fund financial statements to government-wide financial statements. On the Government-Wide Statement of Net Assets, the long-term liabilities are shown as the amounts due within one year from the date of the statement and the amounts due in more than one year from the date of the statement.

General Obligation Bonds:

The Board of Fund Commissioners of the State of Missouri, upon voter approval and subsequent authorization of the General Assembly, issues general obligation bonds that are secured by a pledge of the full faith, credit, and resources of the State. The principal and interest amounts are transferred one year in advance from the General Fund to the debt service funds from which principal and interest payments are made. Four types of general obligation bonds are currently outstanding. Proceeds from the Water Pollution Control Bonds were used to provide funds for the protection of the environment through the control of water pollution. Proceeds from the Third State Building Bonds were used to provide funds for improvements of state buildings and property. Proceeds from the Fourth State Building Bonds were used to provide funds for improvements of buildings and property of higher education institutions, Department of Corrections, and the Division of Youth Services. Proceeds from the Stormwater Control Bonds were used to provide funds to protect the environment through the control of stormwater.

To take advantage of lower interest rates, the Board of Fund Commissioners has issued bonds to refund various outstanding bond issues. The following indicates the refunding bonds issued by the Board (in thousands of dollars):

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Series Refunded</u>	<u>Amount Refunded</u>
<b>Water Pollution Control Bonds:</b>				
Series A 1987 Refunding	8/1/87	\$ 49,715	A 1981	\$ 16,940
			B 1983	9,625
			A 1985	19,575
Series B 1991 Refunding	11/1/91	17,435	A 1983	16,415
Series C 1991 Refunding	11/1/91	33,575	B 1987	30,695
Series B 1992 Refunding	8/15/92	50,435	A 1986	46,400
Series B 1993 Refunding	8/1/93	109,415	A 1987 Refunding	33,240
			A 1989	27,280
			A 1991	27,350
			B 1991 Refunding	11,355
Series B 2002 Refunding	10/15/02	147,710	C 1991 Refunding	21,875
			A 1992	26,560
			B 1992 Refunding	33,595
			A 1993	22,350
			A 1995	22,520
			A 1996	25,900
Series A 2003 Refunding	10/29/03	74,655	B 1993 Refunding	76,540
Series A 2005 Refunding	6/29/05	95,100	A 1996	2,160
			A 1998	28,680
			A 1999	17,595
			A 2003 Refunding	51,535

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 12 – Bonds Payable (cont.)**

	Date Issued	Amount Issued	Series Refunded	Amount Refunded
Third State Building Bonds:				
Series A 1987 Refunding	8/1/87	170,115	B 1983	33,675
			A 1984	48,130
			A 1985	73,375
Series A 1991 Refunding	11/1/91	34,870	A 1983	32,835
Series B 1991 Refunding	11/1/91	71,955	B 1987	65,780
Series A 1992 Refunding	8/15/92	273,205	A 1986	251,355
Series A 1993 Refunding	8/1/93	148,480	A 1987 Refunding	113,725
			A 1991 Refunding	22,935
Series A 2002 Refunding	10/15/02	211,630	B 1991 Refunding	47,320
			A 1992 Refunding	181,170
			A 1993 Refunding	79,380
Series A 2003 Refunding	10/29/03	75,650		
Fourth State Building Bonds:				
Series A 2002 Refunding	10/15/02	154,840	A 1995	56,300
			A 1996	92,485
Series A 2005 Refunding	6/29/05	45,330	A 1996	7,715
			A 1998	40,970
Stormwater Control Bonds:				
Series A 2005 Refunding	6/29/05	17,175	A 1999	17,595

The additional principal amount of the refunding bonds does not decrease the amount of the authorization.

As of June 30, 2007, \$544,494,240 of the Water Pollution Control Bonds; \$600,000,000 of the Third State Building Bonds; \$250,000,000 of the Fourth State Building Bonds; and \$45,000,000 of the Stormwater Control Bonds have been issued. The remaining authorization for the Water Pollution Control Bonds is \$180,505,760 and for Stormwater Control Bonds is \$155,000,000. There is no remaining authorization for the Third State Building Bonds or the Fourth State Buildings Bonds.

General obligation bonds issued and outstanding as of June 30, 2007, were as follows (in thousands of dollars):

	Interest Rates	Payment Dates	Issue Date	Final Maturity Date	Issued	Outstanding
Water Pollution Control Bonds:						
Series A 2001	4.0 – 7.0%	12/1; 6/1	6/01	6/1/26	\$ 20,000	\$ 16,925
Series A 2002	3.0 – 5.25%	2/1; 8/1	8/02	8/1/27	30,000	27,015
Series B 2002 – Refunding	3.375 – 5.0%	4/1; 10/1	10/02	10/1/21	147,710	121,880
Series A 2003 – Refunding	3.25 – 6.0%	2/1; 8/1	10/03	8/1/16	74,655	20,405
Series A 2005 – Refunding	5.0%	10/1; 4/1	6/05	10/1/16	95,100	95,100
Third State Building Bonds:						
Series A 2002 – Refunding	4.0 – 5.0%	4/1; 10/1	10/02	10/1/12	211,630	125,705
Series A 2003 – Refunding	3.25 – 6.0%	2/1; 8/1	10/03	8/1/12	75,650	39,640
Fourth State Building Bonds:						
Series A 2002 – Refunding	3.375 – 5.0%	4/1; 10/1	10/02	10/1/21	154,840	153,370
Series A 2005 – Refunding	5.0%	10/1; 4/1	6/05	10/1/16	45,330	45,330
Stormwater Control Bonds:						
Series A 2001	4.0 – 7.0%	12/1; 6/1	6/01	6/1/26	10,000	8,460
Series A 2002	3.0 – 5.25%	2/1; 8/1	8/02	8/1/27	15,000	13,510
Series A 2005 – Refunding	5.0%	10/1; 4/1	6/05	10/1/15	17,175	17,175
Total General Obligation Bonds					<u>\$ 897,090</u>	<u>\$ 684,515</u>
Less: Amount in Sinking Fund for payment of Principal						<u>(66,395)</u>
						<u>\$ 618,120</u>

**STATE OF MISSOURI  
NOTES TO THE FINANCIAL STATEMENTS  
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**Note 12 – Bonds Payable (cont.)**

As of June 30, 2007, general obligation debt service requirements for principal and interest in future years were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 66,395	\$ 31,231	\$ 97,626
2009	63,950	28,250	92,200
2010	70,010	24,904	94,914
2011	68,440	21,445	89,885
2012	56,775	18,346	75,121
2013–2017	237,290	57,057	294,347
2018–2022	98,535	15,760	114,295
2023–2027	20,165	3,295	23,460
2028	2,955	74	3,029
<b>Totals</b>	<b>\$ 684,515</b>	<b>\$ 200,362</b>	<b>\$ 884,877</b>

**Other Bonds:**

The Board of Public Buildings of the State of Missouri, upon the approval of the General Assembly, issues revenue bonds for building projects and commits state agencies to lease space in these buildings. The General Assembly appropriates to the Board, on behalf of the state agencies, amounts sufficient to pay the principal and interest on the bonds, maintain certain required reserves and to pay the costs of operations. The total amount authorized for the Board equals \$945,000,000.

To take advantage of lower interest rates, the Board of Public Buildings has issued bonds to refund various outstanding bond issues. The following indicates the refunding bonds issued by the Board (in thousands of dollars):

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Series Refunded</u>	<u>Amount Refunded</u>
Board of Public Buildings:				
Series A 1983 Refunding	10/1/83	\$ 43,445	A 1981	\$ 43,445
Series A 1985 Refunding	12/1/85	150,560	1966	2,160
			1967	825
			A 1978	11,745
			A 1979	2,260
			A 1980	3,795
			A 1983 Refunding	39,875
			A 1984	89,900
Series A 1991 Refunding	12/1/91	148,500	A 1985 Refunding	107,700
			A 1988	19,165
			B 1988	2,550
			C 1988	2,145
Series B 2001 Refunding	10/10/01	83,465	A 1991 Refunding	86,810

The additional principal amount of the refunding bonds does not decrease the amount of the authorization.

As of June 30, 2007, the Board of Public Buildings Bonds had issued \$871,205,000 of the bond authorization. The remaining authorization is \$73,795,000.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 12 – Bonds Payable (cont.)**

The Board of Public Buildings Bonds issued and outstanding as of June 30, 2007, were as follows (in thousands of dollars):

	Interest Rates	Payment Dates	Issue Date	Final Maturity Date	Issued	Outstanding
Board of Public Buildings:						
Series A 2001	4.25 – 5.75%	5/1; 11/1	5/01	5/1/26	\$ 173,870	\$ 148,230
Series B 2001 – Refunding	3.5 – 5.5%	6/1; 12/1	10/01	12/1/12	83,465	37,640
Series A 2003	4.0 – 6.0%	4/15;10/15	4/03	10/15/28	387,425	376,385
Series A 2006	4.0 – 5.0%	4/1; 10/1	10/06	10/1/31	120,000	120,000
Total Board of Public Buildings Bonds					<u>\$ 764,760</u>	<u>\$ 682,255</u>

As of June 30, 2007, the debt service requirements for principal and interest in future years for the Board of Public Buildings Bonds were as follows (in thousands of dollars):

Fiscal Year Ended June 30	Principal	Interest	Totals
2008	\$ 28,925	\$ 33,234	\$ 62,159
2009	30,000	31,720	61,720
2010	31,175	30,127	61,302
2011	22,950	28,702	51,652
2012	23,815	27,551	51,366
2013–2017	124,930	118,582	243,512
2018–2022	152,830	84,748	237,578
2023–2027	180,685	43,366	224,051
2028–2032	86,945	6,795	93,740
Totals	<u>\$ 682,255</u>	<u>\$ 404,825</u>	<u>\$ 1,087,080</u>

The Health and Educational Facilities Authority issued \$35,000,000 of Educational Facilities Revenue Bonds (University of Missouri–Columbia Arena Project), Series 2001, dated November 1, 2001. These bonds are limited obligations of the Authority and do not constitute a pledge of the full faith and credit of the State. However, under a financing agreement dated November 1, 2001, the Office of Administration will request that the Governor’s annual budget request to the General Assembly include the State’s financing amount for principal and interest each year.

The Educational Facilities Revenue Bonds issued and outstanding as of June 30, 2007, were as follows (in thousands of dollars):

	Interest Rates	Payment Dates	Issue Date	Final Maturity Date	Issued	Outstanding
Educational Facilities Revenue Bonds:						
Series 2001	3.0 – 5.0%	5/1; 11/1	11/01	11/1/21	<u>\$ 35,000</u>	<u>\$ 30,855</u>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 12 – Bonds Payable (cont.)**

As of June 30, 2007, the debt service requirement of the State for principal and interest in future years for the Educational Facilities Revenue Bonds (based on the financing agreement between the State and the Authority) were as follows (in thousands of dollars):

Fiscal Year Ended June 30	Principal	Interest	Totals
2008	\$ 1,485	\$ 1,402	\$ 2,887
2009	1,545	1,349	2,894
2010	1,610	1,281	2,891
2011	1,685	1,199	2,884
2012	1,760	1,112	2,872
2013–2017	10,040	4,310	14,350
2018–2022	12,730	1,600	14,330
<b>Totals</b>	<b>\$ 30,855</b>	<b>\$ 12,253</b>	<b>\$ 43,108</b>

The Regional Convention and Sports Complex Authority issued \$132,910,000 of Convention and Sports Facility Project Bonds, Series A 1991, dated August 15, 1991. On December 15, 1993, the Authority issued \$121,705,000 of Convention and Sports Facility Project Refunding Bonds, Series A 1993 for the purpose of refunding the callable portions of the outstanding bonds issued in August 1991 and to pay the costs of additions and enhancements to the project. The outstanding principal amount refunded was \$101,410,000. On August 1, 2003, the Authority issued \$116,030,000 of Convention and Sports Facility Project Refunding Bonds, Series A 2003 for the purpose of refunding Convention and Sports Facility Project Bonds, Series A 1991 and Series A 1993 refunding bonds and to pay the costs of additions and enhancements to the project. The outstanding principal amount refunded was \$2,845,000 for the Series A 1991 bonds and \$113,170,000 for the Series A 1993 refunding bonds. These bonds are limited obligations of the Authority and do not constitute a pledge of the full faith and credit of the State.

The Convention and Sports Facility Project Bonds issued and outstanding as of June 30, 2007, were as follows (in thousands of dollars):

	Interest Rates	Payment Dates	Issue Date	Final Maturity Date	Issued	Outstanding
Convention and Sports Facility Project Bonds:						
Series A 2003 – Refunding	1.42–5.375%	2/15; 8/15	8/03	8/15/21	\$ 116,030	\$ 102,955

As of June 30, 2007, the debt service requirements for these bonds are as follows (in thousands of dollars):

Fiscal Year Ended June 30	Principal	Interest	Totals
2008	\$ 4,755	\$ 5,127	\$ 9,882
2009	4,985	4,894	9,879
2010	5,225	4,654	9,879
2011	5,465	4,392	9,857
2012	5,745	4,104	9,849
2013–2017	33,520	15,589	49,109
2018–2022	43,260	5,625	48,885
<b>Totals</b>	<b>\$ 102,955</b>	<b>\$ 44,385</b>	<b>\$ 147,340</b>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 12 – Bonds Payable (cont.)**

Under a financing agreement dated August 1, 1991, the Office of Administration will request that the Governor’s annual budget request to the General Assembly include the State’s financing amount of \$10,000,000 for principal and interest and \$2,000,000 for maintenance each year. Future payments to the Authority related to the bond repayment are as follows (in thousands of dollars):

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>State</u> <u>Debt Service</u> <u>Payments</u>
2008	\$ 10,000
2009	10,000
2010	10,000
2011	10,000
2012	10,000
2013–2017	50,000
2018–2022	<u>45,000</u>
<b>Total</b>	<b><u>\$ 145,000</u></b>

The Missouri Highways and Transportation Commission authorized by Article IV, Section 29–34 of the Missouri Constitution and Section 226.133 and 226.134 of the State Highway Act, issues bonds for highway construction and repairs. Under the Missouri Constitution, the principal and interest of the State Road Bonds are payable solely from the revenues of the Missouri Road Fund.

On December 1, 2000, the Commission issued \$250,000,000 of State Road Bonds, Series A 2000. In October 2001, the Commission issued \$200,000,000 of State Road Bonds, Series A 2001. State Road Bonds, Series A 2002, were issued by the Commission in June 2002 with a principal amount of \$203,000,000. In November 2003, the Commission issued \$254,000,000 of State Road Bonds, Series A 2003. The Commission issued \$278,660,000 of Series A 2005 First Lien State Road Bonds in July 2005. Also in July 2005, the Commission issued \$72,000,000 of Third Lien State Road Bonds, Series B 2005. This is a variable rate bond with interest accruing daily and weekly. The Commission issued \$296,670,000 of Series A 2006 First Lien State Road Bonds on August 1, 2006. Series B 2006 First Lien State Road Bonds was issued in the amount of \$503,330,000 by the Commission on August 1, 2006. The Commission issued Series 2006 Senior Lien Refunding State Road Bonds dated December 1, 2006, in the amount of \$394,870,000. This refunded \$135,980,000 of Series A 2000, \$105,075,000 of Series A 2001, \$109,165,000 of Series A 2002, and \$57,390,000 of Series A 2003.

The Senior Bonds are comprised of the Series A 2000, Series A 2001, Series A 2002, and Series A 2003. No new bonds may be added to the Senior Bonds. State Road Bonds have the following levels of priority: Senior Bonds, First Lien Bonds, Second Lien Bonds, and Third Lien Bonds. As of June 30, 2007, the Missouri Highways and Transportation Commission had used \$2,057,660,000.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 12 – Bonds Payable (cont.)**

The State Road Bonds issued and outstanding as of June 30, 2007, were as follows (in thousands of dollars):

	Interest Rates	Payment Dates	Issue Date	Final Maturity Date	Issued	Outstanding
Missouri Highways and Transportation Commission:						
State Road Bonds						
Series A 2000	4.30–5.625%	2/1; 8/1	12/00	2/1/20	\$ 250,000	\$ 60,525
Series A 2001	2.25–5.125%	2/1; 8/1	10/01	2/1/21	200,000	57,275
Series A 2002	3.00–5.25%	2/1; 8/1	6/02	2/1/22	203,000	62,865
Series A 2003	2.00–5.00%	2/1; 8/1	11/03	2/1/23	254,000	168,045
Series A 2005–First Lien	2.50–5.00%	11/1; 5/1	7/05	5/1/15	278,660	231,295
Series B 2005–Third Lien	Variable	Variable	7/05	5/1/15	72,000	58,920
Series A 2006–First Lien	3.75–5.00%	5/1; 11/1	8/06	5/1/21	296,670	296,670
Series B 2006–First Lien	4.50–5.00%	5/1; 11/1	8/06	5/1/26	503,330	503,330
Series 2006–Refunding	4.00–5.00%	2/1; 8/1	12/06	2/1/22	394,870	394,870
Total Missouri Highways and Transportation Commission					<u>\$ 2,452,530</u>	<u>\$ 1,833,795</u>

As of June 30, 2007, debt service requirements for principal and interest in future years for the Missouri Highways and Transportation Commission were as follows (in thousands of dollars):

Fiscal Year Ended June 30	Principal	Interest <sup>(1)</sup>	Totals
2008	\$ 69,105	\$ 88,502	\$ 157,607
2009	81,920	85,415	167,335
2010	90,020	81,679	171,699
2011	98,380	77,495	175,875
2012	101,950	72,775	174,725
2013–2017	482,105	290,286	772,391
2018–2022	455,810	182,500	638,310
2023–2026	454,505	57,725	512,230
Totals	<u>\$ 1,833,795</u>	<u>\$ 936,377</u>	<u>\$ 2,770,172</u>

<sup>(1)</sup> The annual debt service schedule assumes an interest rate of 3.70%, representing the interest rate at June 30, 2007, for the Series B 2005 bonds.

In addition, several of the blended component units of the Missouri Road Fund had revenue bonds issued and outstanding as of June 30, 2007.

The Fulton 54 Transportation Corporation, a blended component unit of the Missouri Road Fund, issued \$8,705,000 of Highway Revenue Bonds, Series 2000 dated November 1, 2000. These bonds are not an obligation of the Commission and do not constitute a pledge of the full faith and credit of the State.

The Missouri Highway 179 Transportation Corporation, a blended component unit of the Missouri Road Fund, issued \$22,930,000 of Highway Revenue Bonds, Series 1997 dated December 1, 1997. These bonds are not an obligation of the Commission and do not constitute a pledge of the full faith and credit of the State.

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June 30, 2007**

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**Note 12 – Bonds Payable (cont.)**

The Wentzville Parkway Transportation Corporation, a blended component unit of the Missouri Road Fund, issued \$12,935,000 of Transportation Revenue Bonds, Series 2001 dated May 1, 2001. These bonds are not an obligation of the Commission and do not constitute a pledge of the full faith and credit of the State.

The revenue bonds issued and outstanding as of June 30, 2007, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Fulton 54 Transportation Corporation: Highway Revenue Bonds Series 2000	4.60 – 5.00%	9/1	11/00	9/1/07	<u>\$ 8,705</u>	<u>\$ 2,195</u>
Missouri Highway 179 Transportation Corporation: Highway Revenue Bonds Series 1997	3.95 – 5.25%	3/1; 9/1	12/97	9/1/08	<u>\$ 22,930</u>	<u>\$ 5,430</u>
Wentzville Parkway Transportation Corporation: Transportation Revenue Bonds Series 2001	3.4 – 4.9%	2/1; 8/1	5/01	8/1/10	<u>\$ 12,935</u>	<u>\$ 3,390</u>

As of June 30, 2007, debt service requirements for principal and interest in future years for the bonds of the blended component units of the Missouri Road Fund were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 5,325	\$ 419	\$ 5,744
2009	3,300	202	3,502
2010	535	104	639
2011	<u>1,855</u>	<u>45</u>	<u>1,900</u>
Totals	<u>\$ 11,015</u>	<u>\$ 770</u>	<u>\$ 11,785</u>

Under a financing agreement dated September 1, 2000, the City of Fulton will make payments to the Fulton 54 Transportation Corporation in the amount of \$1,010,000 to pay a portion of the principal on the bonds. The future payments to the Corporation are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>City Payments</u>
2008	<u>\$ 995</u>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 12 – Bonds Payable (cont.)**

Under a funding agreement dated April 6, 2001, the City of Wentzville will make payments to the Wentzville Parkway Transportation Corporation in the amount of \$4,119,000 to pay a portion of the principal of the bonds. The future payments to the Corporation are as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>City's Total Payments</u>
2008	\$ 485	\$ 152	\$ 637
2009	515	129	644
2010	535	104	639
2011	<u>1,855</u>	<u>45</u>	<u>1,900</u>
Totals	<u>\$ 3,390</u>	<u>\$ 430</u>	<u>\$ 3,820</u>

**Component Units' Long-Term Debt** – The following bonds are included in the balance sheet of the college and universities and the non-major component units.

Major

College and Universities:

The college and universities of the State issue revenue bonds for various projects on each respective campus. Bonds are payable, both principal and interest, only out of net income and revenues arising from operations of facilities funded by the bonds. As of June 30, 2007, debt service requirements for principal and interest for the college and universities were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 33,294	\$ 47,663	\$ 80,957
2009	34,649	46,433	81,082
2010	35,808	44,955	80,763
2011	36,327	43,434	79,761
2012	34,692	41,910	76,602
2013–2017	191,081	185,452	376,533
2018–2022	201,537	140,543	342,080
2023–2027	253,675	86,987	340,662
2028–2032	181,410	34,273	215,683
2033–2037	<u>77,080</u>	<u>3,783</u>	<u>80,863</u>
Totals <sup>(1)</sup>	<u>\$ 1,079,553</u>	<u>\$ 675,433</u>	<u>\$ 1,754,986</u>

<sup>(1)</sup> The bond schedule does not include notes payable, therefore, it differs from the bonds and notes payable amount reported in the statements.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 12 – Bonds Payable (cont.)**

Non-Major

Missouri Development Finance Board:

In December 2000, the Board issued \$6,500,000 and \$14,600,000 in Facilities Revenue Bonds Series 2000B and 2000C, respectively for the purpose of paying the costs of acquiring land and constructing a parking garage. Bonds are payable, both principal and interest, only out of revenues derived from the operation of the parking garage.

In October 2004, the Board issued \$9,500,000 in Ninth Street Garage Series 2004A, taxable infrastructure facilities revenue bonds; and \$7,000,000 Ninth Street Garage Series 2004B, tax exempt infrastructure facilities revenue bonds.

The Missouri Development Finance Board Revenue Bonds issued and outstanding as of June 30, 2007, were as follows (in thousands of dollars):

	<u>Interest Rates</u>	<u>Payment Dates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Missouri Development Finance Board:						
Revenue Bonds						
Series 2000B	up to 8.5%	12/1	12/00	12/1/20	\$ 6,500	\$ 3,910
Series 2000C	up to 6.7%	12/1	12/00	12/1/20	14,600	11,440
Series 2004A	up to 10%	10/1	10/04	10/1/34	9,500	9,500
Series 2004B	up to 10%	10/1	10/04	10/1/34	<u>7,000</u>	<u>7,000</u>
Total Missouri Development Finance Board Revenue Bonds					<u>\$ 37,600</u>	<u>\$ 31,850</u>

As of June 30, 2007, the debt service requirements for principal and interest in future years for the Missouri Development Finance Board Revenue Bonds were as follows (in thousands of dollars):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ ---	\$ 716	\$ 716
2009	240	4,527	4,767
2010	255	1,455	1,710
2011	270	1,443	1,713
2012	285	1,429	1,714
2013–2017	1,740	6,917	8,657
2018–2022	17,755	5,711	23,466
2023–2027	3,300	2,174	5,474
2028–2032	4,550	1,245	5,795
2033–2034	<u>3,455</u>	<u>164</u>	<u>3,619</u>
Totals	<u>\$ 31,850</u>	<u>\$ 25,781</u>	<u>\$ 57,631</u>

In December 2002, the Missouri Development Finance Board purchased a rate cap agreement of 8.5% for Series 2000B bonds and 6.7% for Series 2000C bonds with an expiration date of December 1, 2007. The Board has the option in the future to restructure the bond debt to acquire a fixed interest rate. The annual debt service schedule assumes an interest rate of 4.66%, representing the interest rate at June 30, 2007, for the Series 2000B and Series 2000C bonds. The annual debt service schedule also assumes an interest rate of 4.62%, representing the interest rate as of June 30, 2007, for the Ninth Street Garage Series 2004A and 2004B bonds.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 12 – Bonds Payable (cont.)**

**Bond Transactions of the State of Missouri** – The following schedule is a summary of bond activity for the fiscal year ended June 30, 2007 (in thousands of dollars):

	<u>Governmental Funds</u>		<u>Component Units</u>	
	<u>General Obligation Bonds</u>	<u>Other Bonds</u>	<u>Revenue Bonds</u>	<u>Totals</u>
Bonds Payable at July 1, 2006	\$ 739,935	\$ 1,873,140	\$ ---	\$ 2,613,075
Bond Issuance	---	1,314,870	---	1,314,870
Bonds Retired	(55,420)	(527,135)	---	(582,555)
Subtotal	684,515	2,660,875	---	3,345,390
College and Universities <sup>(1)</sup>	---	---	1,079,553	1,079,553
Missouri Development Finance Board	---	---	31,850	31,850
Bonds Payable at June 30, 2007	<u>\$ 684,515</u>	<u>\$ 2,660,875</u>	<u>\$ 1,111,403</u>	<u>\$ 4,456,793</u>

<sup>(1)</sup> Detailed information for college and universities are not shown.

**Note 13 – Defeased Debt**

**A. Current Year Debt Defeasance**

On July 11, 2006, the State defeased the Midtown State Office Building in the amount of \$1,070,000. This building is part of the Board of Public Buildings Series B 2001 Refunding Bonds. The defeasance is an extinguishment of the debt as the Board was legally released from its obligation. Accordingly, the amount defeased is excluded from the Statement of Net Assets.

On December 13, 2006, the Missouri Department of Transportation issued \$394,870,000 of Series 2006 bonds. The Series 2006 bonds refunded \$407,610,000 of outstanding State Road Bonds, which included \$135,980,000 of Series A 2000, \$105,075,000 of Series A 2001, \$109,165,000 of Series A 2002, and \$57,390,000 of Series A 2003. The economic gain on the refunding is \$19,900,000. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate of the new debt. The difference in cash flows between the old debt service requirements and the new debt requirements is \$27,000,000.

On December 27, 2006, Northwest Missouri State University issued \$9,905,000 of Series 2006 bonds. The Series 2006 bonds refunded \$8,750,000 of outstanding 1998 series bonds. The economic gain (difference between the present values of the old and new debt service payments) on the refunding is \$406,000. The difference in cash flows between the old debt service requirements and the new debt requirements is \$736,000.

On March 5, 2007, Northwest Missouri State University issued \$9,975,000 of Series 2007 bonds. The Series 2007 bonds refunded \$3,000,000 of outstanding 1997 series bonds and \$6,700,000 of outstanding 1998 series bonds. The economic gain (difference between the present values of the old and new debt service payments) on the refunding is \$232,000. The difference in cash flows between the old debt service requirements and the new debt requirements is \$427,000.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 13 – Defeased Debt (cont.)**

**B. Cumulative Debt Defeasances**

Various bond issues have been defeased by creating separate irrevocable trust funds.

Either new debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds or sufficient funds have been deposited in an irrevocable escrow to pay principal and interest as they become due.

For financial reporting purposes, the following debt has been defeased and therefore removed as a liability from the governmental activities and college and universities Statement of Net Assets.

Governmental Activities – As of June 30, 2007, bonds outstanding of \$543,033,000 are defeased.

College and Universities – As of June 30, 2007, bonds outstanding of \$175,306,000 are defeased.

**Note 14 – Payables and Receivables**

A summary of accounts payable and accounts receivable at June 30, 2007, is shown below (in thousands of dollars):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Balance June 30, 2007</u>
Accounts Payable:			
Taxpayers	\$ 80,324	\$ 15	\$ 80,339
Other Governments	113,031	29	113,060
Vendors	792,372	11,581	803,953
Employees	119,711	2,680	122,391
Other	52,501	1	52,502
Total Accounts Payable	<u>\$ 1,157,939</u>	<u>\$ 14,306</u>	<u>\$ 1,172,245</u>
Accounts Receivable:			
Taxpayers	\$ 1,143,445	\$ 4,004	\$ 1,147,449
Other Governments	484,521	281	484,802
Vendors	1,931,889	---	1,931,889
Customers	74,485	167,329	241,814
Other	950,608	1,731	952,339
Accounts Receivable	4,584,948	173,345	4,758,293
Amounts not expected to be collected	<u>(1,923,619)</u>	<u>(4)</u>	<u>(1,923,623)</u>
Accounts Receivable, net	<u>\$ 2,661,329</u>	<u>\$ 173,341</u>	<u>\$ 2,834,670</u>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 15 – Interfund Assets and Liabilities**

A summary of interfund assets and liabilities at June 30, 2007, is shown below (in thousands of dollars):

	<b>Due From Other Funds, Component Units, and Primary Government</b>			
	General Fund	Public Education	Conservation and Environmental Protection	Transportation and Law Enforcement
<u>Due to Other Funds and Primary Government</u>				
General Fund	\$ ---	\$ ---	\$ 3	\$ 18
Public Education	189	---	---	---
Conservation and Environmental Protection	---	---	---	1
Transportation and Law Enforcement	---	---	---	---
Missouri Road Fund	---	---	53	11
Non-Major Governmental Funds	111	---	1	---
State Lottery	---	16,525	---	---
Petroleum Storage Tank Insurance	---	---	---	---
Non-Major Enterprise Funds	---	---	---	---
Internal Service Funds	---	---	---	---
Non-Major Component Units	---	---	726	---
<b>Totals</b>	<b>\$ 300</b>	<b>\$ 16,525</b>	<b>\$ 783</b>	<b>\$ 30</b>

**Continues Below**

	Non-Major Governmental Funds	Non-Major Enterprise Funds	Internal Service Funds	Totals
<u>Due to Other Funds and Primary Government</u>				
General Fund	\$ 508	\$ 8	\$ 4,314	\$ 4,851
Public Education	4	---	68	261
Conservation and Environmental Protection	72	23	281	377
Transportation and Law Enforcement	4	---	324	328
Missouri Road Fund	---	7	259	330
Non-Major Governmental Funds	95	---	502	709
State Lottery	---	---	42	16,567
Petroleum Storage Tank Insurance	10	---	1	11
Non-Major Enterprise Funds	---	---	77	77
Internal Service Funds	26	2	194	222
Non-Major Component Units	---	---	---	726
<b>Totals</b>	<b>\$ 719</b>	<b>\$ 40</b>	<b>\$ 6,062</b>	<b>\$ 24,459</b>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 15 – Interfund Assets and Liabilities (cont.)**

	<b><u>Advance From Component Units and Primary Government</u></b>		
	<u>Missouri Road Fund</u>	<u>Non-Major Component Units</u>	<u>Totals</u>
<u>Advance To Component Units and Primary Government</u>			
Conservation and Environmental Protection	\$           ---	\$           3,300	\$           3,300
Non-Major Component Units	<u>12,158</u>	<u>---</u>	<u>12,158</u>
Totals	<u>\$       12,158</u>	<u>\$       3,300</u>	<u>\$       15,458</u>

The loans from the component units were for the construction of additional state highways.

During the consolidation process for the Government-Wide Combined Statement of Net Assets, interfund payables and receivables were eliminated as follows: governmental activities in the amount of \$7,038,000.

**STATE OF MISSOURI  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2007**

**Note 16 – Interfund Transfers**

All transfers must be legally authorized by the legislature through transfer appropriations. Interfund transfers for the fiscal year ended June 30, 2007, were as follows (in thousands of dollars):

	<b>Transfers In:</b>				
	General Fund	Public Education	Conservation and Environmental Protection	Transportation and Law Enforcement	Missouri Road Fund
<b>Transfers Out:</b>					
General Fund	\$ ---	\$ 2,723,140	\$ 664	\$ 315	\$ 12
Public Education	7,309	---	---	---	---
Conservation and Environmental Protection	570	---	---	---	---
Transportation and Law Enforcement	3,560	---	---	---	523,745
Non-Major Governmental Funds	36,593	33,973	---	---	---
State Lottery	---	257,201	---	---	---
Non-Major Enterprise Funds	20	---	---	---	---
Internal Service Funds	7	---	---	---	---
<b>Totals</b>	<b>\$ 48,059</b>	<b>\$ 3,014,314</b>	<b>\$ 664</b>	<b>\$ 315</b>	<b>\$ 523,757</b>

**Continues Below**

	Non-Major Governmental Funds	Non-Major Enterprise Funds	Internal Service Funds	Totals
<b>Transfers Out:</b>				
General Fund	\$ 175,373	\$ 534	\$ 120,052	\$ 3,020,090
Public Education	---	---	---	7,309
Conservation and Environmental Protection	1,392	---	---	1,962
Transportation and Law Enforcement	---	---	---	527,305
Non-Major Governmental Funds	10,880	---	---	81,446
State Lottery	---	---	---	257,201
Non-Major Enterprise Funds	---	---	---	20
Internal Service Funds	59	---	---	66
<b>Totals</b>	<b>\$ 187,704</b>	<b>\$ 534</b>	<b>\$ 120,052</b>	<b>\$ 3,895,399</b>

Principal reasons for interfund transfers include:

- moving general revenue funds to support elementary and secondary education
- moving State Lottery funds to support elementary and secondary education
- moving general revenue funds to support social assistance programs reported in non-major governmental funds
- moving funds related to the construction of capital assets

During fiscal year 2007, unusual transfers of \$120.1 million from the General Fund to State Facility Maintenance and Operation, an internal service fund, occurred to move the proceeds from Board of Public Buildings Series A 2006.

**STATE OF MISSOURI  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2007**

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**Note 17 – Restatements**

During fiscal year 2007, additional information became available which required the restatement of fund equity amounts. The following table presents a summary of these restatements by fund categories (in thousands of dollars):

	June 30, 2006 Fund Balance/ Net Assets Previously Reported	Prior Period Adjustments	June 30, 2006 Fund Balance/ Net Assets Restated
<b>GOVERNMENTAL FUNDS</b>			
<b>Major Governmental Funds</b>			
Public Education	\$ 254,285	\$ 13,451	\$ 267,736
<b>Non-Major Governmental Funds</b>			
Special Revenue	265,313	1,202	266,515
<b>PROPRIETARY FUNDS</b>			
<b>Non-Major Proprietary Funds</b>			
Enterprise	46,561	62	46,623
Internal Service	467,766	(726)	467,040

**Breakdown of restatements by type:**

- Public Education, the restatement was a decrease in accounts receivable of \$23,333,000 and an increase in deferred revenue of \$9,882,000.
- Non-major special revenue funds, the restatement was a decrease to cash of \$3,000 and an increase in investments of \$1,205,000.
- Non-major enterprise funds, the restatement was an increase to capital assets (net of accumulated depreciation) of \$62,000.
- Non-major internal service funds, the restatement was a decrease in accounts receivable by \$5,000, a decrease in capital assets (net of accumulated depreciation) of \$692,000, and an increase in capital lease obligation by \$29,000.

**Purpose for restatements:**

The items on the schedule were restated as a result of additional information received this year related to prior year corrections.

On the Government-Wide Statement of Activities, net assets for the governmental activities were restated by the amounts shown on the restatement schedule for governmental funds and internal service funds. In addition, capital assets (net of accumulated depreciation) decreased by \$2,333,000, the internal balance increased by \$3,000, contingent liabilities increased by \$17,837,000, capital lease obligation increased by \$4,176,000, and accounts receivable increased by \$235,150,000, which included a \$228,746,000 increase in the General Fund, \$6,223,000 increase in Conservation and Environmental Protection, and a \$181,000 increase in Transportation and Law Enforcement.

On the Government-Wide Statement of Activities, net assets for the business-type activities were restated by the amounts shown on the restatement schedule for enterprise funds and by a decrease in the internal balance of \$3,000.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 18 – Fund Deficit**

The following funds had deficit balances:

Enterprise Fund – Petroleum Storage Tank – At June 30, 2007, this fund had a net asset deficit of \$33,900,000. The deficit at June 30, 2006 was \$46,633,000. The deficit occurred when transport load fees collected were not sufficient to cover the estimated claims liability for clean up of petroleum storage tank leaks. This liability amount is the cumulative result of numerous years of petroleum storage tank leaks. Per Section 319.129, RSMo, this fund will not accept new claim liabilities after December 31, 2010, or upon revocation of federal regulation 40 CFR, whichever occurs first, unless extended by action of the General Assembly. Various alternatives are being considered to pay off the claims liability amount of this fund. Per Section 319.131, RSMo, the liability of the petroleum storage tank fund is not the liability of the State. Upon dissolution of this fund, the liability would be liquidated.

**Note 19 – Related Party Transactions**

The Missouri State Public Employees' Deferred Compensation Plan is administered by CitiStreet. ING Life Insurance and Annuity Company provides fixed earnings investments for plan participants while CitiStreet provides variable earnings investments. At December 31, 2006, total investments of the Plan were \$1,059,796,000 and investments in ING Life Insurance and Annuity Company were \$464,379,000.

**Note 20 – Commitments**

**Contracts**

The Department of Conservation had contracts outstanding of \$2,775,000 for construction contracts at June 30, 2007. These contracts are funded through the special revenue funds from specific sales tax, fees, and permits.

The Department of Transportation had long-term contracts of \$1,151,750,000 outstanding at June 30, 2007. These contracts are paid from capital projects funds with approximately 70% federal reimbursement expected.

The Office of Administration, Division of Facilities Management, Design and Construction, had construction contracts outstanding at June 30, 2007, of \$120,327,000. Approximately 26% will be paid from the General Fund, 8% from special revenue funds, 2% from capital projects funds, and 64% from internal service funds.

The Department of Elementary and Secondary Education had desegregation payments outstanding of \$30 million at June 30, 2007. These payments are due to the St. Louis Public School District based upon Court Order L(266)99 approving the 1999 settlement agreement requiring annual payments. The payments are as follows:

July 1, 2007	\$ 11,000,000
July 1, 2008	10,000,000
July 1, 2009	9,000,000

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 20 – Commitments (cont.)**

On March 10, 1988, the State of Missouri entered into a contract with the United States Army Corps of Engineers confirming an assurance agreement of April 8, 1965. The State obtained rights to a portion of the water supply storage from the Clarence Cannon Dam and Mark Twain Lake Project. The State agreed to pay up to \$10.8 million plus interest for the investment costs allocated to the water supply storage, the amount of such payments to be determined by the portion of the water storage space put in use by the State for that purpose. The contract provided a ten year interest free period running from 1984 to 1994. In fiscal year 1995, the State began making interest payments. The interest payment amount for fiscal year 2007 was \$364,000. Payment of principal and interest must be completed by March 2038.

The Department of Natural Resources – State Parks had contracts outstanding of \$3,000 for land acquisition and \$30,000 for construction contracts at June 30, 2007. The land acquisition contracts will be funded through federal funds and the construction contracts will be funded through special revenue funds.

As of June 30, 2007, the University of Missouri had outstanding commitments for the acquisition, usage, and ongoing support of certain software for its patient clinical systems totaling \$12,869,000. The payments are as follows:

2008	\$	3,960,000
2009		3,960,000
2010		3,960,000
2011		989,000

Missouri State University had approximately \$43,800,000 in outstanding commitments for various construction contracts at June 30, 2007, still to be incurred.

**Note 21 – Risk Management and Insurance**

The State is exposed to various risks of loss related to tort liability, general liability, motor vehicle liability, contractor liability, and injuries to employees. The State assumes its own liability for risks except for the purchase of surety bond, aircraft, and boiler coverage. The State Office of Administration (OA), Risk Management Unit, self-insures its workers' compensation program for all state employees, with the exception of the Missouri Department of Transportation (MoDOT) and the State Highway Patrol. Liability insurance is also provided by OA-Risk Management, pursuant to State statute, through the State's legal expense fund, which is a component of the General Fund in this report. This insurance covers all State employees.

The workers' compensation and legal expense fund claims liability is based upon actual claims that have been submitted to OA-Risk Management. IBNR (incurred but not reported) liability is not included since workers' compensation and liability insurance claims are reported timely, and therefore any potential IBNR liability amount would be considered immaterial. The State has not had any insurance settlements exceed the coverage during the past three fiscal years. OA-Risk Management also procures property insurance for 3% of the total value of the State's property with the remainder uninsured. The buildings that are insured are mainly the buildings backed with bonded debt through the Board of Public Buildings.

The Transportation Self-Insurance Plan covers workers' compensation for employees of MoDOT and the State Highway Patrol, and covers vehicle liability and general liability insurance for the employees of MoDOT. The Transportation Self-Insurance Plan is presented as an internal service fund. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Estimated claims payable is based on known claims pending as well as an estimate of IBNR claims from data provided by an actuary. Liabilities are reported at their discounted value, assuming an investment yield of 4%.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 21 – Risk Management and Insurance (cont.)**

The Missouri Consolidated Health Care Plan (MCHCP) provides health care insurance to all State employees, except for MoDOT, the State Highway Patrol, and the Department of Conservation. The Plan is presented as an internal service fund. Estimated claims payable is based on known medical claims pending as well as an estimate of IBNR claims from data provided by an actuary.

The MoDOT and MSHP Medical and Life Insurance Plan (MHPML) accounts for the medical coverage provided on a self-insured basis and life insurance benefits, underwritten by a commercial insurance company, for employees of MoDOT and the State Highway Patrol. The Plan is presented as an internal service fund. Estimated claims payable is based on known insurance claims pending as well as an estimate of IBNR claims from data provided by an actuary.

The Conservation Employees' Insurance Plan (CEIP) provides health care and life insurance to employees of the Department of Conservation. The Plan is presented as an internal service fund. Estimated claims payable is based on known claims pending as well as an estimate of IBNR claims.

Southwestern Bell Telephone Company vs. Director of Revenue (Case No. SC83859 and follow up Case No. SC86441). The Supreme Court ruled that Southwestern Bell Telephone Company was entitled to a refund of use tax paid on machinery and equipment used to create its digital phone service product. Manufacturing was found to include producing taxable services as well as tangible personal property products. In FY 2007, the Department of Revenue (DOR) resolved (by negotiated settlement) some claims related to the suit, filed by multiple taxpayers, for \$88.5 million. During FY 2007, \$22 million in payments were made resulting in a remaining liability of \$66.5 million as of June 30, 2007.

The Petroleum Storage Tank Insurance Fund (PSTIF) has claims liability for the cost of contamination cleanup for policyholders and other eligible site owners who have submitted notice of a contamination. The PSTIF is presented as a major enterprise fund.

The University of Missouri System provides workers' compensation, liability, and medical insurance for its employees. The University funds this through a combination of self-insurance and commercially purchased insurance. The amount of coverage is based upon analysis of historical information and actuarial estimates. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. The claims liability is the present value of the claims, using discounted rates ranging between 3% and 4% based on future investment yields. The University of Missouri System is included with college and universities as a major component unit of the State.

Missouri State University is exposed to various risks of loss. These include loss related to torts; business interruption; employee injuries and illnesses; employee health, dental and accidental benefits; natural disasters; damage to and destruction of assets; and errors and omissions. Commercial insurance coverage is purchased for claims arising from such matters other than those related to natural disasters and employee health benefits, general liability, and workers' compensation. Settled claims have not exceeded the 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.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 21 – Risk Management and Insurance (cont.)**

Changes in the balances of claims liability (in thousands of dollars) during the current and prior fiscal years are as follows:

<u>Governmental Activities</u>	<u>Type of Insurance Claims</u>	<u>Fiscal Year Claims Liability 6/30/2006</u>	<u>Current Year Claims and Estimated Changes</u>	<u>Claim Payments</u>	<u>Fiscal Year Claims Liability 6/30/2007</u>
OA Workers Compensation	Workers Comp.	\$ 21,053	\$ 17,655	\$ (20,529)	\$ 18,179
OA Legal Expense Fund	Liability	153	5,706	(4,995)	864
MoDOT Self-Insurance Plan	Workers Comp. and Liability	55,857	7,002	(11,544)	51,315
MCHCP	Health Care	32,494	300,493	(289,933)	43,054
MHPML	Health Care and Life Insurance	9,561	91,487	(90,048)	11,000
CEIP	Health Care and Life Insurance	3,682	7,190	(8,597)	2,275
DOR	Southwestern Bell Lawsuit	---	88,500	(22,000)	66,500
<b>Total Governmental Activities</b>		<b>\$ 122,800</b>	<b>\$ 518,033</b>	<b>\$ (447,646)</b>	<b>\$ 193,187</b>
<u>Business-Type Activities</u>					
PSTIF	Contamination Cleanup	\$ 116,929	\$ 11,292	\$ (12,165)	\$ 116,056
<u>Component Units</u>					
University of Missouri System	Workers Comp. and Liability	\$ 86,850	\$ 139,294	\$ (146,345)	\$ 79,799
Missouri State University	Health Care, Workers Comp. and Liability	962	11,779	(11,566)	1,175
<b>Total Component Units</b>		<b>\$ 87,812</b>	<b>\$ 151,073</b>	<b>\$ (157,911)</b>	<b>\$ 80,974</b>

  

<u>Governmental Activities</u>	<u>Type of Insurance Claims</u>	<u>Fiscal Year Claims Liability 6/30/2005</u>	<u>Current Year Claims and Estimated Changes</u>	<u>Claim Payments</u>	<u>Fiscal Year Claims Liability 6/30/2006</u>
OA Workers Compensation	Workers Comp.	\$ 13,372	\$ 28,888	\$ (21,207)	\$ 21,053
OA Legal Expense Fund	Liability	1,245	233	(1,325)	153
MoDOT Self-Insurance Plan	Workers Comp. and Liability	45,927	26,707	(16,777)	55,857
MCHCP	Health Care	36,707	259,505	(263,718)	32,494
MHPML	Health Care and Life Insurance	9,119	83,792	(83,350)	9,561
CEIP	Health Care and Life Insurance	3,277	12,153	(11,748)	3,682
<b>Total Governmental Activities</b>		<b>\$ 109,647</b>	<b>\$ 411,278</b>	<b>\$ (398,125)</b>	<b>\$ 122,800</b>
<u>Business-Type Activities</u>					
PSTIF	Contamination Cleanup	\$ 121,054	\$ 8,722	\$ (12,847)	\$ 116,929
<u>Component Units</u>					
University of Missouri System	Workers Comp. and Liability	\$ 78,190	\$ 148,993	\$ (140,333)	\$ 86,850
Missouri State University	Health Care, Workers Comp. and Liability	1,041	10,997	(11,076)	962
<b>Total Component Units</b>		<b>\$ 79,231</b>	<b>\$ 159,990</b>	<b>\$ (151,409)</b>	<b>\$ 87,812</b>

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2007**

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**Note 21 – Risk Management and Insurance (cont.)**

Risk Management Pool:

The State of Missouri participates in the property program of the Midwestern Higher Education Compact (MHEC) as defined in Section 173.700, RSMo. This program was formed to expand coverage, reduce costs, and stabilize property insurance rates over extended time periods at higher education institutions in all member states. The program offers loss limit coverage tailored to individual institutions as well as self-insured retention by institution. The MHEC Risk Management Oversight Committee directs the major operations of the program overseeing the development of program policies, premium allocations, new program memberships, and selection of program administrators and insurance underwriters.

**Note 22 – Landfill Closure and Postclosure**

The State does not own any municipal solid waste landfills (MSWLF), however in the event the owner/operator refuses or is unable to properly maintain the landfill, the owner/operator forfeits the required financial assurance instrument(s) to fund closure and/or post-closure maintenance activities.

Each landfill owner/operator is required to obtain a financial assurance instrument, which is held by the State as security in the case of a default or forfeiture. Financial assurance instruments can include financial guarantee or performance bonds, letters of credit, insurance policies, corporate guarantees, contracts of obligations, trust funds, and escrow accounts. At June 30, 2007, the Missouri Department of Natural Resources, Solid Waste Program tracked the value of the secured financial assurance instruments held by the State to be \$264,085,000. This amount is disclosed, but not reported in the financial statements, because the State does not perform the investment function and does not have significant administrative involvement. While the State maintains possession of the financial assurance instruments, it does not meet criteria to be reported in a fiduciary fund.

At June 30, 2007, ten MSWLFs and two waste tire facilities have defaulted. The owners/operators failed to properly close or maintain post-closure care for these facilities, so the State took possession of the forfeited financial assurance instruments to initiate the closure or post-closure activities as required by Missouri Revised Statutes Chapter 260, Section 228. The State will monitor and pay post-closure care costs of these facilities for the next 30 years in accordance with Missouri Department of Natural Resources Solid Waste Management Law and Regulations. At June 30, 2007, it is expected that \$788,000 will be paid over the remaining monitoring periods. This is the amount of fund balance that has been reserved on the general fund balance sheet for forfeited assets.

**Note 23 – Contingencies**

Contingent claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported including the effects of specific, incremental claim adjustment expenditures/expenses, salvage, subrogation, and other allocated or unallocated claim adjustment expenditures/expenses. Liabilities of governmental funds are reported as a reconciling item to the Government-Wide Statement of Net Assets. Expenditures are recognized as payments are made.

**STATE OF MISSOURI  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2007**

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**Note 23 – Contingencies (cont.)**

At June 30, 2007, the amount of the contingent liabilities was \$83 million. Changes in the reported liability since June 30, 2006, resulted from the following (in thousands of dollars):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance Fiscal Year End
2006-2007	\$ 111,402	\$ (18,643)	\$ (9,837)	\$ 82,922
2005-2006	117,631	1,663	(7,892)	111,402
2004-2005 *	141,031	(17,164)	(6,236)	117,631

\*Restated.

RSMo 287.220.6 requires that an actuarial study of the Second Injury Fund be made every three years to determine the solvency of the Fund. Figures presented below for current year claims and changes in estimates are based on the 2007 actuarial study. At June 30, 2007, the amount of liabilities for the Second Injury Fund was \$1.1 billion. Changes in the reported liability since June 30, 2006, resulted from the following (in thousands of dollars):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance Fiscal Year End
2006-2007	\$ 982,328	\$ 195,773	\$ (66,078)	\$ 1,112,023
2005-2006 *	863,774	180,930	(62,376)	982,328
2004-2005 *	749,600	177,564	(63,390)	863,774

\*Restated.

The State receives federal grants which are subject to review and audit by federal grantor agencies. This could result in requests for reimbursements to the grantor agency for expenditures which are disallowed under grant terms. The State believes that such disallowances, if any, would be immaterial in the next fiscal year.

**Loan Guarantees:**

In the past, the State appropriated money to the Missouri Development Finance Board for the purpose of making loan guarantees. Upon default of a guaranteed loan, the Board makes the payment for default from Board funds. The total loans outstanding at June 30, 2007, for which the Board has guaranteed payment is \$391,000. During 2007, no loans defaulted.

The State appropriates money to the Agricultural and Small Business Development Authority for the purpose of making loan guarantees. Upon default of a guaranteed loan, the Authority makes the payment for default from State appropriations. The Authority administers the Single-Purpose Animal Facilities Loan Program and the Value Added Loan Guarantee Program, which provides a 50% first-loss guarantee on loans up to \$250,000. The total of loans outstanding at June 30, 2007, for which the Authority has guaranteed payment is \$2,211,000 and \$10,528,000, respectively. During 2007, no loans defaulted.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 23 – Contingencies (cont.)**

Medicaid Lawsuits:

Overland Park Regional Medical Center and Menorah Medical Center vs. Department of Social Services, Division of Medical Services (DSS/DMS) (Case No. 04CV324878). These out of state hospitals filed cases in Cole County Circuit Court challenging the reimbursement rate paid by Missouri to out of state hospitals on behalf of Missouri Medicaid beneficiaries. The judgment was in favor of the Medical Centers for the total amount of \$1,554,000. The case is on appeal.

Department of Social Services vs. Little Hills Healthcare (Cole County Circuit Court Case No. 05AC-CC000693). The Medicaid provider challenged the Division of Medical Services' calculation of FRA assessment for the state fiscal year 2002, where they requested an additional \$1.8 million based on an allegation that DSS/DMS should have promulgated a rule explaining its decision making process for estimating Medicaid patient days. Both the Administrative Hearing Commission and the Cole County Circuit Court ruled against the agency. The Missouri Court of Appeals ruled in favor of the Department. The issue is pending before the Supreme Court. DSS/DMS paid \$1.9 million on the judgment in FY 07. However, if DSS/DMS prevails on appeal, DSS may be able to recoup some or all of the payment.

Sales and Use Tax Lawsuits:

Southwestern Bell Telephone Company vs. Director of Revenue (Case No. SC83859 and follow up Case No. SC86441). The Supreme Court ruled that Southwestern Bell Telephone Company was entitled to a refund of use tax paid on machinery and equipment used to create its digital phone service product. Manufacturing was found to include producing taxable services as well as tangible personal property products. A settlement was reached regarding some claims, filed by multiple taxpayers, related to the Southwestern Bell case. A \$66.5 million liability remains as of June 30, 2007, and is referenced in *Note 21 - Risk Management and Insurance*. Refund claims filed by other related companies as of June 30, 2007, totaled approximately \$100 million (including a portion payable by local governments). These claims are pending verification and could negatively affect the State's General Revenue Fund by \$61 million (exclusive of interest which could be substantial). Additional claims could be filed in future periods.

The State is also involved in tax litigation not included in the fiscal year 2007 liability amount, where it is reasonably possible that an adverse court decision may incur an estimated loss of \$2.8 million.

Education Lawsuits:

Four education lawsuits are pending: Committee for Educational Equality, et al vs. the State of Missouri, et al (Case No. 04CV323022), filed in the Circuit Court of Cole County; Jenkins, et al vs. School District of Kansas City, Missouri, et al (Case No. 77-0420-CV-DW), filed in the U.S. District Court, Western Division; Kansas City Missouri Public Schools vs. Missouri Board of Fund Commissioners (Case No. 05AC-CC00389), filed in the Circuit Court of Cole County; and the School District of Kansas City, Missouri vs. State of Missouri, Missouri Board of Education, DESE, and D. Kent King filed in the Circuit Court of Cole County. Arguments are being heard, and decisions in these cases may require additional state money or a revision to the current school aid formula.

**STATE OF MISSOURI**  
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**Note 24 – Joint Ventures**

The Regional Convention and Sports Complex Authority was created by state law for the purpose of financing, constructing, operating, and maintaining a multipurpose convention and sports facility to be located in the City of St. Louis. The Authority operates under a board of commissioners of whom five are appointed by the Governor of the State, three by the County Executive of St. Louis County, and three by the Mayor of the City of St. Louis. The Authority is granted all rights and powers necessary to plan, finance, construct, equip, and maintain the facility.

The Authority is considered a joint venture of the State, County, and City because it constitutes a contractual agreement for public benefit in which the State, County, and City retain an ongoing financial responsibility for the Convention and Sports Facility Project Bonds. In August 1991, the Authority issued \$258,670,000 of Convention and Sports Facility Project Bonds. The bonds were sponsored in the amount of \$132,910,000 by the State (Series A), \$65,685,000 by the County (Series B), and \$60,075,000 by the City (Series C). In December 1993, the Authority issued \$181,885,000 in Convention and Sports Facility Project and Refunding Bonds to advance refund \$101,410,000 and \$50,275,000 of the outstanding 1991 Series A and Series B bonds, respectively, and for additional construction costs. The bonds were sponsored in the amount of \$121,705,000 by the State (Series A) and \$60,180,000 by the County (Series B). In February 1997, the Authority issued \$61,285,000 in Series C refunding bonds to advance refund \$47,155,000 of the outstanding 1991 Series C bonds. In August 2003, the Authority issued \$116,030,000 of Convention and Sports Facility Project and Refunding Bonds, Series A 2003 to refund \$2,845,000 and \$113,170,000 of Series A 1991 and Series A 1993 refunding bonds, respectively, and for additional construction costs. In May 2007, the Authority issued \$49,585,000 in Series C 2007 refunding bonds to refund \$61,285,000 of original principal of the Series C 1997 refunding bonds.

Pursuant to a financing agreement entered into in August 1991, and terminating in August 2021, the Authority leased the facility to the sponsors who subleased the facility back to the Authority. The payments made by the State, County, and City under the financing agreement are sufficient to pay the principal and interest on the bonds. In addition, the sponsors provide annual appropriations intended to keep the facility in good repair and competitive with the top 25% of NFL facilities. See *Note 12* for the specific debt service requirements that make up the State's ongoing financial responsibility for this joint venture.

Summary financial information for the Authority as of and for the fiscal year ended December 31, 2006, is presented below (in thousands of dollars):

Total Assets	\$ 301,961
Total Liabilities	\$ 202,270
Total Net Assets	99,691
Total Liabilities and Net Assets	\$ 301,961
Total Revenues	\$ 26,519
Total Expenses	23,011
Net Increase in Net Assets	\$ 3,508

Copies of the Authority's financial statements may be requested from:

St. Louis Regional Convention  
and Sports Complex Authority  
901 North Broadway  
St. Louis, Missouri 63101

**STATE OF MISSOURI**  
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**Note 25 – Endowments**

Donor-restricted endowments for Missouri reside primarily within the higher education institutions, which are reported as a discretely presented component unit of the State. The net appreciation of the endowments available for expenditure is \$86,053,000, and of this amount, \$84,248,000 is reported as restricted non-expendable net assets and \$1,805,000 is reported as restricted expendable net assets. The Revised Statutes of Missouri authorize the acceptance of donations at State agencies or public institutions. The governing boards of these institutions and the donor agreements determine whether net appreciation can be spent and the acceptable spending rate as detailed in RSMo 402.035. These policies are entity specific and vary with each institution.

**Note 26 – Conduit Debt**

As of June 30, 2007, the Missouri Development Finance Board issued \$910,262,420 in Single Issue Industrial Revenue Bonds, \$57,810,000 in Private Activity Composite Industrial Revenue Bonds, and \$1,435,540,000 in Public Purpose Capital Improvement and Refunding Leasehold Revenue Bonds. The outstanding balances on these bonds and notes as of June 30, 2007, were approximately \$424,350,328, \$135,000, and \$614,476,000, respectively.

The Missouri Development Finance Board and the State have no liability for repayment of these revenue bonds and funding notes aside from reserve fund deposits and, accordingly, these bonds and notes have not been recorded as a liability on the financial statements for the Missouri Development Finance Board. The debtor pays all debt service requirements. Security for the bondholders consists of insurance, letters of credit, annual appropriation pledges, and certain funds held through trustees under the various indentures.

**Note 27 – Subsequent Events**

General Obligation Bonds:

On August 1, 2007, the Board of Fund Commissioners of the State of Missouri defeased the Water Pollution Control Bonds Series A 2001, the Stormwater Control Bonds Series A 2001, and the Stormwater Control Bonds Series A 2002. The defeased amounts were \$80,000, \$235,000, and \$1,640,000, respectively.

On November 28, 2007, the Board of Fund Commissioners of the State of Missouri issued \$50,000,000 of Water Pollution Control Bonds, Series A 2007. The interest rates range from 4.0% to 5.0% and have a final maturity date of December 1, 2032.

Missouri Department of Transportation:

On August 27, 2007, the Department issued \$526,800,000 of Second Lien State Road Bonds Series 2007. These bonds bear interest, payable semiannually, from 4.00% to 5.25%, due in semiannual installments beginning May 1, 2009. Proceeds will be used to finance certain construction and reconstruction costs of the State highway system, pursuant to the "Smoother, Safer, Sooner" road and bridge program. In conjunction with the bond sale, the Department settled an interest rate swap agreement that resulted in a termination payment of \$11,118,000 from bond proceeds.

Lincoln University:

On July 3, 2007, the University issued \$21,000,000 of insured Auxiliary System Subordinate Revenue Bonds, Series 2007. These bonds bear interest, payable semiannually, at rates of 4.0% to 4.7% and are due in semiannual installments beginning December 1, 2007. Principal maturities will begin June 1, 2009, and continue until 2037.

**STATE OF MISSOURI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Note 27- Subsequent Events (cont.)**

University of Central Missouri:

On October 1, 2007, the University issued \$1,200,000 of insured Educational Facilities Revenue Bonds, Series 2007. These bonds bear interest, payable semiannually, at 4.9% and are due in semiannual installments beginning April 1, 2008. Principal maturities will begin April 1, 2008, and continue until 2017.

University of Missouri:

On July 2, 2007, the University sold \$160,000,000 of capital project notes at an effective interest rate of 3.7%. The notes will be repaid in full by June 30, 2008.

On July 26, 2007, the University issued \$365,220,000 of System Facilities Revenue Bonds, consisting of \$262,970,000 in Series 2007A bonds at the interest cost of 4.0% to 5.0% and \$102,250,000 of Series 2007B bonds with variable rates.

Settlement:

On November 28, 2007, the State of Missouri reached a settlement for \$179,750,000 with Ameren over the collapse of the Taum Sauk Reservoir. On December 14, 2005, a breach of the 55-acre reservoir released more than a billion gallons of water causing extensive damage to the nearby Johnson's Shut-Ins State Park. The settlement requires Ameren to restore and rebuild the area in and around the park. Approximately \$14,400,000 of the settlement will go to local government agencies.

Missouri State Public Employees' Deferred Compensation Commission:

On August 28, 2007, the Missouri State Public Employees' Deferred Compensation Commission was dissolved per Section 105.910 of the Revised Statutes of Missouri. The Missouri State Employees' Retirement System Board of Trustees assumed supervision of the deferred compensation program on September 1, 2007.