

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2004

Performed as special assistant auditors for the
Auditor General, State of Illinois



Kerber, Eck & Braeckel LLP

CONTENTS

	Page
AGENCY OFFICIALS	3
FINANCIAL STATEMENT REPORT	
SUMMARY	4
INDEPENDENT AUDITORS' REPORT	5
MANAGEMENT'S DISCUSSION AND ANALYSIS	7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	10
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	11
STATEMENT OF CASH FLOWS - DIRECT METHOD	12
NOTES TO BASIC FINANCIAL STATEMENTS	14
REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	27

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
JUNE 30, 2004

AGENCY OFFICIALS

Mr. Rickey McCurry	Vice Chancellor, CEO SIU Foundation
Mr. Roger Neuhaus	Associate Vice Chancellor
Mr. Brian Vagner	Managing Director
Ms. Elizabeth Banycky	Treasurer

Agency offices are located at:

Southern Illinois University Foundation
Carbondale, Illinois 62901

Southern Illinois University Foundation
School of Medicine
Springfield, Illinois 62702

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
FINANCIAL STATEMENT REPORT
SUMMARY

JUNE 30, 2004

The audit of the accompanying financial statements of Southern Illinois University Foundation (at Carbondale) was performed by Kerber, Eck & Braeckel LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Foundation's financial statements.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Directors
Southern Illinois University Foundation (at Carbondale)

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Southern Illinois University Foundation (at Carbondale) (the "Foundation") a component unit of Southern Illinois University, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2003 financial statements and, in our report dated August 29, 2003, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Southern Illinois University Foundation (at Carbondale) as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 7 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2004, on our consideration of the Foundation's internal control over financial reporting and on our tests of the Foundation's compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Kulow, Eck & Brauchel LLP

Springfield, Illinois
August 31, 2004

**State of Illinois
Southern Illinois University Foundation (at Carbondale)
Management's Discussion and Analysis
For the Year Ended June 30, 2004**

The attached statements are presented in a "business-type activities" format to provide the reader with statements which indicate the available economic resources of the entity. In order to understand the statements, below is a brief description of each statement.

Statement of Net Assets:

The Statement of Net Assets, indicates assets available for current use (current assets) and those assets to be held (noncurrent assets). Please note, the terminology of short-term investments listed under current assets does not indicate the investment duration, but the ability of the Foundation to expend the investments for current uses. This statement also indicates which liabilities are due within one year (current liabilities) and those due in a year or more (noncurrent liabilities). Net Assets located at the bottom of the statement are grouped by the assets' purposes. A donor can restrict an asset for a certain purpose such as current expenditures (expendable) or to be held in perpetuity (nonexpendable, i.e., endowments).

As indicated below, the Foundation's net assets increased by \$ 18,031,941 over the previous year. (The increase in net assets is also indicated on the Statement of Revenues, Expenses, and Changes in Net Assets. See page 8.) This increase is due to a multitude of factors.

The largest factor is the increase in investments of \$ 15 million, which was the result of an increase in contributions and investment income.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets	\$ 26,087,572	\$ 24,365,354
Capital assets, net	227,662	81,594
Noncurrent assets	<u>72,384,024</u>	<u>54,490,325</u>
 Total assets	 <u>98,699,258</u>	 <u>78,937,273</u>
 Current liabilities	 1,008,222	 902,059
Noncurrent liabilities	<u>5,451,549</u>	<u>3,827,668</u>
Total liabilities	<u>6,459,771</u>	<u>4,729,727</u>
 Total net assets	 <u>\$ 92,239,487</u>	 <u>\$ 74,207,546</u>
 Invested in capital assets, net of related debt	 \$ 59,247	 \$ 81,594
Restricted nonexpendable	46,918,133	40,844,908
Restricted expendable	38,820,715	27,285,130
Unrestricted	<u>6,441,392</u>	<u>5,995,914</u>
 Total net assets	 <u>\$ 92,239,487</u>	 <u>\$ 74,207,546</u>

**State of Illinois
Southern Illinois University Foundation (at Carbondale)
Management's Discussion and Analysis - Continued
For the Year Ended June 30, 2004**

Statement of Revenues, Expenses and Changes in Net Assets:

The Statement of Revenues, Expenses, and Changes in Net Assets basically indicates the activity for the period and its effect on net assets. The activity from operations, which have the characteristics of exchange transactions, is shown first. Nonoperating Revenues (Expenses) are listed after operating activities. Nonoperating Revenues include activities that have the characteristics of nonexchange transactions. Contributions are considered a nonoperating activity because the donor does not receive a material financial benefit from the transaction. Other Revenues, Expenses, Gains and Losses is the last grouping of transactions, which includes contributions received for capital assets (such as equipment and buildings) and additions to permanent endowments. Since the primary purpose of the Foundation is to solicit and hold contributions for the benefit of Southern Illinois University, Increase In Net Assets is a better indicator of the Foundation's core activity versus Operating Income(Loss).

As indicated on page 7, the Foundation had an increase in net assets of \$ 18,031,941 over the previous year. This increase was mainly generated from revenue of contributions of \$ 14.5 million, grants from SIU of \$ 5.7 million, and investment income of \$ 8.5 million and operating expenses of approximately \$ 15 million.

Key activity for this period:

- A gift of a patent with an approximate value of \$ 5 million
- A grant of approximately \$ 1 million from SIU Board of Trustees of the funds they received for the benefit of the Public Policy Institute from the United States Department of Education for the Improvement of Postsecondary Education
- The return of \$ 2 million of loan funds from the University to the Foundation so the funds could be invested

	<u>Year ended</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Income before other revenues, expenses, gains and losses	\$ 9,515,123	\$ 6,570,214
Contributions for capital assets	5,813,468	664,081
Additions to permanent endowments	<u>2,703,350</u>	<u>1,246,642</u>
Increase in net assets	18,031,941	8,480,937
 Net assets - beginning of year	 <u>74,207,546</u>	 <u>65,726,609</u>
 Net assets - end of year	 <u>\$ 92,239,487</u>	 <u>\$ 74,207,546</u>

**State of Illinois
Southern Illinois University Foundation (at Carbondale)
Management's Discussion and Analysis - Continued
For the Year Ended June 30, 2004**

Statement of Cash Flows:

The Statement of Cash Flows' primary purpose is to provide relevant information about the cash receipts and cash payments of the Foundation during the period. The chart below indicates the Foundation basically received cash from contributions (noncapital and capital financing activities) then used the cash for operational expenses. Then, residual cash generated during the fiscal year was invested.

	Year ended	
	June 30, 2004	June 30, 2003
Net cash used by operating activities	(\$ 10,237,197)	(\$ 8,088,160)
Net cash provided by noncapital financing activities	15,253,084	12,161,301
Net cash provided by capital financing activities	715,047	690,921
Net cash used by investing activities	(5,923,823)	(4,629,345)
Net increase (decrease) in cash	(192,889)	134,717
Cash - beginning of the year	399,556	264,839
Cash - end of year	\$ 206,667	\$ 399,556

Overall Financial Position and Results:

During this reporting period, the Foundation has shown strong financial growth. The positive investment returns and increase in fundraising activity are the significant elements of the growth.

Preliminary performance figures indicate the investments yielded 15.3% for the endowment pool and 7.0% for the unrestricted/restricted pool during the 12 month period as compiled by our investment consultants Ennis Knupp and Associates. This strong performance plus the change in spending policy reduced the number of "underwater endowments" (endowments which have higher historical value verses market value). At June 30, 2003, there were approximately 150 underwater endowments as compared to 63 as of June 30, 2004. The current difference between their historical value and market value is approximately \$ 353,000.

Also, during this period, the Foundation became an agent for the University to manage its endowments with a market value of approximately \$ 1.7 million. These endowments are invested in the endowment pool.

Facts, Decisions, or Conditions Significantly Affecting Net Assets:

There are no facts, decisions, or conditions significantly affecting net assets other than those items explained in the previous section of this discussion and analysis. Further more, significant capital asset activity included the gift of a patent, which was also explained in the previous section of this discussion and analysis. However, please see the notes to the financial statements that include additional details and further explanations of data presented in the financial statements. The notes are an integral part of the financial statements and should be included as part of any review or analysis.

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004
(with comparative totals for 2003)**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2A)	\$ 158,125	\$ 350,986
Short-term investments (Note 2 B)	25,221,787	23,351,280
Accounts receivable	78,263	44,558
Pledge receivable, net	403,130	372,432
Accrued investment income	43,862	38,673
Net Investment in financing leases	152,161	147,670
Other assets	30,244	59,755
Total Current Assets	<u>26,087,572</u>	<u>24,365,354</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2A)	48,542	48,570
Endowment investments (Note 2 B)	56,014,745	45,055,269
Other long-term investments (Note 2 B)	7,037,647	4,793,837
Pledge receivable, net (Note 3)	674,224	675,214
Irrevocable trust held by other	99,928	99,928
Cash value of life insurance	232,530	178,095
Investment in real estate	158,000	158,000
Net Investment in financing leases	572,914	725,075
Capital assets, net of accumulated depreciation (Note 4)	227,662	81,594
Other assets	7,545,494	2,756,337
Total Noncurrent Assets	<u>72,611,686</u>	<u>54,571,919</u>
TOTAL ASSETS	<u>98,699,258</u>	<u>78,937,273</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	520,761	435,855
Annuities payable-current portion (Note 6)	318,900	318,534
Agency funds payable-current portion (Note 6)	16,400	-
Long-term liabilities-current portion (Note 6)	152,161	147,670
Total Current Liabilities	<u>1,008,222</u>	<u>902,059</u>
Noncurrent Liabilities		
Annuities payable (Note 6)	3,090,050	2,959,269
Agency funds payable (Note 6)	1,655,829	-
Deposits held for others (Note 6)	84,258	67,826
Other accrued liabilities (Note 6)	48,498	75,498
Long-term liabilities (Note 6)	572,914	725,075
Total Noncurrent Liabilities	<u>5,451,549</u>	<u>3,827,668</u>
TOTAL LIABILITIES	<u>6,459,771</u>	<u>4,729,727</u>
NET ASSETS		
Invested in capital assets, net of related debt	227,662	81,594
Restricted for:		
Nonexpendable		
Scholarships, research, instruction, and other	44,357,053	40,282,697
Loans	2,447,158	447,083
Capital projects	113,922	115,128
Expendable		
Scholarships, research, instruction, and other	37,774,131	26,326,992
Loans	202,163	127,970
Capital projects	676,006	830,168
Unrestricted	<u>6,441,392</u>	<u>5,995,914</u>
TOTAL NET ASSETS	<u>\$ 92,239,487</u>	<u>\$ 74,207,546</u>

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

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(with comparative totals for 2003)**

	<u>Year ended</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
REVENUES		
Operating revenues		
Payments from SIU (Note 12)	\$ 154,864	\$ 119,399
Budget allocation from SIU (Note 12)	3,175,908	2,676,723
Other operating revenues	491,687	478,880
Total operating revenues	<u>3,822,459</u>	<u>3,275,002</u>
EXPENSES		
Operating expenses		
General and operating expenses	1,139,726	1,126,773
Budget expended at SIU (Note 12)	3,175,908	2,676,723
Scholarships and cash grants to SIU	4,982,031	3,814,705
Expenditures for the benefit of SIU	4,834,651	4,307,813
Noncash grants to SIU	606,192	280,891
Amortization and depreciation expense (Notes 4 and 5)	220,775	32,266
Other operating expenses	1,751	8,047
Total operating expenses	<u>14,961,034</u>	<u>12,247,218</u>
Operating loss	<u>(11,138,575)</u>	<u>(8,972,216)</u>
NONOPERATING REVENUES (EXPENSES)		
Contributions	5,995,959	9,827,782
Grants from University Related Organizations (Note 12)	5,737,678	2,392,602
Grants from other government agencies	82,613	99,817
Investment income (Note 2 B)	8,461,314	3,486,620
Payments received on capital financing leases	232,940	218,415
Reduction in capital financing leases	(147,670)	(143,311)
Interest on capital indebtedness	(24,166)	(28,522)
Adjustment of actuarial liability for annuities payable (Note 8)	359,294	(267,243)
Bad debt expense	(44,264)	(43,730)
Net nonoperating revenues	<u>20,653,698</u>	<u>15,542,430</u>
Income before other revenues, expenses, gains and losses	9,515,123	6,570,214
Contributions for capital assets	5,813,468	664,081
Additions to permanent endowments	2,703,350	1,246,642
Increase in net assets	<u>18,031,941</u>	<u>8,480,937</u>
NET ASSETS		
Net assets - beginning of year	<u>74,207,546</u>	<u>65,726,609</u>
Net assets - end of year	<u>\$ 92,239,487</u>	<u>\$ 74,207,546</u>

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

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED JUNE 30, 2004
(with comparative totals for 2003)**

	<u>Year ended</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from SIU	\$ 126,944	\$ 97,410
Other operating revenues	474,582	470,121
General and operating expenses	(1,168,806)	(1,121,492)
Scholarships and cash grants to SIU	(4,903,564)	(3,814,705)
Expenditures for the benefit of SIU	(4,766,353)	(3,719,494)
Net cash used by operating activities	<u>(10,237,197)</u>	<u>(8,088,160)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions and grants for other than capital purposes	11,292,801	11,226,747
Private contributions for endowment purposes	2,703,350	1,246,642
Agency funds transferred from SIU	1,597,952	-
Payments to annuitants	(317,778)	(312,088)
Payments for agency funds to SIU	(23,241)	-
Net cash provided by noncapital financing activities	<u>15,253,084</u>	<u>12,161,301</u>
 CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments received on capital financing leases	232,940	218,415
Reduction in capital financing leases	(147,670)	(143,311)
Interest on capital indebtedness	(24,166)	(28,522)
Purchase of capital assets	(173,825)	(19,742)
Cash contributions for capital assets	827,768	664,081
Net cash provided by capital financing activities	<u>715,047</u>	<u>690,921</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	2,048,551	1,145,718
Interest and dividend income	1,592,713	1,708,564
Purchase of investments	(9,619,888)	(7,520,313)
Investment fees	54,801	36,686
Net cash used by investing activities	<u>(5,923,823)</u>	<u>(4,629,345)</u>
 NET INCREASE (DECREASE) IN CASH		
Cash - beginning of the year	(192,889)	134,717
Cash - end of year	<u>\$ 206,667</u>	<u>\$ 399,556</u>

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
STATEMENT OF CASH FLOWS - DIRECT METHOD - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2004
(with comparative totals for 2003)

	<u>Year ended</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (11,138,575)	\$ (8,972,216)
Adjustments to reconcile operating loss to net cash used by operating activities		
Amortization and depreciation expense	220,775	32,266
Noncash grants to SIU	606,192	280,891
Noncash expenditures for the benefit of SIU	-	766,969
Noncash other operating expenses	1,751	8,047
Changes in assets and liabilities		
Receivables	(33,705)	1,477
Other assets	15,507	(66,817)
Accounts payable	89,537	(138,808)
Other accrued liabilities	1,007	1,215
Other liabilities	314	(1,184)
Net cash used by operating activities	<u>\$ (10,237,197)</u>	<u>\$ (8,088,160)</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During the year, the Foundation received \$ 5,625,158 in noncash contributions from donors. The actuarial liability for annuities payable decreased by \$ 359,294 for the year. Bad debts of \$ 44,264 were written off for the year.

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

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies:

- A. Financial Reporting Entity:** The Southern Illinois University Foundation (the "Foundation") located in Carbondale, exists for the primary purpose of aiding and assisting Southern Illinois University ("SIU" or "University") in achieving its educational, research, and service goals and responsibilities.

Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the Foundation is included as a component unit of the University for financial reporting purposes. The financial activities included in these financial statements are reported in a separate column in the University's financial statements to emphasize that the Foundation is an Illinois not-for-profit organization legally separate from the University.

These financial statements include all financial activities over which the Foundation exercises direct responsibility.

- B. Financial Statement Presentation:** Effective July 1, 2001, the Foundation adopted GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public College and Universities*; GASB Statement No. 37 *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statements Nos. 35, 37 and 38 provides a comprehensive perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required.
- C. Basis of Accounting:** For financial reporting purposes, the Foundation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

The Foundation has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Foundation has elected to not apply FASB pronouncements issued after the applicable date.

D. Comparative Data: Comparative totals for the prior year have been presented in the accompanying financial statements to facilitate an understanding of the changes in the Foundation's financial position and its revenues, expenditures and changes in net assets between years.

E. Cash Equivalents: For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

F. Investments: The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

G. Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of the donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. For equipment, the Foundation's capitalization policy includes all items with a unit cost of \$ 1,000 or more, and an estimated useful life of greater than one year. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 6 to 10 years for equipment.

H. Intangible Assets: On December 15, 2003, the Foundation received a donation of two patents with an appraised value of \$ 4,970,000. The patents were filed on October 29 and November 19, 1997 with rights extending for 20 years.

Amortization is computed using the straight-line method over the remaining rights of 13 years, and 11 months.

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

I. **Net Assets:** The Foundation's net assets are classified as follows:

- **Invested in capital assets, net of related debt:** This represents the Foundation's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations related to those capital assets.
- **Restricted net assets** **expendable:** Restricted expendable net assets include resources for which the Foundation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- **Restricted net assets** **nonexpendable:** Nonexpendable restricted net assets consist of endowment funds, gift annuities, and life income funds.

The endowment funds include those funds where donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

The gift annuities consist of funds acquired by the Foundation subject to agreements whereby they are made available to the Foundation on the condition that the Foundation bind itself to periodically pay stipulated amounts to designated individuals. Payments of such amounts terminate at a time specified in the agreements. Upon termination, the principal of annuity funds is transferred to the fund group designated by the grantor or, in the absence of such a designation, to unrestricted net assets.

The life income funds consist of assets contributed to the Foundation with the stipulation by the donor that income generated by these assets is to be paid to an individual for a period of time. In some cases, the amount to be paid is the lesser of the income generated from the donated assets or a fixed percent

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

of the fair value of the assets. If income in any year is less than the fixed percent, future years' income may be used in that year to bring the distributions up to the fixed percent; to the extent that income for a year exceeds the required payments, the excess is deferred. At the end of the specified period of time, any remaining assets are transferred to a fund designated by the donor or, in the absence of such a designation, to unrestricted net assets.

- **Unrestricted net assets:** Unrestricted net assets represent resources used for transactions relating to the educational and general operations of the Foundation, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Foundation's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources.

J. Income Taxes: The U.S. Treasury Department issued a determination letter, dated March 20, 1999, indicating the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

K. Classification of Revenues: The Foundation has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- **Operating revenues:** Operating revenues include activities that have the characteristics of exchange transactions, such as contract payments from Southern Illinois University.
- **Nonoperating revenues:** Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, such as investment income.

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

2. Cash and Cash Equivalents, and Investments:

- A. Cash and Cash Equivalents:** At June 30, 2004, the carrying amount of the Foundation's deposits with financial institutions was \$ 206,667 and the bank balances were \$ 609,545. Of the bank balances, \$ 226,252 was insured by the Federal Deposit Insurance Corporation and the remaining \$ 383,293 was collateralized by Municipal and U.S. Government and Agency obligations.
- B. Investments:** The Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Board, through the bylaws, has given authority to the Investment Committee to formulate an investment policy for funds and assets of the Foundation. The Investment Committee shall submit that policy to the Board for approval, periodically recommend changes in policy as appropriate, interpret that policy to the Foundation's investment managers, and oversee implementation of that policy. Investment performance is reviewed quarterly.

If a donor has not provided specific instructions, state law permits the Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the Foundation's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation expended will be required to be spent for the purposes for which the endowment was established. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates \$ 10,550,188 at June 30, 2004. At June 30, 2004, the fair value of the assets of certain donor-restricted endowment funds was approximately \$ 352,783 less than the original principal amount of those funds.

The Board chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board, four (4) percent of the average market value of endowment investment pool at the end of the previous twelve (12) quarters has been authorized for expenditure. The remaining income, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income.

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

The Foundation's Treasurer is authorized by the Board of Directors to invest funds in compliance with state investment policies. The following schedule provides a summary of the book and fair values of the investments and the related categories of credit risk under GASB Statement No. 3 as of June 30, 2004. The Foundation reports investments at fair value on the Statement of Net Assets.

The Foundation determines the fair value to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. Also certain money market investments having a remaining maturity of one year or less at time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

	Risk Category			Fair Value
	1	2	3	
U.S. Government and Agency Obligations	\$ -	\$ -	\$ 880,862	\$ 880,862
Commercial paper			216,921	216,921
	\$ -	\$ -	\$ 1,097,783	1,097,783
Not subject to categorization				
Mutual funds				81,994,303
Money market funds				5,182,093
Total investments per accompanying statement of net assets				\$ 88,274,179

Category 1 includes investments that are insured or registered in the Foundation's name or for which securities are held by the Foundation or its agent in the Foundation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Foundation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

counterparty, or by its trust department or agent, but not in the Foundation's name. Mutual funds and money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

During Fiscal Year 2004, the Foundation realized a net gain of \$ 807,793 from the sale of investments, \$ 1,598,174 in interest and dividend income, and an unrealized gain of \$ 6,055,347. The calculation of realized gains is independent of the calculation of the net increase <decrease> in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The increase in investment income during Fiscal Year 2004 was \$ 9,185,584, of which \$ 8,461,314 is noted on the Statement of Revenues, Expenses, and Changes in Net Assets. Of the remaining amount, \$ 610,320 is included in Annuities Payable, \$ 97,518 is included in Agency Funds Payable and \$ 16,432 is included in Deposits Held for Others which are components of the Noncurrent Liabilities in the Statement of Net Assets. This amount includes all changes in fair value (including purchases and sales) that occurred during the year. The cumulative unrealized gain on investments held at June 30, 2004 was \$ 4,068,500.

3. Receivables:

The only receivables not expected to be collected within one year are \$ 674,224 of net pledge receivables.

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued
June 30, 2004

4. Capital Assets:

Following are the changes in capital assets for Fiscal Year 2004:

	Balance June 30, 2003	Additions	Retirement	Balance June 30, 2004
<i>Capital assets not being depreciated</i>				
Construction in progress	\$ -	\$ 168,414	\$ -	\$ 168,414
<i>Capital assets being depreciated</i>				
Furniture, fixtures and equipment	472,785	5,412	(43,742)	434,455
Less accumulated depreciation for furniture, fixtures and equipment	(391,191)	(27,332)	43,316	(375,207)
Capital assets being depreciated, net	81,594	(21,920)	(426)	59,248
Capital assets, net	<u>\$ 81,594</u>	<u>\$ 146,494</u>	<u>\$ (426)</u>	<u>\$ 227,662</u>

5. Acquired Intangible Assets:

As of June 30, 2004:

	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets		
Patent	<u>\$ 4,970,000</u>	<u>\$ 193,443</u>

This amount is included in other assets in the accompanying statement of net assets.

Aggregate Amortization Expense:

For year ended 06/30/04 \$ 193,443

Estimated Amortization Expense:

For year ended 06/30/05 \$ 357,126
 For year ended 06/30/06 \$ 357,126
 For year ended 06/30/07 \$ 357,126
 For year ended 06/30/08 \$ 357,126
 For year ended 06/30/09 \$ 357,126

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

6. Long-Term Liabilities:

Long-term liability activity for Fiscal Year 2004 is as follows:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Mortgage payable	\$ 872,745	\$ -	\$ (147,670)	\$ 725,075	\$ 152,161
Other liabilities					
Annuities payable	3,277,803	448,925	(317,778)	3,408,950	318,900
Agency funds payable	-	1,695,470	(23,241)	1,672,229	16,400
Deposits held for others	67,826	16,432	-	84,258	-
Other accrued liabilities	101,467	6,739	(33,281)	74,925	26,427
Total other liabilities	<u>3,447,096</u>	<u>2,167,566</u>	<u>(374,300)</u>	<u>5,240,362</u>	<u>361,727</u>
Total Long-Term Liabilities	<u>\$ 4,319,841</u>	<u>\$ 2,167,566</u>	<u>\$ (521,970)</u>	<u>\$ 5,965,437</u>	<u>\$ 513,888</u>

7. Notes Payable:

A. Mortgage Payable: The Evergreen Terrace housing project (see Note 12) was financed by a 3% FHA mortgage, payable monthly with the final payment due in 2009. Thirty-eight acres of land, buildings and improvements, with a carrying value of \$ 4,161,703, are pledged as collateral for this mortgage. As described in Note 12, the property is leased to SIU under the terms of a direct financing lease and the assets are reflected in SIU's financial statements. Equal monthly interest and principal payments of \$ 14,319 are due during fiscal 2005.

B. Maturity Information: The scheduled maturities of the mortgage payable are as follows:

Year ending June 30	Principal	Interest	Total Payments
2005	\$ 152,161	\$ 19,672	\$ 171,833
2006	156,790	15,043	171,833
2007	161,558	10,275	171,833
2008	166,472	5,361	171,833
2009	88,094	797	88,891
Totals	<u>\$ 725,075</u>	<u>\$ 51,148</u>	<u>\$ 776,223</u>

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued June 30, 2004

8. Annuities Payable:

The following summarizes annuities payable transactions for the Fiscal Year 2004:

Balance, July 1, 2003	\$ 3,277,803
Annuity Funds	
Investment income	208,486
Payments to annuitants	(110,086)
Adjustment for actuarial liability	(195,620)
Liability portion of funds established during current year	202,731
Life Income Funds	
Investment income	401,835
Investment fees	(4,833)
Payments to recipients	(207,692)
Adjustment for actuarial liability	<u>(163,674)</u>
Balance, June 30, 2004	<u>\$ 3,408,950</u>

9. Agency Funds Payable:

The following summarizes agency funds payable transactions for the Fiscal Year 2004:

Balance, July 1, 2003	\$ -
Agency Funds	
Net investment income	97,518
Payments to SIU	(23,241)
Liability portion of funds established during current year	<u>1,597,952</u>
Balance, June 30, 2004	<u>\$ 1,672,229</u>

10. Retirement Plan:

All full-time Foundation personnel are SIU employees. Retirement benefits and post-retirement benefits other than pension are available for eligible SIU employees under a contributory retirement plan (the "Plan") administered by the State Universities Retirement System. Participants of the Plan contribute eight percent of their gross earnings, and SIU annually contributes an amount determined by the State Legislature from State appropriations and amounts from other current funds

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

based on actuarially determined rates. Information pertaining to the Plan and Plan benefits can be found in the SIU financial statements. The Foundation does not own any of the Plan assets and has no responsibility for the Plan obligations.

During the year ended June 30, 2004, SIU contributed \$ 236,652 to the Plan on behalf of Foundation personnel. This amount is included in the amounts shown as Budget allocation from SIU and Budget expended at SIU in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

11. Investment and Overhead Recovery Fee:

The Foundation receives a 1% investment fee on endowment funds, which is computed by using the fair value of the funds as of the prior fiscal year end. The fee was \$ 441,244 for Fiscal Year 2004.

12. Transactions With Related Parties:

The Foundation has entered into a master contract with the Board of Trustees of SIU which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1982 and amended in 1997. Among the provisions of the contract is a requirement that the Foundation and SIU will provide services to each other to be reimbursed on an actual cost basis up to approved budgetary limits. During the year ended June 30, 2004, the Foundation provided fund-raising services on behalf of SIU with a portion of the Foundation's fund raising costs being reimbursed by SIU through actual cash payments and in-kind payment. Total reimbursable costs satisfied through cash payments from SIU for the year ended June 30, 2004 were \$ 154,864, of which \$ 70,506 was still reflected as accounts receivable on such date. Total reimbursable costs satisfied through in-kind payments were \$ 9,532 for rental of office space, \$ 93,075 for equipment/contractual services/telecommunication, and \$ 8,733 for Office of the Comptroller, Accounts Payable Office and Purchasing Office. These in-kind payments are not reflected in the accompanying financial statements.

Pursuant to governmental accounting standards, the Foundation is required to recognize as revenue and expense those on-behalf payments for salaries and

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

fringe benefits made by the University for personnel of the Foundation. These amounts are reflected as Budget allocation from SIU and Budget expended at SIU in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

In accordance with its corporate purposes, the Foundation solicits and accepts contributions for SIU. The Foundation receives cash contributions, which are recorded in the Foundation's books. Certain of these contributions are turned over to SIU in the form of scholarships, cash grants or expenditures for the benefit of SIU. The Foundation also receives certain non-cash contributions, which are recorded on the Foundation's books and then turned over to SIU.

The Foundation leases the Evergreen Terrace housing project, which consists of thirty-eight acres of land, including buildings and improvements, to SIU under a lease agreement through the year 2009. This lease has been classified and accounted for as a direct financing lease in the accompanying statement of net assets at the gross investment (minimum lease payments) less unearned interest income. The terms of the lease provide for annual rental with renewal options. At the conclusion of the lease, SIU may purchase the project from the Foundation for one dollar. The annual rental is equal to the amount of principal and interest payments, and deposits to the repair and replacement reserve and hazard insurance escrow funds, as required by the Federal Housing Administration ("FHA"), the mortgagee.

During the year ended June 30, 2004, the Foundation paid \$ 135,370 to the Association of Alumni, Former Students and Friends of Southern Illinois University (at Carbondale) (the "Association") to assist the Association in its support for SIU, relating primarily to the cost of printed materials distributed by the Association. During the year, the Association granted \$ 4,876 to various SIU Foundation restricted accounts. These accounts benefit SIU by providing funding for department operations and scholarships.

The Foundation received a grant from the SIU Board of Trustees for \$ 993,500 during the year ended June 30, 2004. The purpose of these funds is to further support the endowment for the Public Policy Institute as approved by the United States Department of Education/Fund for the Improvement of Postsecondary Education.

STATE OF ILLINOIS

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2004

The Foundation also received a grant from the SIU Board of Trustees for \$ 2,000,000 during the year ended June 30, 2004. The purpose of these funds is to establish a term endowment to address changes in the current economic reality affecting medical students with respect to loan funds and to enable the University to more effectively carry out the wishes set forth in the Ray M. Watson Student Assistance Loan Fund.

The Foundation is receiving grants from SIU Physicians & Surgeons, Inc., which is a University related organization. At the SIU Physicians & Surgeons, Inc. February 2, 1998 meeting, it was approved to designate, at the discretion of the Dean and heads of recognized divisions at the SIU School of Medicine, monies to the Foundation to support teaching, research and service missions of the Departments. During the year ended June 30, 2004, the Foundation received \$ 2,721,121 from the SIU Physicians & Surgeons, Inc.

The Foundation also received several grants from the University totaling \$ 18,181.

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

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Directors
Southern Illinois University Foundation (at Carbondale)

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Southern Illinois University Foundation (at Carbondale) (the “Foundation”) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the Foundation management, and is not intended to be and should not be used by anyone other than these specified parties.

Kulow, Eck & Brunschel LLP

Springfield, Illinois
August 31, 2004