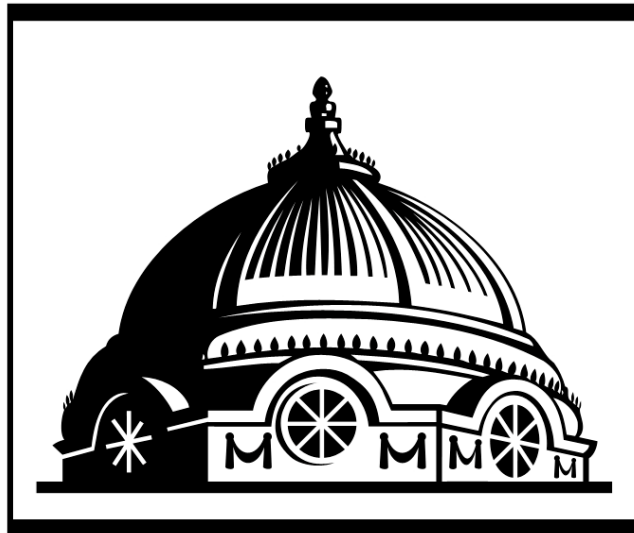


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**SOUTHEAST MISSOURI  
STATE UNIVERSITY**  
**FINANCIAL STATEMENTS**  
*JUNE 30, 2012*

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**Southeast**  
Missouri State University

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## Independent Auditors' Report

Board of Regents  
Southeast Missouri State University  
Cape Girardeau, Missouri

We have audited the accompanying financial statements of Southeast Missouri State University (the University), a component unit of the state of Missouri, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Southeast Missouri State University Foundation, a discretely presented component unit of the University. Those financial statements were audited by other auditors whose report dated September 24, 2012 thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Southeast Missouri State University Foundation, is based on the report of the other auditors.

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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Missouri State University and of its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year 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 October 17, 2012, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 3 through 12 and the Schedule of Funding Progress for Postemployment Healthcare Plan on page 49 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.

*RubinBrown LLP*

October 17, 2012

# SOUTHEAST MISSOURI STATE UNIVERSITY

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## 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, 2012. 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 Assets includes the assets, liabilities, and net assets of the University 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 University's net assets (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net assets 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 Assets 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

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## Management's Discussion And Analysis (Continued)

### Financial Analysis of the University

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

#### Condensed Statement of Net Assets As of June 30, 2012 And 2011

	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>	\$ 59,437,845	\$ 42,028,777
<b>Noncurrent Assets</b>		
Capital assets, net of depreciation	366,137,746	336,753,170
Other	<u>95,032,141</u>	<u>103,904,625</u>
<b>Total Assets</b>	<u>520,607,732</u>	<u>482,686,572</u>
<b>Current Liabilities</b>	26,412,929	28,070,147
<b>Noncurrent Liabilities</b>	<u>182,379,328</u>	<u>158,306,159</u>
<b>Total Liabilities</b>	<u>208,792,257</u>	<u>186,376,306</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	241,724,191	232,112,922
Restricted	19,252,029	17,790,392
Unrestricted	<u>50,839,255</u>	<u>46,406,952</u>
<b>Total Net Assets</b>	<u>\$ 311,815,475</u>	<u>\$ 296,310,266</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 \$59.44 million at June 30, 2012 and \$42.03 million at June 30, 2011. The increase in current assets of approximately \$17.41 million from June 30, 2011, is the net effect of an increase in cash and cash equivalents, accounts receivable, due from federal government (federal grants) and a decrease in investments. The increase in cash and cash equivalents is the result of \$28.98 million of System Facilities Revenue bonds that were issued to construct new student housing and a additional chiller plant on campus. Proceeds were invested in a repurchase agreement that is drawn upon as needed for construction costs. Due from federal government (federal grants) increased approximately \$1.3 million from June 30, 2011 to 2012. Investments decreased \$15.4 million as funds were expended for construction of Magill Hall, renovation of Academic Hall and campus wide deferred maintenance projects.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Management's Discussion And Analysis (*Continued*)

The majority of noncurrent assets are capital assets which are recorded net of accumulated depreciation. Please refer to Note 2 in the footnotes to the basic financial statements for more information regarding the University's policy for depreciating capital assets. In addition to capital assets, long-term investments comprised \$83.46 million of noncurrent assets at June 30, 2012. Long-term investments comprised \$92.36 million of noncurrent assets at June 30, 2011.

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 \$26.41 million at June 30, 2012 and \$28.07 million at June 30, 2011. The decrease in current liabilities was approximately \$1.66 million from June 30, 2011.

Noncurrent liabilities which totaled \$182.38 million at June 30, 2012 and \$158.31 million at June 30, 2011, primarily consist of long term debt. During fiscal year 2012, bonds of \$28.98 million were issued for construction of new student housing and a new chiller plant. During fiscal year 2011, bonds of \$59.26 million were issued for the renovation of Academic Hall, Magill Hall, power plant conversion and campus wide deferred maintenance projects. Bonds of \$30.42 million were issued to refund the 2001 and 2002 bond issues due to favorable interest rates. The current refunding will result in an economic gain of \$1.57 million.

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

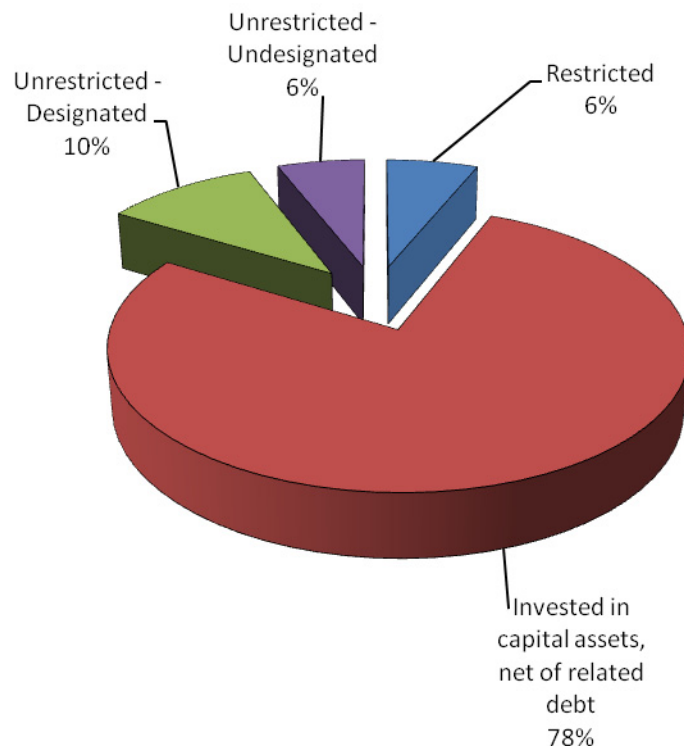
	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	\$ 241,724,191	\$ 232,112,922
<b>Restricted:</b>		
Nonexpendable	2,296,230	2,202,936
Expendable	16,955,799	15,587,456
Total Restricted	<u>260,976,220</u>	<u>249,903,314</u>
<b>Unrestricted:</b>		
Designated	32,422,342	27,150,189
Undesignated	18,416,913	19,256,763
Total Unrestricted	<u>50,839,255</u>	<u>46,406,952</u>
<b>Total Net Assets</b>	<u>\$ 311,815,475</u>	<u>\$ 296,310,266</u>

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Management's Discussion And Analysis (*Continued*)

Following is a breakdown of net assets at June 30, 2012:



Net assets invested in capital assets, net of related debt represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net assets invested in capital assets increased approximately \$9.61 from \$232.11 million at June 30, 2011 to \$241.72 million at June 30, 2012.

Restricted net assets include the University's permanent endowment, managed by the Southeast Missouri University Foundation, which totaled \$2.3 and \$2.2 million at June 30, 2012 and 2011, respectively. The increase in the permanent endowment is due to fluctuations in market value of investments. Although unrestricted net assets are not subject to externally imposed stipulations, approximately 63.77% has been internally designated as of June 30, 2012.



## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Management's Discussion And Analysis (*Continued*)

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

	<u>2012</u>	<u>2011</u>
<b>Unrestricted-Designated Net Assets</b>		
Investment in inventories	\$ 3,100,068	\$ 2,914,056
Future operations (including capital projects)	27,170,192	22,147,236
Quasi-endowment	<u>2,152,082</u>	<u>2,088,897</u>
Total	<u>\$ 32,422,342</u>	<u>\$ 27,150,189</u>

The total unrestricted-undesignated net assets of the University of \$18.42 million at June 30, 2012 includes balances accumulated from the operations of the auxiliary enterprises, such as the residence hall system and bookstore, which totaled \$6.76 million, from loan programs which totaled \$0.82 million, and from general operations which totaled \$10.84 million. The total unrestricted-undesignated net assets of the University of \$19.26 million at June 30, 2011 included balances accumulated from the operations of the auxiliary enterprises such as the residence hall system and bookstore, which totaled \$8.41 million, from loan programs which totaled \$0.65 million and from general operations which totaled \$10.2 million.

# SOUTHEAST MISSOURI STATE UNIVERSITY

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## Management's Discussion And Analysis (*Continued*)

The following schedule reflects the condensed revenues and expenses of the University for fiscal years 2012 and 2011:

### Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues:</b>		
Student tuition and fees, net of scholarship allowance	\$ 67,386,163	\$ 62,341,263
Grants and contracts	13,395,093	12,099,061
Auxiliary services	27,734,251	26,812,243
Other operating revenues	7,020,547	6,073,432
Total Operating Revenues	<u>115,536,054</u>	<u>107,325,999</u>
<b>Operating Expenses:</b>		
Personal service	80,674,850	82,085,860
Utilities and supplies	42,866,486	40,375,368
Scholarships	23,592,173	24,617,933
Depreciation	9,933,453	9,148,438
Other Post-employment benefits (OPEB) expense	392,225	116,780
Total Operating Expenses	<u>157,459,187</u>	<u>156,344,379</u>
<b>Operating loss</b>	<u>(41,923,133)</u>	<u>(49,018,380)</u>
<b>Nonoperating revenues (expenses)</b>		
State Appropriations	41,968,236	45,832,484
Federal Grants - restricted	14,611,684	14,945,438
Investment income	3,408,090	2,137,655
Gifts	2,753,274	2,711,378
Nonoperating expenses	(7,176,882)	(4,963,251)
Net Nonoperating Revenues	<u>55,564,402</u>	<u>60,663,704</u>
<b>Other revenues</b>	<u>1,863,940</u>	<u>2,691,947</u>
<b>Increase in net assets</b>	15,505,209	14,337,271
<b>Net assets beginning of year</b>	<u>296,310,266</u>	<u>281,972,995</u>
<b>Net assets end of year</b>	<u>\$ 311,815,475</u>	<u>\$ 296,310,266</u>

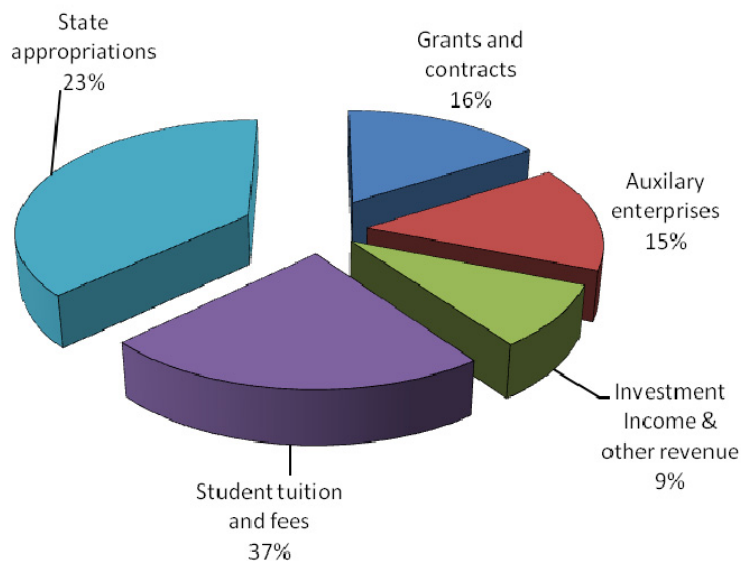
## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Management's Discussion And Analysis (*Continued*)

Total revenues for fiscal year 2012 were \$180.14 million, which consisted of operating revenues of \$115.54 million, non-operating revenues of \$62.74 million and other revenues of \$1.86 million. Total revenues for fiscal year 2011 were \$175.64 million, which consisted of operating revenues of \$107.32 million, non-operating revenues of \$65.63 million and other revenues of \$2.69 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, 2012:



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 2012. The University's state appropriation for fiscal year 2013, net of the 3% governor's reserve withholding, is \$41.94 million which is below fiscal year 1999 funding levels. The fiscal year 2013 state appropriation was increased \$0.34 million, net of the 3% governor's reserve from the fiscal year 2012 level.

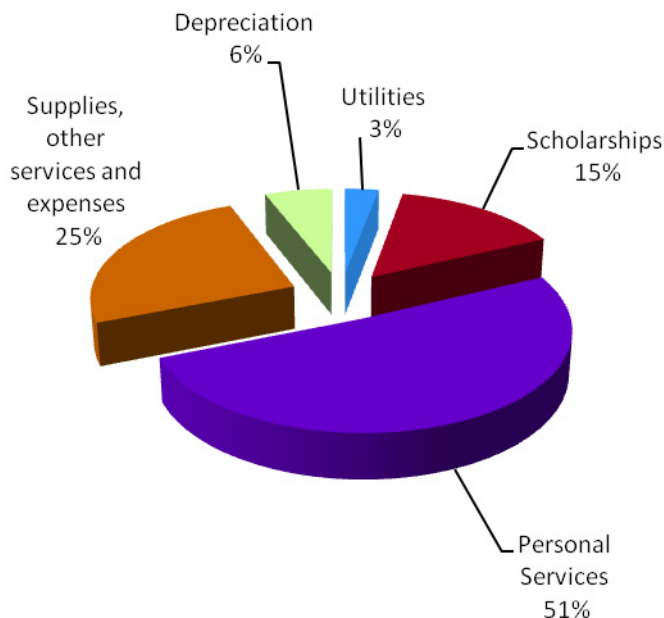
Operating expenses of the University totaled \$157.46 million for the fiscal year ended June 30, 2012. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 51.24% of the total operating expenses at June 30, 2012. Operating expenses of the University totaled \$156.34 million for the fiscal year ended June 30, 2011. Personal service costs, including the costs related to faculty, staff and student labor, accounted for 52.50% of the total operating expenses at June 30, 2011.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Management's Discussion And Analysis (*Continued*)

Following is a graphic illustration of operating expenses by source for the year ended June 30, 2012:



### **Bonds and Notes Payable**

The University had outstanding bonds of approximately \$182.14 million and \$157.80 million at June 30, 2012 and 2011, respectively. During the fiscal year 2012, bonds of \$28.98 million were issued for the construction of new student housing and a new chiller plant. During fiscal year 2011, bonds of \$59.26 million were issued for the renovation of Academic Hall, Magill Hall, power plant conversion and campus wide deferred maintenance projects. Bonds of \$30.42 million were issued to refund the 2001 and 2002 bond issues due to favorable interest rates. The current refunding will result in an economic gain of \$1.57 million. The University made all regularly scheduled debt service payments. Please refer to the bonds payable footnote (Note 8) in the notes to the basic financial statements for additional disclosures.

At June 30, 2012, the University had outstanding notes payable of approximately \$.49 million, a decrease of approximately \$4.84 million from June 30, 2011. The University made the final payment on the Series 2002 Installment Payment Contract Certificates in fiscal year 2012. No new notes were issued in fiscal year 2012 or 2011. Please refer to the notes payable footnotes (Note 9) in the notes to the basic financial statements for additional disclosures.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Management's Discussion And Analysis *(Continued)*

#### Capital Assets

At June 30, 2012 and 2011, the University's investment in capital assets was as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 4,217,138	\$ 4,217,138
Buildings and improvements	350,795,979	344,779,458
Leasehold improvements	611,184	336,276
Infrastructure	31,809,167	27,918,814
Equipment	39,880,887	39,066,816
Library books	23,934,987	23,305,608
Construction in progress	<u>34,237,497</u>	<u>7,995,732</u>
	485,486,839	447,619,842
Less: Accumulated depreciation	<u>119,349,093</u>	<u>110,866,672</u>
	<u>\$ 366,137,746</u>	<u>\$ 336,753,170</u>

At June 30, 2012, 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 \$63.50 million at June 30, 2012 and are to be funded from bond proceeds, state appropriations, federal grants, or other University and local funds. These projects included approximately \$28.00 million for new student housing and a new chiller plant, \$17.75 million for Academic Hall renovations, \$7.4 million for Magill Hall renovation and \$1.94 million for campus wide deferred maintenance projects.

At June 30, 2011, 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 \$62.19 million at June 30, 2011 and are to be funded from bond proceeds, state appropriations, federal grants, or other University and local funds. These projects included approximately \$6.67 million for power plant conversion, \$22.05 for Academic Hall renovations, \$18.93 for Magill Hall construction and renovation and \$6.45 for campus wide deferred maintenance projects.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Management's Discussion And Analysis (*Continued*)

#### **Economic Outlook**

In March 2010, the Board of Regents approved a strategic plan that would address anticipated budget needs through fiscal year 2015. Based on the Board's directive in March 2010, the Budget Review Committee deliberated on ways to meet an anticipated budget need of \$20 million between FY11 and FY15. This shortfall was estimated based on the assumption that state appropriations could be reduced by a total of 15% - 20% during this period, the university would have costs to continue normal operations which average \$1.2 million per fiscal year, and the University would have to address salary needs for employees during this period. Through the FY13 budget cycle, the University has identified over \$14 million towards this goal through expenditure reductions and revenue enhancements.

The Board of Regents approved a \$98.3 million operating budget net of designated revenue for fiscal year 2013. This budget was based on the Governor's recommended budget which included an 8% appropriation reduction. The General Assembly passed and the Governor signed an appropriations bill that restored the 8% reduction. While we continue to be cautiously optimistic that we will receive most of this appropriation, we are aware there could still be additional withholding in FY13 appropriations if the projected state revenue growth does not materialize. With this in mind the decision was made to consider the \$3.68 million appropriation in excess of the approved budget as one-time funding. These funds will be used for much needed equipment purchases for University departments, funding for priority maintenance/repair projects and increasing the University's contingency fund in case there are additional FY13 withholdings.

Sustained enrollments are very instrumental to the success of the budget process. The Fall 2012 fourth week record enrollment stands at more than 11,700 up 1.9% from the previous year. This makes Southeast Missouri State University one of the fastest growing public, four-year universities in Missouri with 18 consecutive years of enrollment growth. The student freshmen to sophomore retention rate has steadily risen over the past decade to 73.8%.

The University will continue with many major construction projects which include the continued remodeling of Academic Hall, construction and renovation at Magill Hall and a new residence hall.

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# SOUTHEAST MISSOURI STATE UNIVERSITY

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## STATEMENT OF NET ASSETS

Page 1 Of 2  
June 30, 2012

### Assets

	<b>University</b>	<b>Component Unit - Foundation</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,502,450	\$ 1,502,889
Restricted cash and cash equivalents	29,380,228	—
Short-term investments	1,300,000	12,424,943
Restricted short-term investments	3,704,357	—
Accrued interest receivable	219,018	78,034
Due from component unit - Foundation	430,828	—
Accounts receivable (net of allowance of \$608,364)	4,012,071	2,177
Notes receivable	563,546	—
Due from federal government	2,728,742	—
Inventory	3,100,068	—
Prepaid expenses	231,935	426
Bond and note issuance costs	264,602	—
Pledges receivable (net of allowance of \$496)	—	12,459
<b>Total Current Assets</b>	<b>59,437,845</b>	<b>14,020,928</b>
<b>Noncurrent Assets</b>		
Investments	47,546,342	43,327,909
Restricted long-term investments	35,910,294	—
Real estate held for sale	—	1,339,066
Other	—	348,608
Due from component unit - Foundation	4,450,013	—
Notes receivable (net of allowance of \$773,710)	3,665,757	—
Bond and note issuance costs	3,459,735	—
Capital assets, net - non-depreciable	43,938,393	—
Capital assets, net - depreciable	322,199,353	10,267,963
Pledges receivable	—	6,899
<b>Total Noncurrent Assets</b>	<b>461,169,887</b>	<b>55,290,445</b>
<b>Total Assets</b>	<b>520,607,732</b>	<b>69,311,373</b>

# SOUTHEAST MISSOURI STATE UNIVERSITY

## STATEMENT OF NET ASSETS

Page 2 Of 2  
June 30, 2012

	<b>University</b>	<b>Component Unit - Foundation</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 8,740,248	\$ 167,785
Accrued compensation	6,447,677	2,660
Bond interest payable	2,105,514	—
Due to primary institution - University	—	430,828
Funds held for others	177,654	—
Unearned income	3,844,205	—
Current portion of bonds payable	5,065,000	—
Current portion of notes payable	32,631	454,818
<b>Total Current Liabilities</b>	<b>26,412,929</b>	<b>1,056,091</b>
<b>Noncurrent Liabilities</b>		
Accounts payable	—	823,677
Due to primary institution - University	—	4,450,013
Unearned income	—	140,786
Bonds payable	177,076,546	—
Notes payable	461,362	1,451,840
Net other postretirement employee benefit obligation	1,031,282	—
Due to federal government	3,810,138	—
Funds held for others	—	64,027
<b>Total Noncurrent Liabilities</b>	<b>182,379,328</b>	<b>6,930,343</b>
<b>Total Liabilities</b>	<b>208,792,257</b>	<b>7,986,434</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	241,724,191	8,361,305
Restricted for:		
Nonexpendable -		
Scholarships	2,296,230	40,090,375
Other	—	658,738
Expendable -		
Capital projects	4,675,760	—
Debt service	11,350,325	—
Scholarships	—	5,467,635
Loans	—	122,669
Other	929,714	6,857,767
Unrestricted	50,839,255	(233,550)
<b>Total Net Assets</b>	<b>\$ 311,815,475</b>	<b>\$ 61,324,939</b>



# SOUTHEAST MISSOURI STATE UNIVERSITY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For The Year Ended June 30, 2012

	University	Component Unit - Foundation
<b>Operating Revenues</b>		
Student tuition and fees (net of scholarship allowance of \$4,740,822)	\$ 67,386,163	\$ —
Federal grants - restricted	6,776,707	—
State grants and contracts - restricted	5,401,087	—
Nongovernmental grants and contracts - restricted	1,217,299	—
Sales and services of educational departments	2,457,456	—
Auxiliary enterprises:		
Residence life (net of scholarship allowance of \$5,305,360; revenues are used as security for revenue bonds Series 2006, 2008, 2011 and 2011B)	16,201,890	—
Other auxiliary (net of scholarship allowance of \$334,969; revenues are used as security for revenue bonds Series 2006, 2008, 2011 and 2011B)	11,532,361	—
Contributions and gifts	—	2,188,845
Other operating revenues	4,563,091	—
Total Operating Revenues	115,536,054	2,188,845
<b>Operating Expenses</b>		
Personnel service	80,674,850	165,821
Scholarships	23,592,173	—
Utilities	4,605,368	4,418
Supplies and other services	38,261,118	1,266,252
Depreciation	9,933,453	196,672
Other post-employment benefit (OPEB) expense	392,225	—
Donations	—	2,994,032
Total Operating Expenses	157,459,187	4,627,195
<b>Operating Loss</b>	(41,923,133)	(2,438,350)
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	41,968,236	—
Federal grants - restricted	14,611,684	—
Investment income (loss)	3,408,090	(1,092,540)
Contributions and gifts	2,753,274	—
Interest on capital asset-related debt	(6,170,379)	(107,738)
Loss on disposal of plant facilities	(1,006,503)	—
Other income	—	1,270,655
Net Nonoperating Revenues (Expenses)	55,564,402	70,377
<b>Income Before Other Revenues, Expenses And Gains</b>	13,641,269	(2,367,973)
Capital grants and gifts	1,863,940	742,176
Total Other Revenues, Expenses And Gains	1,863,940	742,176
<b>Change In Net Assets</b>	15,505,209	(1,625,797)
<b>Net Assets - Beginning Of Year</b>	296,310,266	62,950,736
<b>Net Assets - End Of Year</b>	\$ 311,815,475	\$ 61,324,939

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# SOUTHEAST MISSOURI STATE UNIVERSITY

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## STATEMENT OF CASH FLOWS

Page 1 Of 2

For The Year Ended June 30, 2012

<b>Cash Flows From Operating Activities</b>	
Tuition and fees	\$ 67,403,244
Grants and contracts	11,974,052
Auxiliary enterprises	27,764,430
Other receipts	7,212,761
Payments to vendors and suppliers	(61,478,914)
Payments to employees	(81,072,953)
<b>Net Cash Used In Operating Activities</b>	<u>(28,197,380)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
State appropriations	41,721,309
Nonoperating federal grants	14,611,684
Gifts received for other than capital purposes	1,894,450
<b>Net Cash Provided By Noncapital Financing Activities</b>	<u>58,227,443</u>
<b>Cash Flows From Capital And Related Financing Activities</b>	
Capital gifts received	1,863,940
Purchases of capital assets and payments to contractors	(42,394,313)
Proceeds from issuance of capital debt	28,980,000
Payment of bond issuance costs	(532,000)
Proceeds from sale of capital assets	120,395
Principal paid on capital debt and notes	(9,536,742)
Interest paid on capital debt and notes	(5,645,129)
<b>Net Cash Used In Capital And Related Financing Activities</b>	<u>(27,143,849)</u>
<b>Cash Flows From Investing Activities</b>	
Proceeds from sales and maturities of investments	148,233,273
Interest on investments	3,244,045
Purchase of investments	(123,595,368)
<b>Net Cash Provided By Investing Activities</b>	<u>27,881,950</u>
<b>Net Increase In Cash And Cash Equivalents</b>	30,768,164
<b>Cash And Cash Equivalents - Beginning Of Year</b>	<u>12,114,514</u>
<b>Cash And Cash Equivalents - End Of Year</b>	<u>\$ 42,882,678</u>
<b>Supplemental Disclosure Of Cash Flow Information</b>	
Noncash transactions:	
Capital asset purchases included in accounts payable	<u>\$ 1,949,387</u>

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# SOUTHEAST MISSOURI STATE UNIVERSITY

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## STATEMENT OF CASH FLOWS

Page 2 Of 2

For The Year Ended June 30, 2012

### Reconciliation Of Operating Loss To Net Cash

#### Used In Operating Activities:

Operating loss	\$ (41,923,133)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	9,933,453
Other post-employment benefit (OPEB) expense	392,225
Workers compensation and unemployment expenses paid by state	246,927
Gifts in kind from Southeast Missouri University Foundation	858,824
Changes in assets and liabilities:	
Receivables, net	(1,820,594)
Inventories	(186,005)
Prepaid expenses	15,876
Accounts payable	5,149,874
Unearned revenues	(235,775)
Accrued compensation	(645,030)
Deposits held for others	15,978

#### Net Cash Used In Operating Activities

\$ (28,197,380)

# SOUTHEAST MISSOURI STATE UNIVERSITY

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## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

### 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

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### Notes To Financial Statements (*Continued*)

Revenues, expenses, gains, losses, assets and liabilities 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 assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

In accordance with the provisions of GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

#### **Reporting Entity:**

GASB Statement No. 14, *The Financial Reporting Entity*, 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 Research Corporation and the Missouri Research 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. 14 or GASB Statement No. 39. However, both are considered related entities.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (*Continued*)

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, 2012, the Foundation distributed \$2,994,032 to the University for both restricted and unrestricted purposes.

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

#### **Summary Of Significant Accounting Policies:**

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

***Investments*** - The University accounts for its investments at fair value 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 assets.

***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.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (Continued)

**Inventories** - Inventories consist of office, farm and physical plant supplies and are recorded at cost using the first-in, first-out method. Bookstore resale inventories and 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.

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 with 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>
<b>Capital Assets</b>	
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

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.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (*Continued*)

#### ***Net Assets***

GASB Statement No. 34 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- ***Invested In Capital Assets, Net Of Related Debt:*** 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 assets subject to externally imposed stipulations that the University maintain them permanently. Such assets include the University's permanent endowment funds.

***Expendable*** - Net assets 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 assets that are not subject to externally imposed stipulations. Unrestricted net assets 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 assets 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 Assets 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.



## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (*Continued*)

***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 Assets. 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.

***Debt Issuance Costs*** - These costs are amortized over the life of the bond or note liability based on a method that approximates the effective interest rate method. For the year ended June 30, 2012, total charges to net assets balances related to the amortization of such costs were \$280,443.

***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, bookstore sales, 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.

# SOUTHEAST MISSOURI STATE UNIVERSITY

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## Notes To Financial Statements (Continued)

### 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, 2012, 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, 2012, 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	*	\$ 86,960,949	\$ 3,704,358	\$ 83,256,591

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

*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.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (*Continued*)

*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, 2012.

*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, 2012.

*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.

*Foreign Currency Risk.* This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. At June 30, 2012, the University had no exposure to foreign currency risk as there were no foreign investments in the University's portfolio.

# SOUTHEAST MISSOURI STATE UNIVERSITY

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## Notes To Financial Statements (Continued)

### Summary Of Fair Values:

The fair value of deposits and investments are as follows:

	<u>Fair Value</u>
<b>Deposits</b>	
Repurchase agreements and cash in bank	\$ 40,004,176
Cash on hand	84,795
Money market deposit accounts	2,793,707
Certificate of deposit	1,500,044
	<u>44,382,722</u>
<b>Investments - U.S. Government Agency Obligations</b>	<u>86,960,949</u>
	<u>\$ 131,343,671</u>

Included in the following statement of net assets captions:

<b>Deposits</b>	
Cash and cash equivalents	\$ 13,502,450
Restricted cash and cash equivalents	29,380,228
Short-term investments	1,300,000
Long-term investments	200,044
	<u>44,382,722</u>
<b>Investments</b>	
Restricted short-term investments	3,704,357
Long-term investments	47,346,298
Restricted long-term investments	35,910,294
	<u>86,960,949</u>
	<u>\$ 131,343,671</u>

### Investment Income

Investment income for the year ended June 30, 2012 consists of:

Interest and dividend income	\$ 3,200,939
Realized loss on investments	(147,098)
Net increase in fair value of investments	354,249
	<u>\$ 3,408,090</u>

# SOUTHEAST MISSOURI STATE UNIVERSITY

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## Notes To Financial Statements (Continued)

### 4. Accounts Receivable

The composition of accounts receivable at June 30, 2012 is summarized as follows:

Student billings	\$ 3,127,574
Departmental operations	802,259
State and private grants	384,470
Capital project funding	119,198
Auxiliary operations	137,772
Other	49,162
	<hr/>
	4,620,435
Less: Allowance for doubtful accounts	<hr/>
	608,364
	<hr/>
	\$ 4,012,071
	<hr/>

### 5. Notes Receivable

The composition of notes receivable at June 30, 2012 is summarized as follows:

Federal Loan Programs	\$ 5,003,013
Less: Allowance for doubtful accounts	<hr/>
	773,710
	<hr/>
	\$ 4,229,303
	<hr/>

# SOUTHEAST MISSOURI STATE UNIVERSITY

## Notes To Financial Statements (Continued)

### 6. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance - June 30, 2011	Additions	Retirements	Balance - June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 4,217,138	\$ —	\$ —	\$ 4,217,138
Library books	5,528,878	—	(45,120)	5,483,758
Construction in progress	7,995,732	32,985,085	(6,743,320)	34,237,497
Total capital assets not being depreciated	17,741,748	32,985,085	(6,788,440)	43,938,393
Capital assets, being depreciated:				
Building and improvements	344,779,458	7,237,748	(1,221,227)	350,795,979
Infrastructure	27,918,814	3,890,353	—	31,809,167
Leasehold improvements	336,276	274,908	—	611,184
Equipment	39,066,816	2,125,658	(1,311,587)	39,880,887
Library books	17,776,730	674,499	—	18,451,229
Total capital assets being depreciated	429,878,094	14,203,166	(2,532,814)	441,548,446
Less accumulated depreciation for:				
Building and improvements	72,623,817	6,870,476	(203,028)	79,291,265
Infrastructure	4,249,435	540,873	—	4,790,308
Leasehold improvements	—	22,418	—	22,418
Equipment	28,109,470	2,070,536	(1,248,004)	28,932,002
Library books	5,883,950	429,150	—	6,313,100
Total accumulated depreciation	110,866,672	9,933,453	(1,451,032)	119,349,093
Total capital assets being depreciated, net	319,011,422	4,269,713	(1,081,782)	322,199,353
Capital assets, net	\$ 336,753,170	\$ 37,254,798	\$ (7,870,222)	\$ 366,137,746

The estimated cost to complete construction in progress at June 30, 2012 is \$63,500,149 of which the majority is available from bond proceeds, federal grants, state appropriations and other local sources. Projects in progress include new student housing, Academic Hall renovations, Myers Hall renovations, University Center upgrades and renovations, New Chiller Plant and Magill Science renovations.

# SOUTHEAST MISSOURI STATE UNIVERSITY

## Notes To Financial Statements (Continued)

### 7. Accounts Payable

The composition of accounts payable at June 30, 2012 is summarized as follows:

Equipment purchases	\$ 86,823
Supplies and operating expenses	1,973,245
Capital improvements	4,451,742
Retainage - capital projects	2,228,438
	<u>2,228,438</u>
	<u>\$ 8,740,248</u>

### 8. Bonds Payable

Bonds payable at June 30, 2012 are summarized as follows:

	<u>Balance - June 30, 2011</u>	<u>Principal Additions</u>	<u>Principal Payments</u>	<u>Balance - June 30, 2012</u>
Education Facilities Revenue Bonds Series 2003A - Fixed Rate	\$ 7,525,000	\$ —	\$ (440,000)	\$ 7,085,000
System Facilities Revenue Bonds Series 2006A	8,210,000	—	(195,000)	8,015,000
System Facilities Revenue Bonds Series 2008	53,035,000	—	(1,420,000)	51,615,000
Educational Facilities Revenue Bonds Series 2010A	4,760,000	—	(975,000)	3,785,000
Educational Facilities Taxable Revenue Bonds Series 2010B	54,495,000	—	—	54,495,000
System Facilities Refunding Revenue Bonds Series 2011	30,420,000	—	(1,670,000)	28,750,000
System Facilities Revenue Bonds Series 2011B	—	28,980,000	—	28,980,000
	<u>\$ 158,445,000</u>	<u>\$ 28,980,000</u>	<u>\$ (4,700,000)</u>	182,725,000
Less: Current maturities (due within one year)				5,065,000
Less: Deferred amounts on refunding				587,058
Add: Premium on bond payable				3,604
				<u>3,604</u>
				<u>\$ 177,076,546</u>

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (Continued)

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

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

Extraordinary Option Redemption at 100% may occur upon the occurrence of certain special conditions or events. The Series 2011B bonds bear interest at rates varying from 1.2% 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 1.5% 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 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 reduction from revenue bonds payable, is being charged to operating through 2032 using the bonds outstanding method.



## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (*Continued*)

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 rates varying from 1.35% to 1.9% and mature serially through 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. 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 22, 2008, the Board of Regents approved the issuance of \$56,650,000 of System Facilities Revenue Bond Series 2008 for the acquiring, constructing, expanding, renovating, improving, furnishing and equipping a student housing facility and related improvements, providing funds to refund the \$8,655,000 original principal amount of System Facilities Revenue Bonds Series 1998A and \$10,605,000 original principal amount of System Facilities Revenue Bonds Series 1998B and funding capitalized interest on the Series 2008 Bonds. The Series 2008 bonds shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2008 bonds maturing April 1, 2016 and thereafter shall be subject to redemption on or after April 2015 at a redemption price of 100% of the principal amount. The Series 2008 bonds bear interest at rates varying from 3.0% to 4.75% and mature serially through fiscal year 2038.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (*Continued*)

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 shall pay interest semiannually on April 1 and October 1. At the option of the University, the Series 2006A bonds maturing April 1, 2015 and thereafter shall be subject to redemption on or after April 1, 2014 at a redemption price of 100% of the principal amount. The Series 2006A bonds bear interest at rates varying from 4.0% to 4.6% and mature serially through fiscal year 2036.

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. 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 3.5% to 4.625% and mature serially through fiscal year 2024. On August 5, 2008, the Series 2003B bonds were paid off.

Subsequent to June 30, 2012, the Series 2003A bonds maturing October 1, 2020 and October 1, 2023 were redeemed in the amounts of \$1,270,000 and \$2,145,000, respectively.

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 2006A, 2008, 2011 and 2011B 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 2012.

# SOUTHEAST MISSOURI STATE UNIVERSITY

## Notes To Financial Statements (Continued)

Interest expense was \$6,017,313 for 2012, net of capitalized interest of \$2,280,218.

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

	<u>Principal</u>	<u>Interest</u>
2013	\$ 5,065,000	\$ 8,405,605
2014	5,830,000	8,293,071
2015	5,970,000	8,156,351
2016	6,120,000	7,990,967
2017	6,305,000	7,800,117
2018-2022	33,555,000	35,378,091
2023-2027	32,660,000	28,196,586
2028-2032	33,565,000	19,870,849
2033-2037	31,180,000	11,364,140
2038-2042	22,475,000	2,914,334
	<u>\$ 182,725,000</u>	<u>\$ 138,370,111</u>

## 9. Notes Payable

Notes payable at June 30, 2012 are summarized as follows:

	<u>Balance - June 30, 2011</u>	<u>Principal Additions</u>	<u>Principal Payments</u>	<u>Balance - June 30, 2012</u>
Chart well's-Olive's and Skylight Terrace Expansion	\$ 525,465	\$ —	\$ (31,472)	\$ 493,993
Installment Payment Contract Certificates Series 2002	4,805,000	—	(4,805,000)	—
	<u>\$ 5,330,465</u>	<u>\$ —</u>	<u>\$ (4,836,472)</u>	493,993
Less: Current maturities (due within one year)				<u>32,631</u>
				<u>\$ 461,362</u>

On May 1, 2002, the University issued \$15,635,000 Installment Payment Contract Certificates Series 2002 for various energy savings measures. The certificates paid interest semiannually on April 1 and October 1 in each year. The final payment was made on the Series 2002 certificates in 2012.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (Continued)

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 \$153,066 for 2012. Scheduled fiscal year maturities on notes payable and related interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 32,631	\$ 17,369
2014	33,834	16,166
2015	35,081	14,919
2016	36,374	13,626
2017	37,715	12,285
2018-2022	210,479	39,521
2023-2025	107,879	4,622
	<u>\$ 493,993</u>	<u>\$ 118,508</u>

### 10. Line Of Credit

During the fiscal year, the University had a line of credit available that allowed for borrowings up to \$5,214,098 at an interest rate of 6%. The University made no borrowings on the line during the year. Subsequent to June 30, 2012, the University terminated the line of credit.

### 11. Retirement Plan

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.

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.

## **SOUTHEAST MISSOURI STATE UNIVERSITY**

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### Notes To Financial Statements (*Continued*)

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 2012 and 2011 was set at 13.97% and 13.81%, respectively. Beginning in January 2011, newly hired MOSERS eligible employees contribute 4% of gross earnings each payroll. Contributions to MOSERS were \$6,335,969, \$6,192,472 and \$5,935,271 for the fiscal years ended June 30, 2012, 2011, and 2010, respectively, which were equal to the required contributions each year. The MOSERS funded status ratio was 79.2% and 80% as of June 30, 2011 and 2010, 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 6.92% and 7.77% of annual covered payroll for 2012 and 2011, respectively. The University's contributions to CURP for the years ended June 30, 2012, 2011, and 2010 were \$749,113 \$804,761, and \$789,659, 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, 2012 the University's obligations are unfunded. For more information see the Schedule of Funding Progress in the Required Supplementary Information section.

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

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements (Continued)

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

Annual required contribution	\$ 673,013
Interest on OPEB obligation	31,953
Adjustment to annual required contribution	<u>(41,572)</u>
Annual OPEB cost	663,394
Contributions made	<u>271,169</u>
Increase in OPEB obligation	392,225
Net OPEB obligation - beginning of year	<u>639,057</u>
Net OPEB obligation - end of year	<u>\$ 1,031,282</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the previous two years are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage Of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
6/30/12	\$ 663,394	40.9%	\$ 1,031,282
6/30/11	277,929	58.0%	639,057
6/30/10	272,511	60.2%	522,277

*Funded Status and Funding Progress.* As of July 1, 2011, 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 \$4.95 million. The covered payroll (annual payroll of active employees covered by the plan) was \$50.6 million, and the ratio of the UAAL to the covered payroll was 9.8%.

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, 2011, 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 8.5% initially, reduced by decrements to an ultimate rate of 5% after seven 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 30 years. The amortization period at July 1, 2011 was 30 years and is restarted with each valuation.

### **13. Contingencies And Risk Management**

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

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

University employees are covered under Worker's Compensation by the State of Missouri. Claims are submitted to the State and paid by the State on behalf of the University. Total claims paid for the University employees for fiscal year 2011-2012 were approximately \$246,927.

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



# SOUTHEAST MISSOURI STATE UNIVERSITY

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## Notes To Financial Statements (Continued)

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

### 14. Net Assets

**Restricted** - In accordance with GASB Statement No. 34, net assets are restricted when constraints placed are either externally imposed, or are imposed by law or legislation. The composition of restricted net assets at June 30, 2012 was:

<b>Nonexpendable</b>	
Scholarships	\$ 2,296,230
<b>Expendable</b>	
Capital projects	4,675,760
Debt service	11,350,325
Grants and other	929,714
	<u>16,955,799</u>
Total Restricted	<u>\$ 19,252,029</u>

**Unrestricted** - Unrestricted net assets, as defined in GASB Statement No. 34, are not subject to externally imposed stipulations; however, they may be subject to internal designations. For example, unrestricted net assets 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 assets are internally designated for academic programs and initiatives, investment in inventories and capital programs. Designated unrestricted net assets were \$32,422,342 at June 30, 2012. Undesignated unrestricted net assets, including those of auxiliary operations, were \$18,416,913 at June 30, 2012.

# SOUTHEAST MISSOURI STATE UNIVERSITY

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## Notes To Financial Statements (Continued)

### 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, 2012, 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, and the Outdoor Recreation fields. The resolution of the System Facilities Revenue Bonds Series 2002 added the Parking and Transit system to the System Facilities. Revenue derived from the operation of these facilities is pledged for the retirement of the outstanding Series 2006A, Series 2008, and Series 2011 bonds and payment of interest thereon semi-annually on April 1 and October 1.

The condensed financial information for the System Facilities Revenue Bond Fund as of June 30, 2012 is as follows:

#### Condensed Statement Of Net Assets

<b>Current Assets</b>	\$ 47,269,913
<b>Noncurrent Assets</b>	
Capital assets, net of depreciation	126,184,969
Other	2,411,171
<b>Total Assets</b>	<u>175,866,053</u>
<b>Current Liabilities</b>	6,566,081
<b>Noncurrent Liabilities</b>	113,874,304
<b>Total Liabilities</b>	<u>120,440,385</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	34,363,995
Restricted	10,321,384
Unrestricted	10,740,289
<b>Total Net Assets</b>	<u>\$ 55,425,668</u>

# SOUTHEAST MISSOURI STATE UNIVERSITY

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## Notes To Financial Statements (Continued)

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

#### Operating Revenue

Housing contracts, net of scholarship allowance	\$ 19,194,005
Bookstore/textbook sales and rentals	4,581,137
Student recreation center fees	2,496,339
Parking fees and fines	1,221,877
Student union building fees	237,000
Other operating revenues	2,064,914
<b>Total Operating Revenue</b>	<u>29,795,272</u>

#### Operating Expenses

Personal service	5,026,998
Contract food service	5,931,803
Utilities and maintenance	3,756,589
Book purchases	3,076,059
Depreciation	3,020,641
Other operating expenses	2,170,237
<b>Total Operating Expenses</b>	<u>22,982,327</u>

<b>Operating Income</b>	<u>6,812,945</u>
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#### Nonoperating Revenue (Expenses)

Investment income	1,007,596
Interest on capital asset related debt	(3,718,562)
<b>Net Nonoperating Expenses</b>	<u>(2,710,966)</u>

<b>Increase In Net Assets</b>	4,101,979
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<b>Net Assets Beginning Of Year</b>	<u>51,323,689</u>
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<b>Net Assets End Of Year</b>	<u><u>\$ 55,425,668</u></u>
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### Condensed Statement Of Cash Flows

Net cash provided by operating activities	\$ 10,080,996
Net cash provided by capital and related financing activities	15,429,067
Net cash provided by investing activities	1,009,599
Net increase in cash and cash equivalents	<u>26,519,662</u>
Cash and cash equivalents - beginning of year	<u>14,906,059</u>
Cash and cash equivalents - end of year	<u><u>\$ 41,425,721</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 Sale** - Land and other real estate held as investments by endowments are reported at the fair value at the reporting date in accordance with *GASB Statement No. 52, Land and Other Real Estate Held as Investment 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, 2012, 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 2012.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### 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, 2012, 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, 2012:

Pooled investments at market value	\$ 55,475,631
Number of subsidiary accounts	626
Interest and dividend earnings	1,021,515
Net realized losses	784,353

*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, 2012, ranges between Moody's ratings BAA3 and AAA. The average credit quality of the fixed income portfolio is AA.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### 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, 2012, 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:

	<u>Fair Value</u>
Deposits	\$ 1,502,889
Investments	<u>55,752,852</u>
	<u>\$ 57,255,741</u>

Included in the following statement of net assets captions:

Cash and cash equivalents	\$ 1,502,889
Short-term investments	12,424,943
Long-term investments	<u>43,327,909</u>
	<u>\$ 57,255,741</u>

# SOUTHEAST MISSOURI STATE UNIVERSITY

## Notes To Financial Statements (Continued)

At June 30, 2012, the Foundation investments are summarized below.

Certificates of Deposit	\$ 277,221
U.S. Government Obligations	2,103,124
U.S. Government Agency Obligations	4,231,544
Common Stocks	23,612,483
Corporate Bonds	3,622,956
International/Other	1,054,341
Investments in Mutual Funds	<u>20,851,183</u>
	<u>\$ 55,752,852</u>

At June 30, 2012, 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	\$ 2,103,124	\$ 175,083	\$ 676,930	\$ 854,455	\$ 396,656
U.S. Government Agency Obligations	4,231,544	800	985,490	640,440	2,604,814
Corporate bonds	3,622,956	99,046	715,735	1,845,821	962,354
Certificates of deposit	277,221	277,221	—	—	—
	<u>\$ 10,234,845</u>	<u>\$ 552,150</u>	<u>\$ 2,378,155</u>	<u>\$ 3,340,716</u>	<u>\$ 3,963,824</u>

The Foundation manages the University's \$2,297,930 true endowment funds and \$2,152,083 quasi endowment funds as of June 30, 2012 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 assets.

# SOUTHEAST MISSOURI STATE UNIVERSITY

## Notes To Financial Statements (Continued)

### Capital Assets

A summary of changes in capital assets in 2012 follows:

	Balance - June 30, 2011	Additions	Retirements	Balance - June 30, 2012
Land and improvements	\$ 6,442,823	\$ 229,780	\$ —	\$ 6,672,603
Buildings	6,801,641	—	73,411	6,728,230
Infrastructure	127,083	—	—	127,083
Equipment	335,648	60,709	58,860	337,497
	13,707,195	290,489	132,271	13,865,413
Less: Accumulated depreciation	3,451,761	196,563	50,874	3,597,450
	\$ 10,255,434	\$ 93,926	\$ 81,397	\$ 10,267,963

### Long Term Obligations

Following is a summary of notes payable transactions of the Foundation for the year ended June 30, 2012:

	Balance - June 30, 2011	Principal Additions	Principal Payments	Balance - June 30, 2012
<u>General obligations</u>	\$ 2,025,860	\$ 31,000	\$ (150,202)	\$ 1,906,658

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. 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, 2012, the prime rate was 3.25% resulting in an interest rate of 4.375%.



## **SOUTHEAST MISSOURI STATE UNIVERSITY**

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### 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 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 and one irregular last payment estimated at \$302,540. 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, Missouri. 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 with a maturity of October 8, 2013. There will be 59 regular payments of \$1,478 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 of 334 Morgan Oak and additional lots nearby in Cape Girardeau, Missouri. To finance the purchase, the Foundation entered into a three-year fixed rate promissory note with Montgomery Bank in the amount of \$600,000 with a maturity of December 30, 2011. There will be 59 regular payments of \$4,288 and one irregular last payment estimated at \$447,697. The interest rate of the Promissory Note is 5.75%.

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 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.

## SOUTHEAST MISSOURI STATE UNIVERSITY

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### Notes To Financial Statements *(Continued)*

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 454,818	\$ 93,628
2014	360,466	62,662
2015	616,863	49,271
2016	28,268	26,893
2017	446,243	10,788
	<u>\$ 1,906,658</u>	<u>\$ 243,242</u>

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**Required Supplementary Information**

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**SOUTHEAST MISSOURI STATE UNIVERSITY**

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

**June 30, 2012**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value Of Assets ( a )</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age ( b )</b>	<b>Unfunded AAL (UAAL) ( b - a )</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll ( c )</b>	<b>UAAL As A Percentage Of Covered Payroll ((b - a) / c)</b>
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%
7/1/2007	—	3,388,612	3,388,612	0%	48,502,603	6.99%