

Southern Illinois University Foundation  
(at Carbondale)

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

June 30, 2005

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

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\*Note: This report has been issued under separate cover.

Southern Illinois University Foundation  
(at Carbondale)

June 30, 2005

**AGENCY OFFICIALS**

Mr. Rickey McCurry	Vice Chancellor, CEO SIU Foundation
Mr. Jeff Lorber	Associate Vice Chancellor
Mr. Bryan 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

Southern Illinois University Foundation  
(at Carbondale)

FINANCIAL STATEMENT REPORT  
SUMMARY

June 30, 2005

The audit of the accompanying basic 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 of 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, 2005, 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 2004 financial statements and, in our report dated August 31, 2004, 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, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

*Kanter, Eck & Brueckel LLP*

Springfield, Illinois  
September 2, 2005

**Southern Illinois University Foundation  
(at Carbondale)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended June 30, 2005**

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 \$ 7,812,529 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 \$ 8.8 million, which was the result of an increase in contributions and investment income. The increase in net capital assets is due to the construction of the Trout-Wittman Center for athletics. Once the building is finished, the Foundation will transfer the building to the University.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 24,732,487	\$ 26,087,572
Capital assets, net	2,171,781	227,662
Noncurrent assets	<u>80,161,054</u>	<u>72,384,024</u>
Total assets	<u>107,065,322</u>	<u>98,699,258</u>
Current liabilities	1,231,654	1,008,222
Noncurrent liabilities	<u>5,781,652</u>	<u>5,451,549</u>
Total liabilities	<u>7,013,306</u>	<u>6,459,771</u>
Total net assets	<u>\$ 100,052,016</u>	<u>\$ 92,239,487</u>
Invested in capital assets, net of related debt	\$ 2,171,781	\$ 227,662
Restricted nonexpendable	53,926,413	46,918,133
Restricted expendable	38,038,374	38,652,300
Unrestricted	<u>5,915,448</u>	<u>6,441,392</u>
Total net assets	<u>\$ 100,052,016</u>	<u>\$ 92,239,487</u>

**Southern Illinois University Foundation  
(at Carbondale)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**For the year ended June 30, 2005**

**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 has 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 verses Operating Income (Loss).

As indicated on page 7, the Foundation had a net increase in assets of \$ 7,812,529 over the previous year. This increase was mainly generated from revenue of contributions of \$ 12.8 million and investment income of \$ 7.3 million, grants and operating revenue of \$ .8 million and operating expenditures of \$ 13.4 million (including the transfer of artwork and excluding budget expended at SIU).

Key activity for this period:

- Transferred \$ 2.5 million of artwork to a local Foundation which benefits a school district.
- Reduction of nonoperating revenues of approximately \$ 2.7 million due to the discontinuance of monthly transfer funds from SIU Physicians and Surgeons, Inc. (university related organization) upon the completion of its accounting system. It now has the ability to process expenditures for the benefit of the SIU School of Medicine.

	<u>Year Ended</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Income before other revenues, expenses, gains and losses	\$ 2,945,009	\$ 9,515,123
Contributions for capital assets	922,260	5,813,468
Additions to permanent endowments	<u>3,945,260</u>	<u>2,703,350</u>
Increase in net assets	7,812,529	18,031,941
Net assets - beginning of year	<u>92,239,487</u>	<u>74,207,546</u>
Net assets - end of year	<u>\$ 100,052,016</u>	<u>\$ 92,239,487</u>

**Southern Illinois University Foundation  
(at Carbondale)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**For the year ended June 30, 2005**

**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 expenditures. Then residual cash generated during the fiscal year was invested.

	<u>Year Ended</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Net cash used by operating activities	\$ (8,523,965)	\$ (9,272,687)
Net cash provided by noncapital financing activities	10,544,930	14,288,574
Net cash (used) provided by capital financing activities	(984,157)	715,047
Net cash used by investing activities	<u>(998,048)</u>	<u>(5,923,823)</u>
Net increase (decrease) in cash	38,760	(192,889)
Cash - beginning of the year	<u>206,667</u>	<u>399,556</u>
Cash - end of year	<u>\$ 245,427</u>	<u>\$ 206,667</u>

**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 9.4% for the endowment pool and 8.8% 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, 2004, there were approximately 63 underwater endowments as compared to 17 as of June 30, 2005. The current difference between their historical value and market value is approximately \$ 57,000.

**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. However, the United States Department of Housing and Urban Development (HUD) has informed the University and the Foundation that they recorded the \$ 1.3 million grant in 1988 as a loan for Evergreen Terrace Housing Project. The Foundation disagrees with this position and HUD has not been able to produce any signed loan agreement. 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.

**SOUTHERN ILLINOIS UNIVERSITY FOUNDATION  
(AT CARBONDALE)  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005  
(with comparative totals for 2004)**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 2A)	\$ 236,922	\$ 158,125
Short-term investments (Note 2B)	23,697,759	25,221,787
Accounts receivable	10,643	78,263
Pledge receivable, net	526,150	403,130
Accrued investment income	79,686	43,862
Net Investment in financing leases	156,789	152,161
Other assets	<u>24,538</u>	<u>30,244</u>
Total Current Assets	<u>24,732,487</u>	<u>26,087,572</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2A)	8,505	48,542
Endowment Investments (Note 2B)	64,028,616	56,014,745
Other long-term investments (Note 2B)	9,408,771	7,037,647
Pledge receivable, net (Note 3)	1,132,946	674,224
Irrevocable trust held by other	99,928	99,928
Cash value of life insurance	231,506	232,530
Investment in real estate	158,000	158,000
Net Investment in financing leases	416,125	572,914
Capital assets, net of accumulated depreciation (Note 4)	2,171,781	227,662
Other assets	<u>4,676,657</u>	<u>7,545,494</u>
Total Noncurrent Assets	<u>82,332,835</u>	<u>72,611,686</u>
<b>TOTAL ASSETS</b>	<u>107,065,322</u>	<u>98,699,258</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	608,260	520,761
Annuities payable-current portion (Note 6)	452,895	318,900
Agency funds payable-current portion (Note 6)	13,710	16,400
Long-term liabilities-current portion (Note 6)	<u>156,789</u>	<u>152,161</u>
Total Current Liabilities	<u>1,231,654</u>	<u>1,008,222</u>
Noncurrent Liabilities		
Annuities payable (Note 6)	3,269,560	3,090,050
Agency funds payable (Note 6)	1,742,855	1,655,829
Deposits held for others (Note 6)	344,614	84,258
Other accrued liabilities (Note 6)	8,498	48,498
Long-term liabilities (Note 6)	<u>416,125</u>	<u>572,914</u>
Total Noncurrent Liabilities	<u>5,781,652</u>	<u>5,451,549</u>
<b>TOTAL LIABILITIES</b>	<u>7,013,306</u>	<u>6,459,771</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	2,171,781	227,662
Restricted for:		
Nonexpendable		
Scholarships, research, instruction, and other	51,377,890	44,357,053
Loans	2,436,024	2,447,158
Capital projects	112,499	113,922
Expendable		
Scholarships, research, instruction, and other	36,985,749	37,774,131
Loans	398,581	202,163
Capital projects	654,044	676,006
Unrestricted	<u>5,915,448</u>	<u>6,441,392</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 100,052,016</u>	<u>\$ 92,239,487</u>

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

**SOUTHERN ILLINOIS UNIVERSITY FOUNDATION  
(AT CARBONDALE)  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005  
(with comparative totals for 2004)**

	<u>Years Ended</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>REVENUES</b>		
Operating revenues		
Payments from SIU	\$ -	\$ 154,864
Budget allocation from SIU	3,194,900	3,175,908
Other operating revenues	463,746	491,687
Total operating revenues	<u>3,658,646</u>	<u>3,822,459</u>
<b>EXPENSES</b>		
Operating expenses		
General and operating expenses	1,318,383	1,139,726
Budget expended at SIU (Note 12)	3,194,900	3,175,908
Scholarships and cash grants to SIU	4,591,997	4,982,031
Expenditures for the benefit of SIU	3,695,176	4,834,651
Grants to other non-profits	2,539,080	-
Noncash grants to SIU	860,662	606,192
Amortization and depreciation expense (Notes 4 and 5)	381,720	220,775
Other expenses	10,082	1,751
Total operating expenses	<u>16,592,000</u>	<u>14,961,034</u>
Operating loss	<u>(12,933,354)</u>	<u>(11,138,575)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Contributions	7,907,611	5,995,959
Grants from University and Related Organizations (Note 12)	295,693	5,737,678
Grants from other government agencies	57,961	82,613
Investment income (Note 2B)	7,314,494	8,461,314
Payments received on capital financing leases	234,131	232,940
Reduction in capital financing leases	(152,161)	(147,670)
Interest on capital indebtedness	(19,672)	(24,166)
Adjustment of actuarial liability (Note 8)	323,970	359,294
Bad debt expense	(83,664)	(44,264)
Net nonoperating revenues	<u>15,878,363</u>	<u>20,653,698</u>
Income before other revenues, expenses, gains and losses	2,945,009	9,515,123
Contributions for capital assets	922,260	5,813,468
Additions to permanent endowments	3,945,260	2,703,350
Increase in net assets	<u>7,812,529</u>	<u>18,031,941</u>
<b>NET ASSETS</b>		
Net assets - beginning of year	<u>92,239,487</u>	<u>74,207,546</u>
Net assets - end of year	<u>\$ 100,052,016</u>	<u>\$ 92,239,487</u>

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

**SOUTHERN ILLINOIS UNIVERSITY FOUNDATION  
(AT CARBONDALE)  
STATEMENT OF CASH FLOWS - DIRECT METHOD  
FOR THE YEAR ENDED JUNE 30, 2005  
(with comparative totals for 2004)**

	<b>Years Ended</b>	
	<b>June 30, 2005</b>	<b>June 30, 2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments from SIU	\$ 70,506	\$ 126,944
Other operating revenues	443,750	474,582
General and operating expenses	(1,319,960)	(1,168,806)
Scholarships and cash grants to SIU	(4,710,464)	(4,903,564)
Expenditures for the benefit of SIU	(2,998,125)	(3,801,843)
Other expenditures	(9,672)	-
Net cash used by operating activities	(8,523,965)	(9,272,687)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions and grants for other than capital purposes	7,044,844	10,328,291
Private contributions for endowment purposes	3,945,260	2,703,350
Agency funds transferred from SIU	-	1,597,952
Payments to annuitants and recipients	(391,658)	(317,778)
Payments for agency funds to SIU	(53,516)	(23,241)
Net cash provided by noncapital financing activities	10,544,930	14,288,574
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Payments received on capital financing leases	234,131	232,940
Reduction in capital financing leases	(152,161)	(147,670)
Interest on capital indebtedness	(19,672)	(24,166)
Purchase of capital assets	(1,968,714)	(173,825)
Cash contributions for capital assets	922,259	827,768
Net cash (used) provided by capital financing activities	(984,157)	715,047
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturities of investments	4,422,788	2,048,551
Interest and dividend income	2,038,476	1,592,713
Purchase of investments	(7,393,224)	(9,619,888)
Investment fees	(66,088)	54,801
Net cash used by investing activities	(998,048)	(5,923,823)
<b>NET INCREASE (DECREASE) IN CASH</b>		
Cash - beginning of the year	206,667	399,556
Cash - end of year	\$ 245,427	\$ 206,667

**SOUTHERN ILLINOIS UNIVERSITY FOUNDATION  
(AT CARBONDALE)  
STATEMENT OF CASH FLOWS - DIRECT METHOD - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005  
(with comparative totals for 2004)**

	<u>Years Ended</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (12,933,354)	\$ (11,138,575)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Amortization and depreciation expense	381,720	220,775
Noncash grants to SIU	860,662	606,192
Noncash expenditures for the benefit of SIU	487,323	964,510
Noncash other operating expenses	410	1,751
Noncash general and operating expenses	430	-
Changes in assets and liabilities:		
Receivables	67,620	(33,705)
Other assets	2,520,530	15,507
Accounts payable	129,949	89,537
Other accrued liabilities	437	1,007
Other liabilities	(39,692)	314
Net cash used by operating activities	\$ (8,523,965)	\$ (9,272,687)

**SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

During the year, the Foundation received \$ 873,830 in noncash contributions from donors. The actuarial liability for annuities payable decreased by \$ 323,970 for the year. Bad debts of \$ 83,664 were written off for the year.

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

# SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

## Notes to Basic Financial Statements June 30, 2005

### 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* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, 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.

Effective July 1, 2004, the Foundation adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing other common risks of deposits and investments.

# SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

## Notes to Basic Financial Statements - Continued June 30, 2005

### 1. Summary of Significant Accounting Policies: - Continued

**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.

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, expenses and net assets between years. The 2004 information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2004, from which the summarized financial information was derived. Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

**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.

# SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

## Notes to Basic Financial Statements - Continued

June 30, 2005

### 1. Summary of Significant Accounting Policies: - Continued

**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.

#### 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 in 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 binds 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 designated by the grantor or, in the absence of such a designation, to current unrestricted net assets.

# SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

## Notes to Basic Financial Statements - Continued June 30, 2005

### 1. Summary of Significant Accounting Policies: - Continued

The life income funds consist of assets which are normally trusts and the Foundation is usually trustee and the grantor stipulates 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 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 current 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 and Expenses:** The Foundation has classified its revenues and expenses as either operating or nonoperating according to the GASB criteria. Since the primary purpose of the Foundation is to solicit and hold contributions for the benefit of SIU, net increase in net assets is a better indicator of the Foundation's core activity versus operating income (loss).

#### **GASB criteria:**

- **Operating:** Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as the salary support from SIU and the fundraising expenditures.
- **Nonoperating:** Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources and expenditure uses that are defined as nonoperating revenues and expenditures 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 States and Local Governments*, such as investment income.

# SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

## Notes to Basic Financial Statements - Continued

June 30, 2005

### 2. Cash and Cash Equivalents, and Investments:

- A. Cash and Cash Equivalents:** At June 30, 2005, the carrying amount of the Foundation's deposits with financial institutions was \$ 245,427 and the bank balances were \$ 830,949.

Custodial Credited Risk – Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to the Foundation. The Foundation does have a policy to require banks to collateralize balances over the FDIC insured amount. As of June 30, 2005, the entire amount of funds held at the banks were either insured or collateralized by pledged bank assets in the Foundation's and University' name.

- 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. The Foundation's Treasurer is authorized by the Board of Directors to invest funds in compliance with state investment policies.

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 \$ 13,659,913 at June 30, 2005. At June 30, 2005, the fair value of the assets of certain donor-restricted endowment funds was approximately \$ 57,337 less than the original principal amount of those funds.

## **SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)**

### **Notes to Basic Financial Statements - Continued**

***June 30, 2005***

#### **2. Cash and Cash Equivalents, and Investments: - Continued**

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.

During Fiscal Year 2005, the Foundation realized a net gain of \$ 1,103,672 from the sale of investments, \$ 2,074,298 in interest and dividend income, investment fees of \$ 66,088, and an unrealized gain of \$ 4,202,612. 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 net increase in investment income during Fiscal Year 2005 was \$ 7,942,120, of which \$ 7,314,494 is noted on the Statement of Revenues, Expenses, and Changes in Net Assets. Of the remaining amount, \$ 482,883 is included in Annuities Payable, \$ 137,752 is included in Agency Funds Payable and \$ 6,991 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, 2005, was \$ 8,503,814.

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.

# SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

## Notes to Basic Financial Statements - Continued June 30, 2005

### 2. Cash and Cash Equivalents, and Investments: - Continued

As of June 30, 2005:

Investment Type	Total Fair Value	Custodial Credit Risk Held by Financial Institution and not in Foundation's name	Maturity		Currency
			Less than 1 year	More than 10 years	
<b>Short-Term Securities:</b>					
Commercial Paper	\$ 247,892	\$ 247,892	\$ 247,892		
<b>Investments Other than Short-Term Securities:</b>					
U.S. Agency Bonds	31,580	31,580		\$ 31,580	
<b>External Investment Pools:</b>					
U.S. Equity Mutual Funds	32,788,485		32,788,485		
U.S. Equity Commingled Funds	10,750,047		10,750,047		
Non-U.S. Equity Mutual Funds	11,245,290		11,245,290		Various
U.S. Fixed Income Mutual Funds	38,946,610		38,946,610		
Money Market Funds	<u>3,125,242</u>		<u>3,125,242</u>		
Total Short-Term Securities and Investments, as of June 30, 2005	<u>\$ 97,135,146</u>		<u>\$ 97,103,566</u>	<u>\$ 31,580</u>	

Interest Rate Risk – in order to capture the highest yield and because a majority of the Foundation's investments have a long time horizon, the Foundation has not set limits on investment maturities.

Credit Risk – the Foundation's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. In order to allow investment managers the ability to opportunistically invest in "non-Leman Aggregate" securities such as high yield bonds, the Foundation has not set a limit on credit rating of bonds.

The credit risk profile for securities at June 30, 2005, per Morningstar is as follows:

Investment Type	5	4	3	2	1	Not Rated	Total
<b>Short-Term Securities:</b>							
Commercial Paper						\$ 247,892	\$ 247,892
<b>Investments Other than Short-Term Securities:</b>							
U.S. Agency Bonds						31,580	31,580
<b>External Investment Pools:</b>							
U.S. Equity Mutual Funds	\$ 351,842	\$ 31,585,998	\$ 824,910	\$ -	\$ -	25,735	32,788,485
U.S. Equity Commingled Funds	-	-	-	-	-	10,750,047	10,750,047
Non-U.S. Equity Mutual Funds	-	11,184,290	-	61,000	-	-	11,245,290
U.S. Fixed Income Mutual Funds	38,686,000	-	-	-	260,610	-	38,946,610
Money Market Funds	-	-	-	-	-	3,125,242	3,125,242
Total Short-Term Securities and Investments, as of June 30, 2005	<u>\$ 39,037,842</u>	<u>\$ 42,770,288</u>	<u>\$ 824,910</u>	<u>\$ 61,000</u>	<u>\$ 260,610</u>	<u>\$ 14,180,496</u>	<u>\$ 97,135,146</u>

## SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

### Notes to Basic Financial Statements - Continued June 30, 2005

#### 2. Cash and Cash Equivalents, and Investments: - Continued

Concentration of Credit Risk – the Foundation has no limit on the amount it may invest in any one issuer. As of June 30, 2005, the Foundation did not have more than 5% of its investments with any one issuer.

Custodial Credit Risk – for an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2005, the Foundation had \$ 247,892 of securities which were at risk. These are the securities the Student Saluki Club invests for the Foundation.

Foreign Currency Risk – The Foundation had investments in three different non-U.S. mutual funds. These funds invest in securities of various countries.

#### 3. Receivables:

The only receivables not expected to be collected within one year are \$ 1,132,946 of net pledge receivables.

#### 4. Capital Assets:

Following are the changes in capital assets for Fiscal Year 2005:

	Balance June 30, 2004	Additions	Retirement	Balance June 30, 2005
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 168,414	\$1,966,975	\$ -	\$2,135,389
<i>Capital assets being depreciated:</i>				
Furniture, fixtures and equipment	434,455	2,148	(14,382)	422,221
Less accumulated depreciation for furniture, fixtures and equipment	(375,207)	(24,594)	13,972	(385,829)
Capital assets being depreciated, net	59,248	(22,446)	(410)	36,392
Capital assets, net	<u>\$ 227,662</u>	<u>\$1,944,529</u>	<u>\$ (410)</u>	<u>\$2,171,781</u>

Construction in progress balance is associated with the construction of the Trout-Wittman center for athletes. The Foundation received restricted funds from a donor to build the center. The building costs will be transferred to SIU when the donor restrictions are fulfilled and the project is completed.

## SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

### Notes to Basic Financial Statements - Continued June 30, 2005

#### 5. Acquired Intangible Assets:

As of June 30, 2005:

	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets		
Patent	\$ 4,970,000	\$ 550,569

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

#### **Aggregate Amortization Expense:**

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

#### **Estimated Amortization Expense:**

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
For year ended 06/30/10	\$ 357,126

#### 6. Long-Term Liabilities:

Long-term liability activity for Fiscal Year 2005 is as follows:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Mortgage payable	\$ 725,075	\$ -	\$ (152,161)	\$ 572,914	\$ 156,789
Other liabilities					
Annuities payable	3,408,950	705,163	(391,658)	3,722,455	452,895
Agency funds payable	1,672,229	137,852	(53,516)	1,756,565	13,710
Deposits held for others	84,258	260,356	-	344,614	-
Other accrued liabilities	74,925	7,211	(46,466)	35,670	27,172
Total other liabilities	5,240,362	1,110,582	(491,640)	5,859,304	493,777
Total Long-Term Liabilities	\$ 5,965,437	\$ 1,110,582	\$ (643,801)	\$ 6,432,218	\$ 650,566

## SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

### Notes to Basic Financial Statements - Continued June 30, 2005

#### 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 2006.

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

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2006	\$ 156,790	\$ 15,043	\$ 171,833
2007	161,558	10,275	171,833
2008	166,472	5,361	171,833
2009	<u>88,094</u>	<u>797</u>	<u>88,891</u>
Totals	<u>\$ 572,914</u>	<u>\$ 31,476</u>	<u>\$ 604,390</u>

#### 8. Annuities Payable:

The following summarizes annuities payable transactions for the Fiscal Year 2005:

Balance, July 1, 2004	\$ 3,408,950
Annuity Funds:	
Investment income	156,355
Payments to annuitants	(122,609)
Adjustment for actuarial liability	(177,466)
Liability portion of funds established during current year	84,130
Life Income Funds:	
Investment income	326,528
Investment fees	(4,831)
Payments to recipients	(269,049)
Adjustment for actuarial liability	(148,776)
Liability portion of funds established during current year	<u>469,223</u>
Balance, June 30, 2005	<u>\$ 3,722,455</u>

An additional adjustment for actuarial liability in the amount of \$ 2,272 was made for the deposits held for others.

# SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

## Notes to Basic Financial Statements - Continued June 30, 2005

### 9. Agency Funds Payable:

The following summarizes agency funds payable transactions for the Fiscal Year 2005:

Balance, July 1, 2004	\$ 1,672,229
Annuity Funds:	
Net investment income	137,752
Payments to SIU	(53,516)
Liability portion of funds established during current year	<u>100</u>
Balance, June 30, 2005	<u>\$ 1,756,565</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 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, 2005, SIU contributed \$ 189,122 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. Fees:

#### A. Investment and Overhead Recovery Fee:

The Foundation receives a 1% investment fee on endowment funds, which is computed quarterly by using the fair value of the pool as of the prior quarter end. The fee was \$ 586,086 for Fiscal Year 2005.

## **SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)**

### **Notes to Basic Financial Statements - Continued** *June 30, 2005*

#### **11. Fees: - Continued**

##### **B. Supplement Fee:**

Beginning July 1, 2004, the University and Foundation assessed a six percent Supplement Fee on all gifts of cash and securities. Five percent is retained by the University and Foundation for support of the Southern @ 150 strategic initiative to increase private support. The remaining one percent is provided to the college/department for which the contribution was restricted to support their advancement efforts. The Foundation's portion of the supplement fee was \$ 389,492 for Fiscal Year 2005.

#### **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, 2005, 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 in-kind payment. Total reimbursable costs satisfied through in-kind payments were \$ 9,532 for rental of office space, \$ 11,806 for equipment/contractual services/telecommunication, and \$ 8,216 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 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.

## **SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)**

### **Notes to Basic Financial Statements - Continued** *June 30, 2005*

#### **12. Transactions With Related Parties: - Continued**

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, 2005, the Foundation paid \$ 136,692 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 \$ 4,152 to various SIU Foundation restricted accounts. These accounts benefit SIU by providing funding for department operations and scholarships.

The Foundation received 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 missions of the Departments. This transfer of funds was discontinued upon the completion of SIU Physicians & Surgeons, Inc.'s accounting system. During the year ended June 30, 2005, the Foundation received \$ 247,871 from the SIU Physicians & Surgeons, Inc.

The Foundation also received several grants from the University totaling \$ 43,670.

#### **13. Contingency**

In 1988, the Foundation received a grant from the United States Department of Housing and Urban Development (HUD) in the approximate amount of \$ 1.3 million dollars for the Evergreen Terrace Housing Project. The Foundation has been informed by HUD that this grant was, in fact, a loan to be paid back plus interest. The Foundation considers HUD's position to be incorrect and, accordingly, has not accrued a liability as of June 30, 2005.