

Southeast Missouri University Foundation

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016

Southeast Missouri University Foundation
June 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Southeast Missouri University Foundation
Cape Girardeau, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Missouri University Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Missouri University Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2017, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

BKD, LLP

St. Louis, Missouri
October 30, 2017

Southeast Missouri University Foundation
Statements of Financial Position
June 30, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 2,579,050	\$ 1,652,129
Short-term investments	20,661,604	19,395,621
Receivables		
Pledges receivable, net of allowance; 2017 - \$15,705, 2016 - \$7,478	612,510	291,648
Notes receivable - current	488,032	487,410
Accrued interest receivable	112,412	108,478
Total current assets	24,453,608	21,935,286
 Investments		
Endowment investments	67,898,981	58,585,853
Cash surrender value of life insurance	609,864	563,636
Total investments	68,508,845	59,149,489
Long-Term Notes Receivable, Net of Imputed Interest	3,992,692	3,683,083
Property Held for Resale and Development	1,239,488	1,369,129
Property and Equipment, Net of Accumulated Depreciation	11,267,224	11,368,076
Total assets	\$ 109,461,857	\$ 97,505,063

Liabilities and Net Assets

	2017	2016
Current Liabilities		
Accounts payable and accrued expenses	\$ 22,604	\$ 29,668
Due to Southeast Missouri State University	803,588	444,436
Note payable to bank - current	273,092	201,734
Funds held for others	66,854	69,337
Annuity and trust obligations - current	212,440	199,602
	<hr/>	<hr/>
Total current liabilities	1,378,578	944,777
Deferred Revenue	295,062	251,987
Notes Payable to Bank	623,695	1,349,745
Annuity and Trust Obligations	1,329,335	1,478,755
Due to Southeast Missouri State University	5,151,838	4,425,080
	<hr/>	<hr/>
Total liabilities	8,778,508	8,450,344
Net Assets		
Unrestricted	21,205,781	19,436,527
Temporarily restricted	25,137,745	16,808,113
Permanently restricted	54,339,823	52,810,079
	<hr/>	<hr/>
Total net assets	100,683,349	89,054,719
	<hr/>	<hr/>
Total liabilities and net assets	\$ 109,461,857	\$ 97,505,063
	<hr/> <hr/>	<hr/> <hr/>

Southeast Missouri University Foundation
Statements of Activities
Years Ended June 30, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenue				
Contributions, net of discount	\$ 279,052	\$ 2,458,489	\$ 1,851,105	\$ 4,588,646
Investment return	11,432	10,404,053	(115,631)	10,299,854
Rental income	774,030	-	-	774,030
Special events, net of expense	89,140	-	-	89,140
Gain on sale of property	1,744,222	-	-	1,744,222
Gain (loss) on annuity and trust obligations	-	78,243	-	78,243
Other revenue and transfers	(14,291)	591,629	(205,730)	371,608
Net assets released from restrictions	5,202,782	(5,202,782)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total support and revenue	8,086,367	8,329,632	1,529,744	17,945,743
Expenses				
Donations to Southeast Missouri State University	4,606,874	-	-	4,606,874
General and administrative	1,429,759	-	-	1,429,759
Depreciation	240,561	-	-	240,561
Interest	39,919	-	-	39,919
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	6,317,113	-	-	6,317,113
Change in Net Assets	1,769,254	8,329,632	1,529,744	11,628,630
Net Assets - Beginning of Year	<hr/>	<hr/>	<hr/>	<hr/>
	19,436,527	16,808,113	52,810,079	89,054,719
Net Assets - End of Year	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 21,205,781	\$ 25,137,745	\$ 54,339,823	\$ 100,683,349

Southeast Missouri University Foundation
Statements of Activities (Continued)
Years Ended June 30, 2017 and 2016

2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Contributions, net of discount	\$ 276,278	\$ 2,164,612	\$ 1,118,111	\$ 3,559,001
Investment return	158,629	(713,481)	68,893	(485,959)
Rental income	762,028	-	-	762,028
Special events, net of expense	92,505	-	-	92,505
Gain (loss) on annuity and trust obligations	115,895	(260,837)	-	(144,942)
Other revenue and transfers	257,100	(442,851)	540,757	355,006
Net assets released from restrictions	4,562,123	(4,562,123)	-	-
Total support and revenue	6,224,558	(3,814,680)	1,727,761	4,137,639
Expenses				
Donations to Southeast Missouri State University	3,829,237	-	-	3,829,237
General and administrative	1,628,540	-	-	1,628,540
Depreciation	267,356	-	-	267,356
Interest	66,224	-	-	66,224
Total expenses	5,791,357	-	-	5,791,357
Change in Net Assets	433,201	(3,814,680)	1,727,761	(1,653,718)
Net Assets - Beginning of Year	19,003,326	20,622,793	51,082,318	90,708,437
Net Assets - End of Year	\$ 19,436,527	\$ 16,808,113	\$ 52,810,079	\$ 89,054,719

Southeast Missouri University Foundation
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 11,628,630	\$ (1,653,718)
Items not requiring (providing) operating activities cash flows		
Depreciation	240,561	267,356
Net realized and unrealized investment (gains) losses	(9,340,885)	1,859,663
Permanently restricted contributions	(1,851,105)	(1,118,111)
Change in value of split-interest agreements	54,463	281,836
Gain on disposition of property	(1,744,222)	(208)
Imputed interest on notes receivable	122,360	(122,360)
Donated land	(70,000)	-
Cash surrender value of life insurance	(46,228)	(40,135)
Net changes in		
Pledges receivable	(320,862)	(95,854)
Other receivables	(3,934)	490,661
Other assets	114,010	(15,631)
Deferred revenues	43,075	(43,934)
Accounts payable and other liabilities	156,363	(186,977)
Net cash used in operating activities	(1,017,774)	(377,412)
Cash Flows from Investing Activities		
Proceeds from the sale/maturity of investments	17,754,437	21,858,922
Purchase of investments, including reinvested income	(19,154,493)	(21,166,763)
Receipts from notes receivable	487,409	486,800
Proceeds from sale of property	1,905,745	23,315
Purchase of property and equipment	(215,601)	(244,514)
Net cash provided by investing activities	777,497	957,760
Cash Flows from Financing Activities		
Permanently restricted contributions	1,851,105	1,118,111
Payments to annuitants and recipients	(191,045)	(187,661)
Proceeds from issuance of annuities payable	161,830	195,000
Payments on notes payable	(654,692)	(195,137)
Net cash provided by financing activities	1,167,198	930,313
Net Increase in Cash and Cash Equivalents	926,921	1,510,661
Cash and Cash Equivalents - Beginning of Year	1,652,129	141,468
Cash and Cash Equivalents - End of Year	\$ 2,579,050	\$ 1,652,129
Supplemental Cash Flows Information		
Issuance of note receivable for amount due to Southeast Missouri State University	\$ 920,000	-

Southeast Missouri University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

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

Nature of Operations

The Southeast Missouri University Foundation (the “Foundation”) was formed in 1983 to assist in the physical and functional development and advancement of Southeast Missouri State University (the “University”) and the performance of its educational and charitable functions.

Basis of Presentation

Net assets and revenues, and gains and losses are classified based on donor imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Foundation’s Board of Directors has discretionary control.

Temporarily Restricted – Resources subject to donor imposed restrictions which will be satisfied by the passage of time or actions of the Foundation.

Permanently Restricted – Resources subject to donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation. Donors of these resources permit the Foundation to use all or part of the income earned, including capital appreciation of related investments for unrestricted or temporarily restricted purposes.

Use of Estimates

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

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of money market accounts.

At June 30, 2017, the Foundation’s cash accounts exceeded federally insured limits by approximately \$2,558,000. These deposits however are fully collateralized.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Fair value is estimated based on quoted market prices. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV),

Southeast Missouri University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

as a practical expedient, to determine fair value of the investments. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building	15 - 40 years
Equipment	7 - 10 years
Furniture and fixtures	7 - 10 years

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2017 and 2016.

Pledges and Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets

Southeast Missouri University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction. The Foundation provides an allowance for uncollectible pledges, which is evaluated on a regular basis by management and is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended June 30, 2017 and 2016, \$250,976 and \$162,358, respectively, was received in in-kind contributions. The amount in 2017 includes donated real estate of \$70,000. No real estate contributions were received in 2016.

Properties Held For Resale and Development

Certain land donated to the Foundation is currently held for resale and development. The carrying value of these properties was recorded based on their appraised values at the time of their contributions. The carrying value of these properties is reported at the lower of cost or market value.

Deferred Revenue

Revenue from an early lease payment is deferred and recognized over the periods to which the revenues relate.

Southeast Missouri University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the *Internal Revenue Code* and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2014.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on the direct costs associated with the functional categories.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Southeast Missouri University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2017	2016
Cash and money market funds	\$ 1,325,496	\$ 1,469,223
Certificates of deposit	285,757	284,370
Equities		
Domestic	30,144,927	26,380,797
Developing international	5,772,147	5,039,035
Mutual funds		
Domestic	5,829,269	4,975,047
Developing international	5,889,464	4,744,520
Emerging market	9,300,938	6,295,002
International fixed income	4,114,782	3,914,273
Other	7,727,618	7,407,489
Corporate bonds	7,436,421	9,588,242
U.S. Treasury securities	2,916,319	1,650,083
U.S. government obligations	4,819,356	4,580,109
Municipal securities	550,079	252,477
Alternative strategies	2,448,012	1,400,807
	88,560,585	77,981,474
Less: short-term investments	20,661,604	19,395,621
	\$ 67,898,981	\$ 58,585,853

Total investment return is comprised of the following:

	2017	2016
Interest and dividends, net of fees	\$ 958,969	\$ 1,373,704
Unrealized and realized investment gains (losses)	9,340,885	(1,859,663)
Net investment gain (loss)	\$ 10,299,854	\$ (485,959)

Southeast Missouri University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

Alternative Investments

The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at June 30 consists of the following:

June 30, 2017				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multistrategy hedge fund (A)	\$ 2,448,012	\$ -	Not Available	Not Available
June 30, 2016				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multistrategy hedge fund (A)	\$ 1,400,807	\$ -	Not Available	Not Available

(A) This is an investment in a hedge fund that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments.

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

	2017	2016
Pledges receivable due in less than one year	\$ 628,215	\$ 299,126
Allowance	(15,705)	(7,478)
Total	\$ 612,510	\$ 291,648

Southeast Missouri University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

Note 4: Property and Equipment

Property and equipment at June 30 consists of:

	2017	2016
Land	\$ 6,967,461	\$ 6,671,230
Buildings and improvement	8,254,446	8,472,149
Vehicles and equipment	273,253	273,253
	<u>15,495,160</u>	<u>15,416,632</u>
Less: accumulated depreciation	<u>(4,227,936)</u>	<u>(4,048,556)</u>
	<u><u>\$ 11,267,224</u></u>	<u><u>\$ 11,368,076</u></u>

Note 5: Notes Receivable

Notes receivable at June 30 consists of:

	2017	2016
City of Cape Girardeau	\$ 3,927,020	\$ 3,589,380
APG Limited	553,704	581,113
	<u>4,480,724</u>	<u>4,170,493</u>
Less: current maturities due within one year	<u>488,032</u>	<u>487,410</u>
	<u><u>\$ 3,992,692</u></u>	<u><u>\$ 3,683,083</u></u>

On March 14, 2013, the Foundation sold 247.43 acres to the City of Cape Girardeau (the "City"). The City signed a 12 year, non-interest bearing promissory note for the amount of \$5,520,000 to the Foundation. The City shall pay 12 annual installments of \$460,000. Imputed interest amount was calculated using the long-term applicable federal rate for the month of March 2013, which was 2.66 percent. In April 2017, an additional \$920,000 was added to the note as a result of a joint capital project between the City and the University. The City signed a new promissory note with the Foundation to fund the City's share of the capital improvements and the Foundation will reimburse the University as funds are collected from the City.

On December 9, 2013, the Foundation sold the property located at 401 and 505 Washington Avenue to APG Limited, LLC. APG Limited signed a 10 year promissory note with an interest rate of 2.25 percent for the amount of \$647,000 to the Foundation. APG Limited shall pay 119 payments of \$3,350 and a final balloon payment of \$362,378.

Southeast Missouri University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

Aggregate annual maturities of notes receivable at June 30, 2017, are:

Year Ending June 30,	Amount
2018	\$ 488,032
2019	488,669
2020	489,321
2021	489,988
2022	490,670
Thereafter	2,707,024
Total	5,153,704
Less: Imputed interest on loan	(672,980)
	\$ 4,480,724

Note 6: Notes Payable to Bank

	2017	2016
First Missouri State Bank - University Farm (A)	\$ -	\$ 378,224
Montgomery Bank - South Lorimier (B)	252,073	265,903
Bank of Missouri - 4193 Bainbridge Road (C)	-	180,303
Montgomery Bank - 334 Morgan Oak (D)	415,695	443,964
First Missouri State Bank - 315 South Lorimier (E)	219,644	236,210
Gary W. Rust Rev Trust - 612-613 Broadway (F)	9,375	46,875
	896,787	1,551,479
Less: current maturities due within one year	273,092	201,734
	\$ 623,695	\$ 1,349,745

- (A) On May 17, 2005, the Foundation purchased a 254.67 acre farm which is being used as the University Demonstration Farm. To finance the purchase, the Foundation entered into a promissory note with First Missouri State Bank in the amount of \$1,462,500. On May 17, 2015, the note was refinanced with a maturity date of May 18, 2020. In August 2016, the note was paid off early in full using proceeds from the sale of property.
- (B) On February 1, 2008, the Foundation purchased three adjacent properties on South Lorimier Street in Cape Girardeau, Missouri. To finance the purchase, the Foundation entered into a promissory note with Montgomery Bank in the amount of \$340,500. After a three month extension dated May 1, 2013, which reduced the interest from 5.85 percent to 3.95 percent, a five year promissory note was executed on August 1, 2013. Current payments on the note are regular payments of \$6,069 and one lump sum payment estimated at \$236,434. The interest rate of the promissory note is 3.95 percent with a maturity date of August 1, 2018.

Southeast Missouri University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

- (C) On October 8, 2008, the Foundation purchased property at 4193 Bainbridge Road, County Road 306 in Jackson, Missouri. To finance the purchase, the Foundation entered into a five year fixed rate promissory note with Bank of Missouri in the amount of \$220,000. On November 1, 2013, the loan was refinanced with a maturity date of November 1, 2028. In July 2016, the note was paid off early in full using proceeds from the sale of property.
- (D) On December 30, 2008, the Foundation purchased property at 334 Morgan Oak and additional lots nearby in Cape Girardeau, Missouri. To finance the purchase, the Foundation entered into a promissory note with Montgomery Bank in the amount of \$600,000. On March 19, 2014, a change in terms agreement was signed, which changed the collateral held on this loan. Current payments on the note are regular payments of \$3,794 and one lump sum payment estimated at \$385,086 due on August 31, 2018, and an interest rate of 3.95 percent.
- (E) On December 28, 2012, the Foundation purchased property located at 315 South Lorimier in Cape Girardeau, Missouri. To finance the purchase, the Foundation entered into a promissory note with First Missouri State Bank in the amount of \$289,220 with a maturity date of December 28, 2017. Current payments on the note are regular payments of \$2,136 and one lump sum payment estimated at \$206,659. The interest rate of the promissory note is 3.92 percent.
- (F) On September 4, 2013, the Foundation purchased property located at 612-616 Broadway in Cape Girardeau, Missouri. To finance the purchase, the Foundation entered into a promissory note with Gary W. Rust Revocable Trust u/a/d June 1, 1992, Gary W. Rust and Wendy K. Rust, Trustees, in the amount of \$150,000 with a maturity date of September 30, 2017. Current payments on the note are paid quarterly in the amount of \$9,375. The interest rate will be adjusted quarterly to equal the prime rate. As of June 30, 2017, the prime rate was 4.25 percent.

Aggregate annual maturities of long-term debt at June 30, 2017, are:

Year Ending June 30,	Amount
2018	\$ 273,092
2019	<u>623,695</u>
Total	<u><u>\$ 896,787</u></u>

Southeast Missouri University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

Note 7: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2017	2016
Scholarships	\$ 17,078,206	\$ 8,664,517
Loans	158,135	152,176
Other	7,901,404	7,991,420
Total	<u>\$ 25,137,745</u>	<u>\$ 16,808,113</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2017	2016
Scholarships	\$ 52,315,080	\$ 50,669,701
Other	2,024,743	2,140,378
Total	<u>\$ 54,339,823</u>	<u>\$ 52,810,079</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2017	2016
Scholarships	\$ 2,316,736	\$ 2,249,267
Loans	943	2,115
Other purpose restrictions accomplished	2,885,103	2,310,741
Total	<u>\$ 5,202,782</u>	<u>\$ 4,562,123</u>

Note 8: Endowment

The Foundation's endowment consists of approximately 845 and 780 individual funds established for a variety of purposes at June 30, 2017 and 2016, respectively. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Southeast Missouri University Foundation

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The Foundation's governing body has interpreted the State of Missouri's Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2017 and 2016, was:

		2017			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	Endowment funds	\$ (126,110)	\$ 17,078,210	\$ 52,315,076	\$ 69,267,176
Board-designated	Endowment funds	5,655,808	-	-	5,655,808
		\$ 5,529,698	\$ 17,078,210	\$ 52,315,076	\$ 74,922,984
		2016			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	Endowment funds	\$ (115,696)	\$ 8,664,517	\$ 50,669,701	\$ 59,218,522
Board-designated	Endowment funds	5,669,099	-	-	5,669,099
		\$ 5,553,403	\$ 8,664,517	\$ 50,669,701	\$ 64,887,621

Southeast Missouri University Foundation
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Changes in endowment net assets for the years ended June 30 was:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment investments, July 1, 2016	\$ 5,553,403	\$ 8,664,517	\$ 50,669,701	\$ 64,887,621
Investment return				
Investment income (loss)	(18,528)	2,195,930	-	2,177,402
Net appreciation	-	7,460,480	-	7,460,480
Total investment return	(18,528)	9,656,410	-	9,637,882
Contributions	19,410	758,166	1,851,105	2,628,681
Appropriations of endowment assets for expenditure	(135,526)	(2,316,736)	-	(2,452,262)
Other transfers	110,939	315,853	(205,730)	221,062
Endowment investments, June 30, 2017	<u>\$ 5,529,698</u>	<u>\$ 17,078,210</u>	<u>\$ 52,315,076</u>	<u>\$ 74,922,984</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, July 1, 2015	\$ 5,265,975	\$ 12,484,907	\$ 49,020,833	\$ 66,771,715
Investment return				
Investment income	146,561	2,060,911	-	2,207,472
Net depreciation	-	(3,776,348)	-	(3,776,348)
Total investment return	146,561	(1,715,437)	-	(1,568,876)
Contributions	29,464	423,495	1,118,111	1,571,070
Appropriations of endowment assets for expenditure	-	(2,249,267)	-	(2,249,267)
Other transfers	111,403	(279,181)	530,757	362,979
Endowment investments, June 30, 2016	<u>\$ 5,553,403</u>	<u>\$ 8,664,517</u>	<u>\$ 50,669,701</u>	<u>\$ 64,887,621</u>

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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30 consisted of:

	2017	2016
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	\$ 52,315,076	\$ 50,669,701
Temporarily restricted net assets		
Portion of perpetual endowment funds subject to a time restriction under UPMIFA		
With purpose restrictions	\$ 17,078,210	\$ 8,664,517

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$126,110 and \$115,696 at June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. The Foundation expects its endowment funds to provide an average rate of return of approximately 5.5 percent annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy for allocating endowment income with the objective of preserving the principal of the endowment and providing a percentage of income to cover a portion of overhead expenses. The policy provides for a 5.0 percent annual spending rate which is satisfied first from endowment interest and dividend earnings. To the extent these earnings are inadequate to meet the annual spending rate, a portion of cumulative realized net gains may be made available for current use. Any interest and dividend earnings in excess of the 5.0 percent annual spending rate are reinvested and maintained in the endowment fund balance. In addition, an amount equivalent to 0.5 percent of principal is assessed to the endowment to cover overhead costs. Beginning in fiscal year 2017, the amount assessed was changed to 0.25 percent.

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Note 9: Annuity and Trust Obligations

The Foundation has been the recipient of several gift annuities, which require future payments to the contributors or their named beneficiaries. The assets received from the donor are recorded at fair values. The Foundation has recorded a liability of \$1,218,116 and \$1,338,152 at June 30, 2017 and 2016, respectively, which represents the estimated fair value of the future annuity obligations. The liability has been determined using a discount rate of 7 percent and 5 percent at June 30, 2017 and 2016, respectively. Contribution revenue recorded in the statement of activities as temporarily restricted contributions under such agreements was \$161,830 and \$195,000 for the years ended June 30, 2017 and 2016, respectively.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. Assets held in the charitable remainder trusts are recorded at fair value and included in investments in the Foundation's statements of financial position. The Foundation has recorded a liability at June 30, 2017 and 2016, of \$323,659 and \$340,205, respectively, which represents the present value of the future obligations to make distributions to the designated beneficiaries. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 7 percent and 5 percent at June 30, 2017 and 2016, respectively, and applicable mortality tables. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. No contribution revenue was recognized under such agreements for the years ended June 30, 2017 and 2016.

Note 10: Operating Leases

The Foundation leases certain plant assets to the University. Minimum future rentals receivable under noncancellable operating leases at June 30, 2017 and 2016, were \$4,445,275 and \$4,574,062, respectively. A total of \$770,221 is due within the next year.

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Southeast Missouri University Foundation
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Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016:

	2017			
	Total	Level 1	Level 2	Level 3
Investments measured at fair value				
Cash and money market funds	\$ 1,325,496	\$ 1,325,496	\$ -	\$ -
Certificates of deposit	285,757	285,757	-	-
Equities	35,917,074	35,917,074	-	-
Mutual funds	32,862,071	32,862,071	-	-
Corporate bonds	7,436,421	-	7,436,421	-
U.S. treasury securities	2,916,319	2,916,319	-	-
U.S. government obligations	4,819,356	-	4,819,356	-
Municipal securities	550,079	550,079	-	-
	<u>86,112,573</u>	<u>\$ 73,856,796</u>	<u>\$ 12,255,777</u>	<u>\$ -</u>
Investments measured at net asset value (A)				
Alternative strategies	<u>2,448,012</u>			
Total investments	<u>\$ 88,560,585</u>			
Annuity and trust obligations	<u>\$ 1,541,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,541,775</u>

Southeast Missouri University Foundation
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June 30, 2017 and 2016

	2016			
	Total	Level 1	Level 2	Level 3
Investments measured at fair value				
Cash and money market funds	\$ 1,469,223	\$ 1,469,223	\$ -	\$ -
Certificates of deposit	284,370	284,370	-	-
Equities	31,419,832	31,419,832	-	-
Mutual funds	27,336,331	27,336,331	-	-
Corporate bonds	9,588,242	-	9,588,242	-
U.S. treasury securities	1,650,083	1,650,083	-	-
U.S. government obligations	4,580,109	-	4,580,109	-
Municipal securities	252,477	252,477	-	-
	76,580,667	\$ 62,412,316	\$ 14,168,351	\$ -
Investments measured at net asset value (A)				
Alternative strategies	1,400,807			
Total investments	\$ 77,981,474			
Annuity and trust obligations	\$ 1,678,357	\$ -	\$ -	\$ 1,678,357

(A) In accordance with Subtopic 820-10, investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statements of Financial Position.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2017.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Annuities and Trusts Obligations

Fair value is estimated using a present value technique which utilizes an internal rate of return. Due to the nature of the valuation inputs, the liability is classified within Level 3 of the hierarchy.

Southeast Missouri University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

Level 3 Valuation Process

Fair value determinations for Level 3 measurements are the responsibility of management. Management utilizes a software program to generate fair value estimates on an annual basis. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Annuity and Trust Obligations
Balance as of June 30, 2015	\$ 1,783,043
Change in unrealized appreciation	32,917
Contributions	195,000
Payments to annuitants and recipients	(187,661)
Change in valuation	(144,942)
Balance as of June 30, 2016	1,678,357
Change in unrealized appreciation	(185,610)
Contributions	161,830
Payments to annuitants and recipients	(191,045)
Change in valuation	78,243
Balance as of June 30, 2017	\$ 1,541,775

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2017 and 2016.

	Fair Value at June 30, 2017	Fair Value at June 30, 2016	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Annuity and trust obligations	\$ 1,541,775	\$ 1,678,357	Fair value of future expected payments to be made	Internal rate of return utilized	Not applicable

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Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts payable and accrued expenses, notes payable and funds held for others approximate fair value due to the short maturity of these financial instruments. Receivables are initially recorded at fair value using an appropriate discount rate and approximate fair value at year-end. Investments, assets held under split-interest agreements and obligations under split-interest agreement are carried at fair value. Property held for resale or development is recorded initially at purchase price or fair value and updated as needed for impairment loss.

Note 12: Functional Expenses

Expense by functional classification for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Program services	\$ 6,163,266	\$ 5,157,400
Management and general	102,226	586,135
Fundraising	51,621	47,822
	<u>\$ 6,317,113</u>	<u>\$ 5,791,357</u>

Note 13: Related-Party Transactions

The Foundation functions as the official gift-receiving organization for the University. As such, it solicits and receives gifts for the University, manages the funds received and disburses restricted funds in accordance with donor restrictions. The Foundation contributed \$4,606,874 and \$3,829,237 of cash and gifts-in-kind to the University during the years ended June 30, 2017 and 2016, respectively. The University leases the Foundation's various real estate properties and the Foundation is billed monthly for the use of University services. Employees that conduct Foundation business in addition to their University duties are paid by the University. The Foundation is billed by the University annually for the personnel costs related to Foundation business.

The Foundation also receives, manages and disburses the funds of the Southeast Athletic Booster Club, of which \$380,080 and \$381,429 is held in the endowment funds of the Foundation as of June 30, 2017 and 2016, respectively.

Southeast Missouri University Foundation

Notes to Financial Statements

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Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for doubtful accounts are reflected in the footnote regarding contributions receivable. Other significant estimates and concentrations not discussed in those footnotes include:

Contributions

Approximately 23 percent of all contributions were received from three donors in 2017.
Approximately 33 percent of all contributions were received from two donors in 2016.

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

**Independent Auditor’s Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Directors
Southeast Missouri University Foundation
Cape Girardeau, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Southeast Missouri University Foundation (the “Foundation”), a component unit of Southeast Missouri State University, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2017.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Foundation’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

St. Louis, Missouri
October 30, 2017