

**SOUTHEAST MISSOURI UNIVERSITY  
FOUNDATION**

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**Basic Financial Statements**

**June 30, 2010**

**(with Independent Auditor's Report thereon)**

# SOUTHEAST MISSOURI UNIVERSITY FOUNDATION

June 30, 2010

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**SOUTHEAST MISSOURI UNIVERSITY FOUNDATION**  
**Management's Discussion and Analysis - Unaudited**  
**Year Ended June 30, 2010**

This discussion and analysis of Southeast Missouri University Foundation's (the "Foundation") basic financial statements provides an overview of the Foundation's financial performance during the years ended June 30, 2010 and 2009. The Management's Discussion and Analysis is designed to focus on current activities and resulting changes, and should be read in conjunction with the Foundation's basic financial statements.

**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*.

The Statement of Net Assets includes the assets, liabilities, and net assets of the Foundation as of the end of the fiscal year. The Statement of Net Assets 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 Foundation's net assets (the difference between assets and liabilities) is one indicator of the Foundation's financial health.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two major categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. The purpose of the statement is to present the revenues received by the organization, both operating and nonoperating, and the expenses paid by the organization, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the

organization. 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 final statement presented is the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the Foundation's cash receipts and payments summarized by operating, capital and related financing, noncapital financing and investing activities.

### Financial Analysis of the Foundation

The following table reflects the Net Assets of the Foundation as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<b>Current Assets</b>	\$ 14,807,528	\$ 10,957,381
<b>Noncurrent Assets</b>		
Capital assets, net of depreciation	10,505,439	10,494,850
Endowment investments	30,608,046	26,026,101
Other	<u>4,381,936</u>	<u>6,346,181</u>
Total assets	\$ 60,302,949	\$ 53,824,513
<b>Current Liabilities</b>	\$ 1,190,182	\$ 2,847,881
<b>Noncurrent Liabilities</b>	<u>6,750,299</u>	<u>6,110,134</u>
Total liabilities	\$ 7,940,481	\$ 8,958,015
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 8,345,777	\$ 8,215,701
Restricted	44,389,963	36,896,351
Unrestricted	<u>(373,272)</u>	<u>(245,554)</u>
Total net assets	<u>\$ 52,362,468</u>	<u>\$ 44,866,498</u>

Current assets increased from \$10.9 million at June 30, 2009 to \$14.8 million at June 30, 2010. Current assets consist primarily of operating cash and investments, pledges receivable, and accrued interest receivable. The majority of noncurrent assets are capital assets which are recorded net of accumulated depreciation, property held for resale, and endowment investments. Property held for resale decreased from \$6.0 at June 30, 2009 to \$4.0 million at June 30, 2010. Endowment investments, recorded at fair market value, increased by approximately \$4.6 million from \$26.0 million at June 30, 2009 to \$30.6 million at June 30, 2010. Please refer to Note 3 in the footnotes to the basic financial statements for more information regarding the Foundation's investment holdings.

Current liabilities consist primarily of accounts payable, due to Southeast Missouri State University (the University) and the current portion of annuities and notes payable. Current liabilities decreased from \$2.8 million at June 30, 2009 to \$1.1 million at June

30, 2010 due primarily to a decrease of \$733,000 in the current portion of notes payable and a decrease of \$935,000 in the amount due to Southeast Missouri State University.

Noncurrent liabilities increased \$1.2 million from \$6.1 million at June 30, 2009 to \$7.3 million at June 30, 2010. The long-term portion of notes payable was \$1.4 and \$794,000 at June 30, 2010 and 2009 respectively. This \$614,000 increase is due to the maturity of two balloon loans that matured in fiscal year 2010 and were rewritten.

Net assets represent the residual interest in the Foundation's assets after liabilities are deducted. Invested in capital assets, net of related debt represents the Foundation's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Total net assets increased approximately \$7.5 million from \$44.8 million in June 30, 2009 to \$52.3 million at June 30, 2010.

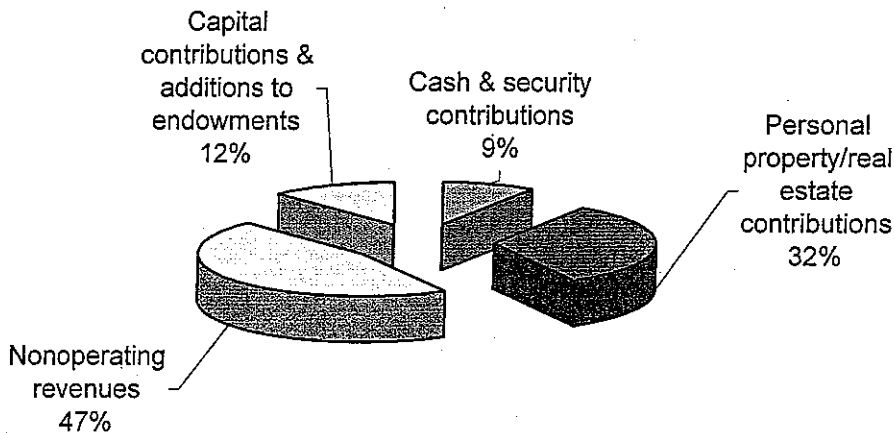
The following schedule reflects the condensed revenues and expenses of the Foundation for fiscal years 2010 and 2009:

<b>Operating Activities</b>			
<b>Year Ended June 30</b>			
		<u>2010</u>	<u>2009</u>
<b>Operating revenue</b>			
Cash and securities contributions	\$	1,184,376	\$ 1,313,223
Real estate & personal property contributions		<u>4,159,872</u>	<u>4,990,266</u>
Total operating revenue		5,344,248	6,303,489
<b>Operating expenses</b>			
Donations		3,411,625	2,223,609
General and administrative		1,608,060	1,397,084
Depreciation		208,041	215,053
Other operating expenses		<u>22,941</u>	<u>244,917</u>
Total operating expenses		5,250,667	4,080,663
<b>Operating income (loss)</b>		93,581	2,222,826
<b>Nonoperating revenues (expenses)</b>			
Income (loss) from investment activities		4,502,112	(5,521,059)
Rental income		633,930	543,223
Miscellaneous income		807,264	611,647
Nonoperating expenses		<u>( 116,992)</u>	<u>( 111,190)</u>
<b>Net nonoperating revenues (expenses)</b>		5,826,314	(4,477,379)

**Operating Activities (cont.)  
Year Ended June 30**

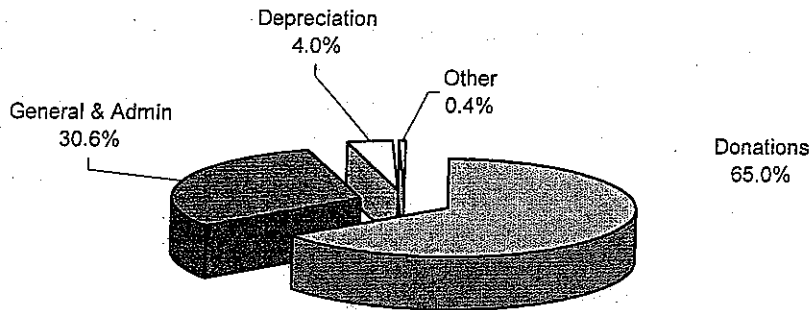
	<u>2010</u>	<u>2008</u>
<b>Other revenues</b>	1,576,075	1,448,384
<b>Increase (decrease) in net assets</b>	7,495,970	(806,169)
<b>Net assets beginning of year</b>	<u>44,866,498</u>	<u>45,672,667</u>
<b>Net assets end of year</b>	\$ <u>52,362,468</u>	\$ <u>44,866,498</u>

Total revenues for fiscal year 2010 were \$12.7 million which consisted of operating revenues of \$5.3 million, nonoperating revenues of \$5.9 million and other revenues of \$1.5 million. Following is a graphic illustration of total revenue by source for the year ended June 30, 2010:



Operating expenses of the Foundation totaled \$5.2 million and \$4.0 million for the fiscal year ended June 30, 2010 and 2009, respectively. Donations and general administrative expenses accounted for 65.0% and 30.6%, respectively, of total operating expenses during fiscal year 2010. Donations and general and administrative expenses accounted for 54.5% and 34.2%, respectively, of total operating expenses during fiscal year 2009.

Following is a graphic illustration of operating expenses by source for the year ended June 30, 2010:



### Notes Payable

At June 30, 2010, the Foundation had outstanding notes payable of \$2,159,662. Notes payable decreased by \$119,487 from \$2,279,149 at June 30, 2009. During fiscal year 2010, the Foundation entered into a Promissory Note to finance the purchase of a vehicle and signed Change in Terms Agreement for two existing Promissory Notes. Please refer to the Long Term Obligations footnote (Note 6) in the notes to the basic financial statements for additional disclosures.

### Capital Assets

At June 30, the Foundation's investment in capital assets were as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Land	\$ 6,447,823	\$ 6,049,081
Buildings and improvements	6,857,107	7,131,094
Equipment	335,648	343,317
Infrastructure	127,083	127,083
Less: Accumulated depreciation	<u>(3,262,222)</u>	<u>(3,155,725)</u>
	<u>\$ 10,505,439</u>	<u>\$ 10,494,850</u>



**HILLIN AND CLARK, PC**  
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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Southeast Missouri University Foundation

We have audited the accompanying statements of net assets of Southeast Missouri University Foundation (a nonprofit organization), component unit of Southeast Missouri State University, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Southeast Missouri University Foundation's management. Our responsibility is to express an opinion 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

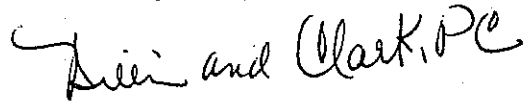
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Missouri University Foundation as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2010, on our consideration of Southeast Missouri University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 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.

Yours truly,



HILLIN AND CLARK, P.C.

Cape Girardeau, Missouri  
September 29, 2010

**SOUTHEAST MISSOURI UNIVERSITY FOUNDATION**  
(Component Unit of Southeast Missouri State University)  
Statement of Net Assets

	June 30	
	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,273,935	\$ 1,760,344
Short-term investments	10,423,789	9,079,143
Accounts receivable	4,800	0
Pledges receivable	34,602	42,071
Allowance for doubtful pledges	(3,183)	(2,692)
Accrued interest receivable	68,185	74,032
Due from related organization	5,000	0
Deferred charges	400	4,483
Total current assets	14,807,528	10,957,381
Noncurrent assets:		
Endowment investments	30,608,046	26,026,101
Cash surrender value of life insurance	280,128	241,355
Property held for resale and development	4,009,222	6,039,068
Capital assets, net of accumulated depreciation	10,505,439	10,494,850
Pledges receivable	92,586	65,758
Total noncurrent assets	45,495,421	42,867,132
Total assets	60,302,949	53,824,513
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	66,320	57,262
Due to Southeast Mo State University	217,323	1,152,686
Annuities payable	154,500	152,677
Notes payable	752,039	1,485,256
Total current liabilities	1,190,182	2,847,881
Noncurrent liabilities:		
Unearned income	164,402	113,838
Annuities payable	702,858	728,408
Funds held for others	70,324	71,632
Notes payable	1,407,623	793,893
Due to Southeast Mo State University	4,405,092	4,402,363
Total noncurrent liabilities	6,750,299	6,110,134
Total liabilities	7,940,481	8,958,015
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	8,345,777	8,215,701
Restricted for:		
Nonexpendable:		
Scholarships	36,069,701	30,705,290
Other	549,790	502,167
Expendable:		
Scholarships	2,884,092	341,216
Loans	119,124	114,422
Other	4,767,256	5,233,256
Unrestricted	(373,272)	(245,554)
Total net assets	\$ 52,362,468	\$ 44,866,498

The accompanying notes are an integral part of the financial statements.

**SOUTHEAST MISSOURI UNIVERSITY FOUNDATION**  
**(Component Unit of Southeast Missouri State University)**  
**Statement of Revenues, Expenses, and Changes in Net Assets**

	For the Year Ended June 30	
	2010	2009
<b>REVENUES</b>		
Operating revenues:		
Cash and securities contributions	\$ 1,184,376	\$ 1,313,223
Personal property contributions	326,402	112,243
Real estate contributions	3,833,470	4,878,023
Total operating revenues	5,344,248	6,303,489
<b>EXPENSES</b>		
Operating expenses:		
Donations to Southeast Mo State University	3,411,625	2,223,609
General and administrative	1,608,060	1,397,084
Adjustment of actuarial liability for annuities payable	22,941	244,917
Depreciation	208,041	215,053
Total operating expenses	5,250,667	4,080,663
Operating income (loss)	93,581	2,222,826
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	636,685	1,694,747
Net gain (loss) on investment transactions	3,865,427	(7,215,806)
Rental income	633,930	543,223
Special event income	62,932	59,983
Motor vehicle license fees	231,705	235,419
Miscellaneous income	512,627	316,245
Special events expense	(4,939)	(13,355)
Interest expense	(112,053)	(97,835)
Net nonoperating revenues (expenses)	5,826,314	(4,477,379)
Gain (Loss) before other revenues, expenses, gains or losses	5,919,895	(2,254,553)
Additions to University endowment		
Capital contributions and additions to permanent and term endowments	1,576,075	1,448,384
Increase (Decrease) in net assets	7,495,970	(806,169)
<b>NET ASSETS</b>		
Net assets--beginning of year	44,866,498	45,672,667
Net assets--end of year	\$ 52,362,468	\$ 44,866,498

The accompanying notes are an integral part of the financial statements.

**SOUTHEAST MISSOURI UNIVERSITY FOUNDATION**  
Statement of Cash Flows

	For the Year Ended June 30	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash and securities contributions	\$1,165,237	\$1,208,231
Donations to Southeast MO Univ	(3,802,239)	(2,394,211)
General and Administrative	(1,579,450)	(1,127,768)
Life insurance premiums	(24,112)	(24,112)
Boosters/Athletics	(5,462)	(3,904)
Receipts (payments) health insurance	(32,340)	(25,916)
Net cash provided (used) by operating activities	<u>(4,278,366)</u>	<u>(2,367,680)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of property	5,586,893	906,434
Proceeds from sale of capital assets	0	300
Purchases of properties	(195,336)	(575,171)
Purchases of capital assets	0	(43,881)
Repayment of notes payable	(119,847)	(118,575)
Interest expense	(112,721)	(98,011)
Net cash provided (used) by capital and related financing activities	<u>5,158,989</u>	<u>71,096</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and mature investments	164,296	76,915
Purchases of investments	(1,283,548)	(21,104)
Investment income (expense)	(23,761)	5,773
Net gain (loss) investment	(111)	(4,039)
Payments to investment managers	(85,580)	(57,270)
Additions to permanent endowments	1,576,075	1,448,384
Additions to University endowments	0	0
Net cash provided (used) by investing activities	<u>347,371</u>	<u>1,448,659</u>
<b>CASH FLOWS FROM NON-OPERATING ACTIVITIES</b>		
Rental income	633,930	558,393
Special event income	62,932	59,983
Motor vehicle license fees	231,705	235,419
Miscellaneous income	512,627	313,916
Special event expense	(4,939)	(13,799)
Receipts (payments) on trusts	(46,396)	(29,198)
Receipts (payments) on annuities	(104,262)	(88,968)
Net cash provided (used) by non-operating activities	<u>1,285,597</u>	<u>1,035,746</u>
Net increase (decrease) in cash	2,513,591	187,821
Cash-beginning of year	1,760,344	1,572,523
Cash-end of year	<u>\$ 4,273,935</u>	<u>\$ 1,760,344</u>

The accompanying notes are an integral part to the financial statements.

SOUTHEAST MISSOURI UNIVERSITY FOUNDATION  
Statement of Cash Flows  
(continued)

	For the Year Ended June 30	
	2010	2009
<b>Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$93,581	\$2,222,826
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Donations to Southeast Missouri University	244,360	71,527
Depreciation expense	208,041	215,053
Personal property contributions	(326,402)	(112,243)
Gift in kind	82,042	40,716
Adjustment of actuarial liability for annuities payable	22,941	244,917
Settlement and closing costs related to real estate	257,761	0
Real estate contributions	(3,833,470)	(4,878,023)
Change in assets and liabilities:		
Accounts receivable	(4,800)	0
Pledges receivable	(19,359)	107,684
Investments	(46,311)	(111,156)
Cash surrender value of life insurance	(23,420)	(23,420)
Accounts payable	(295,182)	(300,956)
Deferred charges	4,083	1,883
Due to related organization	(642,231)	153,512
Net cash provided (used) by operating activities	\$ (4,278,366)	\$ (2,367,680)

The accompanying notes are an integral part of the financial statements.

**Southeast Missouri University Foundation**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended June 30, 2010**

**Note 1 - Organization**

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

**Note 2 – Summary of Significant Accounting Policies**

For financial reporting purposes the Southeast Missouri University Foundation is considered a governmental entity. According to Statement No. 29 of the Governmental Accounting Standards Board, a governmental entity has the option to apply the governmental model or if they have applied not-for-profit accounting and financial principles in the past, they may apply the not-for-profit model, but with certain required governmental disclosures. The Foundation has elected to apply the not-for-profit model with the applicable required governmental disclosures.

Effective July 1, 2001, the Foundation has implemented the required governmental disclosures and reporting requirements outlined 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 –and Management's Discussion and Analysis-for Public Colleges and Universities*.

Effective July 1, 2003, the University 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 Foundation meets the criteria set forth for component units under GASB Statement No. 39 and is discretely presented in the University's financial statements. 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.

Accrual Basis

The financial statements of the Foundation have been prepared on the accrual basis.

## Reporting Entity

In evaluating how to define the Foundation, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Foundation is able to exercise oversight responsibility. Based upon the application of these criteria, the Foundation has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in this report.

## Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund.

Fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds designated to specific purposes by action of the Board of Directors.

Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Board of Directors retains full control to use in achieving any of its purposes.

All gains and losses arising from the sale, collection or other disposition of investments and other noncash assets are accounted for in the funds which own such assets. Ordinary income derived from the investments, receivables and the like, is accounted for in the fund owning such assets except for income derived from investments in the endowment and similar funds, which incomes is accounted for as revenue in the current funds.

All other unrestricted revenue is accounted for in the unrestricted current fund. Uses of unrestricted funds for plant acquisitions and debt service payments are accounted for as transfers to plant funds.

## Description of Funds

The following funds are used by the Foundation:

- A. Current Funds include unrestricted and restricted resources of the Foundation which are currently expendable for purposes of performing the primary objectives of the Foundation.
- B. Endowment and Similar Funds include those resources and related transactions which are invested in accordance with donor restrictions and only the income earned thereon may be expended.

- C. Plant Funds include resources to be used for the acquisition of properties; funds for the renewal and replacement of plant assets; funds restricted or designated for retirement of indebtedness incurred in connection with the acquisition of properties; and the Foundation's investment in institutional properties and related indebtedness.

#### Pooled Cash and Cash and Cash Equivalents

The Foundation maintains demand deposit accounts under the pooled cash concept. Balances among various funds are maintained for budget and control purposes, all of which are a part of the actual bank accounts.

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents.

#### Bad Debts

The Foundation utilizes the allowance method to account for bad debts on pledges receivables. Estimated uncollectible pledged amounts are calculated using historical collection trends. Pledges are reviewed throughout the fiscal year and cancelled when payment terms have not been met.

#### Investments

Effective July 1, 1997, the Foundation changed its method of accounting for the carrying value of all investments to fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value of investments is based on quoted market prices. Changes in fair value of investments are recognized as revenue in the current period.

#### Properties 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.

#### 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 five to forty years and two to five 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.



### Annuities Payable

Annuities payable represents the present value of the aggregate actuarial liability computed based upon the payment terms of the annuities and the estimated life expectancy of the grantors.

### Pledges

As of July 1, 2000, 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. Pledges receivable are approximately \$127,188 and \$107,829 at June 30, 2010 and 2009 respectively.

### Unearned Income

Unearned income consists primarily of deferred pledges, and undistributed unrealized annuity gains and losses.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

### Subsequent Events

Subsequent events were evaluated through September 29, 2010, which is the date the financial statements were available to be issued.

## **Note 3 – 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, 2010 and 2009, 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 2010 and 2009.

*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, 2010 or 2009 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 years ended June 30:

	2010	2009
Pooled investment at market value	\$40,756,835	\$34,830,244
Number of subsidiary accounts	555	533
Interest and dividend earnings	\$740,206	\$1,842,666
Net realized gains (losses)	\$226,488	\$(2,269,303)

*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 assets 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, 2010, ranges between Moody's ratings BAA3 and AAA. The average credit quality of the fixed income portfolio is AA.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of the failure of the counter party, 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 agreement. 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, 2010, 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 Assets as follows:

Fair value	2010	2009
Cash and cash equivalents	\$ 4,273,935	\$ 1,760,344
Investments	41,031,835	35,105,244
	\$45,305,770	\$36,865,588

Included in the following Statement of Net Assets captions:

	2010	2009
Cash and cash equivalents	\$4,273,935	\$1,760,344
Short-term investments	10,423,789	9,079,143
Long term investments	30,608,046	26,026,101
	\$45,305,770	\$36,865,588

At June 30<sup>th</sup> the Foundation investments are summarized below:

Type	2010	2009
Certificates of Deposit	\$ 275,000	\$ 275,000
U.S. Government Obligations	3,231,081	744,425
U. S. Government Agencies	2,791,411	3,068,230
Common Stocks	17,337,495	13,538,280
Corporate Bonds	2,194,868	4,271,535
International/Other	1,154,469	3,940,336
Investments in Mutual Funds	14,047,511	9,267,438
Totals at June 30	\$41,031,835	\$ 35,105,244

At June 30, 2010 maturities on the investments having a stated period were as follows:

Investment Type	June 30, 2010				
	Fair Value	Maturities in Years			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Gov't Obligations	\$3,231,082	\$351,355	\$1,639,220	\$750,700	\$489,807
U.S. Gov't Agency Obligations	2,791,411	12,094	150,947	530,153	2,098,217
Corporate Bonds	2,194,867	0	442,134	1,140,828	611,905
Certificates of Deposits	275,000	275,000	0	0	0
	\$8,492,360	\$638,449	\$2,232,301	\$2,421,681	\$3,199,929

The Foundation manages the University's \$2,248,215 and \$2,221,496 true endowment funds and \$2,156,877 and \$2,180,867 quasi endowment funds as of June 30, 2010 and 2009 respectively, 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 financial position.

#### Note 4 – Capital Assets

A summary of changes in capital assets in 2010 follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Land & Improvements	\$6,049,081	\$398,742	\$0	\$6,447,823
Buildings	7,131,094	73,411	347,397	6,857,108
Infrastructure	127,083	0	0	127,083
Equipment	343,317	25,763	33,432	335,648
	13,650,575	497,916	380,829	13,767,662
Less: Accumulated depreciation	3,155,725	207,676	101,178	3,262,223
	\$10,494,850	\$290,240	\$279,651	\$10,505,439

A summary of changes in capital assets in 2009 follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Land & Improvements	\$4,981,410	\$1,200,200	\$132,529	\$6,049,081
Buildings	6,913,390	618,839	401,135	7,131,094
Infrastructure	127,083	0	0	127,083
Equipment	322,336	45,081	24,100	343,317
	12,344,219	1,864,120	557,764	13,650,575
Less: Accumulated depreciation	2,957,136	214,689	16,100	3,155,725
	\$9,387,083	\$1,649,431	\$541,664	\$10,494,850

#### Note 5 – Pledges Receivable

The composition of pledges receivable at June 30, 2010 is summarized as follows:

Pledges	\$ 127,188
Total	\$ 127,188

#### Note 6 – Long Term Obligations

Following is a summary of bonds and notes payable transactions of the Foundation for the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Retired	Balance June 30, 2010
General obligations	\$ 2,279,149	\$ 17,075	\$136,562	\$ 2,159,662

On May 17, 2005, the Foundation purchased a 254.67 acre farm to be used as the University Demonstration Farm. The Foundation plans to convert the existing demonstration farm into a research park. To finance the purchase, the Foundation entered into a promissory note with First Missouri State Bank in the amount of \$1,462,500.00. This was 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 \$12,149.08 and one irregular last payment estimated at \$499,879.44 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, 2010, the prime rate was 3.25% resulting in an interest rate of 4.375%.

On February 1, 2008, the Foundation purchased three adjacent properties on South Lorimier Street in Cape Girardeau, MO. To finance the purchase, the Foundation entered into a two year fixed rate promissory note with Montgomery Bank in the amount of \$340,500.00 with a maturity of May 1, 2010. On May 1, 2010, a change in terms agreement was signed modifying the original promissory note. There will be 11 regular payments of \$6,933.61 and one irregular last payment estimated at \$302,540.18. The interest rate of the Promissory Note is 5.85% with a maturity date of May 1, 2013.

On October 8, 2008, the Foundation purchased property at 4193 Bainbridge Road County Road 306 in Jackson, MO. To finance the purchase, the Foundation entered into a five year fixed rate promissory note with Security Bank & Trust Company in the amount of \$220,000.00 with a maturity of October 8, 2013. There will be 59 regular payments of \$1,478.67 and one final payment consisting of the remaining principal and accrued interest. The interest rate of the Promissory Note is 7.00%

On December 30, 2008, the Foundation purchased property at 334 Morgan Oak and additional lots nearby in Cape Girardeau, MO. To finance the purchase, the Foundation entered into a three year fixed rate promissory note with Montgomery Bank in the amount of \$600,000.00 with a maturity of December 30, 2011. There will be 35 regular payments of \$4,596.80 and one irregular last payment estimated at \$557,778.76. The interest rate of the Promissory Note is 6.75%.

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 \$17,075.00 with an interest rate of 5.90% and a maturity of January 7, 2015. There will be 60 payments of \$329.95.

Fiscal Year	Principal	Interest
2011	\$752,039	\$96,212
2012	183,454	67,242
2013	306,286	57,263
2014	329,143	33,696
2015	588,740	21,573
	\$2,159,662	\$275,986

#### **Note 7 – Leases**

The Foundation leases certain plant assets to the University under leases accounted for as operating leases. The carrying value net of accumulated depreciation of these plant assets is approximately \$9,694,671 as of June 30, 2010.

#### **Note 8 – Primary Government**

The Foundation functions as the official gift-receiving organization for the University. As such, it solicits and receives gifts for the University, manages the funds received and disburses restricted funds in accordance with donor restrictions. The Foundation contributed \$3,411,625 of cash and gifts-in-kind to the University during the year ended June 30, 2010. The Foundation allows the University to use various properties for a nominal charge. The Foundation receives various services such as business service personnel, office space and administrative services from the University at no charge.

The Foundation also receives, manages and disburses the funds of the Southeast Athletic Booster Club, of which \$440,519 and \$454,801 is held in the endowment funds of the Foundation as of June 30, 2010 and 2009 respectively.

#### **Note 9 – Spending Policy**

During 1993, the Foundation adopted a policy for allocating endowment income with the objective of preserving the principal of the endowment and providing a percentage of income to cover a portion of overhead expenses. The policy provides for a 5.0% annual spending rate which is satisfied first from endowment interest and dividend earnings. To the extent these earnings are inadequate to meet the annual spending rate, a portion of cumulative realized net gains may be made available for current use. Any interest and dividend earnings in excess of the 5.0% annual spending rate are reinvested and maintained in the endowment fund balance. In addition, an amount equivalent to 0.5% of principal is assessed to the endowment to cover overhead costs.

During 2010 and 2009, the interest and dividend earnings were \$740,206 and \$1,842,666 respectively. These earnings were inadequate to meet the annual spending rate as determined by the spending policy. The Foundation distributed \$740,206 of endowment interest and dividend earnings to the restricted fund balance, and \$1,119,459 and \$180,440 of endowment net capital gains to the restricted and unrestricted fund balance in 2010 as provided by the spending policy. The Foundation distributed \$1,771,891 and \$70,774 of endowment interest and dividend earnings to the restricted and unrestricted fund balance, respectively, and \$102,219 of endowment net capital gains to the unrestricted fund balance in 2009 as provided by the spending policy.