

**SOUTHEASTERN UNIVERSITY, INC.
LAKELAND, FLORIDA**

REPORT ON FINANCIAL STATEMENTS

**FOR THE AWARD YEAR ENDED
JUNE 30, 2012**

OCTOBER 20, 2012

CONTENTS

| | <u>Page</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| FINANCIAL STATEMENTS | |
| Independent Auditor's Report | 1 - 2 |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6 - 28 |
| OTHER FINANCIAL INFORMATION | |
| Schedule of Expenditures of Federal and State Awards | 29 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 30 - 31 |
| Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650, <i>Rules of the Auditor General</i> | 32 - 34 |
| Summary Schedules A, B and C | 35 |
| Schedule of Findings and Questioned Costs for the Year Ended June 30, 2012 | 36 - 39 |
| Schedule of Findings and Questioned Costs - Specific State Student Financial Assistance for the Year Ended June 30, 2012 | 40 |
| Auditor's Comments on Audit Resolution Matters Relating to the State Student Financial Assistance Programs - Prior Year Findings | 41 |
| INDEPENDENT AUDITOR'S MANAGEMENT LETTER | 42 - 48 |
| STATEMENT OF EXPLANATION OR REBUTTAL FROM AUDITED OFFICIAL | N/A |

INDEPENDENT AUDITOR'S REPORT

Audit Committee of the
Board of Regents
Southeastern University, Inc.
Lakeland, Florida

We have audited the accompanying statement of financial position of **Southeastern University, Inc.** (a not-for-profit organization) as of June 30, 2012 and 2011, and the related statement of activities for the one year ended June 30, 2012, and the statement of cash flows for the two years ended June 30, 2012 and 2011. 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 audits.

The prior year summarized comparative information included in the statement of activities has been derived from the University's 2011 financial statements and, in our report dated October 20, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Southeastern University, Inc.** as of June 30, 2012 and 2011, and the changes in its net assets for the one year ended June 30, 2012, and its cash flows for the two years ended June 30, 2012 and 2011, 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 11, 2012 on our consideration of **Southeastern University, Inc.'s** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements of **Southeastern University, Inc.** taken as a whole. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baylin & Company PA

Certified Public Accountants

October 11, 2012



SOUTHEASTERN UNIVERSITY, INC.

STATEMENT OF FINANCIAL POSITION

| | <u>June 30,</u> | |
|-----------------------------------------------------------|----------------------------|----------------------------|
| | <u>2012</u> | <u>2011</u> |
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents, unrestricted, Note A | \$12,736,733 | \$10,242,058 |
| Cash and cash equivalents, restricted, Note A | 1,223,723 | 1,216,656 |
| Student accounts receivable, current portion | 1,531,635 | 1,017,184 |
| Due from federal or state grants | 66,499 | 1,161,644 |
| Other receivables | 521,892 | 275,052 |
| Other current assets | 9,841 | 117,410 |
| Student loans receivable, current portion | 161,965 | 128,823 |
| Prepaid expenses | 516,619 | 487,744 |
| Total current assets | <u>16,768,907</u> | <u>14,646,571</u> |
| PROPERTY AND EQUIPMENT , net, Notes A and D | <u>50,989,632</u> | <u>53,634,259</u> |
| INVESTMENTS , Notes E and R | <u>15,761,516</u> | <u>15,377,222</u> |
| OTHER ASSETS | | |
| Student accounts receivable, Note B | 186,960 | 184,855 |
| Student loans receivable, Note C | 1,397,502 | 1,459,922 |
| Other assets | 12,156 | 12,157 |
| Total other assets | <u>1,596,618</u> | <u>1,656,934</u> |
| TOTAL ASSETS | <u>\$85,116,673</u> | <u>\$85,314,986</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Student accounts receivable credit balances | \$ 673,348 | \$ 993,286 |
| Accounts payable and accrued expenses | 1,616,438 | 1,829,659 |
| Deferred tuition, Note A | 701,212 | 718,517 |
| Deferred revenue, current portion | 175,189 | 127,189 |
| Deposits held for others | 60,651 | 58,571 |
| Line of credit, Notes G and P | - | - |
| Notes payable, current portion | 95,391 | 57,563 |
| Bonds payable, current portion | 1,100,000 | 1,045,000 |
| Total current liabilities | <u>4,422,229</u> | <u>4,829,785</u> |
| LONG TERM LIABILITIES | | |
| Notes payable, Note G | 353,180 | 112,725 |
| Bonds payable, Note H | 33,360,000 | 34,460,000 |
| Fair value of interest rate swap agreement, Notes H and R | 3,518,538 | 3,477,622 |
| Deferred revenue, Note I | 1,085,798 | 1,212,987 |
| Refundable government student loans, Note C | 1,456,344 | 1,452,856 |
| Total long term liabilities | <u>39,773,860</u> | <u>40,716,190</u> |
| TOTAL LIABILITIES | <u>44,196,089</u> | <u>45,545,975</u> |
| NET ASSETS | | |
| Unrestricted, Note A: | | |
| Undesignated | 5,035,628 | 4,197,472 |
| Board designated, Note J | 4,781,204 | 4,692,428 |
| Net investment in property and equipment | 14,137,567 | 14,481,350 |
| Net investment in student loan program | 218,937 | 218,937 |
| Total unrestricted | <u>24,173,336</u> | <u>23,590,187</u> |
| Temporarily restricted, Notes A and K | 13,436,088 | 13,020,878 |
| Permanently restricted, Notes A, F and L | 3,311,160 | 3,157,946 |
| Total net assets | <u>40,920,584</u> | <u>39,769,011</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$85,116,673</u> | <u>\$85,314,986</u> |

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

SOUTHEASTERN UNIVERSITY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012, WITH COMPARATIVE TOTALS FOR 2011

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>2012 Total</u> | <u>2011 Total</u> |
|------------------------------------------------------------------------|----------------------------|-----------------------------------|-----------------------------------|----------------------------|----------------------------|
| REVENUE AND OTHER SUPPORT | | | | | |
| Tuition and fees | \$38,724,364 | \$ - | \$ - | \$38,724,364 | \$39,462,329 |
| Less institutional aid and scholarships | <u>(7,332,722)</u> | <u>(122,238)</u> | <u>-</u> | <u>(7,454,960)</u> | <u>(6,876,962)</u> |
| Net tuition and fees | 31,391,642 | (122,238) | - | 31,269,404 | 32,585,367 |
| | | | | | |
| Federal and state grants | 29,313 | 13,996 | - | 43,309 | 146,731 |
| Sales and services of auxiliary enterprises | 10,004,179 | - | - | 10,004,179 | 10,258,279 |
| Private gifts, bequests and grants | 722,300 | 884,324 | 199,160 | 1,805,784 | 1,491,690 |
| Net investment income | - | (91,365) | (45,946) | (137,311) | 808,220 |
| Interest on cash investments | 706,202 | - | - | 706,202 | 716,228 |
| Student loan interest | 36,612 | - | - | 36,612 | 27,110 |
| Other sources | 1,416,044 | - | - | 1,416,044 | 1,799,174 |
| Gain (loss) on disposition of property and equipment | <u>28,378</u> | <u>-</u> | <u>-</u> | <u>28,378</u> | <u>(22,260)</u> |
| | | | | | |
| Total revenue and other support | <u>44,334,670</u> | <u>684,717</u> | <u>153,214</u> | <u>45,172,601</u> | <u>47,810,539</u> |
| | | | | | |
| EXPENSES | | | | | |
| Educational and general: | | | | | |
| Instructional | 12,442,010 | - | - | 12,442,010 | 12,733,007 |
| Academic support | 2,585,814 | - | - | 2,585,814 | 2,554,985 |
| Student services | 8,251,327 | 393,765 | - | 8,645,092 | 8,363,703 |
| Institutional support | 8,717,516 | - | - | 8,717,516 | 8,321,998 |
| Operation and maintenance of plant | 2,487,783 | - | - | 2,487,783 | 2,736,428 |
| Auxiliary enterprises | 8,694,072 | - | - | 8,694,072 | 9,088,759 |
| Other expenditures | <u>532,083</u> | <u>44,301</u> | <u>-</u> | <u>576,384</u> | <u>1,130,162</u> |
| | | | | | |
| Total expenses | <u>43,710,605</u> | <u>438,066</u> | <u>-</u> | <u>44,148,671</u> | <u>44,929,042</u> |
| | | | | | |
| INCREASE (DECREASE) IN NET ASSETS FROM OPERATING ACTIVITIES | <u>\$ 624,065</u> | <u>\$ 246,651</u> | <u>\$ 153,214</u> | <u>\$ 1,023,930</u> | <u>\$ 2,881,497</u> |
| | | | | | |
| NET ASSETS, beginning of year | <u>\$23,590,187</u> | <u>\$13,020,878</u> | <u>\$3,157,946</u> | <u>\$39,769,011</u> | <u>\$36,610,059</u> |
| | | | | | |
| INCREASE (DECREASE) IN NET ASSETS FROM OPERATING ACTIVITIES | 624,065 | 246,651 | 153,214 | 1,023,930 | 2,881,497 |
| | | | | | |
| Fair value adjustment related to long-term investment | - | 168,559 | - | 168,559 | (25,412) |
| Fair value adjustment for bonds payable | <u>(40,916)</u> | <u>-</u> | <u>-</u> | <u>(40,916)</u> | <u>302,867</u> |
| | | | | | |
| NET ASSETS, end of year | <u>\$24,173,336</u> | <u>\$13,436,088</u> | <u>\$3,311,160</u> | <u>\$40,920,584</u> | <u>\$39,769,011</u> |

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

SOUTHEASTERN UNIVERSITY, INC.

STATEMENT OF CASH FLOWS

| | Years Ended June 30, | |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|
| | 2012 | 2011 |
| OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets from operating activities | \$ 1,023,930 | \$ 2,881,497 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 4,547,223 | 4,889,111 |
| Amortization | 44,852 | 44,851 |
| (Gain) loss on disposition of property and equipment | (28,378) | 22,260 |
| Unrealized (gain) loss on investments | 233,292 | (716,498) |
| Contributions restricted for endowment | (199,160) | (297,727) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in student accounts receivable, loans receivable, other receivables and due from federal or state grants | 361,027 | (260,051) |
| (Increase) decrease in prepaid expenses | (28,875) | 67,386 |
| (Increase) decrease in other current assets | 107,569 | 290,384 |
| Increase (decrease) in student accounts receivable credit balances | (319,938) | 112,330 |
| Increase (decrease) in accounts payable and accrued expenses | (213,221) | (536,221) |
| Increase (decrease) in deferred tuition and grant revenue | (17,305) | (40,953) |
| Increase (decrease) in deposits held for others | 2,080 | (13,398) |
| Increase (decrease) in refundable government student loans | 3,488 | (4,546) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>5,516,584</u> | <u>6,438,425</u> |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,942,175) | (1,852,804) |
| Proceeds from sale of property and equipment | 23,106 | 6,350 |
| Proceeds from sale of investments | 25,445 | 104,511 |
| Purchase of investments | (474,472) | (516,773) |
| Contributions restricted for endowment | 199,160 | 297,727 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>(2,168,936)</u> | <u>(1,960,989)</u> |
| FINANCING ACTIVITIES | | |
| (Decrease) in deferred revenue, current and long term | (79,189) | (210,187) |
| Principal payments on revolving line of credit and long term borrowings | (1,121,491) | (1,231,643) |
| Proceeds from long term borrowings | 354,774 | - |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>(845,906)</u> | <u>(1,441,830)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,501,742 | 3,035,606 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>11,458,714</u> | <u>8,423,108</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$13,960,456</u> | <u>\$11,458,714</u> |
| NON CASH FINANCING ACTIVITIES: | | |
| Fair value adjustment on long-term investments | <u>\$ 168,559</u> | <u>\$ (25,412)</u> |
| Fair value adjustment for mark-to-market for interest rate swap agreement | <u>\$ (40,916)</u> | <u>\$ 302,867</u> |

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

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

About Southeastern University

From its inception in 1935, Southeastern University has been a Christ-centered, student-focused university. Believing deeply in the integration of faith and learning, Southeastern University is unique in its approach to develop leaders who will change the world through servant leadership. Southeastern University has rested on a solid foundation of vision and faith as the school evolved and relocated through the years, gradually expanding its mission and degree offerings along with its student population, and moving in 1952 to its permanent suburban campus in Lakeland, Florida.

Today, vision and faith still underlie Southeastern University. An Assemblies of God university – coeducational and primarily residential – Southeastern enrolls over 2,500 students, both traditional and nontraditional, who represent a variety of denominations, personal interests, backgrounds, states and countries. Graduates are encouraged to impact culture through a lifestyle of excellence and integrity. Southeastern University's dedication to students' spiritual and intellectual growth provides a framework for Christ-centered living both in and outside the classroom.

Accreditation

Southeastern University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award baccalaureate and master's degrees.

Unrestricted Net Assets

Unrestricted net assets consist of resources available for the various programs and administration of the University which have not been restricted by a donor or other outside party.

Net investment in property and equipment represents amounts expended for property and equipment used in the operations of the University, net of outstanding liabilities, if any.

Net investment in student loan programs represents the University's investment in the Federal Perkins Loan Program.

Board designated funds are established annually by the University and represent unrestricted funds which have been set aside for future capital expenditures (See Note J).

Undesignated net assets are available for the various programs and administration of the University.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of donor restricted contributions. Amounts restricted by the donor, grantor or other outside party for a particular purpose are deemed to be earned and are reported as temporarily restricted revenue when received, and such unexpended amounts are reported as temporarily restricted net assets at year end.

When a donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Restrictions on gifts of fixed assets or contributions restricted for the purchase of fixed assets expire when the asset is placed in service, unless otherwise stipulated by the donor.

Permanently Restricted Net Assets

Permanently restricted net assets consist of donor restricted contributions for permanent endowments requiring that the principal be invested in perpetuity and only the income be used as designated by the donor. Endowment income is reported as temporarily restricted net assets until restrictions are met.

Principles of Combination

All significant balances and transactions among the University's funds included in the accompanying financial statements have been eliminated.

Use of Estimates

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

Property and Equipment

The University follows the practice of capitalizing all expenditures in excess of \$2,500 for property and equipment at cost; the fair market value of donated fixed assets is similarly capitalized. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Routine repairs and maintenance are expensed as incurred.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

The University considers all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents. Interest received on cash and cash investments for the years ended June 30, 2012 and 2011, was \$675,961 and \$266,690, respectively. At June 30, 2012, the University had cash of \$135,095 that was required to be held in separate accounts.

Deferred Tuition

The University has some non-traditional programs where tuition and fees are charged in full at the beginning of each session. These unearned tuition and fees are recorded as deferred tuition and as they are earned they are recognized as tuition and fees revenue.

Financial Instruments and Credit Risk

The carrying amounts approximate fair value based on quoted market prices or discounted cash flow analysis for cash equivalents and other financial instruments. The University is subject to some credit risk through short term cash investments which are placed with high credit quality financial institutions. The University had \$12,765,483 and \$10,727,082 in excess of federally insured or other insured limits as of June 30, 2012 and 2011, respectively.

The University has significant investments in stocks, bonds, and mutual funds and is, therefore, subject to concentrations of credit risk. Investments are made by investment managers engaged by the University and the investments are monitored by the Finance and Audit Committee of the Board of Regents. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the University.

Income Taxes

The University is a not-for-profit organization that is exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these financial statements. The University has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Tax - Continued

The most significant tax positions of the University are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business tax (UBIT). All significant tax positions have been considered by management. It has been determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities. The University's Forms 990 for 2009 through 2011 are open to examination by the Internal Revenue Service as of June 30, 2012.

Reclassification

Certain 2011 items may have been reclassified to conform with the 2012 presentation.

NOTE B - STUDENT ACCOUNTS RECEIVABLE

Student accounts receivable represent amounts due for tuition, fees, and room and board from currently enrolled and former students from all over the United States and from 40 separate countries. The University extends unsecured credit to students and parents of dependent students in connection with their studies and to students who are no longer enrolled or have completed their degrees. Student accounts receivable consist of the following at June 30, 2012 and 2011, respectively:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------------|--------------------|--------------------|
| Accounts receivable | \$ 2,798,117 | \$ 2,115,213 |
| Less allowance for doubtful accounts | <u>(1,079,522)</u> | <u>(913,174)</u> |
| | 1,718,595 | 1,202,039 |
| Less portion considered current | <u>(1,531,635)</u> | <u>(1,017,184)</u> |
| Total long term portion | <u>\$ 186,960</u> | <u>\$ 184,855</u> |

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE C - STUDENT LOANS RECEIVABLE AND GRANTS

Student loans receivable consist of the Federal Perkins Loan Program. Loan balances consist of the following at June 30, 2012 and 2011, respectively:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------------|--------------------|--------------------|
| Loans receivable, current portion | \$ 161,965 | \$ 128,823 |
| Loans receivable, long term portion | <u>1,397,502</u> | <u>1,459,922</u> |
| Total | <u>\$1,559,467</u> | <u>\$1,588,745</u> |

Student loans receivable include funds advanced to the University by the federal government under the Perkins Student Loan Program (the Program). Such funds may be reloaned by Southeastern University after collection, but in the event that the University no longer participates in the Program, the amounts are refundable to the federal government. The federal government's portion of these refundable government student loans at June 30, 2012 and 2011 was \$1,456,344 and \$1,452,856, respectively. The University matches and contributes one-third of the amount contributed by the U.S. Government to the Federal Perkins Loan Program. The U.S. Government contributed \$-0- during the year ended June 30, 2012.

The prescribed practices for the Federal Perkins Loan Program do not provide for accrual of interest on student loans receivable or for a provision for uncollectible loans. Accordingly, interest on loans is recorded as received; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with Federal Perkins Loan Program requirements. These practices do not conform with generally accepted accounting principles; however, the effect of this departure from generally accepted accounting principles is not considered to be material or significant to the overall financial statements of the University.

Federal and State grants include the following:

- (1) Federal Work-Study Program - All contributions to this program are made by the U.S. Government under a special election. Normally the University would contribute 25% of wages paid to students under this program, and the remaining amount is contributed by the U.S. Government. The University applied for and received a waiver of the matching contribution of 25% for the years ended June 30, 2012 and 2011. The U.S. Government contributed \$137,077 and \$135,134 during the years ended June 30, 2012 and 2011, respectively.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE C - STUDENT LOANS RECEIVABLE AND GRANTS - CONTINUED

- (2) Federal Supplemental Educational Opportunity Grant Program - All contributions to this program are made by the U.S. Government under a special election. Normally the University would contribute 25% matching funds under this program and the remaining amount is contributed by the U.S. Government. The University applied for and received a waiver of the matching contribution of 25% for the years ended June 30, 2012 and 2011. The U.S. Government contributed \$178,600 and \$188,599 during the years ended June 30, 2012 and 2011, respectively.
- (3) Federal Pell Grant Program - All contributions to this program are made by the U.S. Government. The U.S. Government contributed \$4,121,050 and \$4,473,025 during the years ended June 30, 2012 and 2011, respectively.
- (4) Federal Academic Competitiveness Grant (ACG) Program - All contributions to this program are made by the U.S. Government. The U.S. Government contributed \$0- and \$132,262 during the years ended June 30, 2012 and 2011, respectively.
- (5) Federal Science and Mathematics Access to Retain Talent (SMART) Grant Program and Teacher Education Assistance for College and Higher Education (TEACH) Grant Program - All contributions to these programs are made by the U.S. Government. The U.S. Government contributed \$48,000 and \$58,000 during the years ended June 30, 2012 and 2011, respectively.
- (6) Florida Student Assistance Grant, Florida Resident Access Grant, Florida Bright Futures Scholarship Program, and other state assistance programs - All contributions to these programs are made by the State of Florida. The State of Florida contributed \$4,040,279 and \$4,954,192 during the years ended June 30, 2012 and 2011, respectively.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE D - INVESTMENT IN PROPERTY AND EQUIPMENT

Investment in property and equipment, at cost, consists of the following at June 30, 2012 and 2011, respectively:

| | <u>2012</u> | <u>2011</u> | <u>Estimated Useful Lives</u> |
|------------------------------------------------|----------------------|----------------------|-----------------------------------|
| Land | \$ 5,715,387 | \$ 5,694,786 | - |
| Construction and renovations in progress | 598,086 | 43,673 | - |
| Buildings and improvements | 67,793,534 | 67,517,221 | 5 - 50 years |
| Furniture, fixtures, equipment and vehicles | 9,899,692 | 10,557,951 | 3 - 20 years |
| Library books | 2,354,832 | 3,098,369 | 10 years |
| | <u>86,361,531</u> | <u>86,912,000</u> | |
| Less accumulated depreciation | <u>(35,371,899)</u> | <u>(33,277,741)</u> | |
| Total | <u>\$ 50,989,632</u> | <u>\$ 53,634,259</u> | |

Depreciation expense was \$4,547,223 and \$4,889,111 for the years ended June 30, 2012 and 2011, respectively.

NOTE E - INVESTMENTS

Investment securities are carried at fair value (See Note R), and are held for trading purposes only, and consist of the following at June 30, 2012 and 2011, respectively:

| | <u>2012</u> | | <u>2011</u> | |
|------------------------|---------------------|-----------------------|---------------------|-----------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Unrestricted | \$ 875,939 | \$ 1,290,843 | \$ 793,968 | \$ 1,208,872 |
| Temporarily restricted | 10,814,208 | 11,159,513 | 10,966,863 | 11,010,404 |
| Permanently restricted | 2,736,716 | 3,311,160 | 2,370,466 | 3,157,946 |
| | <u>\$14,426,863</u> | <u>\$15,761,516</u> | <u>\$14,131,297</u> | <u>\$15,377,222</u> |

Endowment funds include both permanently restricted and temporarily restricted net assets.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE E - INVESTMENTS - CONTINUED

Investments are composed of the following at June 30, 2012 and 2011, respectively:

| | <u>2012</u> | | <u>2011</u> | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| The Common Fund - Equity Fund | \$ 2,871,385 | \$ 4,001,460 | \$ 2,730,245 | \$ 3,988,762 |
| The Common Fund - Bond Fund | 1,555,478 | 1,760,056 | 1,401,052 | 1,557,019 |
| AG Financial Series D Investments | <u>10,000,000</u> | <u>10,000,000</u> | <u>10,000,000</u> | <u>9,831,441</u> |
| Total | <u>\$14,426,863</u> | <u>\$15,761,516</u> | <u>\$14,131,297</u> | <u>\$15,377,222</u> |

Investment income is composed of the following at June 30, 2012 and 2011, respectively:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total 2012</u> | <u>Total 2011</u> |
|----------------------------|---------------------|-------------------------------|-------------------------------|--------------------|-------------------|
| Interest and dividends | \$ - | \$ 114,360 | \$ 2,093 | \$ 116,453 | \$110,906 |
| Net realized gain (loss) | - | - | - | - | - |
| Net unrealized gain (loss) | - | (185,253) | (48,039) | (233,292) | 716,498 |
| Investment expenses | - | (20,472) | - | (20,472) | (19,184) |
| Total | <u>\$ -</u> | <u>\$ (91,365)</u> | <u>\$(45,946)</u> | <u>\$(137,311)</u> | <u>\$808,220</u> |

Interest and dividend income received, net of investment expenses, was \$802,183 and \$91,722 for the years ended June 30, 2012 and 2011, respectively.

NOTE F - ENDOWMENT FUND

The endowment fund is a permanent fund with disciplined investment objectives and consistent management strategies that can accommodate any relevant, reasonable, or probable events. The careful management of endowment assets is designed to ensure a total return (yield plus capital appreciation) necessary at least to preserve and, it is hoped, enhance (in real dollar terms) the principal of the endowment fund.

The purpose of equity investments is to provide current income, growth of income, and appreciation of principal. The purpose of fixed income investments is to provide a predictable and dependable source of income and to reduce portfolio volatility. The fixed income and equity portions of the investment portfolio are diversified in order to provide reasonable assurance that investment in either a single security or a class of securities cannot have an excessive impact on the total portfolio.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE F - ENDOWMENT FUND

Adoption of New Accounting Standard

The University adopted FASB Staff Position (FSP) 117-1, Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosure for All Endowment Funds as it applies to endowment disclosure requirements. FSP 117-1 also provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of UPMIFA. The State of Florida adopted UPMIFA in 2011, and its provisions will apply effective July 1, 2012.

General Investment Objectives and Guidelines

The return objective is to earn an average annual total real rate of return (adjusted for inflation) of five to six percent, as measured over a three-year to five-year market period, and at the same time to outperform selected weighted market indices.

The asset mix of the endowment fund is to range approximately within the following limits:

| | |
|----------------------------------------|------------|
| Fixed income securities | 20% to 35% |
| Common stocks (including Convertibles) | 65% to 80% |

Equity Fund

Investments in a particular industry or company are based upon a demonstrable analysis of prospects for above-average return over a three-year to five-year period. Emphasis is to be placed on capital appreciation and growth of earnings.

Investments are made primarily in well-established, quality companies whose securities enjoy marketability adequate for the portfolio. At the time of investment no manager is to invest more than five percent of the net assets of the fund in securities of organizations with less than a three-year operating record. A manager is to concentrate no more than 20 percent of the market value of the fund in any single industry and no more than five percent in any single company without prior approval of the Investment Committee or its designee(s) at the time of investment.

Investments in equity (or debt issues) of smaller or small emerging companies may be made within the overall guidelines expressed in this statement. These investments (as distinguished from gifts made to the University) may not be made in a letter stock or unregistered or privately placed securities without prior approval of the Investment Committee or its designee(s).

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE F - ENDOWMENT FUND - CONTINUED

Equity Fund - Continued

The use of options, futures, and other hedging strategies is permissible subject to prior review and approval by the Investment Committee. The University may not invest its endowment fund in real estate.

Investments in foreign securities are appropriate as a form of diversification and may be made up to 10 percent of the aggregate portfolio market value.

Bond Fund

The structure of the bond portfolio and the selection of individual securities are matters of investment management discretion, developed primarily in response to changing market relationships, interest rate forecasts, and economic circumstances. The portfolio is to be comprised of high quality issues carrying Moody's ratings of A and above or the equivalent unless approved by the Investment Committee or its designee(s). Call protection is to be emphasized to assure stable and current income.

Investor Responsibility

The Board recognizes its role as a "responsible" investor. While the primary purpose of managing the endowment is to maximize return on the assets within an appropriate level of risk, companies in the portfolio that might cause concern to the institution are to be reviewed regularly by the Investment Committee. In exercising responsibility, the Committee may:

- Vote properly drafted proxies, or instruct the manager to vote proxies that relate to social responsibility issues,
- Communicate directly with management,
- Recommend other actions to the Board

The Investment Committee currently consists of the Finance and Audit Committee, and reports regularly to the Board.

Endowment funds by category from inception to date consist of the following:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------|---------------------|-----------------------------------|-----------------------------------|--------------------|
| Unrestricted | \$1,290,843 | \$ - | \$ - | \$1,290,843 |
| Donor restricted | - | 1,159,513 | 3,311,160 | 4,470,673 |
| Total endowment | <u>\$1,290,843</u> | <u>\$1,159,513</u> | <u>\$3,311,160</u> | <u>\$5,761,516</u> |

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE F - ENDOWMENT FUND - CONTINUED

Changes in endowment net assets for the year ended June 30, 2012, consist of the following:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------------|
| Net assets at beginning of year | \$1,089,935 | \$1,297,900 | \$3,157,946 | \$5,545,781 |
| Investment return: | | | | |
| Investment income | - | 114,360 | 2,093 | 116,453 |
| Investment advisor fees charged to income | - | (20,472) | - | (20,472) |
| Net appreciation (realized and unrealized) | 153,886 | (185,253) | (48,039) | (79,406) |
| Investment advisor fees charged to principal | - | - | - | - |
| Total investment return | <u>153,886</u> | <u>(91,365)</u> | <u>(45,946)</u> | <u>16,575</u> |
| New gifts | - | - | 199,160 | 199,160 |
| Appropriation of endowment assets for expenditures | <u>47,022</u> | <u>(47,022)</u> | - | - |
| Net assets at end of year | <u>\$1,290,843</u> | <u>\$1,159,513</u> | <u>\$3,311,160</u> | <u>\$5,761,516</u> |

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE F - ENDOWMENT FUND - CONTINUED

Changes in endowment net assets for the year ended June 30, 2011, consist of the following:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------------|
| Net assets at beginning of year | <u>\$1,089,935</u> | <u>\$ 976,454</u> | <u>\$2,353,578</u> | <u>\$4,419,967</u> |
| Investment return: | | | | |
| Investment income | - | 110,906 | - | 110,906 |
| Investment advisor fees charged to income | - | (19,184) | - | (19,184) |
| Net appreciation (realized and unrealized) | - | 209,857 | 506,641 | 716,498 |
| Investment advisor fees charged to principal | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total investment return | <u>-</u> | <u>301,579</u> | <u>506,641</u> | <u>808,220</u> |
| New gifts | - | 23,462 | 297,727 | 321,189 |
| Appropriation of endowment assets for expenditures | <u>-</u> | <u>(3,595)</u> | <u>-</u> | <u>(3,595)</u> |
| Net assets at end of year | <u>\$1,089,935</u> | <u>\$1,297,900</u> | <u>\$3,157,946</u> | <u>\$5,545,781</u> |

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE G - NOTES PAYABLE

Notes payable consist of the following as of June 30, 2012 and 2011, respectively:

| | <u>2012</u> | <u>2011</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| 2.657% manufacturer's equipment financing, payable \$18,870 per month, principal and interest, through January 2017, collateralized by the phone system, with a net book value of \$357,774. | \$335,904 | \$ - |
| 6.72% manufacturer's equipment financing, payable \$9,910 per month, principal and interest, through September 2011, collateralized by computer software, with a net book value of \$0-. | - | 29,455 |
| 0.0% manufacturer's equipment financing, payable \$28,167 per year, principal only, through July 2015, collateralized by musical equipment, with a net book value of \$366,882. | 112,667 | 140,833 |
| Prime interest rate unsecured line of credit to bank, authorized limit of \$2,000,000, interest payable monthly, principal due on demand (See Note P). | - | - |
| Total | 448,571 | 170,288 |
| Less portion considered current | <u>(95,391)</u> | <u>(57,563)</u> |
| Total long term notes payable | <u>\$353,180</u> | <u>\$112,725</u> |

Annual maturities of long-term debt for the next five years and thereafter are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---------------------------------|------------------|
| 2013 | \$ 95,391 |
| 2014 | 97,195 |
| 2015 | 99,047 |
| 2016 | 100,948 |
| 2017 | 55,990 |
| Thereafter | <u>-</u> |
| Total | <u>\$448,571</u> |

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE G - NOTES PAYABLE - CONTINUED

Interest paid was \$44,354 and \$10,200 for the years ending June 30, 2012 and 2011, respectively.

NOTE H - BONDS PAYABLE

During December 2005, the University issued an offering memorandum for \$40,000,000 Higher Education Facilities Financing Authority (Florida) Revenue Bonds (Southeastern University, Inc. Project) Series 2005 tax-exempt variable rate demand bonds. During 2009, the University refinanced the outstanding bonds in the amount of \$37,445,000 in order to fix the interest rate on overall debt at 4.9% thru February 2010, then at 5.2% for a new six-year term. \$269,103 incurred in connection with the refinancing are included in property and equipment as of June 30, 2012, and are being amortized on a straight-line basis over the life of the building. All the bonds were issued by the end of the year.

The bonds are to be repaid in annual principal reductions over five years, the life of the interest rate swap agreement.

| | |
|---------------------------------|----------------------------|
| | <u>2012</u> |
| Bonds payable | \$34,460,000 |
| Less portion considered current | <u>(1,100,000)</u> |
| Total | <u><u>\$33,360,000</u></u> |

The bonds are collateralized by a security agreement covering the majority of the University's property and including, among other things, covenants which restrict transfers of assets and an assignment of rents, leases, profits and contracts. The bonds are secured by an irrevocable transferable direct-pay letter of credit issued by a bank.

The University has agreed to maintain certain financial ratios and provide timely information to the financial institution involved. As of the date of this report, the University is substantially in compliance with all terms of the loan covenant agreements.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE H - BONDS PAYABLE - CONTINUED

Annual maturities of bonds payable for the next five years and thereafter are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---------------------------------|---------------------|
| 2013 | \$ 1,100,000 |
| 2014 | 1,160,000 |
| 2015 | 1,220,000 |
| 2016 | 30,980,000 |
| 2017 | - |
| Thereafter | - |
| Total | <u>\$34,460,000</u> |

Interest paid was \$1,876,904 and \$1,898,957 for the years ending June 30, 2012 and 2011, respectively.

The University issued \$40 million in Tax Exempt Variable Rate Demand Bonds through Regions Bank in December 2005 to pay off existing debt, to construct a new campus restaurant, to renovate the dining hall into an academic building and to build a new facilities management building.

The original Tax Exempt Variable Rate Demand Bonds dated December 2005 were restructured on September 2, 2009, to reduce carrying costs and mitigate interest rate risk. This Bank Qualified (BQ) loan is secured by a First Commercial Real Estate Mortgage on the land, buildings, and equipment at 1000 Longfellow Boulevard in Lakeland, Florida.

Due to federal regulations, the 6-year BQ loan was put in place in one transaction with three tranches: Tranche A for \$28,083,750, Tranche B for \$1,916,250, and Tranche C for \$6,500,000. The original 25-year amortization schedule for the principal payments remains the same (due December 1 each year), but the interest rate will be negotiable at the end of the six-year period ending December 2015.

At the same time, the University entered into a SWAP agreement to fix the interest rate for 100% of the bonds at approximately 5.1% interest per year. The SWAP will expire December 2015, at which time the University will need to refinance approximately \$30,980,000. This may be offset in part by a \$10,000,000 temporarily restricted fund established for the purpose of debt reduction.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE H - BONDS PAYABLE - CONTINUED

As of June 30, 2012, the University would be required to pay an “unwind fee” of \$3,518,538, as estimated by the financial institution using a proprietary model, to dissolve the SWAP agreement. This amount has been recorded as a fair value adjustment to bonds payable at June 30, 2012.

Amortization of financing costs was \$44,852 and \$44,851 for the years ended June 30, 2012 and 2011, respectively.

NOTE I - DEFERRED REVENUE

The University received \$1,578,000 from Chartwells (a division of Compass Group USA, Inc.) during August 2001 in exchange for an exclusive contract for services for a period of 20 years. The amount is to be amortized over a period of 20 years, calculated on a straight-line basis. The amount is restricted for a new campus dining facility and related computers and systems. The University holds title to all permanent fixtures and other items including any computer system funded by the monies. Should the University terminate the agreement, the University will pay Chartwells the unamortized portion. During 2007, Chartwells made an additional commitment of \$380,000.

The University received \$250,000 from Follett during June 2009 in exchange for an exclusive contract for services for a period of five years. The amount is to be amortized over a period of five years, calculated on a straight-line basis. Should the University terminate the agreement, the University will pay Follett the unamortized portion.

In June 2012, the University received \$48,000 in prepaid rent from the Jerusalem property to be recognized in the third quarter of 2012. See Note P.

| | <u>Jerusalem 2012</u> | <u>Chartwells 2012</u> | <u>Follett 2012</u> | <u>Total</u> |
|----------------------------------|---------------------------|----------------------------|-------------------------|--------------------|
| Original amount | \$ 48,000 | \$1,958,000 | \$ 250,000 | \$2,256,000 |
| Less amounts amortized to date | - | (838,763) | (156,250) | (995,013) |
| Subtotal | 48,000 | 1,119,237 | 93,750 | 1,260,987 |
| Less current portion | (48,000) | (77,189) | (50,000) | (175,189) |
| Total long term deferred revenue | <u>\$ -</u> | <u>\$1,042,048</u> | <u>\$ 43,750</u> | <u>\$1,085,798</u> |

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE I - DEFERRED REVENUE

Future recognition of deferred revenue is as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---------------------------------|--------------------|
| 2013 | \$ 175,189 |
| 2014 | 120,939 |
| 2015 | 77,189 |
| 2016 | 77,189 |
| 2017 | 77,189 |
| Thereafter | <u>733,292</u> |
| Total | <u>\$1,260,987</u> |

NOTE J - BOARD DESIGNATED NET ASSETS

In April 2003, the Board of Regents passed a resolution to budget for a Plant Reserve contingency of 2% of the gross revenue each year and periodically put this aside in a designated, interest-bearing fund. The funds will be used for anticipated major building, grounds, and equipment repairs or renovations due to deferred maintenance or damage (that may not be covered by insurance). These funds will be used only with Board of Regents advance approval.

In April 2003, the Board of Regents passed a resolution to budget for a Campus Improvements contingency of 2% of the gross revenue each year and periodically put this aside in a designated, interest-bearing fund. These funds are to be used for new building programs and other campus improvements and will be used only with Board of Regents advance approval.

In February 2010, the Board of Regents passed a resolution to fund \$500,000 annually from the Physical Plant Reserve Account for the purpose of providing institutional funding for future development (Capital Projects) over a four year period. These funds will be set aside in a designated, interest-bearing fund. These funds are to be used only with Board of Regents advanced approval.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE J - BOARD DESIGNATED NET ASSETS - CONTINUED

Board designated net assets consist of the following as of June 30, 2012 and 2011, respectively:

| | <u>2012</u> | <u>2011</u> |
|---------------------|--------------------|--------------------|
| Plant reserve | \$ 895,458 | \$ 879,642 |
| Campus improvements | 2,856,123 | 2,801,010 |
| Capital projects | <u>1,029,623</u> | <u>1,011,776</u> |
| | <u>\$4,781,204</u> | <u>\$4,692,428</u> |

NOTE K - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following as of June 30, 2012 and 2011, respectively:

| | <u>2012</u> | <u>2011</u> |
|------------------------------------------------------------|---------------------|---------------------|
| Contributions restricted for debt reduction | \$10,000,000 | \$10,071,118 |
| Contributions restricted for specific projects | 3,288,340 | 2,646,229 |
| Contributions restricted for specific scholarship programs | 96,288 | 252,071 |
| Contributions for capital improvements | <u>51,460</u> | <u>51,460</u> |
| Total | <u>\$13,436,088</u> | <u>\$13,020,878</u> |

NOTE L - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted endowments in which the principal is invested in perpetuity and the income is expendable to support scholarships. Permanently restricted net assets were \$3,311,160 and \$3,157,946 as of June 30, 2012 and 2011, respectively.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE M - RETIREMENT PLAN

The University has a 403(b) defined contribution retirement plan for all academic and nonacademic personnel. Total retirement plan expense for the years ended June 30, 2012 and 2011, was \$914,563 and \$871,598, respectively. There is no prior service cost. Retirement plan benefits are provided by various annuity programs including Fidelity, Teachers Insurance and Annuity Association and the Assemblies of God Ministers Benefit Association.

NOTE N - COMPENSATED ABSENCES

The University's liability for compensated absences was \$249,750 and \$275,229 which was included in accounts payable and accrued expenses as of June 30, 2012 and 2011, respectively. This represents amounts owed to employees under the University's earned sick time leave policy. During 2008/2009, the University changed who is covered under the plan and expanded it to cover all salaried employees. The University's policy is that a non-exempt employee may carryover 25% of their sick time leave balance, up to a maximum of 240 hours.

NOTE O - CONTRIBUTED MATERIALS, EQUIPMENT AND SERVICES

A number of volunteers have donated their time to the University and its programs; however, these donated services are not reflected in the financial statements since these services are not professional in nature, and, as such, do not meet the criteria for recognition as contributed services.

NOTE P - COMMITMENTS AND CONTINGENCIES

Line of Credit

As of June 30, 2012, pursuant to an agreement with a bank, the University had \$2,000,000 unsecured line of credit available, renewable annually, of which \$-0- was outstanding at that date (See Note G). As of the date of this report, the outstanding balance remains at \$-0-.

Credit Limits

The University has revolving credit composed of credit cards and purchasing cards, which have overall limits of \$905,000 and \$2,169,950, respectively. Outstanding balances are paid off monthly.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE P - COMMITMENTS AND CONTINGENCIES - CONTINUED

Leases

The University has multiple non-cancelable lease agreements for various office equipment, computers, study abroad facilities and vehicles. The lease payments range from \$160 - \$30,960 per month for 36 to 60 months. The lease expense under these leases was \$879,548 and \$878,379 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments under these leases are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---------------------------------|--------------------|
| 2013 | \$ 854,380 |
| 2014 | 374,728 |
| 2015 | 42,580 |
| 2016 | - |
| 2017 | - |
| Thereafter | - |
| Total | <u>\$1,271,688</u> |

Subsequent Events

Management has evaluated subsequent events through October 11, 2012, the date which the financial statements were available for issue, and has determined that there are no additional adjustments and/or disclosures required.

Deferred Compensation

In 2005, the University entered into a ten-year deferred compensation agreement with the former President of the University whereby \$50,000 per year was set aside in a separate account owned by the University in return for an agreement for continuance of employment. During 2009, the former President resigned to become the President of another institution of higher education and the University entered into an agreement with him to transfer to him \$225,000 of the value of the account in exchange for a non-compete agreement which included, among other things, the former President's non-solicitation of faculty and students of the University for a period of time. No further annual payments were to be set aside.

Conditioned upon the former President's fulfillment of the agreement, the value of \$225,000 of the account is to be transferred to the former President upon the earlier of his retirement from his subsequent employer or June 30, 2014.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE P - COMMITMENTS AND CONTINGENCIES - CONTINUED

Jerusalem Property

On April 26, 2008, the University began renting a property in Jerusalem to be used in a study abroad program. The lease arrangement carried a 15-year term, renewable every 5 years. In 2011 the University made a decision that the study abroad program would be best served by not having to carry the costs of leasing a property.

On March 28, 2012, another organization agreed to purchase from the owner this leased facility. The purchase is set to be completed on December 15, 2012, and the new owner began occupying the facility beginning July 1, 2012. In conjunction with the purchase and sale agreement, the University received a letter from the prior owner giving permission to the new owner to have occupancy of the property starting July 1. In addition, the University and the new owner created an agreement in which the new owner assumes all operational costs of the property from July 1, 2012 through December 15, 2012. This agreement also stipulates that the new owners will pay the University \$2,000,000 for all furnishings and equipment in the facility. The agreement also stipulates the University intends to pay the prior owner \$2,000,000 on December 15, 2012 to satisfy the "release fee" in the original lease agreement. The new owner is currently occupying the property and has made their first of two lease payments due prior to them assuming complete ownership on December 15, 2012.

NOTE Q - FUNCTIONAL ALLOCATION

The University adheres to the AICPA Industry Audit Guide in reporting expenses by their functional classification. Accordingly, depreciation, lease expense, data processing, interest, maintenance and other expenses have been allocated to functional classifications based on various factors.

NOTE R - FAIR VALUE MEASUREMENT

The Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE R - FAIR VALUE MEASUREMENT - CONTINUED

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the University's financial statements at fair value as of June 30, 2012:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|------------------------------------------|---------------------|--------------------|---------------------|----------------|
| Financial assets: | | | | |
| Investments - long-term: | | | | |
| Multi-strategy equity fund | \$ 4,001,460 | \$4,001,460 | \$ - | \$ - |
| Multi-strategy bond fund | 1,760,056 | 1,760,056 | - | - |
| Certificates of deposit | 10,000,000 | - | \$10,000,000 | - |
| Total financial assets | <u>15,761,516</u> | <u>5,761,516</u> | <u>10,000,000</u> | <u>-</u> |
| Total assets | <u>\$15,761,516</u> | <u>\$5,761,516</u> | <u>\$10,000,000</u> | <u>\$ -</u> |
| Liabilities: | | | | |
| Obligation under derivative instrument** | <u>\$ 3,518,538</u> | <u>\$ -</u> | <u>\$ 3,518,538</u> | <u>\$ -</u> |

**Fair value is based on expected cash flows over the life of the swap agreement.

SOUTHEASTERN UNIVERSITY, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2012

NOTE R - FAIR VALUE MEASUREMENT - CONTINUED

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the University's financial statements at fair value as of June 30, 2011:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|------------------------------------------|---------------------|--------------------|--------------------|----------------|
| Financial assets: | | | | |
| Investments - long-term: | | | | |
| Multi-strategy equity fund | \$ 3,988,762 | \$3,988,762 | \$ - | \$ - |
| Multi-strategy bond fund | 1,557,019 | 1,557,019 | - | - |
| 2-year loan certificates* | <u>9,831,441</u> | <u>-</u> | <u>9,831,441</u> | <u>-</u> |
| Total financial assets | <u>15,377,222</u> | <u>5,545,781</u> | <u>9,831,441</u> | <u>-</u> |
| Total assets | <u>\$15,377,222</u> | <u>\$5,545,781</u> | <u>\$9,831,441</u> | <u>\$ -</u> |
| Liabilities: | | | | |
| Obligation under derivative instrument** | <u>\$ 3,477,622</u> | <u>\$ -</u> | <u>\$3,477,622</u> | <u>\$ -</u> |

*Fair value is net of accrued interest of \$58,103 and a 2% penalty of \$201,160 if early withdrawal were elected. The University chose the longer maturity to generate a higher rate of return, and does not intend to withdraw funds before maturity.

**Fair value is based on expected cash flows over the life of the swap agreement.

NOTE S - RELATED PARTY TRANSACTION

The University paid a company owned by the spouse of an employee \$-0- and \$96,139 for production, DVD duplication and other services during the years ended June 30, 2012 and 2011, respectively. As of June 30, 2011, this person was no longer employed by the University.

OTHER FINANCIAL INFORMATION

SOUTHEASTERN UNIVERSITY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012

| <u>Federal or State Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>CFDA / CSFA Number</u> | <u>Expenditures</u> | *** |
|------------------------------------------------------------------------------------|-------------------------------|---------------------------|-----|
| FEDERAL AWARDS | | | |
| U.S. Department of Education: | | | |
| Student Financial Assistance – Cluster: | | | |
| Federal Supplemental Educational Opportunity Grant | 84.007 | \$ 178,600 | |
| Federal Direct Student Loans | 84.268 | - | * |
| Federal Work-Study Program (includes administrative cost allowance of \$ -0-) | 84.033 | 137,077 | |
| Federal Perkins Loan Program (includes administrative cost allowance of \$29,294) | 84.038 | 270,575 | ** |
| Federal Pell Grant Program (includes administrative cost allowance of \$5,435) | 84.063 | 4,121,050 | |
| Federal TEACH Grant Program | 84.379 | 48,000 | |
| Total U.S. Department of Education | | <u>4,755,302</u> | |
| Total Federal Awards | | <u>4,755,302</u> | |
| STATE PROJECTS | | | |
| Florida Department of Education: | | | |
| Florida Resident Access Grant | 48.064 | 2,354,083 | |
| Florida Student Assistance Grant | 48.054 | 266,695 | |
| Florida Bright Futures Scholarship Program | 48.059 | 1,388,744 | |
| Florida Minority Teacher Education Scholarship | 48.049 | 10,000 | |
| Jose Marti Scholarship Challenge Grant | 48.052 | 2,000 | |
| Florida Children & Spouses of Deceased or Disabled Veterans | 48.055 | 13,182 | |
| Total Florida Department of Education | | <u>4,034,704</u> | |
| Other State Assistance: | | | |
| Florida Department of Highway Safety and Motor Vehicles | 76.060 | 5,575 | |
| Total other State assistance | | <u>5,575</u> | |
| Total State Awards | | <u>4,040,279</u> | |
| Total Federal and State Awards | | <u>\$8,795,581</u> | |

*The gross amount of loans approved by the University was \$18,485,504.

**Value of new loans made during the year; the outstanding balance of loans receivable at June 30, 2012, was \$1,559,467.

***The above schedule of expenditures of federal and state awards includes the federal and state grant activity of **Southeastern University, Inc.** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Audit Committee of the
Board of Regents
Southeastern University, Inc.
Lakeland, Florida

We have audited the financial statements of **Southeastern University, Inc.** (the "University"), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis.



Southeastern University, Inc.
Independent Auditor's Report on
Internal Control over Financial
Reporting and on Compliance
and Other Matters Based on an
Audit of Financial Statements
Performed in Accordance with
Government Auditing Standards
Page Two

Internal Control Over Financial Reporting - Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of **Southeastern University, Inc.** in a separate letter dated October 11, 2012.

This report is intended solely for the information and use of management, the audit committee of the Board of Regents, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baylor & Company PA

Certified Public Accountants

October 11, 2012



INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND CHAPTER 10.650,
RULES OF THE AUDITOR GENERAL

Audit Committee of the
Board of Regents
Southeastern University, Inc.
Lakeland, Florida

Compliance

We have audited the compliance of **Southeastern University, Inc.** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. **Southeastern University, Inc.'s** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Southeastern University, Inc.'s** management. Our responsibility is to express an opinion on **Southeastern University, Inc.'s** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Southeastern University, Inc.'s** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Southeastern University, Inc.'s** compliance with those requirements.

In our opinion, **Southeastern University, Inc.** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.



Southeastern University, Inc.
Independent Auditor's Report
on Compliance With Requirements
Applicable to Each Major Federal Program
and State Project
and on Internal Control Over
Compliance in Accordance with
OMB Circular A-133 and Chapter 10.650,
Rules of the Auditor General
Page Two
October 11, 2012

Internal Control Over Compliance

The management of **Southeastern University, Inc.** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Southeastern University, Inc.'s** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of **Southeastern University, Inc.'s** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.



Southeastern University, Inc.

Independent Auditor's Report
on Compliance With Requirements
Applicable to Each Major Federal Program
and State Project
and on Internal Control Over
Compliance in Accordance with
OMB Circular A-133 and Chapter 10.650,
Rules of the Auditor General
Page Three

This report is intended solely for the information and use of management, audit committee of the Board of Regents, others within the organization and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baylin & Company PA

Certified Public Accountants

October 11, 2012



SOUTHEASTERN UNIVERSITY, INC.
 Summary Schedules A, B and C
 Year Ended June 30, 2012

Summary Schedule A: STUDENT ELIGIBILITY

| Student/Number | Student File Not Found | Not a Regular Student | Enrolled < 1/2 Time | Non-Eligible Citizen | Invalid SSN | No Financial Need | SFA Exceeds Need | Under Compulsory HS Age | Missing Statements | | If Applicable: | | | | Questioned Costs | | | | | | | |
|----------------|------------------------|-----------------------|---------------------|----------------------|-------------|-------------------|------------------|-------------------------|--------------------|----------------------------|-------------------------|----------------|-----------------|--------------|------------------|-----|------|-------|-----|-----|-------|-----|
| | | | | | | | | | ED Purpose | On Overpayments & Defaults | Incomplete Verification | Not Making SAP | Failed ATB Test | Missing FATs | FFELP | FDP | Pell | FSEOG | FWS | ACG | SMART | FPL |
| NONE | | | | | | | | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | | | | | | | | |

Summary Schedule B: DISBURSEMENTS

| Student/Number | Credited student's acct more than 10 days before the start of classes | Paid student directly more than 10 days before the 1st day of classes | Released Funds to student on an LOA | Delivered 1st installment before 30 days after the 1st day of classes | Failed to conduct counseling | | | | Untimely paid credit balance | Make 2nd payment prior to the completion of 1st payment period | Incorrect OPE # on loan app | Missing signed prom note |
|----------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------|------------------------------|------|------|-----|------------------------------|----------------------------------------------------------------|-----------------------------|--------------------------|
| | | | | | Entrance | Exit | FFEL | FDP | | | | |
| NONE | | | | | | | | | | | | |
| Total | | | | | | | | | | | | |

Summary Schedule C: REFUNDS

| Student/Number | A | B | C | D | E | FFEL | | | | | Pell/FDLP/SEOG | | | | | |
|----------------|------------------------|-----------------|----------------------------|-------------------------|------------------------------------|---------------|-------------------------------|---------------------------|------------------------|-------------------------------------------|----------------------|------------------|-------------------------------|---------------------------|------------------------|---------------------------------------|
| | Last Day of Attendance | Withdrawal Date | Total School Refund Amount | Total IPA Refund Amount | Balance Refund Over Paid/Due (D-C) | Refund Amount | Refund Due Date (B + 60) Days | Refund Check Cleared Date | # of Days Late (H - G) | Excess Interest Paid by Ed (F(I/365)*Int) | Not Reported on SSCR | Amount of Refund | Refund Due Date (B + 30) Days | Refund Check Cleared Date | # of Days Late (N - M) | Imputed Interest to ED (L(O/365)*Int) |
| NONE | | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | | |

SOUTHEASTERN UNIVERSITY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Types of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(s) identified that are not
 considered to be material weakness(es)? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards and State Projects

Internal control over major programs:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(s) identified that are not
 considered to be material weakness(es)? ___ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be
 reported in accordance with section 510(a) of Circular A-133
 or Chapter 10.650, *Rules of the Auditor General*? ___ yes X no

Identification of major federal programs and state projects:

Federal Programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------------------------------------|-----------------------------------------------------------|
| 84.007, 84.033, 84.038, 84.063, 84.268, 84.379 | Title IV Student Financial Assistance Programs Cluster |

SOUTHEASTERN UNIVERSITY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS - CONTINUED

State Projects:

| <u>CSFA Number(s)</u> | <u>Name of State Project</u> |
|-----------------------|----------------------------------------------------------------|
| 48.064 | Florida Resident Access Grant |
| 48.054 | Florida Student Assistance Grant |
| 48.059 | Florida Bright Futures Scholarship Program |
| 48.049 | Florida Minority Teacher Education Scholarship |
| 48.052 | Jose Marti Scholarship Challenge Grant |
| 48.055 | Florida Children & Spouses of Deceased or Disabled Veterans |

Dollar threshold used to distinguish
between type A and type B programs:

| | |
|------------------|------------------|
| Federal programs | <u>\$300,000</u> |
| State projects | <u>\$300,000</u> |

Auditee qualified as low-risk auditee
for federal program purposes? X yes no

SOUTHEASTERN UNIVERSITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012 - CONTINUED**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS
AND QUESTIONED COSTS**

A. TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAM

I. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

No findings.

II. REPORTING

No findings.

III. STUDENT ELIGIBILITY

No findings.

IV. DISBURSEMENTS

No findings.

V. REFUNDS

No findings.

VI. CASH MANAGEMENT

No findings.

VII. PERKINS COLLECTIONS AND DUE DILIGENCE

No findings.

VIII. OTHER

No findings.

SOUTHEASTERN UNIVERSITY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012 - CONTINUED**

IX. SUMMARY

| AWARD YEAR 2011-12 | <u>Pell</u> | <u>FSEOG</u> | <u>FDSL</u> | <u>FWS</u> | <u>TEACH</u> | <u>FPL</u> |
|-----------------------------|-------------|--------------|--------------|------------|--------------|------------|
| Total population: | 1,081 | 247 | 3,770 | 73 | 24 | 131 |
| Total sample: | 56 | 17 | 120 | 2 | 10 | 7 |
| Total awards in population: | \$4,121,050 | \$178,600 | \$18,485,504 | \$137,077 | \$48,000 | \$270,575 |
| Total awards in sample: | \$ 226,024 | \$ 13,000 | \$ 556,161 | \$ 1,394 | \$20,000 | \$ 14,000 |
| Instances of noncompliance: | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts of noncompliance: | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

X. UNIVERSE OF STUDENTS ENROLLED, GRADUATED OR ON AN APPROVED LEAVE OF ABSENCE

| AWARD YEAR 2011-12 | <u>Pell</u> | <u>FSEOG</u> | <u>FDSL</u> | <u>FWS</u> | <u>TEACH</u> | <u>FPL</u> |
|-----------------------------|-------------|--------------|--------------|------------|--------------|------------|
| Total population: | 984 | 234 | 3,491 | 72 | 23 | 123 |
| Total sample: | 53 | 16 | 114 | 2 | 10 | 7 |
| Total awards in population: | \$3,885,271 | \$171,800 | \$17,756,928 | \$135,610 | \$46,000 | \$261,743 |
| Total awards in sample: | \$ 218,424 | \$ 12,200 | \$ 532,084 | \$ 1,394 | \$20,000 | \$ 14,000 |
| Instances of noncompliance: | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts of noncompliance: | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

XI. UNIVERSE OF STUDENTS WHO WITHDREW, DROPPED OR WERE TERMINATED

| AWARD YEAR 2011-12 | <u>Pell</u> | <u>FSEOG</u> | <u>FDSL</u> | <u>FWS</u> | <u>TEACH</u> | <u>FPL</u> |
|-----------------------------|-------------|--------------|-------------|------------|--------------|------------|
| Total population: | 97 | 13 | 279 | 1 | 1 | 8 |
| Total sample: | 3 | 1 | 6 | 0 | 0 | 0 |
| Total awards in population: | \$235,779 | \$6,800 | \$728,576 | \$1,467 | \$2,000 | \$8,832 |
| Total awards in sample: | \$ 7,600 | \$ 800 | \$ 24,077 | \$ 0 | \$ 0 | \$ 0 |
| Instances of noncompliance: | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts of noncompliance: | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

XII. CORRECTIVE ACTION PLAN

No findings noted, correction plan not required.

SOUTHEASTERN UNIVERSITY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SPECIFIC STATE STUDENT FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2012

I. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

No findings.

II. REPORTING

No findings.

III. STUDENT ELIGIBILITY

No findings.

IV. DISBURSEMENTS

No findings.

V. REFUNDS

No findings.

VI. CASH MANAGEMENT

No findings.

VII. OTHER

No findings.

VIII. SUMMARY

| 2011-12 | FRAG | FSAG | FFMT | CDDV | MARTI | Florida Bright Futures | | |
|-----------------------------|-------------|-----------|----------|----------|---------|------------------------|-------------|-----------|
| | | | | | | FGSVSA | FMSA | FASA |
| Total population: | 1,249 | 248 | 3 | 3 | 1 | 12 | 503 | 107 |
| Total sample: | 109 | 55 | 3 | 3 | 1 | 10 | 50 | 28 |
| Total awards in population: | \$2,354,083 | \$267,295 | \$10,000 | \$13,272 | \$2,000 | \$19,760 | \$1,053,056 | \$315,928 |
| Total awards in sample: | \$ 210,606 | \$ 58,200 | \$10,000 | \$13,272 | \$2,000 | \$17,024 | \$ 98,496 | \$85,345 |
| Instances of noncompliance: | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts of noncompliance: | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

SOUTHEASTERN UNIVERSITY, INC.

**AUDITOR'S COMMENTS ON AUDIT RESOLUTION MATTERS RELATING
TO THE STATE STUDENT FINANCIAL ASSISTANCE PROGRAMS
PRIOR YEAR FINDINGS**

I. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

No findings.

II. REPORTING

No findings.

III. STUDENT ELIGIBILITY

No findings

IV. DISBURSEMENTS

No findings.

V. REFUNDS

No findings.

VI. CASH MANAGEMENT

No findings.

VII. OTHER

No findings.

SOUTHEASTERN UNIVERSITY, INC.

Report to the Board of Regents

JUNE 30, 2012

Board of Regents
Southeastern University, Inc.
Lakeland, Florida

We are pleased to report that we have completed our engagement to examine the financial statements of **Southeastern University, Inc.** (the "University") and have issued our report thereon, dated October 11, 2012.

Our report has been completed without qualification or exception.

Baylis & Company PA is privileged to have the opportunity to assist the University in the important responsibility of reporting the financial results of its operations for the recent fiscal period. The information contained in the financial reports will assist the Board of Regents as it monitors and plans the financial activities of the University.

This report provides the members of the Board of Regents further insight into our audit processes and conclusions and is intended solely for its use internally.

Finally, we are proud of our working relationship with the University and appreciate the cooperation we received from the staff in the performance of this engagement and look forward to continuing our professional relationship in the future.

As always, we stand ready to answer any questions you may have regarding our report or any other matter.

Baylis & Company PA

Certified Public Accountants

October 11, 2012



SOUTHEASTERN UNIVERSITY, INC.
Report to the Board of Regents
For the Year Ended June 30, 2012

SCOPE OF EXAMINATION

We have audited the financial statements of **Southeastern University, Inc.** (the "University") whose headquarters is located in Lakeland, Florida, as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated October 11, 2012.

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 and our report was rendered without qualification.

Management cooperated fully with our audit team and we had no disagreements concerning accounting or auditing procedures. We were provided access to all records, documents and other supporting data that we requested, and no restrictions were imposed on the method or extent of our work.

REQUIRED COMMENTS/DISCLOSURES

Professional standards require the auditor to determine that certain matters are communicated to the audit committee or its equivalent. Other comments are for the general use and consideration of the Board of Regents.

Auditor's Responsibility Under Generally Accepted Auditing Standards

We are responsible for performing an audit in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable, not absolute, assurance about whether the financial statements are free of material misstatement. An audit of the financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. An audit of financial statements, however, does not include a detail audit of transactions as would be necessary to disclose defalcations or other misappropriations that do not cause a material misstatement of the financial statements.

Significant Accounting Policies

There have not been any initial selections of, or changes in, significant accounting policies during the year. In addition, there have not been any controversial or emerging areas for which there is a lack of authoritative guidance or consensus for which the significant accounting policy selected would have a significant effect. The significant accounting policies of the University are discussed in the footnotes to the financial statements.

Management Judgment and Accounting Estimates

Estimates are an integral part of preparing the financial statements. These estimates are based upon management's current judgments, which include the knowledge and experience about past and current events.

Significant Audit Adjustments

There were no significant audit adjustments made to the financial statements of the University for the year ended June 30, 2012 as a result of our audit.



SOUTHEASTERN UNIVERSITY, INC.
Report to the Board of Regents
For the Year Ended June 30, 2012

Disagreements with Management or Difficulties Encountered in Performing the Audit

Management cooperated fully with our audit team, and we had no disagreements concerning accounting matters or difficulties in dealing with management relating to the performance of auditing procedures.

Consultation with Other Independent Accountants

We are not aware that management consulted with other accountants regarding accounting, auditing or reporting issues relative to our audit of the June 30, 2012 financial statements of the University.

Major Issues Discussed with Management Prior to Engagement as Independent Accountants

No major accounting or reporting issues were discussed with management prior to our engagement as independent accountants for the University for the year ended June 30, 2012.

Significant Deficiencies in the Design or Operation of the Control Structure

Our review and evaluation of the internal control over financial reporting disclosed no condition that we believe to be a material weakness.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in performing the audit. Management provided adequate and timely access to all necessary audit information.

Consideration of Fraud

Professional standards require the auditor to communicate to the audit committee any fraud involving senior management and fraud that causes a material misstatement of the financial statements. These standards clarify the auditor's responsibility for detection of fraud, which has been expanded in description to include both fraudulent financial reporting and misappropriations.

We did not note any incidence of fraud during the course of our audit. Further, we did not note any fraud risk factors which would have continuing control implications.

Illegal Acts

Professional standards require the auditor to communicate to the audit committee any illegal acts involving senior management that come to the auditor's attention and to obtain assurance that the audit committee is adequately informed about any other illegal acts that come to the auditor's attention unless clearly inconsequential. Matters to be communicated in accordance with these standards are as follows:

We did not note any illegal acts during the course of our audit.



SOUTHEASTERN UNIVERSITY, INC.
Report to the Board of Regents
For the Year Ended June 30, 2012

Consulting Services

Independent accounting and auditing firms often gain substantial insight into the “best practices” of many organizations which they are privileged to provide professional services. To the extent these practices are general and non-proprietary in nature, they apply to all types of organizations. Business schools, trade associations and leadership groups often share this information in a continuous effort to improve and develop organizations.

These insights can be of substantial benefit to organizations seeking to improve their operations or financial results, particularly if they come from trusted advisors, such as independent certified public accountants.

During the course of the engagement period, management may engage our firm to perform consulting services, which are beyond the scope of the normal audit engagement.

We do not consider such services to be significant in scope nor to impair our independence or objectivity.

During the period ended June 30, 2012, consulting services performed were less than \$2,700.

MANAGEMENT LETTER COMMENTS

In planning and performing our audit of the financial statements of University for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University’s financial statements will not be prevented, or detected and corrected on a timely basis. We identified no deficiencies in internal control that we consider to be significant deficiencies.

However, our general comments are summarized below:



SOUTHEASTERN UNIVERSITY, INC.
Report to the Board of Regents
For the Year Ended June 30, 2012

PRIOR YEAR RECOMMENDATIONS (current year comments in *italics*)

CASH ACCOUNTS

During the course of our fieldwork, we noted that the bank reconciliations contained outstanding checks greater than six months old. Management should review old outstanding checks and authorize voiding and/or reissuing checks for those items outstanding longer than six months.

We noted no outstanding checks greater than six months old at year end. We encourage management to continue to monitor outstanding checks to assure that stale checks do not accumulate in the future.

PAYROLL

During the course of our fieldwork, we noted 8 out of 25 instances of incorrect procedures in completing Form I-9, Employment Eligibility Verification. Two forms were completed by the new employee but were not signed by a representative of the University. Six forms did not record eligibility documentation in the proper combinations of acceptable documents from lists A, B and C. We recommend that staff responsible for preparation of these forms assure that they are properly completed.

We noted no exceptions during the current year.

RECORD KEEPING

During our testing, staff experienced difficulties in retrieving certain records needed for our audit. There were 8 students tested whose the high school transcripts either could not be located or did not have final graduation date. These were subsequently obtained again from the students. Some other documents were not readily located when initially requested.

We noted significant improvement during the year. Some high school transcripts were again unable to be located and subsequently obtained from students in our state financial assistance sample, after our initial request. Due to the requirement that a student have a high school diploma or equivalent in order to receive federal financial aid, we recommend that the University assure that final proof of graduation should be readily available for all students.

STUDENT REFUNDS

During our testing of student refunds, we noted that refund approvals do not have a clear authorization trail. Documents appear to be reviewed by the various departments involved, but the approval process does not include signatures that clearly denote authorization for the refunds.

There were no exceptions noted in the current year.



SOUTHEASTERN UNIVERSITY, INC.
Report to the Board of Regents
For the Year Ended June 30, 2012

CURRENT YEAR RECOMMENDATIONS

None noted

GENERAL COMMENT

PLAN FOR DEBT REPAYMENT

We continue to encourage the University to develop a plan to reduce or eliminate the outstanding debt. Given the current economic conditions and their effect on long term inflation and interest rates, the cost of carrying debt over an extended period of time may become significantly more expensive than the current cost. In addition, it takes several years to plan for and execute a large capital campaign for mortgage reduction or elimination.

SUMMARY

Our comments and/or recommendations have been discussed with the appropriate members of management and we would be pleased to review these matters in further detail at your convenience. This report is intended solely for the information and use of the Board of Regents, management, and others within the University. This restriction is not intended to limit distribution of this report, which upon acceptance by the Board of Regents, is a matter of public record.

We would like to thank the staff and management for their support and assistance during our engagement and we look forward to continuing our working relationship in the future.

