
**SOUTHEAST MISSOURI
STATE UNIVERSITY**
FINANCIAL STATEMENTS
JUNE 30, 2016



**SOUTHEAST MISSOURI
STATE UNIVERSITY • 1873**

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Independent Auditors' Report

Board of Regents
Southeast Missouri State University
Cape Girardeau, Missouri

Report On The Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Southeast Missouri State University, (the University), a component unit of the State of Missouri, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 audits 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 auditors' 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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Southeast Missouri State University as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13, the Schedule of Selected Pension Information on page 57 and the Schedule of Funding Progress for Postemployment Healthcare Plan on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Auditors

We did not audit the financial statements of Southeast Missouri University Foundation, a discretely presented component unit of the University. Those financial statements were audited by other auditors whose report dated October 24, 2016 thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Southeast Missouri University Foundation, is based on the report of the other auditors.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016 on our consideration of the University'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 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 University's internal control over financial reporting and compliance.

RubinBrown LLP

November 14, 2016

SOUTHEAST MISSOURI STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Southeast Missouri State University's (the University) basic financial statements provides a comparative overview of the University's financial performance during the year ended June 30, 2016. The Management's Discussion and Analysis is designed to focus on current activities and resulting changes, and should be read in conjunction with the University's basic financial statements and footnotes.

Using this Report

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities*. These basic financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

The Statement of Net Position includes the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement. It is prepared under the accrual basis of accounting, whereby assets are recognized when the service is provided and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The University's net position (the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources) is one indicator of the University's financial health. Over time, increases or decreases in net position is one indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the conditions of facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as operating, nonoperating or other. All things being equal, a public University's dependency on state appropriations and gifts will result in operating deficits. That is because the financial reporting model prescribed by GASB No. 34 classifies state appropriations and gifts as nonoperating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the basic financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents the University's flows of cash. The primary purpose of the Statement of Cash Flows is to provide information about the University's cash receipts and payments summarized by operating, capital and related financing, noncapital financing and investing activities.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

Financial Analysis of the University

The following table reflects the Net Position of the University as of June 30:

Condensed Statement of Net Position As of June 30, 2016 And 2015

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 29,890,630	\$ 27,505,379
Noncurrent Assets		
Capital assets, net of depreciation	447,502,831	437,789,365
Other	<u>70,058,099</u>	<u>72,033,277</u>
Total Assets	<u>547,451,560</u>	<u>537,328,021</u>
Deferred Outflows of Resources	<u>21,549,671</u>	<u>14,607,419</u>
Current Liabilities	32,807,972	29,565,608
Noncurrent Liabilities	<u>268,509,990</u>	<u>240,492,784</u>
Total Liabilities	<u>301,317,962</u>	<u>270,058,392</u>
Deferred Inflows of Resources	<u>1,551,087</u>	<u>16,431,701</u>
Net Position		
Net investment in capital assets	260,150,394	254,367,037
Restricted	5,265,852	7,759,728
Unrestricted	<u>715,936</u>	<u>3,318,582</u>
Total Net Position	<u>\$ 266,132,182</u>	<u>\$ 265,445,347</u>

Current assets consist primarily of unrestricted and restricted cash and cash equivalents, unrestricted and restricted short-term investments, accounts receivable, accrued interest receivable and inventory. Current assets totaled \$29.89 million at June 30, 2016 and \$27.51 million at June 30, 2015. The increase in current assets of approximately \$2.38 million from June 30, 2015 is primarily an increase in short term investments. The increase in short term investments reflects an investment strategy of investing in shorter term investments since interest rates are low and are projected to increase.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

The majority of noncurrent assets are capital assets which are recorded net of accumulated depreciation. Please refer to Note 2 in the footnotes to the basic financial statements for more information regarding the University's policy for depreciating capital assets. In addition to capital assets, long-term investments comprised \$62.18 million of noncurrent assets at June 30, 2016. Long-term investments comprised \$64.38 million of noncurrent assets at June 30, 2015.

Implementation of GASB No 65, *Items Previously Recognized as Assets and Liabilities* requires reporting of deferred inflows and outflows of resources. Deferred outflows of \$6.13 million at June 30, 2016 and \$6.36 million at June 30, 2015 resulted with the Series 2013 System Revenue Refunding and Improvement bonds issue and the Series 2016A System Facilities Revenue Bonds and 2016B Taxable System Facilities Revenue bonds issue.

During fiscal year 2015, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements established standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expense associated with defined benefit pension plans. Deferred outflows were \$15.42 million at June 30, 2016 and \$8.25 million at June 30, 2015 for deferred amounts related to pension plan and pension plan contributions. Deferred inflows were \$1.55 million at June 30, 2016 and \$16.43 million at June 30, 2015 due to deferred amounts related to the pension plan.

Current liabilities consist primarily of accounts payable, accrued compensation and unearned income. Current liabilities also include the current portion of bonds and notes payable. Current liabilities totaled \$32.81 million at June 30, 2016 and \$29.57 million at June 30, 2015. The increase in current liabilities was approximately \$3.24 million from June 30, 2015.

Noncurrent liabilities which totaled \$268.51 million at June 30, 2016 and \$240.49 million at June 30, 2015, primarily consist of long term debt and net pension liability. Noncurrent liabilities related to the net pension liability increased \$22.07 million from June 30, 2015 due to implementation of GASB statements No. 68 and 71 requiring the University to report \$78.42 million at June 30, 2016 and \$56.36 million at June 30, 2015 for its portion of the MOSERS cost-sharing, multiple employer pension plan.

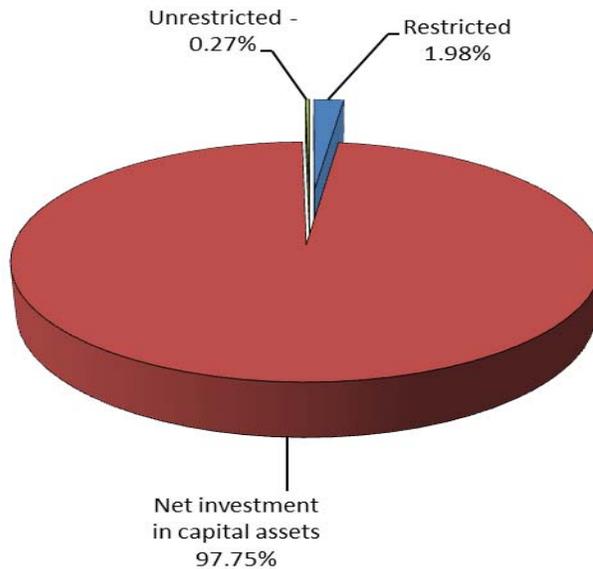
Net position represents the residual interest in the University's assets after liabilities are deducted.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management’s Discussion And Analysis (*Continued*)

	June 30,	
	2016	2015
Net Position:		
Net investment in capital assets	\$ 260,150,394	\$ 254,367,037
Restricted:		
Nonexpendable	2,255,009	2,171,076
Expendable	3,010,843	5,588,652
Total Restricted	<u>265,416,246</u>	<u>262,126,765</u>
Unrestricted:		
Designated	45,864,229	46,512,869
Undesignated	<u>(45,148,293)</u>	<u>(43,194,287)</u>
Total Unrestricted	<u>715,936</u>	<u>3,318,582</u>
Total Net Position	<u>\$ 266,132,182</u>	<u>\$ 265,445,347</u>

Following is a breakdown of net position at June 30, 2016:



Net position invested in capital assets represent the University’s capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net investment in capital assets increased approximately \$5.78 million from \$254.37 million at June 30, 2015 to \$260.15 million at June 30, 2016. Construction in progress increased \$9 million from June 30, 2015 which related primarily to the Towers Renovation and the Greek Housing project.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

Restricted net position includes the University's permanent endowment, managed by the Southeast Missouri University Foundation, which totaled \$2.3 million at June 30, 2016 and \$2.2 million at June 30, 2015. Although unrestricted net position is not subject to externally imposed stipulations, all of unrestricted net position has been internally designated as of June 30, 2016.

Following is a breakdown of designated unrestricted net position as of June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted-Designated Net Position		
Investment in inventories	\$ 2,758,604	\$ 2,680,670
Future operations (including capital projects)	40,937,255	41,785,205
Quasi-endowment	<u>2,168,370</u>	<u>2,046,994</u>
Total	<u>\$ 45,864,229</u>	<u>\$ 46,512,869</u>

The total unrestricted-undesigned net position of the University of \$(45.15) million at June 30, 2016 includes balances accumulated from the operations of the auxiliary enterprises, such as the residence hall system and textbook rental, which totaled \$6.85 million, from loan programs which totaled \$.60 million, and from general operations which totaled \$(52.60) million. The total unrestricted-undesigned net position of the University of \$(43.19) million at June 30, 2015 included balances accumulated from the operations of the auxiliary enterprises such as the residence hall system and textbook rental, which totaled \$9.01 million, from loan programs which totaled \$.64 million and from general operations which totaled \$(52.84) million. The negative unrestricted net assets for June 30, 2016 and 2015 respectively results from the implementation of GASB Statements No 68 and 71 and the recording of a \$78.42 and \$56.36 million pension liability and related deferred inflows and outflows as discussed previously.

During 2016, the University revised the estimates involved in its calculation of the allocation of scholarship allowance and scholarship expense on the Statement of Revenues, Expenses and Changes in Net Position. In order to permit comparability between fiscal years, the 2015 amounts in the table below have been revised to present scholarship allowance and scholarship expense utilizing the University's revised allocation methodology.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (Continued)

The following schedule reflects the condensed revenues and expenses of the University for fiscal years 2016 and 2015:

Condensed Statements of Revenues, Expenses and Changes in Net Position

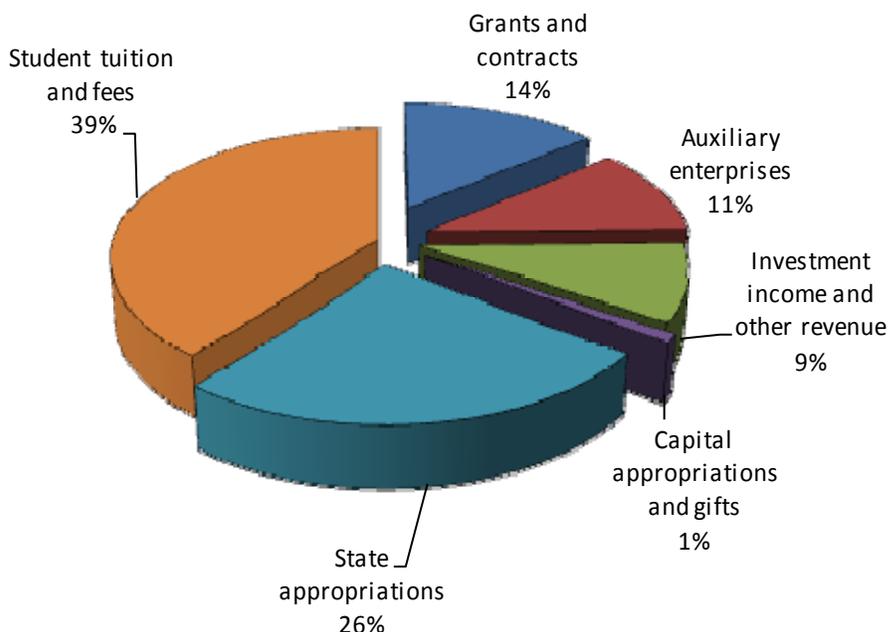
	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Student tuition and fees, net of scholarship allowance	\$ 69,251,096	\$ 61,370,209
Grants and contracts	11,788,982	11,542,521
Auxiliary services	18,946,372	27,669,607
Other operating revenues	9,696,061	7,958,055
Total Operating Revenues	<u>109,682,511</u>	<u>108,540,392</u>
Operating Expenses:		
Personal service	93,563,351	89,655,264
Utilities and supplies	40,203,016	38,997,015
Scholarships	19,438,180	19,435,137
Depreciation	13,604,347	12,862,981
Other Post-employment benefits (OPEB) expense	176,105	147,918
Total Operating Expenses	<u>166,984,999</u>	<u>161,098,315</u>
Operating loss	<u>(57,302,488)</u>	<u>(52,557,923)</u>
Nonoperating revenues (expenses)		
State appropriations	46,059,560	45,527,581
Federal grants - restricted	14,146,526	15,036,865
Investment income	2,809,219	2,524,794
Gifts	3,520,581	5,142,470
Nonoperating expenses	(8,924,457)	(12,778,927)
Net Nonoperating Revenues	<u>57,611,429</u>	<u>55,452,783</u>
Other revenues	<u>377,894</u>	<u>2,088,175</u>
Increase in net position	<u>686,835</u>	<u>4,983,035</u>
Net position beginning of year:		
As previously reported	265,445,347	327,731,637
Adjustment due to the adoption of GASB Statement No. 68	—	(67,269,325)
As restated	<u>265,445,347</u>	<u>260,462,312</u>
Net position end of year	<u>\$ 266,132,182</u>	<u>\$ 265,445,347</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

Total revenues for fiscal year 2016 were \$176.60 million, which consisted of operating revenues of \$109.69 million, non-operating revenues of \$66.53 million and other revenues of \$.38 million. Total revenues for fiscal year 2015 were \$178.86 million, which consisted of operating revenues of \$108.54 million, non-operating revenues of \$68.23 million and other revenues of \$2.09 million. The most significant sources of revenue for the University are student tuition and fees, state appropriations, grants and contracts, and auxiliary services.

Following is a graphic illustration of total revenue by source for the year ended June 30, 2016:



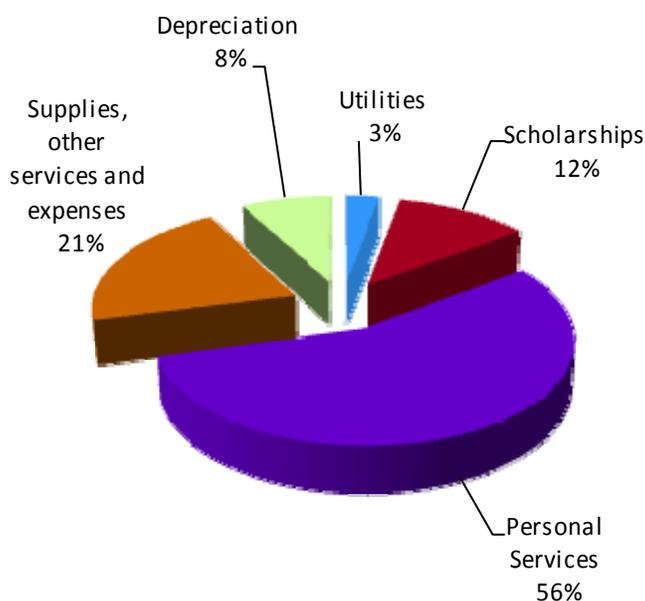
Student tuition and fees surpassed state appropriations as the largest source of revenue for the University in fiscal year 2007. State appropriations have declined as a percent of total revenue from 37% in fiscal year 2002 to 26% in fiscal year 2016. The University received a 1.43% increase in State appropriations for fiscal year 2016. The University's state appropriation for fiscal year 2017, net of the 3% governor's reserve withholding, is \$48.08 million. The fiscal year 2017 state appropriation increased by \$2.02 million, net of the 3% governor's reserve from the fiscal year 2016 level.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

Operating expenses of the University totaled \$166.98 million for the fiscal year ended June 30, 2016. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 56% of the total operating expenses at June 30, 2016. Operating expenses of the University totaled \$161.10 million for the fiscal year ended June 30, 2015. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 56% of the total operating expenses at June 30, 2015.

Following is a graphic illustration of operating expenses by source for the year ended June 30, 2016:



Bonds and Notes Payable

The University had outstanding bonds of approximately \$189.98 million and \$184.54 million at June 30, 2016 and 2015, respectively. During fiscal 2016, the University issued 2016A and 2016B bonds which were for the purpose of refunding the Series 2011 bond issue and for the construction of Greek student housing. No new debt was issued in fiscal year 2015. The University made all regularly scheduled debt service payments. Please refer to the bonds payable footnote (Note 8) in the notes to the basic financial statements for additional disclosures.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

At June 30, 2016, the University had outstanding notes payable of approximately \$356 thousand, a decrease of approximately \$36 thousand from June 30, 2015. No new notes were issued in fiscal year 2016 or 2015. Please refer to the notes payable footnotes (Note 9) in the notes to the basic financial statements for additional disclosures.

Capital Assets

At June 30, 2016 and 2015, the University's investment in capital assets was as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 4,217,138	\$ 4,217,138
Buildings and improvements	479,373,047	468,237,811
Leasehold improvements	644,994	636,978
Infrastructure	38,508,539	37,785,039
Equipment	46,196,015	45,050,867
Library books	25,967,441	25,589,345
Construction in progress	13,239,592	4,070,753
	<u>608,146,766</u>	<u>585,587,931</u>
Less: Accumulated depreciation	160,643,935	147,798,566
	<u>\$ 447,502,831</u>	<u>\$ 437,789,365</u>

At June 30, 2016, the University had initiated plans and incurred certain contractual commitments related to the construction of various facilities. The costs to complete these projects are estimated at \$28.95 million at June 30, 2016 and are to be funded from bond proceeds, state appropriations, federal grants, or other University and local funds. These projects included approximately \$5.78 million for Greek Housing Student Housing, \$2.31 million for Towers North renovations, \$9.82 million for academic renovations to Grauel, Crisp and Brandt Buildings, \$2.45 million for the Center for Speech and Hearing and \$8.59 for other campus renovations.

At June 30, 2015, the University had initiated plans and incurred certain contractual commitments related to the construction of various facilities. The costs to complete these projects are estimated at \$14.70 million at June 30, 2015 and are to be funded from bond proceeds, state appropriations, federal grants, or other University and local funds. These projects included approximately \$1.82 million for the Dobbins River Campus Center and new Greek Student Housing, \$6.57 million for Show Me Center Upgrades, \$4.00 million for academic renovations to Grauel Building and \$2.31 million for Athletic Facilities upgrades and classroom renovations.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

Economic Outlook

The Board of Regents approved a \$114.1 million operating budget net of designated revenue for fiscal year 2017. This was based on a 4.25% increase in state appropriations approved by the legislature in House Bill 3 and no increase to in-state, undergraduate fees. This funding level allowed the University to provide a 1.5% base merit salary increase to all employee groups for fiscal year 2017.

Sustained enrollments are very instrumental to the success of the University's budget process. Fall 2016 opening day enrollment included a 10.6% increase in beginning freshmen. Total beginning freshman enrollment grew from 1,695 on opening day in Fall 2015 to 1,875 for Fall 2016. These beginning freshman numbers include nine percent enrollment growth among Missouri students. The beginning freshman class for Fall 2016 is also increasingly diverse, boasting a record number of African American and Hispanic students. New, first-time African American student headcount is up 24 percent from a year ago while new first-time Hispanic student enrollment has grown 33 percent from fall 2015. A new university brand and marketing strategy, deployed in 2015, effectively drew attention to Southeast's high quality, accredited academic programs.

Contacting the University's Financial Management

This financial report is designed to provide a general overview of the University's finances and to show the University's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Vice President for Finance and Administration, One University Plaza, MS 3200, Cape Girardeau, MO 63701.

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF NET POSITION

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June 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 9,340,577
Restricted cash and cash equivalents	1,145,179
Short-term investments	3,837,058
Restricted short-term investments	4,987,450
Accrued interest receivable	115,637
Due from component unit - Foundation	444,436
Accounts receivable (net of allowance of \$761,637)	4,534,147
Notes receivable	518,010
Due from federal government	1,718,774
Inventory	2,758,604
Prepaid expenses	490,758
Total Current Assets	29,890,630

Noncurrent Assets

Investments	61,180,606
Restricted long-term investments	1,001,403
Due from component unit - Foundation	4,425,080
Notes receivable (net of allowance of \$1,042,677)	3,451,010
Capital assets - non-depreciable	22,795,017
Capital assets, net - depreciable	424,707,814
Total Noncurrent Assets	517,560,930

Total Assets 547,451,560

Deferred Outflows Of Resources

Deferred amounts on refunding of bonds payable	6,132,625
Deferred amounts related to pension plan	7,344,287
Deferred amounts related to pension contributions	8,072,759
Total Deferred Outflows Of Resources	21,549,671

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF NET POSITION

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June 30, 2016

Liabilities

Current Liabilities

Accounts payable	\$ 6,291,426
Accrued compensation	8,167,217
Bond interest payable	2,087,081
Funds held for others	180,759
Unearned income	10,313,774
Current portion of bonds payable	5,730,000
Current portion of notes payable	37,715
Total Current Liabilities	<u>32,807,972</u>

Noncurrent Liabilities

Net pension liability	78,422,892
Bonds payable	184,253,428
Notes payable	318,358
Net other postretirement employee benefit obligation	1,887,660
Due to federal government	3,627,652
Total Noncurrent Liabilities	<u>268,509,990</u>

Total Liabilities 301,317,962

Deferred Inflows Of Resources

Deferred amounts related to pension plan	<u>1,551,087</u>
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Net Position

Net investment in capital assets	260,150,394
Restricted for:	
Nonexpendable -	
Scholarships	2,255,009
Expendable -	
Debt service	1,814,635
Loans	212,814
Other	983,394
Unrestricted	<u>715,936</u>
Total Net Position	<u>\$ 266,132,182</u>

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 1,652,129
Short-term investments	19,395,621
Receivables:	
Pledges receivable (net of allowance of \$7,478)	291,648
Notes receivable	487,410
Accrued interest receivable	108,478
Total Current Assets	<u>21,935,286</u>

Noncurrent Assets

Investments:	
Endowment investments	58,585,853
Cash surrender value of life insurance	563,636
Long term notes receivable, net of imputed interest	3,683,083
Property held for resale and development	1,369,129
Property and equipment, net of accumulated depreciation	11,368,076
Total Noncurrent Assets	<u>75,569,777</u>

Total Assets \$ 97,505,063

Liabilities

Current Liabilities

Accounts payable and accrued expenses	\$ 29,668
Due to primary institution - University	444,436
Note payable to bank	201,734
Funds held for others	69,337
Annuity obligations	199,602
Total Current Liabilities	<u>944,777</u>

Noncurrent Liabilities

Deferred revenue	251,987
Note payable to bank	1,349,745
Annuity obligations	1,478,755
Due to primary institution - University	4,425,080
Total Noncurrent Liabilities	<u>7,505,567</u>

Total Liabilities 8,450,344

Net Assets

Unrestricted	19,436,527
Temporarily restricted	16,808,113
Permanently restricted	52,810,079

Total Net Assets 89,054,719

Total Liabilities And Net Assets \$ 97,505,063

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For The Year Ended June 30, 2016

Operating Revenues

Student tuition and fees (net of scholarship allowance of \$11,936,492)	\$ 69,251,096
Federal grants - restricted	3,610,713
State grants and contracts - restricted	7,490,630
Nongovernmental grants and contracts - restricted	687,639
Sales and services of educational departments	3,082,088
Auxiliary enterprises:	
Residence life (net of scholarship allowance of \$14,147,902; revenues are used as security for revenue bonds Series 2011B, 2013A, 2013B, 2016A and 2016B)	15,671,456
Other auxiliary (net of scholarship allowance of \$852,119; revenues are used as security for revenue bonds Series 2011B, 2013A, 2013B, 2016A and 2016B)	3,274,916
Other operating revenues	6,613,973
Total Operating Revenues	<u>109,682,511</u>

Operating Expenses

Personnel services	93,563,351
Scholarships	19,438,180
Utilities	5,069,054
Supplies and other services	35,133,962
Depreciation and amortization	13,604,347
Other post-employment benefit (OPEB) expense	176,105
Total Operating Expenses	<u>166,984,999</u>

Operating Loss

(57,302,488)

Nonoperating Revenues (Expenses)

State appropriations	46,059,560
Federal grants - restricted	14,146,526
Investment income	2,809,219
Contributions and gifts	3,520,581
Interest on capital asset-related debt	(8,551,284)
Loss on disposal of plant facilities	(373,173)
Net Nonoperating Revenues (Expenses)	<u>57,611,429</u>

Income Before Other Revenues, Expenses And Gains

308,941

State capital appropriations

82,530

Capital grants and gifts

295,364

Total Other Revenues, Expenses And Gains

377,894

Change In Net Position

686,835

Net Position - Beginning Of Year

265,445,347

Net Position - End Of Year

\$ 266,132,182

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION

STATEMENT OF ACTIVITIES

June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
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
Other revenues and transfers	372,995	(703,688)	540,757	210,064
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 And Losses				
Donations to primary institution - 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 And Losses	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 STATE UNIVERSITY

STATEMENT OF CASH FLOWS

Page 1 Of 2

For The Year Ended June 30, 2016

Cash Flows From Operating Activities

Tuition and fees	\$ 75,159,041
Grants and contracts	10,936,439
Auxiliary enterprises	19,044,751
Other receipts	9,909,215
Payments to vendors and suppliers	(62,342,802)
Payments to employees	(93,197,300)
Net Cash Used In Operating Activities	<u>(40,490,656)</u>

Cash Flows From Noncapital Financing Activities

State appropriations	45,888,444
Nonoperating federal grants	14,146,526
Gifts received for other than capital purposes	3,195,957
Net Cash Provided By Noncapital Financing Activities	<u>63,230,927</u>

Cash Flows From Capital And Related Financing Activities

Capital appropriations	82,530
Capital gifts received	295,364
Purchases of capital assets and payments to contractors	(23,603,644)
Proceeds from issuance of capital debt	30,630,000
Principal paid on capital debt and notes	(27,934,236)
Interest paid on capital debt and notes	(5,654,671)
Net Cash Used In Capital And Related Financing Activities	<u>(26,184,657)</u>

Cash Flows From Investing Activities

Proceeds from sales and maturities of investments	142,425,031
Interest on investments	2,474,225
Purchase of investments	(142,477,289)
Net Cash Provided By Investing Activities	<u>2,421,967</u>

Net Decrease In Cash And Cash Equivalents (1,022,419)

Cash And Cash Equivalents - Beginning Of Year 11,508,175

Cash And Cash Equivalents - End Of Year \$ 10,485,756

Supplemental Disclosure Of Cash Flow Information

Noncash transactions:	
Capital asset purchases included in accounts payable	\$ 3,865,664
Unrealized gain on investments	<u>332,683</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF CASH FLOWS

Page 2 Of 2

For The Year Ended June 30, 2016

Reconciliation Of Operating Loss To Net Cash

Used In Operating Activities:

Operating loss	\$ (57,302,488)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	13,604,347
Other post-employment benefit (OPEB) expense	176,105
Workers compensation and unemployment expenses paid by state	171,116
Gifts in kind from Southeast Missouri University Foundation	324,624
Changes in deferred outflows related to pension plan	(7,124,696)
Changes in deferred outflows related to pension contributions	(42,934)
Changes in deferred inflows related to pension plan	(14,880,614)
Changes in assets and liabilities:	
Receivables, net	(843,276)
Inventories	(75,228)
Prepaid expenses	(126,736)
Accounts payable	(2,499,642)
Unearned revenues	5,958,149
Accrued compensation	175,201
Deposits held for others	(72,562)
Net pension liability	22,067,978

Net Cash Used In Operating Activities

\$ (40,490,656)

SOUTHEAST MISSOURI STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

1. Organization

The University was established in 1873 as the Southeast Missouri Normal School. Since then the school has been named the Southeast Missouri State Teachers' College and Southeast Missouri State College. In 1972, the Missouri State legislature adopted the school's current name of Southeast Missouri State University (the University). The University is a multi-purpose regional institution of higher education, which derives its authority from the people of Missouri through the state legislature. The University is considered a component unit of the State of Missouri.

The University is fully accredited by the North Central Association of Colleges and Schools and the National Council for the Accreditation of Teacher Education. The University also holds several specific program accreditations and is a member of several associations including the National Collegiate Athletic Association (NCAA). The University achieves its educational goals by offering instructional programs and other learning experiences at the certificate, associate, baccalaureate, masters and specialist levels.

2. Basis Of Accounting And Presentation And Summary Of Significant Accounting Policies

Basis Of Accounting And Presentation:

The University prepares its financial statements as a business-type activity requirements in conformity with applicable pronouncements of the Governmental Accounting Standard Board (GASB).

The basic financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for public colleges and universities and is presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - Management's Discussion and Analysis for Public Colleges and Universities*.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. The University first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Reporting Entity:

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, provides guidance as to the financial reporting of component units (legally separate organizations for which the University is financially accountable). The University has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14 to provide additional guidance for determining whether certain organizations, for which the University is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the University. The Missouri Innovation Corporation and the Missouri Innovation Corporation II, Inc. are not included in the University's financial statements because they do not meet the criteria set forth for component units under GASB Statement No. 61 or GASB Statement No. 39. However, both are considered related entities.

The Southeast Missouri University Foundation (the Foundation) is a legally separate tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39. The Foundation provides financial support for the objectives, purposes, and programs of the University. Although the University does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) which the Foundation holds and invests are restricted to the activities of the University. Because these resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Foundation is a private nonprofit organization that reports under generally accepted accounting principles set forth by the Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial report for these differences. The Foundation's significant notes are summarized in Note 16.

During the year ended June 30, 2016, the Foundation distributed \$3,829,237 to the University for both restricted and unrestricted purposes.

Complete financial statements for the Foundation can be obtained by sending a written request to: Southeast Missouri University Foundation, Wehking Alumni Center, One University Plaza, Cape Girardeau, Missouri, 63701.

Summary Of Significant Accounting Policies:

Cash And Cash Equivalents - The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are combined on the statement of cash flows and represent cash and repurchase agreements.

Investments - The University accounts for its investments at fair value. Certificates of deposit are accounted for at amortized cost which approximates fair value. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the statement of revenues, expenses and changes in net position.

Fair Value Measurements - The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs use to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

Due From Component Unit-Foundation- The University bills the Foundation monthly for the use of University services. The final billing for the fiscal year is not paid by the Foundation and received by the University until the following fiscal year, therefore creating a receivable for the University. Additionally, the University participates in the Foundation's investment pool. The investment pool is required to maintain investments in government securities with a combined market value which is at least 110% of the University's share of the pooled investments. As the University does not have title to these investments, their share of the investment pool is recorded as a Due from Component Unit - Foundation.

Inventories - Inventories consist of office, farm and physical plant supplies and are recorded at cost using the first-in, first-out method. Text books available for rental are recorded at the lower of cost (using the first-in, first-out method) or market (net realizable value).

Capital Assets - Physical properties are recorded at cost or, when donated, at fair market value at date of gift. All financially significant building and infrastructure additions and improvements are capitalized if the life of the building is extended. Additionally, all purchases of equipment, furnishings and other personal property with a useful life greater than one year and costing \$1,000 or greater are capitalized.

Depreciation on equipment is computed using the straight line method with depreciation beginning in the month after acquisition and none in the year of disposal. Depreciation is computed on all other assets using the straight-line method, with a full-year expense in the year after acquisition and partial depreciation through the month of disposition. Expenditures for construction in progress are capitalized with depreciation beginning when the project is completed. Capital assets are depreciated over the estimated useful lives as follows:

	<u>Years</u>
Capital Assets	
Buildings and site improvements	10 to 50
Infrastructure	10 to 50
Leasehold improvements	15
Library books	30
Machinery and tools	5 to 20
Office equipment and furnishings	5 to 20
Scientific equipment and other	5 to 50
Computer hardware and software	4 to 5
Vehicles	4 to 6

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

When capital assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts.

Pensions- For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri State Employees' Retirement System (MOSERS) and additions to and deductions from MOSERS' fiduciary net position have been determined on the same basis as they are reported by MOSERS. For this purpose, benefit payments (including refunds on employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Compensated Absences - University employees earn vacation benefits based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation pay based upon the nature of separation (death, retirement or termination). Certain limitations have been placed on the hours of vacation that employees may accumulate and carry over for payment at termination, retirement or death. Unused hours exceeding these limitations are forfeited.

Net Position

Resources are required to be classified for accounting and reporting purposes into the following three net position categories:

- **Net Investment in Capital Assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**

Nonexpendable - Net position subject to externally imposed stipulations that the University maintain them permanently. Such assets include the University's permanent endowment funds.

Expendable - Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

- **Unrestricted:** Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

Operating And Nonoperating Revenues - The University's policy for defining operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Operating revenues include student tuition and fees net of scholarship allowances and auxiliary activities. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 34. Nonoperating revenues include revenues from activities that have the characteristics of nonexchange transactions such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations and investment income and certain federal, state and nongovernmental grants and contracts.

Unearned Income - Unearned income consists of the University's dining services vendor's investment in facilities that will be amortized over the life of the contract, and summer school tuition not earned during the current year.

Tuition, Discounts And Allowances - Student tuition and fee revenues and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by the students or third parties on behalf of the students. Certain grants, including federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenue, while Pell grants are recorded as nonoperating revenue in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a discount and allowance.

Deferred Outflows And Inflows Of Resources - In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources until then. At June 30, 2016, the University's deferred outflows of resources consist of deferred amounts on refunding of bonds payable, which results from the difference between the reacquisition price of refunded debt and its carrying value. This amount is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Deferred outflows also include contributions to MOSERS retirement plan which will be recognized in the fiscal year 2017. Finally, deferred outflows also include the University's proportionate share of collective deferred outflows of resources for the University's MOSERS retirement plan. These outflows will be amortized over four years.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources consist of the acquisition of net position that is applicable to a future reporting period or periods and so will not be recognized as inflow of resources until then. As of June 30, 2016, the University's deferred inflows consist of the University's proportionate share of the collective deferred inflows of resources for the MOSERS retirement plan.

Amortization - The deferred amount on refunding is amortized as interest on capital related debt using the bonds outstanding method. Deferred outflows related to the current fiscal year pension contributions will be fully amortized to pension expense in the following year. Deferred inflows and outflows related to the proportionate share of the collective deferred amounts will be netted together and amortized to pension expense over four years according to the amortization schedule provided by the MOSERS retirement plan.

Auxiliary Activities - Auxiliary activities mainly represent revenues generated from University housing and food service, textbook rentals and various other departmental activities that provide services to the students, faculty, staff and general public.

Income Taxes - The University is classified as a political subdivision of the State of Missouri under Internal Revenue Code Section 115(a) and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Use Of Estimates - The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the basic financial statements and the accompanying notes. Actual results could differ from those estimates.

3. Deposits And Investments

Deposits:

Custodial Credit Risk. This represents the risk that in the event of a bank failure, a government's deposits may not be returned to it. The University's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. Agencies or instrumentalities of the state of Missouri; bonds of any city, county, school district or special road district of the state of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2016, the University had \$1,236 in deposits exposed to custodial credit risk.

Foreign Currency Risk. This represents the risk related to adverse effects on the fair value of a deposit from changes in exchange rates. At June 30, 2016, the University had no exposure to foreign currency risk as the University had no deposits held by international banks.

Investments:

The University may invest in United States Treasury Securities, United States Agency Securities, repurchase agreements, collateralized public deposits (certificates of deposits) and banker's acceptances.

At June 30, 2016, the University had the following investments and maturities:

Investment Type	Credit Rating	Fair Value	Investment Maturities (In Years)	
			< 1 Year	1-5 Years
Banker Acceptances	N/A	\$ 1,335,823	\$ 1,335,823	\$ —
U.S. Treasury Obligations	*	3,948,135	3,197,520	750,615
U.S. Agency Obligations	*	62,330,490	1,399,096	60,931,394
Total		\$ 67,614,448	\$ 5,932,439	\$ 61,682,009

*U.S. Treasury and Agency obligations are rated AAA by Moody's Investor Services and AA+ by Standard and Poor's Corporation.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of ensuring the safety of principal invested, the University's investment policy is to diversify investments so as to minimize the potential loss on individual securities. The maturities are structured to meet cash flow needs of the University, thereby avoiding the need to sell securities in the open market prior to maturity. Callable securities are restricted to securities callable at par only.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the University's policy to limit its investment in banker's acceptance to domestic commercial banks possessing the highest rating issued by Moody's Investor Services or Standard & Poor's Corporation. Commercial paper is limited to domestic corporations that have received the highest rating issued by Moody's Investor Services or Standard & Poor's Corporation, and corporations having total assets in excess of five hundred million dollars. The University had no funds invested in commercial paper and \$1,335,823 invested in banker's acceptances at June 30, 2016.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Collateralization equal to at least 100% of the market value (including accrued interest) is required for repurchase agreements. The University maintains a depository contract and pledge agreement with its safekeeping bank that complies with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The University had no investments exposed to custodial credit risk at June 30, 2016.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government investment in a single issuer. According to the University's investment policy, investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. The types of investments that can be held in the University's portfolio include U.S. Treasury and Agency securities, repurchase agreements, collateralized public deposits, commercial paper and banker's acceptances. No more than 5% of the total market value of the portfolio may be invested in banker's acceptances issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

The University's investments in U.S. Agency Obligations consist of Freddie Mac, Fannie Mae, Federal Farm Credit Bank, and Federal Home Loan Bank securities. Each of these agencies except Freddie Mac represents more than 5% of the University's total investments.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Foreign Currency Risk. This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. At June 30, 2016, the University had no exposure to foreign currency risk as there were no foreign investments in the University's portfolio.

Summary Of Fair Values:

The fair value of deposits and investments are as follows:

Deposits	
Repurchase agreements and cash in bank	\$ 8,392,551
Cash on hand	99,104
Money market deposit accounts	1,994,102
Insured cash sweep	390,833
Certificates of deposit	3,001,235
	<u>13,877,825</u>
Investments	
Bankers Acceptances	1,335,823
US Government Treasury Obligations	3,948,135
US Government Agency Obligations	62,330,490
	<u>67,614,448</u>
	<u>\$ 81,492,273</u>

Included in the following statement of net position captions:

Deposits	
Cash and cash equivalents	\$ 9,340,577
Restricted cash and cash equivalents	1,145,179
Short-term investments	2,501,235
Restricted short-term investments	4,987,450
Long-term investments	500,000
	<u>18,474,441</u>
Investments	
Short-term investments	1,335,823
Long-term investments	60,680,606
Restricted long-term investments	1,001,403
	<u>63,017,832</u>
	<u>\$ 81,492,273</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The University has the following recurring fair value measurements as of June 30, 2016:

- Banker's Acceptances of \$1,335,823 valued using a matrix pricing model (Level 2 inputs).
- Government Agency Obligations of \$62,330,490 valued using a matrix pricing model (Level 2 inputs).
- U.S. Treasury Securities of \$3,948,135 valued using a matrix pricing model (Level 2 inputs).

Investment Income

Investment income for the year ended June 30, 2016 consists of:

Interest and dividend income	\$ 2,497,928
Realized loss on investments	(21,392)
Net increase in fair value of investments	<u>332,683</u>
	<u>\$ 2,809,219</u>

4. Accounts Receivable

The composition of accounts receivable at June 30, 2016 is summarized as follows:

Student billings	\$ 3,954,983
Departmental operations	855,768
State and private grants	343,012
Auxiliary operations	4,364
Other	<u>137,657</u>
	5,295,784
Less: Allowance for doubtful accounts	<u>761,637</u>
	<u>\$ 4,534,147</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

5. Notes Receivable

The composition of notes receivable at June 30, 2016 is summarized as follows:

Federal loan programs	\$ 5,011,697
Less: Allowance for doubtful accounts	<u>1,042,677</u>
	<u>\$ 3,969,020</u>

6. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance - June 30, 2015	Additions	Retirements	Balance - June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 4,217,138	\$ —	\$ —	\$ 4,217,138
Library books	5,342,832	—	(4,545)	5,338,287
Construction in progress	4,070,753	20,727,218	(11,558,379)	13,239,592
Total capital assets not being depreciated	<u>13,630,723</u>	<u>20,727,218</u>	<u>(11,562,924)</u>	<u>22,795,017</u>
Capital assets, being depreciated:				
Building and improvements	468,237,811	11,550,363	(415,127)	479,373,047
Infrastructure	37,785,039	723,500	—	38,508,539
Leasehold improvements	636,978	8,016	—	644,994
Equipment	45,050,867	1,862,626	(717,478)	46,196,015
Library books	20,246,513	382,641	—	20,629,154
Total capital assets being depreciated	<u>571,957,208</u>	<u>14,527,146</u>	<u>(1,132,605)</u>	<u>585,351,749</u>
Less accumulated depreciation for:				
Building and improvements	100,185,895	9,953,851	(82,980)	110,056,766
Infrastructure	6,816,278	739,058	—	7,555,336
Leasehold improvements	148,224	44,766	—	192,990
Equipment	32,312,066	2,222,760	(675,999)	33,858,827
Library books	8,336,103	643,913	—	8,980,016
depreciation	<u>147,798,566</u>	<u>13,604,348</u>	<u>(758,979)</u>	<u>160,643,935</u>
Total capital assets being depreciated, net	<u>424,158,642</u>	<u>922,798</u>	<u>(373,626)</u>	<u>424,707,814</u>
Capital assets, net	<u>\$ 437,789,365</u>	<u>\$ 21,650,016</u>	<u>\$ (11,936,550)</u>	<u>\$ 447,502,831</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

The estimated cost to complete construction in progress at June 30, 2016 is \$28,953,683 of which the majority is available from bond proceeds, federal grants, state capital appropriations and other local sources. Projects in progress include Show Me Center Upgrades, New Student Housing, Athletic Facility Upgrades, and Classroom Renovations.

7. Accounts Payable

The composition of accounts payable at June 30, 2016 is summarized as follows:

Equipment purchases	\$ 92,569
Supplies and operating expenses	2,333,193
Capital improvements	3,439,541
Retainage - capital projects	426,123
	<u>6,291,426</u>
	<u>\$ 6,291,426</u>

8. Bonds Payable

Bonds payable at June 30, 2016 are summarized as follows:

	Balance - June 30, 2015	Principal Additions	Principal Payments	Balance - June 30, 2016
Educational Facilities Taxable Revenue Bonds Series 2010B	\$ 54,495,000	\$ —	\$ (1,305,000)	\$ 53,190,000
System Facilities Refunding Revenue Bonds Series 2011	23,555,000	—	(23,555,000)	—
System Facilities Revenue Bonds Series 2011B	27,690,000	—	(660,000)	27,030,000
System Facilities Revenue Bonds Series 2013A	76,830,000	—	(1,820,000)	75,010,000
System Facilities Taxable Revenue Bonds Series 2013B	1,510,000	—	(545,000)	965,000
System Facilities Revenue Bonds Series 2016A	—	21,710,000	—	21,710,000
System Facilities Taxable Revenue Bonds Series 2016B	—	8,920,000	—	8,920,000
	<u>\$ 184,080,000</u>	<u>\$ 30,630,000</u>	<u>\$ (27,885,000)</u>	<u>186,825,000</u>
Less: Current maturities (due within one year)				5,730,000
Less: Discount on bond payable				1,270,802
Add: Premium on bond payable				4,429,230
				<u>\$ 184,253,428</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

On February 26, 2016, the Board of Regents issued \$21,710,000 of System Facilities Revenue Bonds Series 2016A and \$8,920,000 of Taxable System Facilities Revenue Bonds Series 2016B for the purpose of refunding \$23,555,000 Systems Facilities Revenue bonds Series 2011 and constructing, furnishing, and equipping a facility for Greek student housing and certain other expansions, renovations, and improvements to System Facilities. The refunding decreased the University's total debt service payments by \$2,830,120 and results in an economic gain (difference between the present value of the old and new debt service payments) of \$2,808,956.

During 2016, the refunding of the Series 2011 bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$609,621. This difference, reported in the accompanying basic financial statements as a deferred outflow of resources, is being charged to operations through 2032 using the bonds outstanding method.

The Series 2016A and 2016B bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2016A bonds maturing April 1, 2026 and thereafter may be called to redemption prior to maturity on or after April 1, 2025 in lots of \$5,000 at a redemption price of 100% of the principal amount together with accrued interest thereon to the date of maturity. The series 2016B bonds maturing April 1, 2027 and thereafter, at the option of the University may be called to redemption prior to maturity on or after April 1, 2026 in lots of \$5,000 at a redemption price of 100% of the principal amount together with accrued interest thereon to the date of maturity. The Series 2016B bonds maturing April 1, 2031, April 1, 2036 and April 1, 2045 are subject to mandatory redemption prior to maturity at the principal amount thereof plus accrued interest thereon to the date of redemption, without premium, in accordance with the following schedule:

<u>Series 2016B Bonds Maturing April 1, 2031</u>	
<u>Years</u>	<u>Amount</u>
2027-2031	\$1,350,000

<u>Series 2016B Bonds Maturing April 1, 2036</u>	
<u>Years</u>	<u>Amount</u>
2032-2036	\$1,625,000

<u>Series 2016B Bonds Maturing April 1, 2045</u>	
<u>Years</u>	<u>Amount</u>
2037-2045	\$3,935,000

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

The Series 2016A bonds, collateralized by a pledge of the gross income and revenues derived from the ownership or operation of the System Facilities bear interest at rates varying from 3.00% to 5.00% and mature serially through fiscal year 2032. The Series 2016B bonds also collateralized by a pledge of the gross income and revenues derived from the ownership or operation of the System Facilities bear interest at rates varying from 1.33%-4.37% and mature serially through 2045.

On February 28, 2013, the Board of Regents issued \$82,555,000 of System Facilities Revenue Bonds Series 2013A and \$2,050,000 of Taxable System Facilities Revenue Bonds Series 2013B for the purpose of constructing and furnishing a facility for student housing and related education and performance activities in the River Campus area of the University campus; and for the purpose of advanced refunding \$7,805,000 System Facilities Revenue bonds Series 2006A and \$51,615,000 System Facilities Revenue Bonds Series 2008. The advanced refunding decreased the University's total debt service payments by \$9,712,950 and results in an economic gain (difference between the present value of the old and new debt service payments) of \$3,188,038.

During 2013, the advance refunding of the Series 2006A and Series 2008 bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$380,948 and \$7,162,605 respectively. These differences, reported in the accompanying basic financial statements as a deferred outflow of resources, are being charged to operations through 2021 using the bonds outstanding method.

The Series 2013A and 2013B bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2013A bonds maturing April 1, 2021 and thereafter shall be subject to redemption on or after April 1, 2020 at a redemption price of 100% of the principal amount together with accrued interest thereon to the date of maturity. The Series 2013A bonds, collateralized by a pledge of the gross income and revenues derived from the ownership or operation of the System Facilities bear interest at rates varying from 2.60% to 5.00% and mature serially through fiscal year 2043. The Series 2013B bonds also collateralized by a pledge of the gross income and revenues derived from the ownership or operation of the System Facilities bear interest at rates varying from 1.30% to 1.90% and mature serially through 2018. Extraordinary Option Redemption at 100% for the Series 2013A and 2013B bonds may take place upon the occurrence of certain special conditions or events.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

On December 22, 2011, the Board of Regents issued \$28,980,000 of System Facilities Revenue Bonds Series 2011B for the purpose of constructing, furnishing and equipping a five-story, 262 bed residence hall with 180 parking spaces, constructing a chiller and boiler plant and funding capitalized interest on the Series 2011B bonds. The Series 2011B bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2011 bonds maturing April 1, 2018 and thereafter shall be subject to redemption on or after April 1, 2017 as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
April 1, 2017 - March 31, 2018	102%
April 1, 2018 - March 31, 2019	101%
April 1, 2019 - April 1, 2042	100%

Extraordinary Option Redemption at 100% may occur upon the occurrence of certain special conditions or events. The Series 2011B bonds bear interest at rates varying from 1.85% to 4.4% and mature serially through fiscal year 2042. On August 10th, 2016, the University issued \$25,025,000 Series 2016C System Facilities Revenue Bonds at interest rates that range from 2.0% to 4.0% to partially refinance the Series 2011B bonds. The University will pay principal and interest through 2021 on the Series 2011B bonds.

On December 8, 2010, the Board of Regents approved a resolution to issue bonds providing construction proceeds for campus facility renovations and repair projects including renovations to Academic Hall, renovations and an addition to Magill Hall and the University science laboratories, and deferred maintenance projects over the next five years, and conversion of the campus power plant to natural gas installation. On December 16, 2010, the Health and Educational Facilities Authority of the State of Missouri issued \$4,760,000 Educational Facilities Revenue Bond Series 2010A and \$54,495,000 Taxable Educational Facilities Revenue Bonds Series 2010B (Build America Bonds). The Series 2010A bonds shall pay interest semiannually on April 1 and October 1, and are not subject to optional redemption. The Series 2010A bonds were paid in full at final maturity on October 1, 2014. The Series 2010B bonds shall pay interest semiannually on April 1 and October 1. The University participates in the Build America Bonds program relative to the Series 2010B bonds. Build America Bonds were created under section 1531 of Title 1 of Division B of the American Recovery and Reinvestment Act, and provide a federal subsidy of 35% of the interest paid on the bonds to the issuer. Due to sequestration, subsidy payments were reduced by 8.7% in September 2013, by 7.2% in March 2014, 7.3% in March 2015, and 8.0% in March 2016. The University anticipates an 8.0% reduction in the September 2016 subsidy payment. The order does not affect payments for future years, although the University has been informed that there could be additional sequester orders for future fiscal years through and including fiscal year 2021.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

At the option of the University, the Series 2010B bonds maturing October 1, 2021 and thereafter shall be subject to redemption on or after October 1, 2020 at a redemption price of 100% of the principal amount. The Series 2010B bonds bear interest at rates varying from 3.625% to 6.875% and mature serially through fiscal year 2041. The true interest cost after the federal subsidy averages 4.316%.

The System Facilities is composed of the Housing System, the Student Union Facility (University Center), the Student Recreation Center, the Outdoor Recreation Fields, and the Parking and Transit system. Revenue derived from the operation of these facilities is pledged for the retirement of the outstanding 2011B, 2013A, 2013B, 2016A, and 2016B Series Bonds. Under the provisions of these bond resolutions, the University covenants to establish rates for the use and services of the System Facilities sufficient to fund operations, maintain reserves, and provide revenues to pay principal and interest on the bonds. Refer to Note 15 for a summary of System Facilities pledged revenue for fiscal year 2016.

Interest expense on bonded debt was \$8,538,028 for 2016 net of capitalized interest of \$85,922.

Scheduled fiscal year maturities of System Facilities and Educational Facilities bonds payable and related interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 5,730,000	\$ 8,324,123
2018	6,685,000	8,065,167
2019	6,915,000	7,797,326
2020	7,225,000	7,478,758
2021	7,520,000	7,138,311
2022-2026	35,175,000	31,441,053
2027-2031	41,195,000	23,811,861
2032-2036	35,995,000	15,200,095
2037-2041	34,220,000	6,126,881
2042-2045	6,165,000	434,725
	<u>\$ 186,825,000</u>	<u>\$ 115,818,300</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

9. Notes Payable

Notes payable at June 30, 2016 are summarized as follows:

	Balance - June 30, 2015	Principal Additions	Principal Payments	Balance - June 30, 2016
<u>Chartwell's-Olive's and Skylight Terrace Expansion</u>	\$ 392,447	\$ —	\$ (36,374)	\$ 356,073
	<u>\$ 392,447</u>	<u>\$ —</u>	<u>\$ (36,374)</u>	356,073
Less: Current maturities (due within one year)				<u>37,715</u>
				<u>\$ 318,358</u>

On July 1, 2009, the University entered into an agreement with Chartwells, the University's contracted food service provider, for the construction of dining facilities in the new residence hall and expansion of the University Center to provide additional dining space. The University will make monthly principal payments, totaling \$577,870 through fiscal year 2025. The note is noninterest bearing. Interest has been imputed using a rate of 3.625%.

Interest expense was \$13,256 for 2016. Scheduled fiscal year maturities on notes payable and related interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 37,715	\$ 12,285
2018	39,105	10,895
2019	40,546	9,454
2020	42,041	7,959
2021	43,590	6,410
2022-2025	153,076	9,425
	<u>\$ 356,073</u>	<u>\$ 56,428</u>

10. Retirement Plan - Missouri State Employees' Retirement System

General Information about the Pension Plan

Plan description. Benefit eligible employees of the University are provided with pensions through MOSERS - a cost-sharing multiple-employer defined benefit pension plan. Chapter 104.320 of the Revised Statutes of Missouri grants the authority to establish a defined benefit plan for eligible state and other related agency employees. MOSERS issues an annual Comprehensive Annual Financial Report (CAFR), a publicly available financial report that can be obtained at www.mosers.org.

Benefits provided. MOSERS provides retirement, disability, and life insurance benefits to eligible employees. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. The factor is based on the specific plan in which the employee participates, which is based on the employee's hire date. Information on the three plans administered by MOSERS (MSEP, MSEP 2000, and MSEP2011 retirement plans) and how eligibility and the benefit amount is determined for each plan may be found in the Notes to the Financial Statements of MOSERS' CAFR starting on page 30.

Contributions. Per Chapter 104.436 of the Revised Statutes of Missouri, contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. Employees in the MSEP2011 Plan are required to contribute 4% of their annual pay. The University's required contribution rate for the year ended June 30, 2016, was 16.97% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contribution rate for the MOSERS plan year ended June 30, 2015 was 16.97%, which is the year of measurement for the net pension liability. Contributions to the pension plan from the University were \$8,072,759 for the year ended June 30, 2016.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the University reported a liability of \$78,422,892 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The University's proportion of the net pension liability was based on the University's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for MOSERS plan year ended June 30, 2015. At June 30, 2015, the University's proportion was 2.442%, an increase from its proportion measured using 2.3902% as of the June 30, 2014 measurement date.

There were no changes in benefit terms during the MOSERS plan year ended June 30, 2015, that affected the measurement of total pension liability.

For the year ended June 30, 2016, the University recognized pension expense of \$8,085,617. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 146,501	\$ 507,347
Changes of assumptions	—	1,043,740
Net difference between projected and actual earnings on pension plan investments	6,021,552	—
Changes in proportion and differences between University contributions and proportionate share of contributions	1,176,234	—
University contributions subsequent to the measurement date of June 30, 2015	8,072,759	—
	\$ 15,417,046	\$ 1,551,087

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Deferred outflows of resources of \$8,072,759 resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the University's fiscal year following MOSERS' fiscal year as follows:

Amortization Schedule

<u>Plan Year Ending June 30:</u>	<u>Amount</u>
2017	\$ 403,755
2018	394,487
2019	341,353
2020	4,653,605
	<u>\$ 5,793,200</u>

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation, which is also the date of measurement for financial reporting purposes, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%, approximate
Salary increases	0% for FY16 and 3.0 to 5.9% annually, average, including inflation thereafter
Investment rate of return	8.0% per year, compounded annually, net after investment expenses and including inflation

Mortality rates were based on the RP-2000 combined healthy mortality table projected to 2016 with Scale AA. The pre-retirement mortality rates used were 100% of the post-retirement mortality rates for males and 80% of the post-retirement mortality for females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The change in assumptions recorded as deferred inflows of resources was related to a change in wage assumptions. For the June 30, 2015 valuation, wage inflation is assumed to be 0% in the first year and 3% thereafter. This is a one-time change based on the pay freeze enacted for fiscal year ending June 30, 2016. Previously, salary increases were assumed to be 3.0% to 5.9% annually on average, including inflation.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2011. As a result of the 2011 actuarial experience study, the MOSERS Board made various demographic assumption changes to more closely reflect actual experience. The most significant change was lowering the assumed annual investment rate of return from 8.5 percent to 8 percent. MOSERS is conducting an experience study and the results of that study are expected to be finalized prior to June 30, 2016 which will be used by the actuary to conduct the valuation report for MOSERS' fiscal year 2016 valuation, which impacts the University's fiscal year 2018 payroll.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Policy Allocation</u>	<u>Long-Term Expected Real Rate Of Return*</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Beta Balanced	80.0%	5.7%	4.6%
Illiquids **	20.0%	7.3%	1.5%
	<u>100.0%</u>		<u>6.1%</u>

* Represent best estimates of geometric rates of return for each major asset class included.

** Illiquid portfolio upper limit of 27.5% of capital, no new commitments past 23%

Discount rate. The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
University's proportionate share of the net pension liability	\$ 110,521,814	\$ 78,422,892	\$ 51,464,731

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued MOSERS financial report.

Payables to the Pension Plan

The University had payables of \$830,918 to MOSERS because legally required contributions to the plan for June 2016 were not paid until July 2016.

11. Retirement Plan - College And University Retirement Plan

Beginning July 1, 2002, in accordance with Section 104.1200 through 104.1215 of the Revised Statutes of Missouri, employees hired who meet the criteria of an "education employee" participate in the College and University Retirement Plan (CURP). It is a noncontributory 401(a) defined contribution plan for education employees at regional colleges/universities in Missouri. The MOSERS has been given the responsibility by law to implement and oversee the administration of the plan. The TIAA-CREF group of companies is the third-party administrator for the CURP and manages the investment options under the plan. Contributions made by the University are self-directed by participants into their selected individual accounts. By law, the CURP contribution rate is equal to 1% less than the normal cost contribution rate of the Missouri State Employees' Plan 200 (MSEP 200). After participating in CURP for at least six years, a faculty member may elect to become a member of MOSERS.

The University is required to contribute to CURP at an actuarially determined rate; the rate was 5.89% and 6.16% of annual covered payroll for 2016 and 2015, respectively. The University's contributions to CURP for the years ended June 30, 2016, 2015 and 2014 were \$928,044, \$896,102 and \$823,330, respectively, which equaled the required contributions for those years.

12. Postemployment Healthcare Plan

Plan Description. The University provides a one-time opportunity for retirees to continue medical insurance coverage. Retirees after October 22, 2010 who elect to continue medical insurance are required to pay monthly premiums determined by plan type elected and Medicare eligibility. Retirees prior to October 22, 2010 who elect to continue medical insurance are required to pay monthly premiums on the basis of an implicit rate subsidy calculation. Monthly premiums for pre-October 22, 2010 participating retirees under 65 years of age are subsidized by the University at the rate of 1% for every year of active service to the University. Pre-October 22, 2010 retiree's adjusted monthly premium cost will not go below 80% of the premium amount. Financial statements for the plan are not available.

Funding Policy. The University pays for their portion of the medical insurance premiums on a pay-as-you-go basis. No trust fund has been created for the payment of the University's portion of the medical insurance premiums; therefore as of June 30, 2016 the University's obligations are unfunded. For more information see the Schedule of Funding Progress in the Required Supplementary Information section.

Annual Other Post Employment Benefit (OPEB) Cost and Net OPEB Obligation. The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

The following table shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation to the plan:

Annual required contribution	\$ 524,741
Interest on OPEB obligation	64,184
Adjustment to annual required contribution	<u>(95,997)</u>
Annual OPEB cost	492,928
Contributions made	<u>316,823</u>
Increase in OPEB obligation	176,105
Net OPEB obligation - beginning of year	<u>1,711,555</u>
Net OPEB obligation - end of year	<u>\$ 1,887,660</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the previous two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/16	\$ 492,928	64.3%	\$ 1,887,660
6/30/15	576,044	74.3%	1,711,555
6/30/14	568,659	60.9%	1,563,637

Funded Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the plan had no assets since the University does not fund the plan. The unfunded actuarial accrued liability (UAAL) for benefits was \$4.59 million. The covered payroll (annual payroll of active employees covered by the plan) was \$55.0 million, and the ratio of the UAAL to the covered payroll was 8.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 3.75% discount rate, an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after six years, and a 3% annual increase in salaries. 40% of participants are assumed to continue under the same coverage they are currently electing for their lifetime. It is also assumed that all retirees will continue coverage for their lifetime. The UAAL is being amortized as a level dollar amount over a 30-year open period. The amortization period at July 1, 2015 was 30 years and is restarted with each valuation.

13. Contingencies And Risk Management

The University is subject to various legal proceedings and claims which arise in the ordinary course of its operations. In the opinion of the University management, the amount of ultimate liability with respect to these actions will not materially affect the overall financial position of the University.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. It is the opinion of management that such reimbursements, if any, will not have a material effect on the University's financial position.

University employees are covered under Worker's Compensation by the State of Missouri. Claims are submitted to the State and paid by the State on behalf of the University. Total claims paid for the University employees for fiscal year 2015-2016 were \$171,116.

The majority of University employees are also covered by unemployment insurance administered by the State of Missouri Division of Employment Security.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. The University purchases commercial insurance and also receives coverage through the State of Missouri for these risks of loss. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The University has purchased property on occasion that requires monitoring for environmental issues that could result in liability. As of June 30, 2016, the University is not aware of any environmental liability.

14. Net Position

Restricted - Net position is restricted when constraints placed are either externally imposed, or are imposed by law or legislation. The composition of restricted net position at June 30, 2016 was:

Nonexpendable	
Scholarships	\$ 2,255,009
Expendable	
Debt service	1,814,635
Grants and other	<u>1,196,208</u>
	<u>3,010,843</u>
 Total Restricted	 <u>\$ 5,265,852</u>

Unrestricted - Unrestricted net position is not subject to externally imposed stipulations; however, it may be subject to internal designations. For example, unrestricted net position may be designated for specific purposes by action of the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is internally designated for academic programs and initiatives, investment in inventories and capital programs. Designated unrestricted net position was \$45,864,229 at June 30, 2016. Undesignated unrestricted net position, including those of auxiliary operations, was \$(45,148,293) at June 30, 2016.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Undesignated unrestricted net position at June 30, 2016 consists of the following:

Net pension liability at June 30, 2016, offset by pension-related deferred inflows and outflows	\$ (64,556,933)
All other operations of the University, including auxiliary operations	<u>19,408,640</u>
Total undesignated unrestricted net position	<u><u>\$ (45,148,293)</u></u>

University operations undesignated unrestricted net position consists of \$599,838 US Government Loan Programs, \$6,850,234 Auxiliary Undesignated & Unrestricted Undesignated of \$11,958,568

15. Segment Information

A segment is an identifiable activity reported within a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34*. As of June 30, 2016, the University's outstanding bond debt consists of System Facilities Revenue Bonds. The System Facilities is composed of the Housing System, the Student Union facility, the Student Recreation Center, the Aquatic Center, the Parking and Transit System, Textbook Rentals, and the Outdoor Recreation Fields. Revenue derived from the operation of these facilities is pledged for the retirement of the outstanding Series 2011B, Series 2013A & 2013B, Series 2016A & Series 2016B bonds and payment of interest thereon semi-annually on April 1 and October 1.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

The condensed financial information for the System Facilities Revenue Bond Fund as of June 30, 2016 is as follows:

Condensed Statement Of Net Position

Current Assets	\$ 16,989,433
Noncurrent Assets	
Capital assets, net of depreciation	172,239,777
Other	<u>1,001,403</u>
Total Assets	<u>190,230,613</u>
Deferred Outflows Of Resources	<u>6,132,625</u>
Current Liabilities	9,433,035
Noncurrent Liabilities	<u>133,506,245</u>
Total Liabilities	<u>142,939,280</u>
Net Position	
Net investment in capital assets	45,341,669
Restricted	1,265,621
Unrestricted	<u>6,816,668</u>
Total Net Position	<u>\$ 53,423,958</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Condensed Statement Of Revenues, Expenses, And Changes In Net Position

Operating Revenue

Housing contracts, net of scholarship allowance	\$ 21,480,173
Textbook sales and rentals	2,007,281
Student recreation center fees	2,482,663
Parking fees and fines	1,424,372
Student union building fees	267,000
Other operating revenues	2,203,288
Total Operating Revenue	<u>29,864,777</u>

Operating Expenses

Personnel service	5,175,335
Contract food service	6,783,413
Utilities and maintenance	2,781,207
Book purchases	1,522,154
Depreciation	4,214,285
Other operating expenses	4,605,660
Total Operating Expenses	<u>25,082,054</u>

Operating Income

4,782,723

Nonoperating Revenue (Expenses)

Investment income	136,203
Disposal of plant facilities	(204,169)
Interest on capital asset related debt	(4,916,894)
Net Nonoperating Expenses	<u>(4,984,860)</u>

Decrease In Net Position

(202,137)

Net Position Beginning Of Year

53,626,095

Net Position End Of Year

\$ 53,423,958

Condensed Statement Of Cash Flows

Net cash provided by operating activities	\$ 8,967,695
Net cash used in capital and related financing activities	(3,871,556)
Net cash provided by investing activities	<u>(5,469,437)</u>
Net decrease in cash and cash equivalents	(373,298)
Cash and cash equivalents - beginning of year	<u>11,333,365</u>
Cash and cash equivalents - end of year	<u>\$ 10,960,067</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

16. Southeast Missouri University Foundation

The following disclosures pertain to the University's discretely presented component unit - the Foundation:

Investments And Investment Return

Investments at June 30 consisted of the following:

Cash and money market funds	\$ 1,469,223
Certificates of deposit	284,370
Equities	
Domestic	26,380,797
Developing international	5,039,035
Mutual funds	
Domestic	4,975,047
Developing international	4,744,520
Emerging market	6,295,002
International fixed income	3,914,273
Other	7,407,489
Corporate Bonds	9,588,242
U.S. Treasury securities	1,650,083
U.S. government obligations	4,580,109
Municipal securities	252,477
Alternative strategies	1,400,807
	<u>77,981,474</u>
Less: short-term investments	<u>19,395,621</u>
	<u>\$ 58,585,853</u>

Total investment return is comprised of the following:

Interest and dividends, net of fees	\$ 1,373,704
Unrealized and realized investment gains (losses)	<u>(1,859,663)</u>
	<u>\$ (485,959)</u>

Contributions Receivable

Contributions receivable at June 30 consists of:

Pledges receivable, due in less than one year	\$ 299,126
Allowance for doubtful accounts	<u>(7,478)</u>
	<u>\$ 291,648</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Property And Equipment

Property and equipment at June 30 consists of:

Land	\$ 6,671,230
Buildings and improvement	8,472,149
Vehicles and equipment	<u>273,253</u>
	15,416,632
Less: Accumulated depreciation	<u>4,048,556</u>
	<u>\$ 11,368,076</u>

Notes Receivable

Notes receivable at June 30 consists of:

City of Cape Girardeau	\$ 3,589,380
APG Limited	<u>581,113</u>
	4,170,493
Less: current maturities due within one year	<u>487,410</u>
	<u>\$ 3,683,083</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, noninterest 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%.

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% 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 STATE UNIVERSITY

Notes To Financial Statements (Continued)

Aggregate annual maturities of notes receivable at June 30, 2016 are:

<u>Year</u>	<u>Amount</u>
2016	\$ 487,410
2017	488,032
2018	488,669
2019	489,321
2020	489,988
Thereafter	2,277,693
	<u>4,721,113</u>
Less: Imputed interest on loan	<u>550,620</u>
	<u>\$ 4,170,493</u>

Notes Payable To Bank

Notes payable to bank at June 30 consists of:

First Missouri State Bank - University Farm	\$ 378,224
Montgomery Bank - South Lorimier	265,903
Bank of Missouri - 4193 Bainbridge Road	180,303
Montgomery Bank - 334 Morgan Oak	443,964
First Missouri State Bank - 315 South Lorimier	236,210
Gary W. Rust Rev Trust - 612-613 Broadway	<u>46,875</u>
	1,551,479
Less: Current maturities due within one year	<u>201,734</u>
	<u>\$ 1,349,745</u>

Aggregate annual maturities of notes payable at June 30, 2016 are:

<u>Year</u>	<u>Amount</u>
2016	\$ 201,734
2017	382,771
2018	736,800
2019	97,981
2020	13,390
Thereafter	118,803
	<u>\$ 1,551,479</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

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, a second change in terms agreement was signed. There will be 60 regular payments of \$8,920 with a maturity date of May 18, 2020. The interest rate of the promissory note is 0.5 percentage points above the prime rate. As of June 30, 2016, the prime rate was 3.50% resulting in an interest rate of 4.00%.

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% to 3.95%, a five-year promissory note was executed on August 1, 2013. Current payments on the note are regular payments of \$6,069 and one irregular last payment estimated at \$236,434. The interest rate of the promissory note is 3.95% with a maturity date of August 1, 2018.

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. Current payments on the note are regular payments of \$1,573 with an interest rate of 4.29%.

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 irregular last payment estimated at \$383,768 due on November 30, 2016, and an interest rate of 3.95%.

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 irregular last payment estimated at \$206,659. The interest rate of the promissory note is 3.92%.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

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, 2016, the prime rate was 3.50%.

Net Assets

Temporarily Restricted Net Assets

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

Scholarships	\$	8,664,517
Loans		152,176
Other		<u>7,991,420</u>
	\$	<u><u>16,808,113</u></u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

Scholarships	\$	50,669,701
Other		<u>2,140,378</u>
	\$	<u><u>52,810,079</u></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.

Scholarships	\$	2,249,267
Loans		2,115
Other purpose restrictions accomplished		<u>2,310,741</u>
	\$	<u><u>4,562,123</u></u>

Annuity Obligations

The Foundation has been the recipient of several gift annuities and charitable remainder trusts, 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 \$1,678,357 at June 30, 2016 which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 5%.

Operating Leases

The Foundation leases certain plant assets to the University. Minimum future rentals receivable under noncancellable operating leases at June 30, 2016 were \$4,574,062, including \$738,979 due within the next year.

17. Subsequent Event

Subsequent to year-end, on August 10, 2016, the University issued the Series 2016C Systems Facilities Revenue Bonds in the amount of \$25,025,000 at interest rates ranging from 2.0% to 4.0% to partially refinance the Series 2011B bonds.

Required Supplementary Information

SOUTHEAST MISSOURI STATE UNIVERSITY

SCHEDULES OF SELECTED PENSION INFORMATION
MISSOURI STATE EMPLOYEES' RETIREMENT SYSTEM
June 30, 2016
(In Thousands)

Schedule Of University's Proportionate Share Of The Net Pension Liability

	Measurement Date	
	As Of June 30:	
	2015	2014
University's proportion of the net pension liability	2.4420%	2.3902%
University's proportionate share of the net pension liability	\$ 78,422,893	\$ 56,354,914
University's covered-employee payroll	47,277,247	46,027,547
University's proportionate share of net pension liability as a percentage of its covered-employee payroll	165.88%	122.44%
Plan fiduciary net position as a percentage of the total pension liability	72.62%	79.49%

Schedule Of University's Contributions

	Measurement Date	
	As Of June 30:	
	2015	2014
Required contribution	\$ 8,022,949	\$ 7,800,768
Contributions in relation to the required contribution	8,022,949	7,800,768
Commission's covered-employee payroll	47,277,247	46,027,547
Contributions as a percentage of covered-employee payroll	16.97%	16.97%

Notes:

Above schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

Information provided is based on a measurement date and actuarial valuation as of the end of the preceding fiscal year.

Changes Of Benefit Terms Or Assumptions

There were no changes to benefit terms in the plan for June 30, 2015. Change to assumptions for the year ended June 30, 2015 was related to a change in wage assumptions. Wage inflation is assumed to be 0% in the first year and 3% thereafter.

SOUTHEAST MISSOURI STATE UNIVERSITY

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT
HEALTHCARE PLAN**

June 30, 2016

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A Percentage Of Covered Payroll ((b - a) / c)
7/1/2015	\$ —	\$ 4,590,475	\$ 4,590,475	0%	\$ 55,438,783	8.28%
7/1/2013	—	4,585,382	4,585,382	0%	56,950,964	8.10%
7/1/2011	—	4,953,439	4,953,439	0%	50,594,736	9.80%