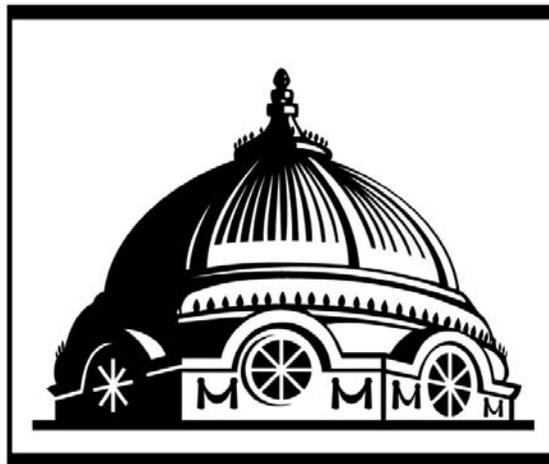

**SOUTHEAST MISSOURI
STATE UNIVERSITY**
FINANCIAL STATEMENTS
JUNE 30, 2014



Southeast
Missouri State University

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Contents

	Page
Independent Auditors' Report	1 - 3
Management's Discussion And Analysis	4 - 13
 Financial Statements	
Statement Of Net Position	14 - 15
Statement Of Revenues, Expenses And Changes In Net Position	16
Statement Of Cash Flows.....	17 - 18
Notes To Financial Statements.....	19 - 51
 Required Supplementary Information	
Schedule Of Funding Progress For Postemployment Healthcare Plan	52

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, 2014, 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, 2014, 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.

Change In Accounting Principle

As discussed in Note 2 to the financial statements, in 2014 the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 and the Schedule of Funding Progress for Postemployment Healthcare Plan on page 52 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 September 30, 2014 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 4, 2014 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 4, 2014

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, 2014. 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, 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) are 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:

	<u>2014</u>	<u>2013</u> <u>(Restated)</u>
Current Assets	\$ 23,675,914	\$ 46,771,651
Noncurrent Assets		
Capital assets, net of depreciation	439,557,584	410,673,662
Other	<u>79,633,328</u>	<u>88,068,241</u>
Total Assets	<u>542,866,826</u>	<u>545,513,554</u>
Deferred Outflows of Resources	<u>6,941,385</u>	<u>7,543,553</u>
Current Liabilities	31,332,687	33,450,427
Noncurrent Liabilities	<u>190,743,887</u>	<u>198,317,310</u>
Total Liabilities	<u>222,076,574</u>	<u>231,767,737</u>
Net Position		
Net investment in capital assets	256,071,721	251,899,138
Restricted	6,611,911	7,062,422
Unrestricted	<u>65,048,005</u>	<u>62,327,810</u>
Total Net Position	<u>\$ 327,731,637</u>	<u>\$ 321,289,370</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 \$23.68 million at June 30, 2014 and \$46.77 million at June 30, 2013. The decrease in current assets of approximately \$23.09 million from June 30, 2013, is the net effect of a decrease in cash and cash equivalents, a decrease in investments, and a decrease in the amount due from the federal government. The decrease in cash and cash equivalents and investments is the result of the spenddown of the Series 2010, Series 2011B, Series 2013A and 2013B bond proceeds. The projects had been completed or were nearing completion at the end of fiscal year of 2014.

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 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 \$72.06 million of noncurrent assets at June 30, 2014. Long-term investments comprised \$80.37 million of noncurrent assets at June 30, 2013.

Implementation of GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*, requires reporting of deferred inflows and outflows of resources. Deferred outflows of \$6.94 million resulted with the Series 2013 System Revenue Refunding and Improvement bonds issue. Series 2006A System Facilities Revenue bonds and Series 2008 System Facilities Refunding and Improvement Bonds were advanced refunded and defeased with final payments due April 1, 2014 and April 1, 2015 respectively.

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 \$31.33 million at June 30, 2014 and \$33.45 million at June 30, 2013. The decrease in current liabilities was approximately \$2.12 million from June 30, 2013.

Noncurrent liabilities which totaled \$190.74 million at June 30, 2014 and \$198.32 million at June 30, 2013, primarily consist of long term debt. During fiscal year 2013, bonds of \$84.61 million were issued for the construction of student housing and related education and performance facilities in the River Campus area of campus and for advanced refunding of \$7.81 million Series 2006A and \$51.62 million Series 2008 System Facilities Revenue Bonds. See Note 9 to the basic financial statements for additional information on the Series 2013 System Facilities Revenue Bonds.

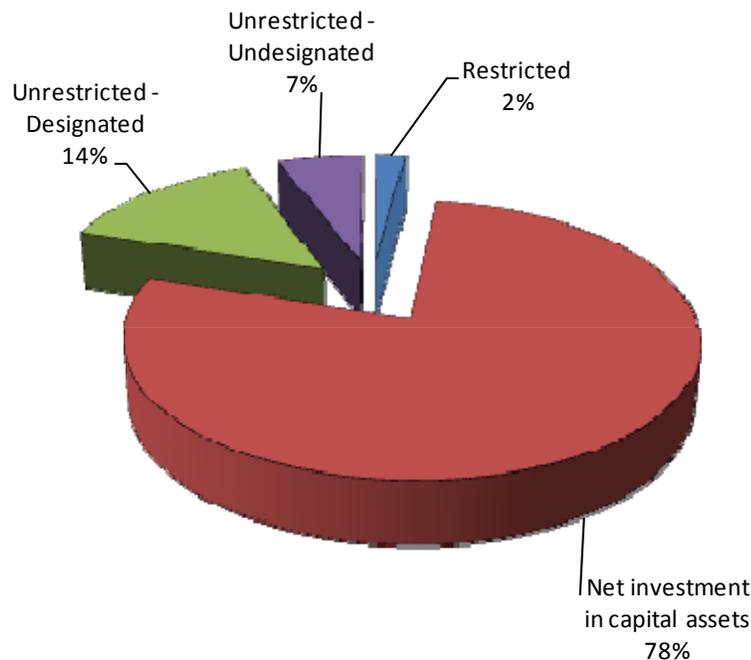
Net position represents the residual interest in the University's assets after liabilities are deducted.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (Continued)

	June 30,	
	2014	2013 (Restated)
Net Position:		
Net investment in capital assets	\$ 256,071,721	\$ 251,899,138
Restricted:		
Nonexpendable	2,181,251	2,169,156
Expendable	4,430,660	4,893,266
Total Restricted	<u>262,683,632</u>	<u>258,961,560</u>
Unrestricted:		
Designated	46,249,910	41,313,844
Undesignated	18,798,095	21,013,966
Total Unrestricted	<u>65,048,005</u>	<u>62,327,810</u>
Total Net Position	<u>\$ 327,731,637</u>	<u>\$ 321,289,370</u>

Following is a breakdown of net position at June 30, 2014:



Net position invested in capital assets represents 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 \$4.17 million from \$251.90 million at June 30, 2013 to \$256.07 million at June 30, 2014.

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 \$2.2 million at June 30, 2014 and 2013, respectively. Although unrestricted net position is not subject to externally imposed stipulations, approximately 71.10% has been internally designated as of June 30, 2014.

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

	<u>2014</u>	<u>2013</u>
Unrestricted-Designated Net Position		
Investment in inventories	\$ 2,822,001	\$ 2,691,433
Future operations (including capital projects)	41,391,401	36,598,475
Quasi-endowment	<u>2,036,508</u>	<u>2,023,936</u>
Total	<u>\$ 46,249,910</u>	<u>\$ 41,313,844</u>

The total unrestricted-undesignated net position of the University of \$18.80 million at June 30, 2014 includes balances accumulated from the operations of the auxiliary enterprises, such as the residence hall system and bookstore, which totaled \$7.30 million, from loan programs which totaled \$0.65 million, and from general operations which totaled \$10.85 million. The total unrestricted-undesignated net position of the University of \$21.01 million at June 30, 2013 included balances accumulated from the operations of the auxiliary enterprises such as the residence hall system and bookstore, which totaled \$9.28 million, from loan programs which totaled \$0.80 million and from general operations which totaled \$10.93 million.

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 2014 and 2013:

Condensed Statements of Revenues, Expenses and Changes in Net Position

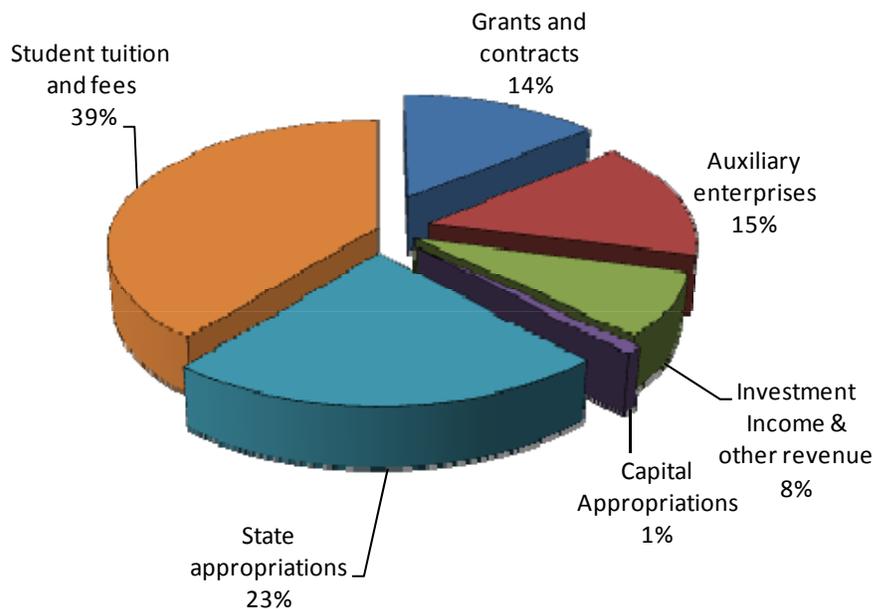
	<u>2014</u>	<u>2013</u> <u>(Restated)</u>
Operating Revenues:		
Student tuition and fees, net of scholarship allowance	\$ 72,368,487	\$ 71,113,044
Grants and contracts	11,354,965	13,337,604
Auxiliary services	26,664,249	27,631,944
Other operating revenues	8,353,038	7,264,687
Total Operating Revenues	<u>118,740,739</u>	<u>119,347,279</u>
Operating Expenses:		
Personal service	87,151,954	82,346,386
Utilities and supplies	46,235,420	46,710,426
Scholarships	23,349,724	22,546,148
Depreciation	11,293,201	10,624,121
Other Post-employment benefits (OPEB) expense	222,479	309,876
Total Operating Expenses	<u>168,252,778</u>	<u>162,536,957</u>
Operating loss	<u>(49,512,039)</u>	<u>(43,189,678)</u>
Nonoperating revenues (expenses)		
State Appropriations	42,470,338	42,705,824
Federal Grants - restricted	15,116,873	15,078,366
Investment income	2,857,179	623,837
Gifts	3,097,161	3,070,382
Nonoperating expenses	(9,491,718)	(9,700,444)
Net Nonoperating Revenues	<u>54,049,833</u>	<u>51,777,965</u>
Other revenues	<u>1,904,473</u>	<u>1,792,534</u>
Increase in net position	6,442,267	10,380,821
Net position beginning of year (As restated)	<u>321,289,370</u>	<u>310,908,549</u>
Net position end of year	<u>\$ 327,731,637</u>	<u>\$ 321,289,370</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

Total revenues for fiscal year 2014 were \$184.19 million, which consisted of operating revenues of \$118.74 million, non-operating revenues of \$63.54 million and other revenues of \$1.91 million. Total revenues for fiscal year 2013 were \$182.62 million, which consisted of operating revenues of \$119.35 million, non-operating revenues of \$61.48 million and other revenues of \$1.79 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, 2014:



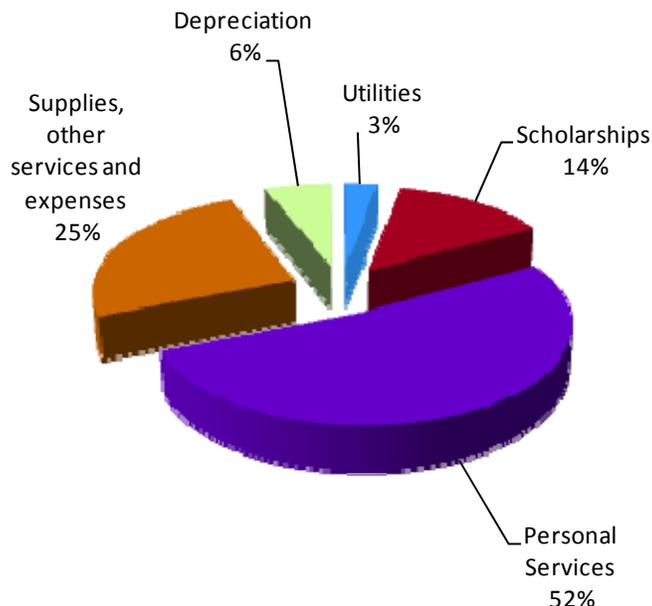
Student tuition and fees surpassed state appropriations as the largest source of revenue for the University in fiscal year 2007. State appropriations have been declining as a percent of total revenue from 37% in fiscal year 2002 to 23% in fiscal year 2014. The University state appropriation for fiscal year 2015, net of the 3% governor's reserve withholding, is \$45.24 million. The fiscal year 2015 state appropriation increased by \$3.95 million, net of the 3% governor's reserve from the fiscal year 2014 level.

Operating expenses of the University totaled \$168.25 million for the fiscal year ended June 30, 2014. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 52% of the total operating expenses at June 30, 2014. Operating expenses of the University totaled \$162.54 million for the fiscal year ended June 30, 2013. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 51% of the total operating expenses at June 30, 2013.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis (*Continued*)

Following is a graphic illustration of operating expenses by source for the year ended June 30, 2014:



Bonds and Notes Payable

The University had outstanding bonds of approximately \$191.61 million and \$198.58 million at June 30, 2014 and 2013, respectively. No new debt was issued in fiscal year 2014. During fiscal year 2013, bonds of \$84.61 million were issued for the construction of student housing and related education and performance facilities in the River Campus area of Campus and for advanced refunding of \$7.81 million Series 2006A and \$51.62 million Series 2008 System Facilities Revenue Bonds. The University made all regularly scheduled debt service payments. Please refer to the bonds payable footnote (Note 9) in the notes to the basic financial statements for additional disclosures.

At June 30, 2014, the University had outstanding notes payable of approximately \$0.43 million, a decrease of approximately \$0.03 million from June 30, 2013. No new notes were issued in fiscal year 2014 or 2013. Please refer to the notes payable footnotes (Note 10) in the notes to the basic financial statements for additional disclosures.

SOUTHEAST MISSOURI STATE UNIVERSITY

Management's Discussion And Analysis *(Continued)*

Capital Assets

At June 30, 2014 and 2013, the University's investment in capital assets was as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 4,217,138	\$ 4,217,138
Buildings and improvements	442,577,402	378,223,629
Leasehold improvements	618,321	611,184
Infrastructure	37,105,507	35,758,401
Equipment	43,642,953	42,012,410
Library books	25,210,673	24,571,845
Construction in progress	24,383,016	54,020,696
	<u>577,755,010</u>	<u>539,415,303</u>
Less: Accumulated depreciation	138,197,426	128,741,641
	<u>\$ 439,557,584</u>	<u>\$ 410,673,662</u>

At June 30, 2014, 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 \$11.34 million at June 30, 2014 and are to be funded from bond proceeds, state appropriations, federal grants, or other University and local funds. These projects included approximately \$4.88 million for new student housing with academic and performance space at the River Campus, \$2.49 million for Memorial Hall renovations, \$1.45 million for Boiler Plant Exterior Improvements and \$2.52 million for Athletic Facilities upgrades and deferred maintenance projects.

At June 30, 2013, 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 \$39.71 million at June 30, 2013 and are to be funded from bond proceeds, state appropriations, federal grants, or other University and local funds. These projects included approximately \$6.91 million for new student housing and a new chiller plant, \$7.69 million for Academic Hall renovations, \$20.96 million for River Campus Housing and expansion and \$4.15 million for deferred maintenance projects.

Economic Outlook

Fiscal year 2015 marks the fifth year of a five year budget plan outlined by the Board of Regents in 2010. The University identified \$19.5 million of the \$20 million goal set by the Board. This is one reason the University could implement a salary equity study in January 2014, resulting in mid-year salary increases for 35% of the eligible faculty, 29% of the eligible administrative/professional staff and 52% of the eligible clerical/technical/service staff. In order to maintain the market position that was achieved by this process, the Board approved a 2.5% base merit salary increase for all employee groups for fiscal year 2015.

The Board of Regents approved a \$106.7 million operating budget net of designated revenue for fiscal year 2015. This was based on a 4% increase in state appropriations approved by the legislature in House Bill 3. The Governor signed an appropriations bill that increased higher education funding to a 5% increase, but those funds were immediately withheld. The funds were subsequently released in September 2014. The one percent of unbudgeted appropriations equates to approximately \$425,000 in base funding for the University's fiscal year 2016 budget.

Sustained enrollments are very instrumental to the success of the University's budget process. For the first time in the institution's history, the fall 2014 enrollment surpassed 12,000 students. Fall 2014 fourth week census enrollment was 12,087, up 170 students or 1.4% from fall 2013, giving the University the 20th straight year of increasing enrollments. Beginning freshman enrollment is 1,849, up 6.9% and total graduate student headcount stands at 1,239 today, up 6.6% from fall 2013. Interest in Southeast's expanded dual credit offerings for talented high school students continues to grow. Dual credit enrollment grew from 926 to 1,017 or 9.8 percent over this same time in fall 2013.

The Southeast Missouri University Foundation's "Honoring Tradition, Inspiring Success" comprehensive campaign, with its prime focus on financially supporting students, has reached a record level of \$45,045,650 raised in support of scholarships, programs and renovations to benefit students. During the campaign, 195 new scholarships were established. The Foundation now has 700 endowed scholarships that provide \$1.5 million annually in financial support to students.

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF NET POSITION

Page 1 Of 2

June 30, 2014

		Component Unit -
Assets	University	Foundation
Current Assets		
Cash and cash equivalents	\$ 2,833,779	\$ 2,727,665
Restricted cash and cash equivalents	9,297,630	—
Short-term investments	550,000	15,011,165
Restricted short-term investments	784,969	—
Accrued interest receivable	118,559	92,876
Due from component unit - Foundation	675,368	—
Accounts receivable (net of allowance of \$731,055)	4,786,521	4,296
Notes receivable	535,678	486,204
Due from federal government	959,223	—
Inventory	2,822,002	—
Prepaid expenses	312,185	2,979
Pledges receivable (net of allowance of \$573)	—	22,370
Total Current Assets	23,675,914	18,347,555
Noncurrent Assets		
Investments	72,056,640	60,500,828
Real estate held for sale	—	1,253,498
Other	—	423,268
Due from component unit - Foundation	4,219,462	—
Notes receivable (net of allowance of \$1,041,966)	3,357,226	4,400,337
Capital assets, net - non-depreciable	33,964,182	—
Capital assets, net - depreciable	405,593,402	9,994,932
Total Noncurrent Assets	519,190,912	76,572,863
Total Assets	542,866,826	94,920,418
Deferred Outflows Of Resources		
Deferred amounts on refunding of bonds payable	6,941,385	—
Total Deferred Outflows Of Resources	6,941,385	—

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF NET POSITION

Page 2 Of 2
June 30, 2014

	University	Component Unit - Foundation
Liabilities		
Current Liabilities		
Accounts payable	\$ 10,434,922	\$ 241,376
Accrued compensation	7,623,838	—
Bond interest payable	2,080,268	—
Due to primary institution - University	—	675,368
Funds held for others	202,952	—
Unearned income	4,457,764	—
Current portion of bonds payable	6,485,000	—
Current portion of notes payable	35,081	227,892
Current portion of capital lease	12,862	—
Total Current Liabilities	31,332,687	1,144,636
Noncurrent Liabilities		
Accounts payable	—	1,367,607
Due to primary institution - University	—	4,219,462
Unearned income	—	121,010
Bonds payable	185,124,046	—
Notes payable	392,447	1,743,278
Capital lease payable	12,862	—
Net other postretirement employee benefit obligation	1,563,637	—
Due to federal government	3,650,895	—
Funds held for others	—	59,938
Total Noncurrent Liabilities	190,743,887	7,511,295
Total Liabilities	222,076,574	8,655,931
Net Position		
Net investment in capital assets	256,071,721	8,145,637
Restricted for:		
Nonexpendable -		
Scholarships	2,181,251	48,414,402
Other	—	837,031
Expendable -		
Capital projects	293,920	—
Debt service	2,732,798	—
Scholarships	—	16,970,336
Loans	—	142,684
Other	1,403,942	7,104,356
Unrestricted	65,048,005	4,650,041
Total Net Position	\$ 327,731,637	\$ 86,264,487

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For The Year Ended June 30, 2014

	University	Component Unit - Foundation
Operating Revenues		
Student tuition and fees (net of scholarship allowance of \$5,029,936)	\$ 72,368,487	\$ —
Federal grants - restricted	4,648,141	—
State grants and contracts - restricted	5,431,147	—
Nongovernmental grants and contracts - restricted	1,275,677	—
Sales and services of educational departments	2,711,421	—
Auxiliary enterprises:		
Residence life (net of scholarship allowance of \$5,798,133; revenues are used as security for revenue bonds Series 2011, 2011B and 2013)	18,484,389	—
Other auxiliary (net of scholarship allowance of \$356,244; revenues are used as security for revenue bonds Series 2011, 2011B and 2013)	8,179,860	—
Contributions and gifts	—	2,736,345
Other operating revenues	5,641,617	—
Total Operating Revenues	118,740,739	2,736,345
Operating Expenses		
Personnel services	87,151,954	161,576
Scholarships	23,349,724	—
Utilities	5,129,074	4,670
Supplies and other services	41,106,346	1,747,732
Depreciation and amortization	11,293,201	202,439
Other post-employment benefit (OPEB) expense	222,479	—
Donations	—	3,224,833
Total Operating Expenses	168,252,778	5,341,250
Operating Loss	(49,512,039)	(2,604,905)
Nonoperating Revenues (Expenses)		
State appropriations	42,470,338	—
Federal grants - restricted	15,116,873	—
Investment income	2,857,179	10,350,551
Contributions and gifts	3,097,161	—
Interest on capital asset-related debt	(8,780,869)	(86,966)
Loss on disposal of plant facilities	(710,849)	—
Other income	—	1,343,167
Net Nonoperating Revenues (Expenses)	54,049,833	11,606,752
Income Before Other Revenues, Expenses And Gains	4,537,794	9,001,847
Capital grants and gifts	1,904,473	5,401,832
Total Other Revenues, Expenses And Gains	1,904,473	5,401,832
Change In Net Position	6,442,267	14,403,679
Net Position - Beginning Of Year (As Restated)	321,289,370	71,860,808
Net Position - End Of Year	\$ 327,731,637	\$ 86,264,487

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF CASH FLOWS

Page 1 Of 2

For The Year Ended June 30, 2014

Cash Flows From Operating Activities

Tuition and fees	\$ 72,916,482
Grants and contracts	12,870,217
Auxiliary enterprises	26,770,483
Other receipts	8,795,216
Payments to vendors and suppliers	(77,825,835)
Payments to employees	(85,114,619)
Net Cash Used In Operating Activities	<u>(41,588,056)</u>

Cash Flows From Noncapital Financing Activities

State appropriations	42,193,935
Nonoperating federal grants	15,116,873
Gifts received for other than capital purposes	2,423,709
Net Cash Provided By Noncapital Financing Activities	<u>59,734,517</u>

Cash Flows From Capital And Related Financing Activities

Capital gifts received	1,904,473
Purchases of capital assets and payments to contractors	(37,827,950)
Principal paid on capital debt and notes	(6,956,696)
Interest paid on capital debt and notes	(8,504,832)
Net Cash Used In Capital And Related Financing Activities	<u>(51,385,005)</u>

Cash Flows From Investing Activities

Proceeds from sales and maturities of investments	87,439,053
Interest on investments	1,926,451
Purchase of investments	(77,381,116)
Net Cash Provided By Investing Activities	<u>11,984,388</u>

Net Decrease In Cash And Cash Equivalents (21,254,156)

Cash And Cash Equivalents - Beginning Of Year 33,385,565

Cash And Cash Equivalents - End Of Year \$ 12,131,409

Supplemental Disclosure Of Cash Flow Information

Noncash transactions:	
Capital asset purchases included in accounts payable	\$ 7,257,760
Unrealized gain on investments	<u>884,740</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

STATEMENT OF CASH FLOWS

Page 2 Of 2

For The Year Ended June 30, 2014

Reconciliation Of Operating Loss To Net Cash

Used In Operating Activities:

Operating loss	\$ (49,512,039)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	11,293,201
Other post-employment benefit (OPEB) expense	222,479
Workers compensation and unemployment expenses paid by state	276,403
Gifts in kind from Southeast Missouri University Foundation	673,452
Changes in assets and liabilities:	
Receivables, net	1,296,191
Inventories	(130,569)
Prepaid expenses	(16,337)
Accounts payable	(8,093,785)
Unearned revenues	652,343
Accrued compensation	1,760,932
Deposits held for others	(10,327)

Net Cash Used In Operating Activities

\$ (41,588,056)

SOUTHEAST MISSOURI STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 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's significant notes are summarized in Note 16.

During the year ended June 30, 2014, the Foundation distributed \$3,224,833 to the University for both restricted and unrestricted purposes.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

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 as determined by quoted market prices. 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.

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, leasehold improvements and other personal property with a useful life greater than one year and costing \$1,000 or greater are capitalized.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

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

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

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.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

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.

- **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 are 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 primarily of 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, 2014, 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 shorter of the life of the refunding or refunded debt.

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.

Amortization - The deferred amount on refunding is amortized as interest on capital related debt using the bonds outstanding method.

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.

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.

New Accounting Standards Adopted

During the year, the University adopted GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities* which resulted in certain reclassifications and presentation changes to the statement of net position. The effect of these changes has been applied retroactively; as a result the beginning of year net position has been changed to reflect the expensing of bond issuance costs, which prior to the adoption of GASB Statement No. 65 had been recorded as an asset and subsequently amortized over the life of the bonds.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

The impact of this change on the University's financial statements is as follows:

	<u>July 1, 2013</u>
Net position as previously reported	\$ 322,618,912
Effect of change in accounting related to bond issuance costs	<u>(1,329,542)</u>
Net position, as restated	<u>\$ 321,289,370</u>

3. Deposits And Investments

Deposits:

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

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. Agencies or instrumentalities 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.

Foreign Currency Risk. The risk related to adverse affects on the fair value of a deposit from changes in exchange rates. At June 30, 2014, 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, 2014, the University had the following investments and maturities:

Investment Type	Credit Rating	Fair Value	Investment Maturities (In Years)	
			< 1 Year	1-5 Years
U.S. Agency Obligations	*	\$ 71,741,565	\$ 784,969	\$ 70,956,596

*U.S. 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 or banker's acceptance at June 30, 2014.

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, 2014.

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 Mac, Federal Farm Credit Bank, and Federal Home Loan Bank securities. Each of these agencies 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 affects on the fair value of an investment from changes in exchange rates. At June 30, 2014, 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	\$ 9,345,238
Cash on hand	63,609
Money market deposit accounts	2,722,562
Certificates of deposit	1,650,044
	<u>13,781,453</u>
Investments - U.S. Government Agency	
Obligations	<u>71,741,565</u>
	<u>\$ 85,523,018</u>

Included in the following statement of net position captions:

Deposits	
Cash and cash equivalents	\$ 2,833,779
Restricted cash and cash equivalents	9,297,630
Short-term investments	550,000
Long-term investments	1,100,044
	<u>13,781,453</u>
Investments	
Restricted short-term investments	784,969
Long-term investments	70,956,596
	<u>71,741,565</u>
	<u>\$ 85,523,018</u>

Investment Income

Investment income for the year ended June 30, 2014 consists of:

Interest and dividend income	\$ 1,914,920
Realized gain on investments	57,519
Net increase in fair value of investments	884,740
	<u>\$ 2,857,179</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements *(Continued)*

4. Accounts Receivable

The composition of accounts receivable at June 30, 2014 is summarized as follows:

Student billings	\$ 3,829,681
Departmental operations	969,033
State and private grants	397,927
Capital project funding	119,062
Auxiliary operations	109,085
Other	92,788
	<hr/>
	5,517,576
Less: Allowance for doubtful accounts	<hr/>
	731,055
	<hr/>
	\$ 4,786,521
	<hr/>

5. Notes Receivable

The composition of notes receivable at June 30, 2014 is summarized as follows:

Federal Loan Programs	\$ 4,934,870
Less: Allowance for doubtful accounts	<hr/>
	1,041,966
	<hr/>
	\$ 3,892,904
	<hr/>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

6. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance - June 30, 2013	Additions	Retirements	Transfers	Balance - June 30, 2014
Capital assets, not being depreciated:					
Land	\$ 4,217,138	\$ —	\$ —	\$ —	\$ 4,217,138
Library books	5,392,753	—	(28,725)	—	5,364,028
Construction in progress	54,020,696	33,239,072	(62,876,752)	—	24,383,016
Total capital assets not being depreciated	63,630,587	33,239,072	(62,905,477)	—	33,964,182
Capital assets, being depreciated:					
Building and improvements	378,223,629	65,118,658	(786,637)	21,752	442,577,402
Infrastructure	35,758,401	1,353,506	(6,400)	—	37,105,507
Leasehold improvements	611,184	7,137	—	—	618,321
Equipment	42,012,410	3,400,709	(1,748,414)	(21,752)	43,642,953
Library books	19,179,092	667,553	—	—	19,846,645
Total capital assets being depreciated	475,784,716	70,547,563	(2,541,451)	—	543,790,828
Less accumulated depreciation for:					
Building and improvements	85,704,796	7,742,647	(148,511)	16,532	93,315,464
Infrastructure	5,393,701	698,408	(1,299)	—	6,090,810
Leasehold improvements	63,164	40,746	—	—	103,910
Equipment	30,504,234	2,188,129	(1,687,606)	(16,532)	30,988,225
Library books	7,075,746	623,271	—	—	7,699,017
depreciation	128,741,641	11,293,201	(1,837,416)	—	138,197,426
Total capital assets being depreciated, net	347,043,075	59,254,362	(704,035)	—	405,593,402
Capital assets, net	\$ 410,673,662	\$ 92,493,434	\$ (63,609,512)	\$ —	\$ 439,557,584

The estimated cost to complete construction in progress at June 30, 2014 is \$11,343,510 of which the majority is available from bond proceeds, federal grants, state appropriations and other local sources. Projects in progress include new student housing and academic space at the River Campus, Athletic facility upgrades, Boiler Plant Exterior Improvements, Horticulture Lab, Memorial Hall Renovations and deferred maintenance.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

7. Accounts Payable

The composition of accounts payable at June 30, 2014 is summarized as follows:

Equipment purchases	\$ 324,509
Supplies and operating expenses	2,844,823
Capital improvements	6,091,979
Retainage - capital projects	<u>1,173,611</u>
	<u>\$ 10,434,922</u>

8. Capital Lease

The University entered into a capital lease for Athletic equipment during fiscal year 2013. The following is an analysis of the leased property:

Equipment	\$ 43,667
Less: Accumulated amortization	<u>12,130</u>
	<u>\$ 31,537</u>

The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2014.

<u>Year</u>	<u>Amount</u>
2015	\$ 12,862
2016	<u>12,862</u>
<u>Total minimum lease payments</u>	<u>\$ 25,724</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

9. Bonds Payable

Bonds payable at June 30, 2014 are summarized as follows:

	Balance - June 30, 2013	Principal Payments	Balance - June 30, 2014
Education Facilities Revenue Bonds Series 2003A - Fixed Rate	\$ 2,615,000	\$ (1,595,000)	\$ 1,020,000
System Facilities Revenue Bonds Series 2006A	210,000	(210,000)	—
Educational Facilities Revenue Bonds Series 2010A	2,540,000	(1,260,000)	1,280,000
Educational Facilities Taxable Revenue Bonds Series 2010B	54,495,000	—	54,495,000
System Facilities Refunding Revenue Bonds Series 2011	27,050,000	(1,730,000)	25,320,000
System Facilities Revenue Bonds Series 2011B	28,980,000	(640,000)	28,340,000
System Facilities Revenue Bonds Series 2013A	80,055,000	(1,475,000)	78,580,000
System Facilities Revenue Bonds Series 2013B	2,050,000	—	2,050,000
	<u>\$ 197,995,000</u>	<u>\$ (6,910,000)</u>	191,085,000
Less: Current maturities (due within one year)			6,485,000
Less: Discount on bond payable			1,738,155
Add: Premium on bond payable			<u>2,262,201</u>
			<u>\$ 185,124,046</u>

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 advance refunding \$7,805,000 of System Facilities Revenue bonds Series 2006A and \$51,615,000 of 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.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

Net proceeds in the amount of \$8,090,063 for the Series 2006A bonds and \$56,754,921 for the Series 2008 bonds were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the bonds advance refunded. As a result, this portion of the Series 2006A bonds and the Series 2008 bonds are considered to be defeased and the liability for these bonds has been removed from the accompanying basic financial statements.

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 1.00% 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.

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%

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

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 1.6% to 4.4% and mature serially through fiscal year 2042.

On March 31, 2011, the Board of Regents issued \$30,420,000 System Facilities Refunding Revenue Bonds Series 2011. The Series 2011 bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2011 bonds maturing April 1, 2017 and thereafter shall be subject to redemption on or after April 1, 2016 at a redemption price of 100% of the principal amount. The Series 2011 bonds bear interest at rates varying from 2.25% to 5.0% and mature serially through fiscal year 2032. The Series 2011 bonds refunded the System Facilities Revenue Bond Series 2001 and 2002, which had an average interest rate of 4.92% and 5.08%, respectively. The current refunding decreased the University's total debt service payments by \$2,796,000 and results in an economic gain (difference between the present value of the old and new debt service payments) of \$1,570,380. The current refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$458,796. This difference reported in the accompanying basic financial statements as a deferred outflow of resources, is being charged to operating through 2032 using the bonds outstanding method.

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 bear interest at a rate of 1.9% in with final maturity October 1 of fiscal year 2015. 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 and by 7.2% in March 2014. The University anticipates a 7.2% reduction in the September 2014 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 3.375% to 6.875% and mature serially through fiscal year 2041. The true interest cost after the federal subsidy averages 4.316%.

On April 24, 2006, the Board of Regents issued \$8,915,000 of System Facilities Revenue Bond Series 2006A for the construction and furnishing of an Aquatic Center, swimming pool and related improvements. The Series 2006A bonds paid interest semiannually on April 1 and October 1. During fiscal year 2013 \$7,805,000 of the Series 2006A bonds were advanced refunded with the proceeds of the Series 2013A & 2013B bonds. These defeased bonds were redeemed along with \$210,000 of outstanding bonds on April 1, 2014.

On December 13, 2002, the Board of Regents approved the planning, design and construction of a School of Visual and Performing Arts at the River Campus, and the issuance of Series A fixed-rate bonds and Series B variable-rate bonds through the Missouri Development Finance Board. On October 1, 2003, the Missouri Development Finance Board issued \$9,975,000 Educational Facilities Revenue Bonds (Southeast Missouri State University River Campus Project) Series 2003A and \$26,360,000 Variable Rate Demand Educational Facilities Revenue Bonds (Southeast Missouri State University River Campus Project) Series 2003B. The Series 2003A bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2003A bonds maturing October 1, 2012, and thereafter shall be subject to redemption on or after October 1, 2012 at a redemption price of 100% of the principal amount. During fiscal year 2014, the University redeemed \$1,115,000 of the Series 2003A bonds. The Series 2003A bonds are collateralized by an annual appropriation by the University. The University, subject to annual appropriation, will receive amounts from the City of Cape Girardeau, Missouri's hotel/motel tax to pay debt service on the Series 2003A bonds. The Series 2003A bonds bear interest at rates varying from 3.750% to 3.875% and mature serially through fiscal year 2016. On August 18, 2014 the remaining 2003A bonds were fully redeemed. On August 5, 2008, the Series 2003B bonds were paid off.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

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 2011, 2011B, 2013A and 2013B 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 2014.

Interest expense on bonded debt was \$8,764,703 for 2014, net of capitalized interest of \$215,590.

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>
2015	\$ 6,485,000	\$ 8,299,534
2016	6,645,000	8,120,389
2017	6,325,000	7,908,688
2018	6,525,000	7,687,513
2019	6,740,000	7,437,610
2020-2024	33,855,000	32,911,795
2025-2029	37,330,000	26,035,875
2030-2034	36,355,000	17,545,271
2035-2039	34,545,000	8,971,034
2040-2043	16,280,000	1,354,163
	<u>\$ 191,085,000</u>	<u>\$ 126,271,872</u>

Additionally, as of June 30, 2014, \$48,645,000 of advance refunded Series 2008 bonds remain outstanding. The Series 2008 bonds were advance refunded by the Series 2013A and 2013B bonds, as bond proceeds were placed in an irrevocable trust to redeem the Series 2008 bonds on April 1, 2015. Accordingly, the Series 2008 bonds are not reported as a liability within these financial statements.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

10. Notes Payable

Notes payable at June 30, 2014 are summarized as follows:

	Balance - June 30, 2013	Principal Additions	Principal Payments	Balance - June 30, 2014
Chartwell's-Olive's and Skylight Terrace Expansion	\$ 461,362	\$ —	\$ (33,834)	\$ 427,528
	<u>\$ 461,362</u>	<u>\$ —</u>	<u>\$ (33,834)</u>	427,528
Less: Current maturities (due within one year)				<u>35,081</u>
				<u>\$ 392,447</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 non-interest bearing. Interest has been imputed using a rate of 3.5%.

Interest expense was \$16,166 for 2014. Scheduled fiscal year maturities on notes payable and related interest are as follows:

Year	Principal	Interest
2015	\$ 35,081	\$ 14,919
2016	36,374	13,626
2017	37,715	12,285
2018	39,105	10,895
2019	40,546	9,454
2020-2024	226,281	23,719
2025	12,426	75
	<u>\$ 427,528</u>	<u>\$ 84,973</u>

11. Retirement Plan

MOSERS

Substantially all full-time University employees are participants in the statewide Missouri State Employees' Retirement System (MOSERS), a single-employer defined benefit public employees' retirement system.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (*Continued*)

Participation in MOSERS is available to employees of all state departments, agencies, and public institutions of higher education. As such, the University considers its participation in MOSERS as substantially equivalent to that of a cost-sharing, multiple employer public employees' retirement system. The operations and management of MOSERS are generally prescribed in the Missouri Revised Statutes and supervised by MOSERS Board of Trustees.

MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MOSERS, 907 Wildwood Drive, P. O. Box 209, Jefferson City, Missouri 65102.

MOSERS provides retirement, death and disability benefits to its members. Benefits for general State employees who are hired before January 1, 2011 are fully vested after five years of credited service. Such employees may retire at or after age 55 and receive a reduced benefit. They may also retire with full benefits when the sum of the employee's years of service plus the employee's age equals 80 or more. New employees hired January 1, 2011 or after, are fully vested after ten years of credited service. Such employees may retire at or after age 62 and receive a reduced benefit under the plan. They may also retire and will receive full benefits when the sum of the employee's years of service plus the employee's age equals 90 or more.

State statutes require the state of Missouri to fund all contributions to MOSERS. These actuarially determined contributions are computed as a level percentage of covered payroll. The percentage for fiscal years 2014 and 2013 was set at 16.98% and 14.45%, respectively. Beginning in January 2011, newly hired MOSERS eligible employees contribute 4% of gross earnings each payroll. Contributions to MOSERS were \$8,096,002, \$6,602,853 and \$6,335,969 for the fiscal years ended June 30, 2014, 2013, and 2012, respectively, which were equal to the required contributions each year. The MOSERS funded status ratio was 72.7% and 73.2% as of June 30, 2013 and 2012, respectively.

CURP

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 6.38% and 6.80% of annual covered payroll for 2014 and 2013, respectively. The University’s contributions to CURP for the years ended June 30, 2014, 2013, and 2012, were \$823,330, \$793,449 and \$749,113, 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 based on 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, 2014 the University’s obligations are unfunded. For more information see the Schedule of Funding Progress in the Required Supplementary Information section.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

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.

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	\$ 588,846
Interest on OPEB obligation	67,058
Adjustment to annual required contribution	(87,245)
Annual OPEB cost	<u>568,659</u>
Contributions made	<u>346,180</u>
Increase in OPEB obligation	222,479
Net OPEB obligation - beginning of year	<u>1,341,158</u>
Net OPEB obligation - end of year	<u>\$ 1,563,637</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the previous two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	\$ 568,659	60.9%	\$ 1,563,637
6/30/13	678,340	54.3%	1,341,158
6/30/12	663,394	40.9%	1,031,282

Funded Status and Funding Progress. As of July 1, 2013, 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 \$57.0 million, and the ratio of the UAAL to the covered payroll was 8.1%.

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, 2013, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 5% discount rate, an annual healthcare cost trend rate of 8.0% 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, 2013 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.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

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 2013-2014 were approximately \$276,403.

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

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, 2014, 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, 2014 was:

Nonexpendable	
Scholarships	\$ 2,181,251
Expendable	
Capital projects	293,920
Debt service	2,732,798
Grants and other	1,403,942
	<u>4,430,660</u>
Total Restricted	<u>\$ 6,611,911</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 \$46,249,910 at June 30, 2014. Undesignated unrestricted net position, including those of auxiliary operations, was \$18,798,095 at June 30, 2014.

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, 2014, 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, and the Outdoor Recreation fields. Revenue derived from the operation of these facilities is pledged for the retirement of the outstanding Series 2011, Series 2011B, and Series 2013A & 2013B 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, 2014 is as follows:

Condensed Statement Of Net Assets

Current Assets	\$ 18,585,944
Noncurrent Assets	
Capital assets, net of depreciation	<u>169,740,673</u>
Total Assets	<u>188,326,617</u>
Deferred Outflows of Resources	<u>6,941,385</u>
Current Liabilities	10,727,483
Noncurrent Liabilities	<u>131,398,475</u>
Total Liabilities	<u>142,125,958</u>
Net Position	
Net investment in capital assets	42,703,119
Restricted	2,587,271
Unrestricted	<u>7,851,654</u>
Total Net Assets	<u>\$ 53,142,044</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

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

Operating Revenue

Housing contracts, net of scholarship allowance	\$ 20,368,767
Bookstore/textbook sales and rentals	2,197,076
Student recreation center fees	2,490,495
Parking fees and fines	1,217,139
Student union building fees	267,001
Other operating revenues	2,117,807
Total Operating Revenue	<u>28,658,285</u>

Operating Expenses

Personal service	5,155,337
Contract food service	6,886,125
Utilities and maintenance	3,350,344
Book purchases	1,620,789
Depreciation	3,153,586
Other operating expenses	4,098,655
Total Operating Expenses	<u>24,264,836</u>

Operating Income	<u>4,393,449</u>
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Nonoperating Revenue (Expenses)

Investment income	168,257
Disposal of plant facilities	(380,808)
Interest on capital asset related debt	(5,342,322)
Net Nonoperating Expenses	<u>(5,554,873)</u>

Decrease In Net Position	(1,161,424)
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Net Position Beginning Of Year (As Restated)	<u>54,303,468</u>
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Net Position End Of Year	<u><u>\$ 53,142,044</u></u>
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Condensed Statement Of Cash Flows

Net cash provided by operating activities	\$ 2,178,793
Net cash used in capital and related financing activities	(28,702,693)
Net cash provided by investing activities	180,088
Net decrease in cash and cash equivalents	<u>(26,343,812)</u>
Cash and cash equivalents - beginning of year	<u>43,378,807</u>
Cash and cash equivalents - end of year	<u><u>\$ 17,034,995</u></u>

16. Southeast Missouri University Foundation

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

Accrual Basis - The Foundation's financial statements are prepared on the accrual basis of accounting.

Capital Assets - Land, buildings and equipment are stated at cost if purchased and fair market value at the time of donation if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the buildings and equipment which range from 5 to 40 years and 2 to 5 years, respectively. At retirement or sale, the cost of the assets and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations.

Pledges Receivable - The Foundation records pledges in accordance with GASB Statement No. 33, *Exchange and Nonexchange Transactions*. Revenue from pledges is recognized when all time and purpose restrictions have been met.

Real Estate Held For Resale or Development – Certain land donated to the Foundation is currently held for resale or development. The carrying value of these properties was recorded based on their appraised values at the time of their contributions. The carrying value of these properties is reported at the lower of cost or market value. Land and other real estate held as investments by endowments are reported at fair value at the reporting date in accordance with GASB statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Changes in fair value during the period are reported as revenue.

Deposits And Investments

Deposits

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

At June 30, 2014, none of the Foundation's bank balances held by the current depository, a United States financial institution having a branch in the State of Missouri, were exposed to custodial credit risk. All of these deposits were fully collateralized at the end of fiscal year 2014.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Foreign Currency Risk. The risk related to adverse affects on the fair value of a deposit from changes in exchange rates. The Foundation's exposure to foreign currency risk did not exist at June 30, 2014, because the Foundation had no deposits held by international banks.

Pooled Investments

Funds treated as endowment by the Foundation are managed as a pooled investment fund. The various subsidiary accounts hold a percentage of the portfolio based on the principal value of the endowment as a percentage of the market value of the pool. The following schedule summarizes data related to the investment pool for the year ended June 30, 2014:

Pooled investments at market value	\$ 75,230,783
Number of subsidiary accounts	771
Interest and dividend earnings	1,279,183
Net realized gains	1,598,669

Interest Rate Risk. As a means of ensuring the safety of principal invested, the Foundation's investment policy is to diversify investments within established ranges by asset class. The fixed income and equity portions of the portfolio shall be diversified in order to provide reasonable assurance that a single security (investment) or class of securities (investments) will not have a disproportionate or material impact on the total portfolio.

Credit Risk. Credit risk is the risk that the issuer or other counter party to an investment will not fulfill its obligations. It is the Foundation's policy that equity investments will be based with companies with an above average return over a three to five year period. No more than fifteen percent of the net position of the funds shall be invested in securities of issues having a record of less than three years of operation. Concentration in any single industry and in any company shall not exceed fifteen percent and five percent respectively of the market value of the fund at the time of investment without prior written approval of the Foundation. The portfolio should be comprised of high quality issues consisting of Moody's investment grade rating and above or equivalent. The credit risk ratings of the fixed income securities that the Foundation holds as of June 30, 2014, ranges between Moody's ratings BAA3 and AAA. The average credit quality of the fixed income portfolio is AA.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation 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 certificates of deposit and repurchase agreements. The Foundation 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).

Concentration of Credit Risk. According to the Foundation'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 investment policy of the Foundation establishes an asset mix (excluding real estate) that will range within the following limits: large cap equity, 25% - 35%; small cap equity, 5% - 15%; developed international equity, 10% - 20%; emerging markets international equity, 5% - 10%; core alternatives, 7% - 13%; international fixed income, 3% - 7%; core fixed income, 16% - 24%; and cash 0% - 5%.

Foreign Currency Risk. This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. At June 30, 2014, the Foundation had no exposure to foreign currency risk as there were no foreign investments in the Foundation's portfolio.

Summary Of Fair Values

The fair value of deposits and investments are included in the statement of net position as follows:

	<u>Fair Value</u>
Cash & Cash Equivalents	\$ 2,727,665
Investments	<u>75,511,993</u>
	<u>\$ 78,239,658</u>

Included in the following statement of net position captions:

Cash and cash equivalents	\$ 2,727,665
Short-term investments	15,011,165
Long-term investments	<u>60,500,828</u>
	<u>\$ 78,239,658</u>

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

At June 30, 2014, the Foundation investments are summarized below.

Certificates of Deposit	\$ 281,210
U.S. Government Obligations	1,874,969
U.S. Government Agencies	4,368,747
Municipal Obligations	33,525
Common Stocks	31,778,463
Corporate Bonds	7,586,037
International/Other	6,690,440
Investments in Mutual Funds	22,898,602
	<u>\$ 75,511,993</u>

At June 30, 2014, maturities on the investments having a stated period were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
U.S. Government Obligations	\$ 1,874,969	\$ 1,151,358	\$ 34,845	\$ 233,949	\$ 454,817
U.S. Government Agency Obligations	4,368,747	333,054	986,718	327,980	2,720,995
Municipal Obligations	33,525	—	33,525	—	—
Corporate bonds	7,586,037	25,532	2,765,225	3,012,882	1,782,398
Certificates of deposit	281,210	281,210	—	—	—
	<u>\$ 14,144,488</u>	<u>\$ 1,791,154</u>	<u>\$ 3,820,313</u>	<u>\$ 3,574,811</u>	<u>\$ 4,958,210</u>

The Foundation manages the University's \$2,182,951 true endowment funds and \$2,036,511 quasi endowment funds as of June 30, 2014 with other Foundation endowment funds. All interest earned from these funds has been recorded in the accounting records of the Foundation and is periodically remitted to the University. The University endowments are included in due to Southeast Missouri State University in the Foundation's statement of net position.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements (Continued)

Capital Assets

A summary of changes in capital assets in 2014 follows:

	Balance - June 30, 2013	Additions	Retirements	Balance - June 30, 2014
Land and improvements	\$ 6,442,954	\$ 155,000	\$ 59,049	\$ 6,538,905
Buildings	7,012,444	195,000	314,488	6,892,956
Infrastructure	127,083	—	127,083	—
Equipment	337,497	27,436	118,023	246,910
	13,919,978	377,436	618,643	13,678,771
Less: Accumulated depreciation	3,795,817	202,439	314,417	3,683,839
	\$ 10,124,161	\$ 174,997	\$ 304,226	\$ 9,994,932

Long Term Obligations

Following is a summary of notes payable transactions of the Foundation for the year ended June 30, 2014:

	Balance - June 30, 2013	Principal Additions	Principal Payments	Balance - June 30, 2014
General obligations	\$ 2,030,500	\$ 150,000	\$ 209,330	\$ 1,971,170
Less: Current Maturities				227,892
Long Term Obligations				\$ 1,743,278

On May 17, 2005, the Foundation purchased a 254.67 acre farm to be 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. This is a five year variable interest rate note that matured on May 17, 2010. On May 17, 2010, a change in terms agreement was signed modifying the original promissory note. There will be 59 regular payments of \$12,149 and one irregular last payment estimated at \$499,879 with a maturity date of May 17, 2015. The interest rate of the Promissory Note is 1.125 percentage points above the prime rate. As of June 30, 2014, the prime rate was 3.25% resulting in an interest rate of 4.375%.

SOUTHEAST MISSOURI STATE UNIVERSITY

Notes To Financial Statements *(Continued)*

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 two-year fixed rate 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 19 regular payments of \$6,069 and one irregular last payment estimated at \$235,434. 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 formerly Security Bank & Trust Company in the amount of \$220,000. On November 1, 2013, the loan was refinanced with a maturity date of November 1, 2028. There will be 180 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 May 21, 2013, a change in terms agreement was signed, which reduced the interest rate from 5.75% to 3.95%. On March 19, 2014, a change in terms agreement was signed, which changed the collateral held on this loan. There will be 53 regular payments of \$3,794 and one irregular last payment estimated at \$383,768.

On January 7, 2010, the Foundation financed the purchase of a vehicle with First Missouri State Bank. The principal amount of the promissory note is \$17,075 with an interest rate of 5.90% and a maturity of January 7, 2015. There will be 60 payments of \$330.

On July 19, 2011, the Foundation financed the purchase of a vehicle with Ally Financial. The principal amount of the promissory note is \$31,000 with an interest rate of 0.00% and a maturity date of August 3, 2014. There will be 36 payments of \$861.

On December 28, 2012, the Foundation purchased property located at 315 South Lorimier in Cape Girardeau, MO. 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. There will be 59 regular payments of \$2,136 and one irregular last payment estimated at \$213,332. 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, MO. To finance the property, 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. There will be 16 quarterly payments of principal in the amount of \$9,375. The interest rate will be adjusted quarterly to equal the prime rate. As of June 30, 2014, the prime rate was 3.25%.

Scheduled principal payments on notes payable and related interest are as follows:

Year	Principal	Interest
2015	\$ 227,892	\$ 76,390
2016	570,148	65,749
2017	107,683	45,196
2018	704,887	20,928
2019	214,922	10,607
2020-2024	69,898	24,456
2025-2028	75,740	7,139
	\$ 1,971,170	\$ 250,465

Required Supplementary Information

SOUTHEAST MISSOURI STATE UNIVERSITY

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

June 30, 2014

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)
7/1/2013	\$ —	\$ 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%
7/1/2009	—	2,649,824	2,649,824	0%	45,422,753	5.83%