

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

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE AWARD YEAR ENDED  
JUNE 30, 2011**

**OCTOBER 20, 2011**

**SOUTHEASTERN UNIVERSITY, INC.**  
 1000 LONGFELLOW BOULEVARD  
 LAKELAND, FLORIDA 33801  
 OPE ID NUMBER: 00152100  
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 PRESIDENT: DR. KENT INGLE  
 CONTACT PERSON & TITLE: DR. DAN MORTENSEN  
 VICE PRESIDENT FOR FINANCE AND ADMINISTRATIVE SERVICES

LEAD AUDITOR: Lita J. McHugh, CPA  
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 LICENSE NUMBER: 33810  
 FIRM'S NAME: Baylis & Company PA, CPAs  
 ADDRESS: 53 Lake Morton Dr., Lakeland, FL 33801  
 TELEPHONE NO.: (863) 688-8841 FAX NO.: (863) 687-1828

Programs Examined: (Check as Applicable)

FSEOG	84.007	<u>  X  </u>
FFELP	84.032	<u>      </u>
FWS	84.033	<u>  X  </u>
FPL	84.038	<u>  X  </u>
Pell	84.063	<u>  X  </u>
Byrd	84.185A	<u>  X  </u>
FDSL	84.268	<u>  X  </u>
ACG	84.375	<u>  X  </u>
SMART	84.376	<u>  X  </u>
TEACH	84.379	<u>  X  </u>

For the Award Year that ended during the Institution's fiscal year, the percentage of:

Correspondence or telecommunication courses to total courses	<u>  N/A  </u>
Regular students enrolled in correspondence courses	<u>  N/A  </u>
Regular students are incarcerated	<u>  N/A  </u>
Regular students enrolled based on ability to benefit	<u>  N/A  </u>
For short term programs:	<u>  N/A  </u>
Completion	<u>  N/A  </u>
Placement	<u>  N/A  </u>

The campuses/locations considered as part of this entity and covered by this examination are:

<u>  All Locations  </u>	<u>&gt;50% of Program Offered @ Site</u>	<u>Location On Eligibility Letter</u>	<u>Notice to ED Prior to Offering Instruction</u>	<u>  Date  </u>		<u>of CPA's Last Visit</u>	<u>Exclusion Reason</u>
				<u>  Opened  </u>	<u>  Closed  </u>		
1000 Longfellow Blvd	Yes	Yes	Yes	<u>      </u>	<u>      </u>	10/20/11	N/A

Institution's Primary Accrediting Organization: Southern Association of Colleges and Schools

The entity utilizes a SFA Servicer – Educational Loan Servicing, LLC (d/b/a Campus Partners), in connection with its System III Loan Servicing System. The following functions are provided by this Servicer:

- Billing
- Collection
- Borrower contact (grace expiration notices)
- Due diligence contacts, urgent messages, demand letters, and acceleration notices

The Auditors' Report on Federal Perkins Loan Program Report on Compliance Attestation Examination of the Title IV Student Financial Assistance Programs and Report on Controls Placed in Operation and Tests of Operating Effectiveness prepared by Porter Keadle Moore, LLP was obtained, reviewed, and has been attached hereto.

Records for the accounting and administration of the SFA programs are located at:  
 1000 Longfellow Blvd., Lakeland, Florida 33801

## CONTENTS

	<u>Page</u>
<b>FINANCIAL STATEMENTS</b>	
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 - 27
<b>OTHER FINANCIAL INFORMATION</b>	
Schedule of Expenditures of Federal and State Awards	28
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>	29 - 30
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>	31 - 33
Summary Schedules A, B and C	34
Schedule of Findings and Questioned Costs for the Year Ended June 30, 2011	35 - 38
Auditor's Comments on Audit Resolution Matters Relating to the Student Financial Assistance Programs - Prior Year Findings	39
Schedule of Findings and Questioned Costs - Specific State Student Financial Assistance for the Year Ended June 30, 2011	40
Auditor's Comments on Audit Resolution Matters Relating to the State Student Financial Assistance Programs - Prior Year Findings	41
<b>INDEPENDENT AUDITOR'S MANAGEMENT LETTER</b>	42 - 49
<b>STATEMENT OF EXPLANATION OR REBUTTAL FROM AUDITED OFFICIAL</b>	50 - 52

## 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, 2011 and 2010, and the related statement of activities for the one year ended June 30, 2011, and the statement of cash flows for the two years ended June 30, 2011 and 2010. 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 2010 financial statements and, in our report dated October 4, 2010, 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, 2011 and 2010, and the changes in its net assets for the one year ended June 30, 2011, and its cash flows for the two years ended June 30, 2011 and 2010, 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 20, 2011 on our consideration of **Southeastern University, Inc.**'s internal control over financial reporting and 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 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 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 20, 2011



**SOUTHEASTERN UNIVERSITY, INC.**

**STATEMENT OF FINANCIAL POSITION**

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents, unrestricted, Note A	\$10,242,058	\$ 7,202,097
Cash and cash equivalents, restricted, Note A	1,216,656	1,221,011
Student accounts receivable, current portion	1,017,184	1,012,787
Due from federal or state grants	1,161,644	294,062
Other receivables	275,052	863,589
Other current assets	117,410	407,794
Student loans receivable, current portion	128,823	128,823
Prepaid expenses	487,744	555,130
Total current assets	<u>14,646,571</u>	<u>11,685,293</u>
<b>PROPERTY AND EQUIPMENT</b> , net, Notes A and D	<u>53,634,259</u>	<u>56,744,027</u>
<b>INVESTMENTS</b> , Notes I and R	<u>15,377,222</u>	<u>14,276,820</u>
<b>OTHER ASSETS</b>		
Student accounts receivable, Note B	184,855	143,533
Student loans receivable, Note C	1,459,922	1,524,635
Other assets	12,157	9,211
Total other assets	<u>1,656,934</u>	<u>1,677,379</u>
<b>TOTAL ASSETS</b>	<b><u>\$85,314,986</u></b>	<b><u>\$84,383,519</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Student accounts receivable credit balances	\$ 993,286	\$ 880,956
Accounts payable and accrued expenses	1,829,659	2,365,880
Deferred tuition	718,517	759,470
Deferred revenue, current portion	127,189	210,187
Deposits held for others	58,571	71,969
Line of credit, Notes E and M	-	-
Notes payable, current portion	57,563	229,064
Bonds payable, current portion	1,045,000	995,000
Total current liabilities	<u>4,829,785</u>	<u>5,512,526</u>
<b>LONG TERM LIABILITIES</b>		
Notes payable, Note E	112,725	177,867
Bonds payable, Note P	34,460,000	35,505,000
Other liabilities, Notes P and R	3,477,622	3,780,489
Deferred revenue, Note O	1,212,987	1,340,176
Refundable government student loans, Note C	1,452,856	1,457,402
Total long term liabilities	<u>40,716,190</u>	<u>42,260,934</u>
<b>TOTAL LIABILITIES</b>	<u>45,545,975</u>	<u>47,773,460</u>
<b>NET ASSETS</b>		
Unrestricted, Note A:		
Undesignated	4,197,472	1,694,574
Board designated, Note Q	4,692,428	3,758,554
Net investment in property and equipment	14,481,350	16,056,607
Net investment in student loan program	218,937	218,937
Total unrestricted	<u>23,590,187</u>	<u>21,728,672</u>
Temporarily restricted, Notes A and K	13,020,878	12,527,809
Permanently restricted, Notes A and L	3,157,946	2,353,578
Total net assets	<u>39,769,011</u>	<u>36,610,059</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$85,314,986</u></b>	<b><u>\$84,383,519</u></b>

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

**SOUTHEASTERN UNIVERSITY, INC.**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2011, WITH COMPARATIVE TOTALS FOR 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
<b>REVENUE AND OTHER SUPPORT</b>					
Tuition and fees	\$39,462,329	\$ -	\$ -	\$39,462,329	\$38,116,070
Less institutional aid and scholarships	<u>(6,745,871)</u>	<u>(131,091)</u>	<u>-</u>	<u>(6,876,962)</u>	<u>(6,322,204)</u>
Net tuition and fees	32,716,458	(131,091)	-	32,585,367	31,793,866
Federal and state grants	52,341	94,390	-	146,731	465,390
Sales and services of auxiliary enterprises	10,258,279	-	-	10,258,279	10,374,351
Private gifts, bequests and grants	681,493	512,470	297,727	1,491,690	1,411,296
Net investment income	-	301,579	506,641	808,220	541,105
Interest on cash investments	716,228	-	-	716,228	293,748
Student loan interest	27,110	-	-	27,110	14,146
Other sources	1,799,174	-	-	1,799,174	1,976,039
Gain (loss) on disposition of property and equipment	<u>(22,260)</u>	<u>-</u>	<u>-</u>	<u>(22,260)</u>	<u>(44,176)</u>
Total revenue and other support	<u>46,228,823</u>	<u>777,348</u>	<u>804,368</u>	<u>47,810,539</u>	<u>46,825,765</u>
<b>EXPENSES</b>					
Educational and general:					
Instructional	12,733,007	-	-	12,733,007	12,019,567
Academic support	2,554,985	-	-	2,554,985	2,668,440
Student services	8,131,609	232,094	-	8,363,703	9,509,662
Institutional support	8,321,998	-	-	8,321,998	7,902,955
Operation and maintenance of plant	2,736,428	-	-	2,736,428	2,439,807
Auxiliary enterprises	9,088,759	-	-	9,088,759	9,443,033
Other expenditures	<u>1,103,389</u>	<u>26,773</u>	<u>-</u>	<u>1,130,162</u>	<u>1,144,211</u>
Total expenses	<u>44,670,175</u>	<u>258,867</u>	<u>-</u>	<u>44,929,042</u>	<u>45,127,675</u>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b><u>\$ 1,558,648</u></b>	<b><u>\$ 518,481</u></b>	<b><u>\$ 804,368</u></b>	<b><u>\$ 2,881,497</u></b>	<b><u>\$ 1,698,090</u></b>
<b>NET ASSETS, beginning of year</b>	<b><u>\$21,728,672</u></b>	<b><u>\$12,527,809</u></b>	<b><u>\$ 2,353,578</u></b>	<b><u>\$36,610,059</u></b>	<b><u>\$36,585,605</u></b>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<b>1,558,648</b>	<b>518,481</b>	<b>804,368</b>	<b>2,881,497</b>	<b>1,698,090</b>
Fair value adjustment related to long-term investment	-	(25,412)	-	(25,412)	(143,147)
Fair value adjustment for bonds payable	<u>302,867</u>	<u>-</u>	<u>-</u>	<u>302,867</u>	<u>(1,530,489)</u>
<b>NET ASSETS, end of year</b>	<b><u>\$23,590,187</u></b>	<b><u>\$13,020,878</u></b>	<b><u>\$ 3,157,946</u></b>	<b><u>\$39,769,011</u></b>	<b><u>\$36,610,059</u></b>

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

**SOUTHEASTERN UNIVERSITY, INC.**

**STATEMENT OF CASH FLOWS**

	<b>Years Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets from operating activities	\$ 2,881,497	\$ 1,698,090
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	4,889,111	4,884,216
Amortization	44,851	41,299
(Gain) loss on disposition of property and equipment	22,260	44,176
Net realized (gain) loss on investments	-	2,297
Net unrealized (gain) loss on investments	(716,498)	(452,719)
Contributions restricted for endowment	(297,727)	(37,674)
Changes in operating assets and liabilities:		
(Increase) decrease in student accounts receivable, loans receivable, other receivables and due from federal or state grants	(260,051)	(357,944)
(Increase) decrease in pledges receivable	-	8,000,000
(Increase) decrease in prepaid expenses	67,386	12,100
(Increase) decrease in other current assets	290,384	(92,750)
Increase (decrease) in student accounts receivable credit balances	112,330	(273,798)
Increase (decrease) in accounts payable and accrued expenses	(536,221)	66,498
Increase (decrease) in deferred tuition and grant revenue	(40,953)	132,252
Increase (decrease) in deposits held for others	(13,398)	(33,128)
Increase (decrease) in refundable government student loans	(4,546)	50,915
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>6,438,425</b>	<b>13,683,830</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,852,804)	(4,121,682)
Proceeds from sale of property and equipment	6,350	17,600
Proceeds from sale of investments	104,511	97,889
Purchase of investments	(516,773)	(10,316,631)
Contributions restricted for endowment	297,727	37,674
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(1,960,989)</b>	<b>(14,285,150)</b>
<b>FINANCING ACTIVITIES</b>		
(Decrease) in deferred revenue, current and long term	(210,187)	(127,189)
Principal payments on revolving line of credit and long term borrowings	(1,231,643)	(1,132,357)
Proceeds from long term borrowings	-	169,000
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(1,441,830)</b>	<b>(1,090,546)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,035,606</b>	<b>(1,691,866)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>8,423,108</b>	<b>10,114,974</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$11,458,714</b>	<b>\$ 8,423,108</b>
<b>NON CASH FINANCING ACTIVITIES:</b>		
Fair value adjustment on long-term investments	<b>\$ (25,412)</b>	<b>\$ (143,147)</b>
Fair value adjustment for mark-to-market for interest rate swap agreement	<b>\$ 302,867</b>	<b>\$ (1,530,489)</b>

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

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**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 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. Contact the Commission on Colleges at 1866 Southern Lane, Decatur, Georgia 30033-4097 or call (404) 679-4500 for questions about the accreditation of Southeastern University.

**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.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Unrestricted Net Assets - Continued**

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

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

**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.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**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.

**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, 2011 and 2010, was \$266,609 and \$294,804, respectively. At June 30, 2011, the University had cash of \$81,042 that was required to be held in separate accounts.

**Pledge Receivable**

The University received a multi-year pledge from an individual during the year ended June 30, 2009, to be paid over five years. The pledge proceeds are to be used for future debt reduction. The pledge was recorded as temporarily restricted revenue at the time the pledge was made. The payments were to be made annually and the first payment was received during February 2009. The pledge receivable was paid in full in November 2009. As the University remits debt reduction payments, the restrictions will be considered released and the amount used to pay off debt will be recorded on the statement of activities as net assets released from restrictions.

**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 fees are recorded as deferred tuition and as they are earned they are recognized as tuition and fees revenue.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**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 \$10,727,082 and \$8,193,614 in excess of federally insured or other insured limits as of June 30, 2011 and 2010, 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).

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 2008 through 2010 are open to examination by the Internal Revenue Service as of June 30, 2011.

**Reclassification**

Certain 2010 items may have been reclassified to conform with the 2011 presentation.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**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, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Accounts receivable	\$2,115,213	\$ 1,992,379
Less allowance for doubtful accounts	<u>(913,174)</u>	<u>(836,059)</u>
	1,202,039	1,156,320
Less portion considered current	<u>(1,017,184)</u>	<u>(1,012,787)</u>
Total long term portion	<u>\$ 184,855</u>	<u>\$ 143,533</u>

**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, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Loans receivable, current portion	\$ 128,823	\$ 128,823
Loans receivable, long term portion	<u>1,459,922</u>	<u>1,524,635</u>
Total	<u>\$1,588,745</u>	<u>\$1,653,458</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, 2011 and 2010 was \$1,452,856 and \$1,457,402, 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, 2011.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE C - STUDENT LOANS RECEIVABLE AND GRANTS - CONTINUED**

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 year ended June 30, 2011 and 2010. The U.S. Government contributed \$135,134 and \$162,299 during the years ended June 30, 2011 and 2010, respectively. Of the \$162,229 received during the year ended June 30, 2010, \$33,842 was part of the American Recovery and Reinvestment Act (ARRA) funding for Federal Work-Study. No ARRA funding was received during the year ended June 30, 2011.
- (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 year ended June 30, 2011 and 2010. The U.S. Government contributed \$188,599 and \$211,600 during the years ended June 30, 2011 and 2010, respectively.
- (3) Federal Pell Grant Program - All contributions to this program are made by the U.S. Government. The U.S. Government contributed \$4,473,025 and \$3,817,663 during the years ended June 30, 2011 and 2010, 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 \$132,262 and \$117,512 during the years ended June 30, 2011 and 2010, respectively.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE C - STUDENT LOANS RECEIVABLE AND GRANTS - CONTINUED**

- (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 \$58,000 and \$60,000 during the years ended June 30, 2011 and 2010, 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 \$4,954,192 and \$5,133,585 during the years ended June 30, 2011 and 2010, respectively.

**NOTE D - INVESTMENT IN PROPERTY AND EQUIPMENT**

Investment in property and equipment, at cost, consists of the following at June 30, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>	<u>Estimated Useful Lives</u>
Land	\$ 5,694,786	\$ 5,694,786	-
Construction and renovations in progress	43,673	406,894	-
Buildings and improvements	67,517,221	66,054,089	5 - 50 years
Furniture, fixtures, equipment and vehicles	10,557,951	11,082,084	3 - 20 years
Library books	3,098,369	2,729,949	10 years
	<u>86,912,000</u>	<u>85,967,802</u>	
Less accumulated depreciation	<u>(33,277,741)</u>	<u>(29,223,775)</u>	
Total	<u>\$ 53,634,259</u>	<u>\$ 56,744,027</u>	

Depreciation expense was \$4,889,111 and \$4,884,216 for the years ended June 30, 2011 and 2010, respectively.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE E - NOTES PAYABLE**

Notes payable consist of the following as of June 30, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
1) 7.36% manufacturer's equipment financing, payable \$7,684 per month, principal and interest, through July 2011, collateralized by the phone system, with a net book value of \$172.	\$ -	\$ 95,738
2) 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 \$20,514.	29,455	142,193
3) 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 \$203,836.	140,833	169,000
4) Prime interest rate unsecured line of credit to bank, authorized limit of \$2,000,000, interest payable monthly, principal due on demand (See Note M).	<u>-</u>	<u>-</u>
Total	170,288	406,931
Less portion considered current	<u>(57,563)</u>	<u>(229,064)</u>
Total long term notes payable	<u>\$ 112,725</u>	<u>\$ 177,867</u>

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE E - NOTES PAYABLE - CONTINUED**

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>
2012	\$ 57,563
2013	28,167
2014	28,167
2015	28,167
2016	28,224
Thereafter	<u>-</u>
Total	<u>\$170,288</u>

Interest paid was \$10,200 and \$23,775 for the years ending June 30, 2011 and 2010, respectively.

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.

**NOTE F - RETIREMENT PLAN**

The University has a defined contribution retirement plan for all academic and nonacademic personnel. Total retirement plan expense for the years ended June 30, 2011 and 2010 was \$871,598 and \$813,640, 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 G - COMPENSATED ABSENCES**

The University's liability for compensated absences was \$275,229 and \$290,822 which was included in accounts payable and accrued expenses as of June 30, 2011 and 2010, 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.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE H - 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 I - 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, 2011 and 2010, respectively:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Unrestricted	\$ 793,968	\$ 1,184,400	\$ 699,503	\$ 1,089,935
Temporarily restricted	11,203,365	9,831,441	10,913,964	9,856,853
Permanently restricted	<u>2,133,964</u>	<u>4,361,381</u>	<u>2,202,958</u>	<u>3,330,032</u>
	<u>\$14,131,297</u>	<u>\$15,377,222</u>	<u>\$13,816,425</u>	<u>\$14,276,820</u>

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

Investments are composed of the following at June 30, 2011 and 2010, respectively:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
The Common Fund - Equity Fund	\$ 2,730,245	\$ 3,988,762	\$ 2,398,879	\$ 2,885,452
The Common Fund - Bond Fund	1,401,052	1,557,019	1,417,546	1,534,515
AG Financial Series D Investments	<u>10,000,000</u>	<u>9,831,441</u>	<u>10,000,000</u>	<u>9,856,853</u>
	<u>\$14,131,297</u>	<u>\$15,377,222</u>	<u>\$13,816,425</u>	<u>\$14,276,820</u>

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE I - INVESTMENTS - CONTINUED**

Investment income is composed of the following at June 30, 2011 and 2010, respectively:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
Interest and dividends	\$ -	\$110,906	\$ -	\$110,906	\$107,013
Net realized gain (loss)	-	-	-	-	(2,297)
Net unrealized gain (loss)	-	209,857	506,641	716,498	452,719
Investment expenses	-	(19,184)	-	(19,184)	(16,330)
Total	<u>\$ -</u>	<u>\$301,579</u>	<u>\$506,641</u>	<u>\$808,220</u>	<u>\$541,105</u>

Interest and dividend income received, net of investment expenses, was \$91,722 and \$90,683 for the years ended June 30, 2011 and 2010, respectively.

**NOTE J - 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.

**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%

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE J - ENDOWMENT FUND - CONTINUED**

**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).

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:

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE J - ENDOWMENT FUND - CONTINUED**

Investor Responsibility - Continued

- 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	\$1,089,935	\$ -	\$ -	\$1,089,935
Donor restricted	-	1,297,900	3,157,946	4,455,846
Total endowment	<u>\$1,089,935</u>	<u>\$1,297,900</u>	<u>\$3,157,946</u>	<u>\$5,545,781</u>

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	-	-	-	-
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	-	(3,595)	-	(3,595)
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, 2011**

**NOTE J - ENDOWMENT FUND - CONTINUED**

Changes in endowment net assets for the year ended June 30, 2010 consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at beginning of year	\$ -	\$1,703,105	\$2,047,698	\$3,750,803
Investment return:				
Investment income	-	107,013	-	107,013
Investment advisor fees charged to income	-	(16,330)	-	(16,330)
Net appreciation (realized and unrealized)	-	182,216	268,206	450,422
Investment advisor fees charged to principal	-	-	-	-
Total investment return	-	272,899	268,206	541,105
New gifts	-	313,290	37,674	350,964
Endowment net assets released from time restrictions	1,089,935	(1,089,935)	-	-
Appropriation of endowment assets for expenditures	-	(222,905)	-	(222,905)
Net assets at end of year	<u>\$1,089,935</u>	<u>\$ 976,454</u>	<u>\$2,353,578</u>	<u>\$4,419,967</u>

**NOTE K - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following as of June 30, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Contributions restricted for debt reduction	\$ 9,902,559	\$ 9,926,267
Contributions restricted for specific projects	2,814,788	2,408,349
Contributions restricted for specific scholarship programs	252,071	141,733
Contributions for capital improvements	51,460	51,460
Total	<u>\$13,020,878</u>	<u>\$12,527,809</u>

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**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 \$3,157,946 and \$2,353,578 as of June 30, 2011 and 2010, respectively.

**NOTE M - COMMITMENTS AND CONTINGENCIES**

Line of Credit

As of June 30, 2011, 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 E). 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 \$4,342,002, respectively. Outstanding balances are paid off monthly.

Leases

The University has multiple non-cancelable lease agreements for various office equipment, computers, facilities and vehicles. The lease payments range from \$160 - \$30,960 per month for 12 to 60 months. The lease expense under these leases was \$878,379 and \$710,694 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments under these leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 688,444
2013	598,896
2014	119,244
2015	-
2016	-
Thereafter	-
Total	<u>\$1,406,584</u>

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE M - COMMITMENTS AND CONTINGENCIES - CONTINUED**

**Subsequent Events**

Management has evaluated subsequent events through October 20, 2011, 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.

**NOTE N - 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 O - 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.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE O - DEFERRED REVENUE - CONTINUED**

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.

	<u>Chartwells 2011</u>	<u>Follett 2011</u>	<u>Total</u>
Original amount	\$1,958,000	\$250,000	\$2,208,000
Less amounts amortized to date	<u>(761,574)</u>	<u>(106,250)</u>	<u>(867,824)</u>
Subtotal	1,196,426	143,750	1,340,176
Less current portion	<u>(77,189)</u>	<u>(50,000)</u>	<u>(127,189)</u>
Total long term deferred revenue	<u>\$1,119,237</u>	<u>\$93,750</u>	<u>\$1,212,987</u>

Future recognition of deferred revenue is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$127,189
2013	127,189
2014	120,939
2015	77,189
2016	77,189
Thereafter	<u>810,481</u>
Total	<u>\$1,340,176</u>

**NOTE P - 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, 2011 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.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE P - BONDS PAYABLE - CONTINUED**

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

	<u>2011</u>
Bonds payable	\$35,505,000
Less portion considered current	<u>(1,045,000)</u>
Total	<u>\$34,460,000</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.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 1,045,000
2013	1,100,000
2014	1,160,000
2015	1,220,000
2016	1,285,000
Thereafter	<u>29,695,000</u>
Total	<u>\$35,505,000</u>

Interest paid was \$1,898,957 and \$2,080,382 for the years ending June 30, 2011 and 2010, 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.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE P - BONDS PAYABLE - CONTINUED**

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 \$30,000,000. This may be offset in part by a \$10,000,000 temporarily restricted fund established for the purpose of debt reduction.

As of June 30, 2011, the University would be required to pay an "unwind fee" of \$3,477,622, 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, 2011.

Amortization of financing costs was \$44,851 and \$41,299 for the years ended June 30, 2011 and 2010, respectively.

**NOTE Q - 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.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE Q - BOARD DESIGNATED NET ASSETS - CONTINUED**

In February 2010, the Board of Regents passed a resolution 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.

Board designated net assets consist of the following as of June 30, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Plant reserve	\$ 879,642	\$1,820,227
Campus improvements	2,801,010	1,408,247
President's discretionary	-	10,080
Capital projects	1,011,776	500,000
Other	-	20,000
	<u>\$4,692,428</u>	<u>\$3,758,554</u>

**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.

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.

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE R - FAIR VALUE MEASUREMENT - CONTINUED**

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, 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*	9,831,441	-	9,831,441	-
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 \$32,083 and a 2% penalty of \$200,642 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.

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, 2010:

	<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	\$ 2,885,452	\$2,885,452	\$ -	\$ -
Multi-strategy bond fund	1,534,515	1,534,515	-	-
2-year loan certificates*	9,856,853	-	9,856,853	-
Total financial assets	<u>14,276,820</u>	<u>4,419,967</u>	<u>9,856,853</u>	<u>-</u>
Total assets	<u>\$14,276,820</u>	<u>\$4,419,967</u>	<u>\$9,856,853</u>	<u>\$ -</u>
Liabilities:				
Obligation under derivative instrument**	<u>\$ 3,780,489</u>	<u>\$ -</u>	<u>\$3,780,489</u>	<u>\$ -</u>

**SOUTHEASTERN UNIVERSITY, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**JUNE 30, 2011**

**NOTE R - FAIR VALUE MEASUREMENT - CONTINUED**

\*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 \$96,139 and \$86,799 for production, DVD duplication and other services during the year ended June 30, 2011 and 2010, 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 AND STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA/CSFA Number</u>	<u>Expenditures</u>	***
<b>FEDERAL AWARDS</b>			
U.S. Department of Education:			
Student Financial Assistance – Cluster:			
Federal Supplemental Educational Opportunity Grant	84.007	\$ 188,599	
Federal Direct Student Loans	84.268	-	*
Federal Work-Study Program (includes administrative cost allowance of \$6,756)	84.033	135,134	
Federal Perkins Loan Program	84.038	205,500	**
Federal Pell Grant Program (includes administrative cost allowance of \$9,429 )	84.063	4,473,025	
Federal ACG Grant Program	84.375	132,262	
Federal SMART Grant Program	84.376	-	
Federal TEACH Grant Program	84.379	58,000	
Total U.S. Department of Education		<u>5,192,520</u>	
U.S. Department of Education passed through the			
Florida Department of Education:			
Student Financial Assistance – Cluster:			
Byrd Honors Scholarships	84.185A	35,250	
Total U.S. Department of Education Passed Through		<u>35,250</u>	
<b>Total Federal Awards</b>		<u>5,227,770</u>	
<b>STATE AWARDS</b>			
Florida Department of Education:			
Florida Resident Access Grant	48.064	2,812,104	
Florida Student Assistance Grant	48.054	292,674	
Florida Bright Futures Scholarship Program	48.059	1,820,441	
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	11,748	
Total Florida Department of Education		<u>4,948,967</u>	
Other State Assistance:			
Florida Department of Highway Safety and Motor Vehicles	76.060	5,225	
Total other State assistance		<u>5,225</u>	
Total State Awards		<u>4,954,192</u>	
<b>Total Federal and State Awards</b>		<u><b>\$10,181,962</b></u>	

\*The gross amount of loans approved by the University was \$19,550,000.

\*\*Value of new loans made during the year; the outstanding balance of loans receivable at June 30, 2011, was \$1,588,745.

\*\*\*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, 2011, and have issued our report thereon dated October 20, 2011. 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

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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 20, 2011.

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 20, 2011



**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, 2011. **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, 2011.



**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 20, 2011

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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

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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 20, 2011



**SOUTHEASTERN UNIVERSITY, INC.**  
 Summary Schedules A, B and C  
 Year Ended June 30, 2011

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	FDLP	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	
		Pell	SEOG	Perkins	Pell	SEOG	Perkins	ACG	SMART	FFEL	FDLP			FFEL	FDLP	FFEL	FDLP					FFEL
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, 2011**

**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, 84.032, 84.033, 84.038, 84.063, 84,268, 84.185T, 84.375, 84.376, 84.379	Title IV Student Financial Assistance Programs Cluster

**SOUTHEASTERN UNIVERSITY, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS - CONTINUED**

**State Projects:**

<b><u>CSFA Number(s)</u></b>	<b><u>Name of State Project</u></b>
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, 2011 - 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, 2011 - CONTINUED**

**IX. SUMMARY**

AWARD YEAR 2010-11	<u>Pell</u>	<u>FSEOG</u>	<u>FDSL</u>	<u>FWS</u>	<u>ACG</u>	<u>SMART</u>	<u>TEACH</u>	<u>FPL</u>	<u>Byrd</u>
Total population:	1,147	277	4,034	69	168	0	29	116	24
Total sample:	35	9	114	3	3	0	0	6	6
Total awards in population:	\$ 4,473,025	\$ 188,599	\$ 19,550,000	\$ 135,134	\$ 132,262	\$ 0	\$ 58,000	\$ 205,500	\$ 35,250
Total awards in sample:	\$ 113,332	\$ 5,600	\$ 510,849	\$ 7,053	\$ 3,350	\$ 0	\$ 0	\$ 9,500	\$ 9,000
Instances of noncompliance:	0	0	0	0	0	0	0	0	0
Amounts of noncompliance:	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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

AWARD YEAR 2010-11	<u>Pell</u>	<u>FSEOG</u>	<u>FDSL</u>	<u>FWS</u>	<u>ACG</u>	<u>SMART</u>	<u>TEACH</u>	<u>FPL</u>	<u>Byrd</u>
Total population:	1,116	272	3,932	69	159	0	29	113	24
Total sample:	31	8	101	3	3	0	0	6	6
Total awards in population:	\$ 4,401,209	\$ 186,599	\$ 19,302,067	\$ 135,134	\$ 129,262	\$ 0	\$ 58,000	\$ 202,500	\$ 35,250
Total awards in sample:	\$ 103,857	\$ 5,200	\$ 475,989	\$ 7,053	\$ 3,350	\$ 0	\$ 0	\$ 9,500	\$ 9,000
Instances of noncompliance:	0	0	0	0	0	0	0	0	0
Amounts of noncompliance:	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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

AWARD YEAR 2010-11	<u>Pell</u>	<u>FSEOG</u>	<u>FDSL</u>	<u>FWS</u>	<u>ACG</u>	<u>SMART</u>	<u>TEACH</u>	<u>FPL</u>	<u>Byrd</u>
Total population:	31	5	102	0	9	0	0	3	0
Total sample:	4	1	13	0	0	0	0	0	0
Total awards in population:	\$ 71,816	\$ 2,000	\$ 247,933	\$ 0	\$ 3,000	\$ 0	\$ 0	\$ 3,000	\$ 0
Total awards in sample:	\$ 9,475	\$ 400	\$ 34,860	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Instances of noncompliance:	0	0	0	0	0	0	0	0	0
Amounts of noncompliance:	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

**XII. CORRECTIVE ACTION PLAN**

No findings noted, correction plan not required.

**SOUTHEASTERN UNIVERSITY, INC.**

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

**SECTION I - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION II - 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**  
**SPECIFIC STATE STUDENT FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**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**

2010-11	FRAG	FSAG	FFMT	CDDV	MARTI	Florida Bright Futures		
						FGSVSA	FMSA	FASA
Total population:	1,306	283	3	3	1	11	507	118
Total sample:	101	52	3	3	1	10	50	30
Total awards in population:	\$2,812,104	\$292,674	\$10,000	\$11,748	\$2,000	\$29,704	\$1,369,862	\$420,875
Total awards in sample:	\$ 223,447	\$ 52,911	\$10,000	\$11,748	\$2,000	\$26,508	\$ 141,188	\$108,125
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, 2011**

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 20, 2011.

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 20, 2011



**SOUTHEASTERN UNIVERSITY, INC.**  
**Report to the Board of Regents**  
**For the Year Ended June 30, 2011**

**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, 2011, and have issued our report thereon dated October 20, 2011.

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, 2011 as a result of our audit.



**SOUTHEASTERN UNIVERSITY, INC.**

**Report to the Board of Regents  
For the Year Ended June 30, 2011**

***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, 2011 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, 2011.

***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, 2011**

***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, 2011, consulting services performed were less than \$7,000.

**MANAGEMENT LETTER COMMENTS**

In planning and performing our audit of the financial statements of University for the year ended June 30, 2011, 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 *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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, 2011**

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

**RECONCILING GENERAL LEDGER ITEMS**

It was noted during the current year that the Business Office was not continuously reconciling general ledger accounts and all cash accounts on a timely basis. Several accounts were not reconciled beyond sorted Excel files until time for the audit, and general ledger accounts were not balancing to other related data available (i.e. financial aid award data and e-gaps online data).

*No exceptions were noted during the current year.*

**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 continue to note improvement during the current year; however, there were still several outstanding checks greater than six months old remaining at year end. We noted that the client continues work to track down vendors to resolve balance due issues. One check was more than one year outstanding.*

**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 significant improvement during the current year. No instances of incorrect documentation were noted. We noted 2 employees whose I-9s needed to be recertified. One employee provided a work visa which expired subsequent to initial certification; another provided a passport that expired subsequent to initial certification. The form clearly specifies that if an expiration date applies, the employer should recertify authorization for employment. We recommend the client flag those forms I-9 that will require recertification for follow-up to assure that recertification is done timely.*

**PLAN FOR DEBT REPAYMENT**

Although the current bond obligations are not due to be refinanced for another five years, the University should begin 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.

*We noted the creation of a debt reduction investment account during the prior year. We encourage the University to continue developing long-term plans for debt reduction.*



**SOUTHEASTERN UNIVERSITY, INC.**  
**Report to the Board of Regents**  
**For the Year Ended June 30, 2011**

**PRIOR YEAR RECOMMENDATIONS - CONTINUED**

**FINANCIAL AID**

During our testing of student financial aid received, we noted one student who was awarded a TEACH grant, but did not qualify due to a low high school GPA. We recommend that high school transcripts be carefully reviewed prior to awarding merit-based aid.

*No exceptions were noted during the current year.*

During our testing of withdrawn students, we noted one student whose refund was calculated using an average tuition rate rather than actual tuition. Due to the small number of withdrawals, we recommend that actual tuition be used for this calculation.

*No exceptions were noted during the current year.*

**STUDENT FEES**

During our testing of student accounts, we noted one student who enrolled in a blend of online and campus-based programs. Due to the difficulty and time spent recalculating general fees for such students, a blended rate was used. There was no backup documentation for the rate charged and no written policy for such cases, although the charges were ultimately approved.

*No exceptions were noted during the current year.*

**OUTSTANDING UNIVERSITY POLICIES**

The Vice President of Finance and Administration and the Business Office have proposed many financially related policies which would help strengthen and tighten controls over spending. Some of these policies address credit card usage, cell phone usage reimbursement, stale dated checks, executive compensation, etc. These policies have yet to be approved by the Administrative Board and have, therefore, not been sent to the Board of Regents for final approval and adoption. We would recommend that the Administrative Board review and approve or dismiss all outstanding proposed policies so that the Business Office has adopted policies to implement.

*No exceptions were noted during the current year.*



**SOUTHEASTERN UNIVERSITY, INC.**  
**Report to the Board of Regents**  
**For the Year Ended June 30, 2011**

**CURRENT YEAR RECOMMENDATIONS**

**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.

**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.

**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.



**SOUTHEASTERN UNIVERSITY, INC.**  
**Response to the Report to the Board of Regents**  
**For the Year Ended June 30, 2011**

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

**RECONCILING GENERAL LEDGER ITEMS**

It was noted during the current year that the Business Office was not continuously reconciling general ledger accounts and all cash accounts on a timely basis. Several accounts were not reconciled beyond sorted Excel files until time for the audit, and general ledger accounts were not balancing to other related data available (i.e. financial aid award data and e-gaps online data).

*No exceptions were noted during the current year.*

**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 continue to note improvement during the current year; however, there were still several outstanding checks greater than six months old remaining at year end. We noted that the client continues work to track down vendors to resolve balance due issues. One check was more than one year outstanding.*

**Response:** The procedure to notify all vendors with outstanding checks greater than three months continues to be followed. Additionally, the University will review the list on a monthly basis. The University has also implemented an optional ACH payment process (E-payment), by which the funds are deposited directly into the vendor's bank account from the University's bank account. We anticipate these processes will reduce the number of outstanding checks.

**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 significant improvement during the current year. No instances of incorrect documentation were noted. We noted 2 employees whose I-9s needed to be recertified. One employee provided a work visa which expired subsequent to initial certification; another provided a passport that expired subsequent to initial certification. The form clearly specifies that if an expiration date applies, the employer should recertify authorization for employment. We recommend the client flag those forms I-9 that will require recertification for follow-up to assure that recertification is done timely.*

**Response:** The Office of Human Resources has been in the process of a complete verification/reorganization of all I-9 files. We have developed a plan for a yearly review of all I-9s. The process includes separating the I-9s by current and terminated employees. We now hold all I-9s for terminated employees for the later of either one year past termination date or three years past hire date as required by government regulations. In addition, the new ADP system has a field for I-9 eligibility review (manual input). We are working toward populating this field on each employee no later than June 1, 2012 so that we are able to flag employees' I-9 forms that require recertification.

**SOUTHEASTERN UNIVERSITY, INC.**  
**Response to the Report to the Board of Regents**  
**For the Year Ended June 30, 2011**

**PLAN FOR DEBT REPAYMENT**

Although the current bond obligations are not due to be refinanced for another five years, the University should begin 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.

*We noted the creation of a debt reduction investment account during the prior year. We encourage the University to continue developing long-term plans for debt reduction.*

**Response:** The University received ten million dollars in 2009 that is restricted for debt reduction. This amount will be applied to principle at the time and in the manner determined to be the most effective and efficient by the Finance and Audit Committee. In addition, the University has met with various lenders to come up with alternatives to address any debt that may be outstanding in the year 2015, when the current tax-exempt bonds mature. The University will continue to keep the Finance and Audit Committee informed of any developments to ensure there is ample time to negotiate a reasonable debt arrangement.

**FINANCIAL AID**

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*No exceptions were noted during the current year.*

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During our testing of student accounts, we noted one student who enrolled in a blend of online and campus-based programs. Due to the difficulty and time spent recalculating general fees for such students, a blended rate was used. There was no backup documentation for the rate charged and no written policy for such cases, although the charges were ultimately approved.

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**SOUTHEASTERN UNIVERSITY, INC.**  
**Response to the Report to the Board of Regents**  
**For the Year Ended June 30, 2011**

**CURRENT YEAR RECOMMENDATIONS**

**RECORD KEEPING**

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**Response:** The Registrar's staff will audit the new student files to ensure that required documents have been received and are logged into the student's account in Jenzabar. A hold will be placed on students who do not provide their high school transcript with graduation date. The hold will prevent the student from registering for their second semester until they have satisfied the need for documentation. This procedure will ensure collection of the required transcript for any student who is still missing information at the end of their first semester.

**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.

**Response:** Student Financial Services counselors will ensure that all pages of the refund report are initialed by the counselor who is making changes/approving each sheet on the A/R report.