

State of Illinois
University Park
Southern Illinois University at Edwardsville, Inc.

FINANCIAL AUDIT

For the year ended June 30, 2004
(with comparative totals for 2003)

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois



Kerber, Eck & Braeckel LLP

State of Illinois
University Park
Southern Illinois University at Edwardsville, Inc.

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State of Illinois
University Park
Southern Illinois University at Edwardsville, Inc.

UNIVERSITY PARK OFFICIALS

June 30, 2004

The University Park Board of Directors:

Mr. William K. Anderson
Mrs. Sherri Brown
Mr. M. Robert Carver
Mrs. Sharon Hahs
Mr. Bart Solon
Mr. James Walker
Mr. David J. Werner
Mr. Robert Wetzel
Mr. Ronald D. Winney

Members added during the year:

Mr. Steve McRae
Mr. Robert McClellan
John Haller, representative of Mr. James Walker

Members retired during the year:

Mr. James Carlile
Mr. Steve Binder, representative of Mr. James Walker

Southern Illinois University personnel who provide significant administrative support to the University Park include:

Executive Director	Mr. Brian Donnelly
Operations Manager	Ms. Janet Haroian
Administrative Secretary	Ms. Cheryl Madson

University Park offices are located at:

University Park
Southern Illinois University at Edwardsville, Inc.
One North Research Drive
Edwardsville, IL 62025-3604

State of Illinois
University Park
Southern Illinois University at Edwardsville, Inc.

FINANCIAL STATEMENT REPORT SUMMARY

June 30, 2004

The audit of the accompanying basic financial statements of University Park, Southern Illinois University at Edwardsville, Inc. was performed by Kerber, Eck & Braeckel LLP.

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



Independent Auditors' Report

Honorable William G. Holland
Auditor General, State of Illinois
and
Board of Directors
University Park
Southern Illinois University at Edwardsville, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of University Park, Southern Illinois University at Edwardsville, Inc. (University Park), 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 University Park 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 University Park's 2003 financial statements and, in our report dated September 10, 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 University Park, Southern Illinois University at Edwardsville, Inc. 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 12 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 our report dated September 29, 2004, on our consideration of University Park'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.

Kulow, Eck & Brunschel LLP

Springfield, Illinois
September 29, 2004

State of Illinois
University Park
Southern Illinois University at Edwardsville, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended June 30, 2004

Introduction

Following this discussion and analysis are the financial statements for University Park, Southern Illinois University at Edwardsville, Inc. (University Park). Beginning with fiscal year 2002, significant changes were made to the financial statement format in previous years due to the implementation of the new guidelines issued by the Governmental Accounting Standards Board (GASB). GASB Statements requiring either new or revised financial statements and note disclosures included:

GASB Statement No. 35	Basic Financial Statements-and Management's Discussion and Analysis-For Public Colleges and Universities
GASB Statement No. 37	Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments: Omnibus
GASB Statement No. 38	Certain Financial Statement Note Disclosures

This discussion and analysis will identify the financial statements and their relationship to each other and outline any additional facts, decisions, or conditions that are expected to have a significant effect on the financial position of University Park.

Financial Statements

The three financial statements presented are the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The financial statements present the financial position and activity in a "business-type activities" format. This format is intended to provide the financial statement user with a better indication of the resources available to the organization and the existing commitments against those resources. The financial statements include prior year data and an analysis of any significant variations between the two years. University Park's overall financial position and operation for the past two years are summarized as follows based on the information included in the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets (See pages 13 - 14):

State of Illinois
University Park
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the fiscal year ended June 30, 2004

Financial Statements - Continued

University Park
Southern Illinois University at Edwardsville, Inc.

CONDENSED STATEMENTS OF NET ASSETS

June 30

	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 246,134	\$ 308,317
Capital assets	<u>524,518</u>	<u>8,226</u>
Total assets	<u>770,652</u>	<u>316,543</u>
Current liabilities	114,187	88,998
Noncurrent liabilities	<u>486,258</u>	<u>89,932</u>
Total liabilities	<u>600,445</u>	<u>178,930</u>
Net assets		
Invested in capital assets, net of related debt	130,711	8,226
Unrestricted	<u>39,496</u>	<u>129,387</u>
Total net assets	<u>\$ 170,207</u>	<u>\$ 137,613</u>

All assets (resources) are listed in order of their liquidity, and all liabilities (commitments) are listed in order of their term length. The net assets are presented in a manner that indicates the level of restriction, if any, placed on the net assets. As of June 30, 2004, University Park reports \$ 170,207 in net assets, of which \$ 39,496 is considered unrestricted. Other changes are explained on the following page.

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Southern Illinois University at Edwardsville, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the fiscal year ended June 30, 2004

Financial Statements - Continued

Cash: During fiscal year 2004 University Park experienced a decrease in cash in the amount of \$ 16,898. This decrease is primarily attributed to the receipt of \$ 48,338 in accounts receivable from SIUE, an increase of \$ 16,687 to account payable SIUE, and purchase of and debt service for the purchase of capital assets.

Note Receivable – SIUE: University Park agreed to advance, on behalf of SIUE, a total of \$ 59,298 in costs related to its building management agreement with SIUE. The agreement with the University required SIUE to repay this advance to University Park. As of June 30, 2004, the full amount has been repaid to University Park by SIUE.

Capital Assets: During the year, University Park purchased a building located in the park for \$ 527,086. The Building is being depreciated using the straight-line method over 30 years.

Notes Payable: During the year, University Park purchased a building located in the park of which \$ 400,000 was financed via bank loan at 4.85% interest over 36 months, maturing December 31, 2007, with a balloon payment due upon maturity of approximately \$ 364,349. At June 30, 2004, \$ 6,193 of principal has been satisfied. The balance of the note is \$ 393,807 of which \$ 12,457 is included in current liabilities on the Statement of Net Assets.

State of Illinois
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the fiscal year ended June 30, 2004

Financial Statements - Continued

University Park
Southern Illinois University at Edwardsville, Inc.

CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

Year ended June 30

	<u>2004</u>	<u>2003</u>
Operating revenues		
Budget allocation from SIU	\$ 236,585	\$ 222,718
Ground rents and common area maintenance	67,608	51,810
Other revenues	<u>67,178</u>	<u>99,753</u>
Total operating revenues	<u>371,371</u>	<u>374,281</u>
Operating expenses		
Budget expended at SIU	236,585	222,718
Contractual services	68,360	59,383
Other expenses	<u>31,490</u>	<u>58,761</u>
Total operating expenses	<u>336,435</u>	<u>340,862</u>
Operating income	34,936	33,419
Total nonoperating revenues (expenses)	<u>(2,342)</u>	<u>5,839</u>
Increase in net assets	32,594	39,258
Net assets		
Net assets - beginning of the year	<u>137,613</u>	<u>98,355</u>
Net assets - end of the year	<u>\$ 170,207</u>	<u>\$ 137,613</u>

State of Illinois
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the fiscal year ended June 30, 2004

Financial Statements - Continued

The Statement of Revenues, Expenses and Changes in Net Assets details the activity for the fiscal year, including the change in net assets from the prior year due to this activity. Activity is segregated between operating activity and non-operating activity. GASB defines operating activity as that which has the characteristics of exchange transactions, meaning each party to the transaction receives a material benefit. Non-operating activity includes non-exchange transactions.

For fiscal year 2003, University Park experienced an increase in net assets of \$ 39,258. For fiscal year 2004, University Park experienced an increase in net assets of \$ 32,594. Other changes are explained below.

Budget Allocation from SIUE: The budget allocation from SIUE and the corresponding budget expended at SIUE increased in Fiscal year 2004 from \$ 222,718 to \$ 236,585. This amount represents a \$ 13,867 increase in on-behalf payments for salaries and fringe benefits made by the University for personnel of University Park.

Contractual Services: The amount expended for contractual services increased from \$ 59,383 in 2003 to \$ 68,360 in 2004, a difference of \$ 8,977. The increase is primarily attributable to services related to the purchase of a building.

Expenditures for the Benefit of SIUE: In fiscal year 2003, University Park expended \$ 36,949 on tenant improvements under the building management agreement with SIUE.

The Statement of Cash Flows' primary purpose is to provide relevant information about the cash receipts and cash payments of University Park during the period. University Park is required to use the direct method presentation for this statement, which indicates the cash effects categorized by operations, non-capital financing transactions, capital and related financing transactions, and investing transactions.

State of Illinois
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the fiscal year ended June 30, 2004

Facts, Decisions, or Conditions Significantly Affecting Financial Position

Capital Assets and Noncurrent Liabilities: During fiscal year 2004, University Park purchased an office building located in the park for \$ 527,086, of which \$ 400,000 was financed via bank loan.

Other: The notes to the financial statements 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
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STATEMENT OF NET ASSETS

June 30, 2004
(with comparative totals for 2003)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash (Note C)	\$ 237,441	\$ 254,339
Accounts receivable - SIUE (Notes D and J)	6,365	2,322
Accounts receivable - Other	1,803	2,822
Note receivable - SIUE (Note E)	-	15,973
Prepaid expenses	525	446
Total current assets	246,134	275,902
Noncurrent assets		
Note receivable - SIUE (Note E)	-	32,415
Capital assets (Note F)	524,518	8,226
Total noncurrent assets	524,518	40,641
Total assets	770,652	316,543
LIABILITIES		
Current liabilities		
Accounts payable - SIUE (Note J)	89,516	72,829
Accounts payable - Other	8,936	12,796
Deferred revenue	976	3,373
Notes payable current portion (Note I)	12,457	-
Deposits	2,302	-
Total current liabilities	114,187	88,998
Noncurrent liabilities		
Deferred revenue (Note H)	104,908	89,932
Notes payable (Note I)	381,350	-
Total noncurrent liabilities	486,258	89,932
Total liabilities	600,445	178,930
NET ASSETS		
Net assets		
Invested in capital assets, net of related debt	130,711	8,226
Unrestricted	39,496	129,387
Total net assets	\$ 170,207	\$ 137,613

The accompanying notes are an integral part of this statement.

State of Illinois
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the year ended June 30, 2004
(with comparative totals for 2003)

	<u>2004</u>	<u>2003</u>
Operating revenues		
Payments from SIUE under agreement for development of University Park facility	\$ 37,268	\$ 37,268
Management fees (Note J)	29,910	25,536
Budget allocation from SIUE (Note J)	236,585	222,718
Other payments from SIUE	-	36,949
Ground rents and common area maintenance	67,608	51,810
	371,371	374,281
Operating expenses		
Budget expended at SIUE (Note J)	236,585	222,718
Expenditures for the benefit of SIUE	-	36,949
Travel	3,032	1,730
Contractual services	68,360	59,383
Telecommunications	3,253	3,999
Commodities	4,300	5,364
Depreciation expense (Note F)	10,794	1,184
Amortization expense (Note H)	10,111	9,535
	336,435	340,862
Total operating expenses	336,435	340,862
Operating income	34,936	33,419
Nonoperating revenues (expenses)		
Interest income	6,658	5,794
Interest expense	(9,453)	-
Other revenue	453	45
	(2,342)	5,839
Total nonoperating revenues (expenses)	(2,342)	5,839
Increase in net assets	32,594	39,258
Net assets		
Net assets - beginning of year	137,613	98,355
Net assets - end of year	\$ 170,207	\$ 137,613

The accompanying notes are an integral part of this statement.

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STATEMENT OF CASH FLOWS

For the year ended June 30, 2004
(with comparative totals for 2003)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Payments received for ground rents and common area maintenance	\$ 71,095	\$ 46,102
Payments from related organizations	63,135	154,282
General and operating expenses	(62,578)	(91,537)
Payment to related organizations	<u>(1,317)</u>	<u>-</u>
Net cash flows provided by operating activities	<u>70,335</u>	<u>108,847</u>
Cash flows from noncapital financing activities		
Reimbursable advance to tenant	-	(22,160)
Reimbursement of advance by SIUE	48,388	10,910
Other revenues	<u>453</u>	<u>45</u>
Net cash flows provided (used) by noncapital financing activities	<u>48,841</u>	<u>(11,205)</u>
Cash flows from capital financing activities		
Proceeds from long term debt	400,000	-
Payment of loan principal	(6,193)	-
Payments of loan interest	<u>(9,453)</u>	<u>-</u>
Net cash flows provided by capital financing activities	<u>384,354</u>	<u>-</u>
Cash flows from investing activities		
Purchase of fixed assets	(527,086)	(7,799)
Interest income	<u>6,658</u>	<u>5,794</u>
Net cash flows used by investing activities	<u>(520,428)</u>	<u>(2,005)</u>
Net increase (decrease) in cash	(16,898)	95,637
Cash, beginning of the year	<u>254,339</u>	<u>158,702</u>
Cash, end of the year	<u>\$ 237,441</u>	<u>\$ 254,339</u>

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STATEMENT OF CASH FLOWS - CONTINUED

For the year ended June 30, 2004
(with comparative totals for 2003)

	<u>2004</u>	<u>2003</u>
Reconciliation of operating income to net cash flows provided by operating activities		
Operating income	\$ 34,936	\$ 33,419
Adjustments to reconcile operating income to net cash flows provided by operating activities		
Depreciation expense	10,794	1,184
Changes in assets and liabilities		
Receivables	(3,024)	55,650
Other assets	(79)	(50)
Accounts payable	12,827	15,938
Other liabilities	14,881	2,706
	<hr/>	<hr/>
Net cash flows provided by operating activities	<u>\$ 70,335</u>	<u>\$ 108,847</u>

The accompanying notes are an integral part of this statement.

State of Illinois
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial Reporting Entity

The University Park, Southern Illinois University at Edwardsville, Inc. ("University Park") exists for the primary purpose of aiding and assisting Southern Illinois University Edwardsville ("SIUE" or "University") in managing the University Park facility.

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

These financial statements include all financial activities over which University Park exercises direct responsibility.

2. Financial Statement Presentation

Effective July 1, 2001, University Park adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements - and 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 Statement Nos. 35, 37 and 38 provides a comprehensive perspective of University Park's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include the adoption of depreciation on capital assets.

3. Basis of Accounting

For financial reporting purposes, University Park is considered a special-purpose government engaged only in business-type activities. Accordingly, University Park'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.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Basis of Accounting - Continued

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

4. Capital Assets

Property and equipment purchased by University Park are recorded at cost. Donated assets are capitalized at estimated fair value at the date of the donation. For equipment, University Park'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 is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 7 years for equipment and furnishings, 15 years for land improvements and 30 years for buildings.

5. Net Assets

University Park's net assets are classified as follows:

- **Invested in capital assets, net of related debt:** This represents University Park's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations, if any, related to those capital assets.
- **Restricted net assets:** Restricted net assets include resources in which University Park is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. University Park has no restricted net assets at June 30, 2004.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. *Net Assets - Continued*

- **Unrestricted net assets:** Unrestricted net assets represent resources used for transactions relating to the educational and general operations of University Park, 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, University Park's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources.

6. *Classifications of Revenues*

University Park has classified its revenues as either operating or non-operating revenues according to the following criteria:

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

7. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. *Summarized Financial Information*

The financial statements include prior-year summarized comparative information. Such 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 organization's financial statements for the year ended June 30, 2003, from which the summarized information was derived.

9. *Adoption of New Government Accounting Standard (GASB Statement No. 42)*

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, is effective for periods beginning after December 15, 2004. However, University Park has elected to early implement the standard. There is no impact on the financial statements because University Park has no capital assets that are impaired as of June 30, 2004.

NOTE B - TAX STATUS

An IRS ruling dated December 26, 1996, determined that University Park qualifies for federal income tax exemption under Section 501(c)(3) of the Internal Revenue Code. The IRS has further determined that University Park, Southern Illinois University at Edwardsville, Inc. is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section 509(a)(3).

NOTE C - CASH

The carrying amount of University Park's deposits was \$ 237,441 at June 30, 2004, and the related bank balance was \$ 246,884. The Federal Deposit Insurance Corporation insures balances up to \$ 100,000 at individual institutions. University Park had no uninsured balances at June 30, 2004.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE D - ACCOUNTS RECEIVABLE - SIUE

As described in Note J, the University reimburses University Park for cash flow deficits of management of the University owned building, pays a 5% service fee for reimbursements of maintenance type costs of another University owned building and reimburses University Park for cash flow deficits of management of the University leased building. At June 30, 2004, University Park had \$ 6,365 receivable balances for these reimbursements.

NOTE E - NOTE RECEIVABLE - SIUE

On April 16, 2001, University Park entered into an agreement with the University where University Park advanced an allowance totaling \$ 59,298 for tenant improvement and real estate commission to a lessee in the University-owned building described in Note J. SIUE agreed to reimburse University Park an equal amount, amortized over 60 months, at the current prime interest rate. SIUE made payments beginning July 2002 through June 2003, at which time SIUE took the option of extending the term for an additional year. The University could have extended this option three additional one-year periods. However, during the year ended June 30, 2004, the University paid the balance of the note receivable.

NOTE F - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Building	\$ -	\$ 527,086	\$ -	\$ 527,086
Land improvements	2,000	-	-	2,000
Furniture, fixtures and equipment	13,957	-	(1,000)	12,957
Total	<u>15,957</u>	<u>527,086</u>	<u>(1,000)</u>	<u>542,043</u>
Total accumulated depreciation	<u>(7,731)</u>	<u>(10,794)</u>	<u>1,000</u>	<u>(17,525)</u>
Capital assets, net of depreciation	<u>\$ 8,226</u>	<u>\$ 516,292</u>	<u>\$ -</u>	<u>\$ 524,518</u>

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE G - OPERATING LEASES

On behalf of SIUE, University Park leases the land designated by SIUE as the University Park grounds. The base period for the majority of the leases is 69 years. As of June 30, 2004, future minimum rental income under the ground leases, for each of the next five years and thereafter, is summarized as follows:

2005	\$ 90,693
2006	90,693
2007	90,693
2008	90,693
2009	90,693
Thereafter	<u>1,916,758</u>
Total commitment	<u>\$ 2,370,223</u>

NOTE H - DEFERRED REVENUE

Revenues received in advance for rent are deferred and recorded in income in the period in which the related space is occupied. On January 3, 2000, University Park received rent in advance totaling \$ 95,440 from one tenant. The rent is effective for the entire lease period ending July 11, 2068. University Park will recognize annual rent income of \$ 9,544 based on \$ 8,000 annual rent per acre currently charged other lessees. The resulting discount of 10.6% will be amortized over the life of the lease. Amortization expense for the year ended June 30, 2004, was \$ 9,533.

Future minimum rental income under the ground leases identified in Note G includes \$ 520,881 associated with the advanced rent at June 30, 2004. Deferred revenue of \$ 89,932 (current portion \$ 12) is included in the accompanying statements of net assets as of June 30, 2004.

On February 10, 2004, University Park received rent in advance totaling \$ 15,000 from one tenant for additional land added to their lease. The rent is effective for the entire lease period ending April 30, 2059. University Park will recognize annual rent income of \$ 1,395. Amortization expense for the year ended June 30, 2004, was \$ 578.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE H - DEFERRED REVENUE - Continued

Future minimum rental income under the ground leases identified in Note G includes \$ 61,954 associated with the advanced rent at June 30, 2004. Deferred revenue of \$ 14,996 (current portion \$ 8) is included in the accompanying statements of net assets as of June 30, 2004.

University Park also received in advance \$ 956 of common area maintenance fees included in current deferred revenue.

NOTE I - NOTE PAYABLE

On December 12, 2003, University Park borrowed \$ 400,000 for the purpose of financing the purchase of an office building following Board approval on November 21, 2003. The note bears an interest rate of 4.85% and is to mature on December 12, 2007. As of June 30, 2004, the note payable had an outstanding balance of \$ 393,807.

	Balance Beginning of Year	Additions	Retirements	Balance End of Year	Current Portion
Note payable	\$ -	\$ 400,000	\$ (6,193)	\$ 393,807	\$ 12,457

Aggregate maturities of notes payable for the three years following June 30, 2004, are as follows:

Fiscal year ending	Principal	Interest	Total
2005	\$ 12,457	\$ 18,834	\$ 31,291
2006	13,075	18,216	31,291
2007	368,275	9,054	377,329
	<u>\$ 393,807</u>	<u>\$ 46,104</u>	<u>\$ 439,911</u>

State of Illinois
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Southern Illinois University at Edwardsville, Inc.

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE J - TRANSACTIONS WITH RELATED PARTIES

Property Management

On January 12, 1994, University Park entered into a master contract with the Board of Trustees of SIUE which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997, as amended. Under the terms of the agreement, University Park agreed to act as agent for the University with respect to the University Park facility. As such, University Park is responsible for the management, operation, leasing, and maintenance of the land, buildings, facilities, and other property included in the University Park facility. Pursuant to ground leases, all buildings constructed and owned by private investors will become the University's property at the end of the respective lease terms, which are generally sixty-nine years plus three renewal options of ten years each. The University transfers funds to University Park each year as determined necessary to support the activities of University Park. Any unused funds and net income of University Park, as may be requested by the University, may be required to be transferred to the University. However, the University has not expressed any intent to request unused funds and net income and University Park is not aware of any intent to do so in the near term.

Personnel

The University has assigned an Executive Director and support staff to University Park. The University employs these individuals. Pursuant to GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, University Park is required to recognize as revenue and expense those on-behalf payments for salaries and fringe benefits made by the University for personnel of University Park. The amount reflected as Budget allocation from SIUE and Budget expended at SIUE in the accompanying Statement of Revenues, Expenses and Changes in Net Assets total \$ 236,585 for the year ended June 30, 2004.

Occupancy

The University constructed the building used for University Park administration and University Park occupies the space without charge by the University. Therefore, no amounts for this building are capitalized and no rent expense is reflected in the accompanying financial statements.

The University incurs normal operating expenses on behalf of University Park, e.g., utilities, for which it requests reimbursement from University Park.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE J - TRANSACTIONS WITH RELATED PARTIES - Continued

Building Management

On May 29, 2001, University Park entered into an agreement with the Board of Trustees of SIUE under which University Park manages, operates and maintains a SIUE-owned building on behalf of SIUE. SIUE pays University Park a management fee from the revenues of the property. If revenues are insufficient, SIUE has agreed to pay the management fee. The amount of management fee revenue recorded under this agreement during the year ended June 30, 2004, was \$ 25,536.

University Park invoices SIUE to reimburse any operating deficit of the building and University Park will forward to SIUE any operating income. During 2004 the building had operating income of \$ 32,986 and increased the reserve for anticipated expenditures as allowed under the agreement. The net operating income and reserve build up total \$ 89,516 and are presented on the Statement of Net Assets as Accounts Payable - SIUE.

On April 29, 2003, University Park entered into an agreement with the Board of Trustees of SIUE under which University Park will contract for specific grounds keeping, janitorial and light maintenance services for a SIUE-owned building on behalf of SIUE. SIUE reimburses University Park the costs of these services and pays University Park a 5% service fee. During 2004, SIUE has reimbursed University Park \$ 25,716 for certain costs and had yet to fund a receivable balance of \$ 2,274 at June 30, 2004. The amount of management fee revenue recorded under this agreement during the year ended June 30, 2004, was \$ 1,872.

On December 12, 2003, University Park entered into an agreement with the Board of Trustees of SIUE under which University Park manages, operates and maintains a building that SIUE leases from University Park. The lease rental is \$ 1 per year, plus the cost of debt service associated with the loan for the office building. SIUE has paid University Park \$ 15,646 in rents during the year ended June 30, 2004. SIUE pays University Park a management fee from the revenues of the property. If revenues are insufficient, SIUE has agreed to pay the management fee. The amount of management fee revenue recorded under this agreement during the year ended June 30, 2004, was \$ 2,502.

As cash flows warrant, University Park invoices SIUE to reimburse the operating deficit. During 2004, SIUE has reimbursed University Park \$ 31,989 for the operating deficit and had yet to fund a receivable balance of \$ 4,091 at June 30, 2004.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE K - RETIREMENT PLAN

All full-time University Park personnel are SIUE employees. Retirement benefits and post-retirement benefits other than pension are available for eligible SIUE employees under a contributory retirement plan (the "Plan") administered by the State Universities Retirement System. Participants of the Plan contribute 8% of their gross earnings, and SIUE 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. University Park does not own any of the Plan assets and has no responsibility for the Plan obligations.

During the year ended June 30, 2004, SIUE contributed \$ 19,953 to the Plan on behalf of University Park personnel. This amount is included in the amounts shown as Budget allocation from SIUE and Budget expended at SIUE in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.



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
University Park
Southern Illinois University at Edwardsville, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of University Park, Southern Illinois University at Edwardsville, Inc. (University Park) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 29, 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 University Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 University Park'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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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, University Park Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

Kuhner, Eck & Braunschel LLP

Springfield, Illinois
September 29, 2004