

CENTRAL METHODIST UNIVERSITY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011
OPERATING				
Revenue and support				
Tuition and fees, net of financial aid	\$ 17,328,089	\$ -	\$ -	\$ 17,328,089
Federal grants and contracts	479,113	-	-	479,113
Church appropriations	188,299	-	-	188,299
Private gifts and grants	1,448,957	50,610	-	1,499,567
Endowment support	-	1,390,000	-	1,390,000
Auxiliary enterprises	4,665,937	-	-	4,665,937
Other	501,152	-	-	501,152
Total revenues	24,611,547	1,440,610	-	26,052,157
Net assets released from restrictions	1,777,886	(1,777,886)	-	-
Total revenues and support	26,389,433	(337,276)	-	26,052,157
Expenses				
Program services:				
Instruction and research	10,321,751	-	-	10,321,751
Student services	3,851,591	-	-	3,851,591
Auxiliary enterprises	3,735,080	-	-	3,735,080
Academic support	1,046,479	-	-	1,046,479
Supporting services:				
Institutional support	2,862,354	-	-	2,862,354
Fund raising	779,799	-	-	779,799
Total expenses	22,597,054	-	-	22,597,054
Increase (decrease) in net assets from operating activities	3,792,379	(337,276)	-	3,455,103
NONOPERATING				
Excess of endowment return over amount used for operations				
	-	4,207,314	-	4,207,314
Private gifts and grants	-	1,063,020	116,624	1,179,644
Change in value of split-interest agreements	21,672	227,761	56,050	305,483
Net assets released from restrictions	207,027	(207,027)	-	-
Increase in net assets from nonoperating activities	228,699	5,291,068	172,674	5,692,441
Increase in net assets	4,021,078	4,953,792	172,674	9,147,544
Net assets, beginning of year	23,258,710	7,906,907	23,472,048	54,637,665
Net assets, end of year	<u>\$ 27,279,788</u>	<u>\$ 12,860,699</u>	<u>\$ 23,644,722</u>	<u>\$ 63,785,209</u>

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

CENTRAL METHODIST UNIVERSITY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,599,391	\$ 9,147,544
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,204,346	1,188,743
Amortization of bond issuance costs	8,619	7,530
Accretion of conditional asset retirement obligations	11,563	15,094
Conditional asset retirement obligations settled	(11,075)	(51,519)
Loss on bond refunding	222,366	-
Net (gain) loss on securities	1,030,012	(4,750,225)
Nonoperating restricted gifts	(2,059,639)	(1,179,644)
Change in cash surrender value of life insurance	(8,782)	(2,652)
Change in beneficial interest in funds held by others	12,423	(26,346)
(Increase) decrease in assets and increase (decrease) in liabilities:		
Receivables, net	79,387	96,565
Contributions receivable	(151,971)	66,852
Contributions receivable from trusts	86,899	(244,342)
Inventories and other assets	(528,555)	(43,916)
Accounts payable	(73,052)	21,133
Accrued payroll and payroll taxes	103,031	41,061
Students' deposits and other liabilities	98,905	47,729
Accrued interest payable	(71,886)	(3,243)
Net cash provided by operating activities	3,551,982	4,330,364
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of securities	1,630,307	7,397,773
Purchase of securities	(1,678,228)	(7,004,141)
Purchase of land, buildings and equipment	(4,201,975)	(1,106,660)
(Increase) in note and bond proceeds held in trust	(1,972,064)	(14,967)
Net cash used by investing activities	(6,221,960)	(727,995)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	2,513,919	-
Payments on long-term debt	(365,659)	(302,120)
(Increase) decrease in reserve funds for bonds payable	(115,483)	14,884
Payment of bond issuance costs	(225,863)	-
(Decrease) in refundable government advances	(26,734)	(23,565)
Nonoperating restricted gifts	2,499,125	1,328,828
Net change in annuities payable	(29,168)	(15,235)
Net cash provided by financing activities	4,250,137	1,002,792
Net increase in cash and cash equivalents	1,580,159	4,605,161
Cash and cash equivalents, beginning of year	13,561,104	8,955,943
Cash and cash equivalents, end of year	\$ 15,141,263	\$ 13,561,104
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 398,779	\$ 410,594
Non-cash investing transactions:		
Capital asset addition included in accounts payable	\$ 720,885	\$ -

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

CENTRAL METHODIST UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of entity: Founded in 1854, Central Methodist University is a private, four year, co-educational liberal arts institution with graduate studies in education, clinical counseling, and nursing. In addition to its main campus in Fayette, Missouri, the University offers degree programs at several other locations across Missouri through its College of Graduate and Extended Studies. The University is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools, and specialized accreditations or approvals include the Commission on Collegiate Nursing Education, the Missouri State Board of Nursing, the Commission on Accreditation for Athletic Training Education, the Missouri Department of Elementary and Secondary Education, and the National Association of Schools of Music.

Basis of accounting: The financial statements have been prepared on the accrual basis of accounting, whereby revenues are reported when earned and expenses are reported when incurred.

Classes of net assets: The classification of net assets into the categories of unrestricted, temporarily restricted and permanently restricted is based on the existence or absence of donor-imposed restrictions, stipulations that specify a use for a contribution that is more specific than broad limits resulting from the University's basic mission and environment in which it operates.

Temporary restrictions are donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations. Permanent restrictions are donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the University. Assets without donor-imposed restrictions, including assets designated for specific use by the University's Board of Trustees, are included in unrestricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted support is reported as an increase in unrestricted net assets if the restriction expires or condition is met in the reporting period in which the support is recognized.

The University's measure of operations as presented in the Statement of Activities includes income from tuition and fees, grants and contracts, contributions for operating programs, auxiliary enterprises, the allocation endowment appropriations and other revenues. Operating expenses are reported in the Statement of Activities by functional categories, after allocating costs for operation of plant, depreciation expense, and interest on indebtedness. The non-operating section consists of donated resources provided for physical plant and long-term investment purposes and the return on endowment investments that was not appropriated for the year's operations.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates that are particularly susceptible to changes relate to the adequacy of the bad debt allowance for student and loan grant receivables, the valuation of contributions receivable, the useful lives of fixed assets, and the valuation of nonmarketable investments.

Cash and cash equivalents: For purposes of the Statement of Cash Flows, the University considers demand deposits and unrestricted time deposits to be cash equivalents. The University maintains cash balances at established financial institutions which are fully insured by the Federal Deposit Insurance Corporation (FDIC). Depending up on the level of insurance in effect, these account balances might occasionally exceed the FDIC insurance limit.

Investments: Investments in equity securities with readily determinable market values and all investments in debt securities are reported at fair value. Fair value represents the estimated market value of the underlying securities and is generally obtained from the University's investment custodians and managers, who obtain quoted market prices and dealer quotes. Realized and unrealized gains and losses are reported in the Statement of Activities. Investments which have been donated to the University are recorded at estimated fair value at the date of the gift. Real estate investments that have been purchased are recorded at cost and, along with any donated real estate, are adjusted to estimated fair value thereafter only if there is evidence that the fair value is significantly below cost. Alternative investments, such as hedge funds and private equity investments, are reported at estimated fair value if such is provided by the external investment managers. Alternative investments consisting of limited partnership interests for which fair values are not provided are reported at the amount of the University's equity in the limited partnership, as provided by the general partner.

Investment return reported in the Statement of Activities includes annual realized and unrealized gains and losses (changes in fair value), dividend income, interest income and other investment income, net of investment fees.

Land, buildings and equipment: Land, buildings and equipment are recorded at cost or, if donated, at estimated fair value at date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire land, buildings and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired assets are placed in service, or if constructed, as construction expenses are incurred.

Land, buildings and equipment are depreciated over their estimated useful lives using the straight-line method, and are presented net of accumulated depreciation on the Statement of Financial Position. Major renewals and improvements that significantly add to the productive capacity or extend the life of an asset are capitalized. Repairs and maintenance that do not improve or extend the life of the respective assets are expensed in the year incurred. The University maintains a capitalization policy whereby the purchase of equipment below \$2,500 is expensed as incurred.

Conditional asset retirement obligations: Conditional asset retirement obligations (CAROs) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the CARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The University will derecognize CARO liabilities when the related obligations are settled.

Split-interest agreements: The term split-interest agreement describes a variety of arrangements under which funds have been donated to the University, some of which are subject to trust documents. These include charitable gift annuities and charitable unitrusts.

Funds for which the University is trustee: Funds held and managed by the University pursuant to split-interest agreements generally were made available to the University with the stipulation that it periodically pays to donors and/or their beneficiaries' specific amounts or the earned income from invested assets or a percentage

of the market value of invested assets. Assets received under such agreements are recorded at fair value as of the date of the agreement. Estimated liabilities are recorded for required payments to beneficiaries based on the estimated return on the assets during the term of the agreement, the payment obligations, beneficiary life expectancy and a discount rate comparable to the risks involved. The liabilities are adjusted annually for financial statement purposes. Payments of obligations terminate at a time or under circumstances specified in the agreements, and the remaining principal becomes available for University use subject to restrictions, if any, in the agreements with the donors. The net assets and changes in net assets of these funds are classified as temporarily restricted or permanently restricted depending upon the provisions of the donor agreements.

Funds held by others: The University is the beneficiary of various trusts and other donor funds for which assets are held and managed by third parties and for which the University is not the trustee or fund administrator. Under the terms of the trusts, the University has a lead and/or remainder interest in trust assets. For perpetual trusts and similar type funds, the University has recorded its beneficial interests based on its share of the fair value of assets held. For term trusts, the University has recorded a receivable for its beneficial interests based on the present value of estimated future payments to be received. The net assets and changes in net assets of these funds are classified as unrestricted, temporarily restricted or permanently restricted depending upon the provisions of the donor agreements.

Income taxes: The University is a not-for-profit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Code, except for the unrelated business income which is subject to federal and state income taxes at statutory rates. The University's Form 990 and taxable status are subject to examination by the Internal Revenue Service for open tax years, which as of the date of this report are the years ended June 30, 2009 through 2012. Interest and penalties incurred, if any, related to annual Form 990 or unrelated business income tax filings are reported within institutional support expenses in the Statement of Activities.

Reclassifications: Certain amounts reported in the prior year financial statements have been reclassified to conform with the current year presentation.

Subsequent events: Events that have occurred subsequent to June 30, 2012, have been evaluated through October 12, 2012, which represents the date the University's financial statements were approved by management and, therefore, were available to be issued.

2. INVESTMENTS

The University contracts with an investment manager for most of its investments. It also holds various marketable securities which are donor restricted as to resale. The University's main investment strategy has been to maximize the total return to provide endowed scholarships and to meet general operating needs.

	2012		2011	
	Carrying Value	Cost	Carrying Value	Cost
<i>Investments by Type</i>				
Common stock and equity securities	\$ 23,495	\$ 5,980	\$ 19,989	\$ 5,980
Equity mutual funds	17,366,697	16,383,118	18,253,764	15,990,807
Fixed income mutual funds	8,716,036	7,543,257	9,039,680	8,119,662
Alternative investments:				
Hedge fund	1,425,294	1,300,000	1,393,791	1,300,000
Private equity offshores fund	905,348	864,892	665,245	675,634
Certificates of deposit and money market funds	948,917	948,917	849,254	849,254
Total investments stated at fair value	<u>29,385,787</u>	<u>27,046,164</u>	<u>30,221,723</u>	<u>26,941,337</u>
Other investments:				
Private equity natural resources fund	742,451	962,500	888,606	945,000
Private equity tri-guard fund	50,000	50,000	50,000	50,000
Real estate	105,368	105,368	105,368	105,368
Total investments	<u>\$ 30,283,606</u>	<u>\$ 28,164,032</u>	<u>\$ 31,265,697</u>	<u>\$ 28,041,705</u>
<i>Investments by Fund</i>				
Endowment fund	\$ 29,451,810	\$ 27,387,641	\$ 30,490,950	\$ 27,299,552
Current restricted fund	822,964	772,235	766,682	737,997
Current unrestricted fund	8,832	4,156	8,065	4,156
Total investments	<u>\$ 30,283,606</u>	<u>\$ 28,164,032</u>	<u>\$ 31,265,697</u>	<u>\$ 28,041,705</u>

The investment return for the years ended June 30, was as follows:

	2012	2011
Realized gain on sales of investments	\$ 9,087	\$ 43,252
Unrealized gain (loss) resulting from change in fair value of investments	(1,039,099)	4,706,973
Dividends and interest, net of fees	661,980	935,437
Total return (loss) on investments	<u>\$ (368,032)</u>	<u>\$ 5,685,662</u>

Total return on investments is reported in the Statement of Activities as follows:

	2012	2011
Endowment support	\$ 1,390,000	\$ 1,390,000
Other revenues	32,943	88,348
Excess (deficiency) of endowment return over amount used for operations	(1,790,975)	4,207,314
Total return (loss) on investments	<u>\$ (368,032)</u>	<u>\$ 5,685,662</u>

The University utilizes a spending rate approach to appropriate endowment earnings for operations. For the years ending June 30, 2012 and 2011, the Board of Trustees authorized withdrawal rates of 4.9% and 5.1%, respectively, of the trailing three-year average market value of the endowment investment portfolio. The Board of Trustees approved a plan to lower the spending rate to 4.5% over a period of 5 years, beginning with the year ended June 30, 2012.

The portion of investment return which represents the difference between the net return on pooled endowment fund investments and the amount approved by the Board of Trustees for withdrawals under the spending policy is classified in the Statement of Activities as nonoperating gains or losses.

3. RECEIVABLES, NET

The composition of receivables is as follows at June 30:

	Student Receivables	Institutional Loans	Perkins Loans	Federal Grants Receivable	2012 Total
Total receivables	\$ 2,655,603	\$ 203,860	\$ 617,761	\$ 48,094	\$ 3,525,318
Less allowance for doubtful accounts	1,981,352	192,011	226,328	-	2,399,691
Net Receivables	<u>\$ 674,251</u>	<u>\$ 11,849</u>	<u>\$ 391,433</u>	<u>\$ 48,094</u>	<u>\$ 1,125,627</u>
	Student Receivables	Institutional Loans	Perkins Loans	Federal Grants Receivable	2011 Total
Total receivables	\$ 2,435,395	\$ 299,100	\$ 625,448	\$ 177,274	\$ 3,537,217
Less allowance for doubtful accounts	1,820,103	287,251	224,849	-	2,332,203
Net Receivables	<u>\$ 615,292</u>	<u>\$ 11,849</u>	<u>\$ 400,599</u>	<u>\$ 177,274</u>	<u>\$ 1,205,014</u>

Student Receivables

Student receivables are presented net of allowance for bad debts. The University's policy is to charge off accounts as uncollectible after the University's collection agents have exhausted their reasonable efforts short of filing suit for collection. Whether to file suit for collection is decided by the University on a case by case basis.

Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal governmental loan programs or institutional resources. At June 30, 2012 and 2011, net student loans receivable represented 0.50% and 0.55% of total assets, respectively.

At June 30, student loans consisted of the following:

	<u>2012</u>	<u>2011</u>
Federal government programs	\$ 617,761	\$ 625,448
Institutional programs	203,860	299,100
	<u>821,621</u>	<u>924,548</u>
Less allowance for doubtful accounts		
Beginning of the year	(512,100)	(572,538)
Increases	(5,000)	-
Write-offs	98,761	60,438
End of the year	<u>(418,339)</u>	<u>(512,100)</u>
Student loans receivable, net	<u>\$ 403,282</u>	<u>\$ 412,448</u>

The University participates in the Perkins federal revolving loan program. Historically, the University provided a matching share for the loan pool at one-third of the amount of the federal funding (prior to 1995, matching was a lower percentage). The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of \$303,021 and \$329,755 at June 30, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities in the Statements of Financial Position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. The services of collection agencies are utilized in an effort to collect past due balances on these loans.

At June 30, the following amounts were past due under student loan programs:

<u>June 30</u>	<u>1-60 days past due</u>	<u>60-90 days past due</u>	<u>90+ days past due</u>	<u>Total past due</u>
2012	\$ 9,059	\$ 12,030	\$ 477,834	\$ 498,923
2011	\$ 12,950	\$ 12,858	\$ 582,922	\$ 608,730

Management regularly assesses the adequacy of the allowance for doubtful accounts based on prior collection experience and current economic factors which, in management's judgment, could influence the ability to repay the amounts per the loan terms. The federal share of amounts due under the Perkins loan program is guaranteed by the federal government and, therefore, no reserves are placed on the federal share of any past due balances under the program. Institutional loan balances are written off only when further collection actions are deemed to be unproductive. The University's share of Perkins loan balances are written off only when loans are assigned to the federal government for collection because further collection action by the University is deemed to be unproductive.

4. CONTRIBUTIONS RECEIVABLE

Contributions by donors, including unconditional promises to give, are recognized as revenues in the period in which the promises are made, at the present value of their estimated future cash flows. Contributions which are conditional promises to give, including bequests in the process of estate settlement, are recognized at their estimated net realizable values in the period in which the conditions are met. The University does not normally request collateral to secure collection on pledges of gifts. The University had no significant conditional promises to give other than revocable bequests of living donors as of June 30, 2012 and 2011.

Contributions receivable were as follows at June 30:

	2012	2011
Unrestricted	\$ 12,914	\$ 15,775
Temporarily restricted	366,158	646,891
Permanently restricted	127	4,048
Total	<u>\$ 379,199</u>	<u>\$ 666,714</u>
Contributions due within one year	\$ 196,090	\$ 229,890
Contributions due one to five years	183,109	436,824
Total	<u>\$ 379,199</u>	<u>\$ 666,714</u>

Reserves for potential uncollectible contributions receivable of approximately 20% for 2012 and 2011 were used to determine their net realizable values. A discount rate of 4.8% was used to estimate the net present value of future cash flows from collection of pledges receivable for the years ended June 30, 2012 and 2011. Contributions receivable are net of unamortized discount of \$17,571 and \$69,118 for 2012 and 2011, respectively.

Under U.S. generally accepted accounting principles, contributions of services should be recognized in the financial statements if the services received create or enhance non-financial assets or if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of services recorded in the University's financial statements for the years ended June 30, 2012 and 2011 were not significant.

From time to time the University has received donations of collectible items. Depending upon their nature, individual collection items are typically exhibited or utilized in related educational programs. The University has elected not to capitalize collections in its financial statements. The total estimated value of such collections as of June 30, 2012 and 2011 is not considered significant to the University's financial position. Periodically, the University may sell individual collection items. There were no significant sales of such items during the years ended June 30, 2012 and 2011.

5. INVENTORIES AND OTHER ASSETS

Inventories and other assets consist of the following at June 30:

	2012	2011
Cash surrender value of life insurance policies	\$ 257,805	\$ 249,023
Real estate	564,263	148,139
Bookstore inventory	111,034	126,621
Supplies inventories	122,971	121,381
Capitalized bond issuance expense, net of amortization	222,891	150,600
Other assets	120,845	71,830
Total inventories and other assets	<u>\$ 1,399,809</u>	<u>\$ 867,594</u>

Bookstore and supplies inventories are valued at the lower of cost, which is determined by the first-in, first-out method, or market (net realizable value). Real estate is recorded at cost or, if donated, at estimated fair value at the date of donation.

6. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment, at cost, consist of the following at June 30:

	2012	2011
Land	\$ 629,833	\$ 629,833
Land lease	236,000	236,000
Buildings and improvements	42,834,686	42,185,976
Furniture and equipment	5,345,363	5,009,033
	49,045,882	48,060,842
Less accumulated depreciation	<u>(25,208,218)</u>	<u>(24,003,872)</u>
	23,837,664	24,056,970
Construction in progress	4,415,807	477,987
Land, buildings and equipment, net	<u>\$ 28,253,471</u>	<u>\$ 24,534,957</u>