

State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

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  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

FINANCIAL AUDIT

For the year ended June 30, 2004

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State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

June 30, 2004

AGENCY OFFICIALS

Ms. Mimi Wallace	President
Mr. Randy Ragan	Treasurer
Mr. Rickey McCurry	Vice Chancellor
Mr. Edward Buerger	Executive Director
Mr. Michael Dean	Director of Business and Financial Services/Controller

Agency offices are located at:

Colyer Hall  
Mailcode 6805  
Carbondale, Illinois 62901

Student Center  
Carbondale, Illinois 62901

State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

FINANCIAL STATEMENT REPORT  
SUMMARY

June 30, 2004

The audit of the accompanying basic financial statements of The Association of Alumni, Former Students and Friends of Southern Illinois University, Incorporated was performed by Kerber, Eck & Braeckel LLP.

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

## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General, State of Illinois  
and  
Board of Directors  
The Association of Alumni, Former Students  
and Friends of Southern Illinois University, Incorporated

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of The Association of Alumni, Former Students and Friends of Southern Illinois University, Incorporated (the "Association") 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 Association'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 Association's 2003 financial statements, and in our report dated September 12, 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 The Association of Alumni, Former Students and Friends of Southern Illinois University, Incorporated 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 10 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 24, 2004, on our consideration of the Association's internal control over financial reporting and on our tests of the Association's 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 & Brauchel LLP*

Springfield, Illinois  
September 24, 2004

State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

The purpose of the Management's Discussion and Analysis is to provide an objective and easy-to-read summary of the Association's financial activities based on currently known facts, decisions, and/or conditions.

**Financial Statements**

These statements are presented in a "business-type activities" format, as were the prior year statements, which is a change from a "funds-group" format. The business-type activities format was developed to provide the reader with statements which could better indicate the available economic resources of the entity.

**Statement of Net Assets**

The Statement of Net Assets indicates assets available for current use (current assets) and those assets to be held for use in future periods and that are not available for current use (noncurrent assets). 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, is grouped by those assets available for unrestricted uses and those assets which are an investment in capital assets.

During the year ended June 30, 2004, the Association had an increase in net assets of \$ 567,856 as indicated on the Statement of Revenues, Expenses, and Changes in Net Assets.

State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2004

CONDENSED  
STATEMENTS OF NET ASSETS  
June 30

	2004	2003	% Change
<b>ASSETS</b>			
Current assets	\$ 1,590,470	\$ 1,453,259	9.4%
Long-term investments	2,394,233	1,980,443	20.9%
Capital assets, net of accumulated depreciation	<u>3,711</u>	<u>5,657</u>	-34.4%
<b>TOTAL ASSETS</b>	<u>3,988,414</u>	<u>3,439,359</u>	16.0%
<b>LIABILITIES</b>			
Current liabilities	494,648	396,715	24.7%
Non-current deferred revenue	<u>1,079,620</u>	<u>1,196,354</u>	-9.8%
<b>TOTAL LIABILITIES</b>	<u>1,574,268</u>	<u>1,593,069</u>	-1.2%
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,711	5,657	-34.4%
Unrestricted	<u>2,410,435</u>	<u>1,840,633</u>	31.0%
<b>TOTAL NET ASSETS</b>	<u>\$ 2,414,146</u>	<u>\$ 1,846,290</u>	30.8%

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets indicates the financial activity for the period and its effect on net assets. The activity from operations is shown first. As stated in the Notes to the Financial Statements, Operating Revenues include activities that have the characteristics of exchange transactions. In an exchange transaction, both parties receive a material benefit from the transaction such as membership dues and income from royalty agreements. Nonoperating Revenues (Expenses) are listed after operating activities. Nonoperating Revenues (Expenses) 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 nonoperating revenues are defined in 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. Since the primary purpose of the Association is to cultivate relationships for the benefit of Southern Illinois University, and most of this activity is located within Operating Revenues and Operating Expenses, the Statement of Revenues, Expenses, and Changes in Net Assets provides a suitable presentation of the Association's core activities.



State of Illinois  
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2004

For the year ended June 30, 2004, operating and non operating activities provided an increase in net assets of \$ 162,913 and \$ 404,943 respectively, which total \$ 567,856. Operating revenues increased by \$ 104,459 and operating expenses increased by \$ 139,634 from FY 2003. Of the \$ 404,943 increase in net assets from non operating activities, \$ 394,327 came from the year's investment gain.

CONDENSED  
STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
For the years ended June 30

	2004	2003	% Change
REVENUES			
Budget allocation from SIU	\$ 710,952	\$ 638,772	11.3%
Other operating revenues	<u>706,674</u>	<u>674,395</u>	4.8%
TOTAL OPERATING REVENUES	<u>1,417,626</u>	<u>1,313,167</u>	8.0%
EXPENSES			
Budget expended at SIU	710,952	638,772	11.2%
Other operating expenses	<u>543,761</u>	<u>476,307</u>	14.2%
TOTAL OPERATING EXPENSES	<u>1,254,713</u>	<u>1,115,079</u>	12.5%
OPERATING INCOME	<u>162,913</u>	<u>198,088</u>	-17.8%
NET NONOPERATING REVENUES	<u>404,943</u>	<u>113,982</u>	255.3%
INCREASE IN NET ASSETS	<u>\$ 567,856</u>	<u>\$ 312,070</u>	82.0%

Statement of Cash Flows

The Statement of Cash Flows' primary purpose is to provide relevant information about the cash receipts and payments of the Association during the period. The Association is required to use the direct method presentation for this statement which indicates the cash effects categorized by operations, noncapital financing transactions, capital and related financing transactions, and investing transactions. During the year ended June 30, 2004, the Association had an increase of cash in the amount of \$ 177,663 primarily due to operating activities. However, this amount is kept on deposit with SIU, so it is reflected as a change in deposits with SIU instead of an increase in cash.

State of Illinois  
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2004

**Facts, Decisions or Conditions Affecting Net Assets**

Accounting for Life Membership Dues

During FY 2003, the Association changed the method for accounting for life membership dues. The cumulative effect of this change was a reduction in the FY 2003 opening net assets balance of \$ 929,179. This amount was reclassified to liabilities, specifically deferred revenue.

In prior years, 80% of life membership dues collected would be recorded within unrestricted net assets. Consequently, no amount associated with this 80% would be recognized as current income on the Association's financial statements. Additionally, this 80% of life membership dues collected appeared to be unrestricted and available for spending on the financial statements.

During FY 2004, 80% of life membership dues collected was recorded as deferred revenue to reflect economic resources from membership revenues that have not been earned and that are not available for spending. In FY 2004 and succeeding years, a portion (approximately 2% for 2004) of this deferred revenue becomes available for spending and recognized as current income.

There are no other facts, decisions, or conditions significantly affecting net assets, other than those items explained elsewhere in this discussion and analysis. However, please see the notes to the financial statements that include additional details and further explanation 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  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

STATEMENT OF NET ASSETS

June 30, 2004  
(with comparative totals for 2003)

	2004	2003
<b>ASSETS</b>		
Current Assets		
Deposits with SIU (Note 2A)	\$ 754,508	\$ 576,845
Short-term investments (Note 2B)	793,852	828,302
Accounts receivable	6,221	23,167
Accrued interest receivable	4,894	6,511
Prepaid expenses	<u>30,995</u>	<u>18,434</u>
Total Current Assets	<u>1,590,470</u>	<u>1,453,259</u>
Noncurrent Assets		
Long-term investments (Note 2B)	2,394,233	1,980,443
Capital assets, net of accumulated depreciation (Note 3)	<u>3,711</u>	<u>5,657</u>
Total Noncurrent Assets	<u>2,397,944</u>	<u>1,986,100</u>
<b>TOTAL ASSETS</b>	<u>3,988,414</u>	<u>3,439,359</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	65,608	39,617
Deposits held for others	33,560	36,460
Deferred revenue, current portion (Note 5)	<u>395,480</u>	<u>320,638</u>
Total Current Liabilities	<u>494,648</u>	<u>396,715</u>
Noncurrent Liabilities		
Deferred revenue (Note 5)	<u>1,079,620</u>	<u>1,196,354</u>
Total Noncurrent Liabilities	<u>1,079,620</u>	<u>1,196,354</u>
<b>TOTAL LIABILITIES</b>	<u>1,574,268</u>	<u>1,593,069</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,711	5,657
Unrestricted	<u>2,410,435</u>	<u>1,840,633</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 2,414,146</u>	<u>\$ 1,846,290</u>

The accompanying notes are an integral part of this financial statement.

State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS

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

	2004	2003
<b>REVENUES</b>		
Operating revenues		
Payments from SIU Foundation (Note 7)	\$ 134,000	\$ 134,000
Budget allocation from SIU (Note 7)	710,952	638,772
Membership dues	180,103	151,627
Royalties	392,571	388,768
Activities and events	\$ 58,853	\$ 49,545
Less: cost of direct benefit to participants	<u>(58,853)</u>	<u>(49,545)</u>
Total operating revenues	<u>1,417,626</u>	<u>1,313,167</u>
<b>EXPENSES</b>		
Operating expenses		
Budget expended at SIU (Note 7)	710,952	638,772
Administrative	42,067	22,434
Alumni communications	276,246	268,215
Membership services	51,972	33,608
Alumni and public relations	31,620	27,956
Data base management	11,995	6,277
Board of Directors	14,783	13,867
Chapter development and alumni programs	30,889	28,191
Homecoming	12,441	11,886
University master contract payment (Note 7)	39,583	39,583
Student relations	8,697	4,861
College societies	2,433	1,214
Awards and contributions	3,540	1,635
Others	15,549	14,139
Depreciation	<u>1,946</u>	<u>2,441</u>
Total operating expenses	<u>1,254,713</u>	<u>1,115,079</u>
Operating income	<u>162,913</u>	<u>198,088</u>
<b>NONOPERATING REVENUES</b>		
Investment gain (Note 2B)	394,327	111,288
Contributions	<u>10,616</u>	<u>2,694</u>
Net nonoperating revenues	<u>404,943</u>	<u>113,982</u>
Increase in net assets	<u>567,856</u>	<u>312,070</u>
<b>NET ASSETS</b>		
Net assets - beginning of year, as originally reported	1,846,290	2,463,399
Cumulative net effect of change in accounting method (Note 1K)	<u>-</u>	<u>(929,179)</u>
Net assets - beginning of year, as restated	<u>1,846,290</u>	<u>1,534,220</u>
Net assets - end of year	<u>\$ 2,414,146</u>	<u>\$ 1,846,290</u>

The accompanying notes are an integral part of this financial statement.

State of Illinois  
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STATEMENT OF CASH FLOWS

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

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to SIU	\$ (21,458)	\$ (43,213)
Membership dues	258,483	252,224
Activities and event revenues	66,057	67,104
Royalty revenues	265,094	248,291
Operating expenses	<u>(595,397)</u>	<u>(543,984)</u>
Net cash used by operating activities	<u>(27,221)</u>	<u>(19,578)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions from other than capital purposes	<u>10,616</u>	<u>2,694</u>
Net cash provided by noncapital financing activities	<u>10,616</u>	<u>2,694</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturities of investments	42,915	459,944
Interest and dividend income	395,944	110,028
Purchase of investments	<u>(422,254)</u>	<u>(553,088)</u>
Net cash provided by investing activities	<u>16,605</u>	<u>16,884</u>
<b>NET INCREASE IN CASH</b>		
	-	-
Cash - beginning of year	<u>-</u>	<u>-</u>
Cash - end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 162,913	\$ 198,088
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,946	2,441
Changes in assets and liabilities:		
Deposits with SIU	(177,663)	(177,408)
Receivables	16,946	3,752
Other assets	(12,561)	(12,534)
Accounts payable and accrued liabilities	25,991	(11,593)
Deposits held for others	(2,900)	115
Deferred revenue	<u>(41,893)</u>	<u>(22,439)</u>
Net cash used by operating activities	<u><u>\$ (27,221)</u></u>	<u><u>\$ (19,578)</u></u>

The accompanying notes are an integral part of this financial statement.

State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. Financial Reporting Entity:** The Association of Alumni, Former Students and Friends of Southern Illinois University, Incorporated (the “Association”) located in Carbondale, Illinois 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 Association is included as a component unit of the University for financial reporting purposes. The financial activities included in the financial statements are reported in a separate column in the University’s financial statements to emphasize that the Association is an Illinois not-for-profit organization legally separate from the University.

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

**B. Financial Statement Presentation:** Effective July 1, 2001, the Association 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 the Association’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required. The Association was also required to adopt depreciation on capital assets.

State of Illinois  
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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**C. Basis of Accounting:** For financial reporting purposes, the Association is considered a special-purpose government engaged only in business-type activities. Accordingly, the Association'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 Association has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Association has elected to not apply FASB pronouncements issued after the applicable date.

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

**E. Investments:** The Association 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.

**F. 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. For equipment, the Association'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 6 to 10 years for equipment.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**G. Deferred Revenue:** Revenue on annual and life memberships is recognized ratably over the membership period, fees are recognized when earned and credit card royalties are recognized over the length of the contract. Deferred revenue at June 30 represents the unexpired portion of memberships, unearned fees and royalties with a remaining contract life.

**H. Net Assets:** The Association's net assets are classified as follows:

- **Invested in capital assets, net of related debt:** This represents the Association's total investments in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations, if any, related to those capital assets.
- **Unrestricted net assets:** Unrestricted net assets represent resources available for transactions relating to the educational and general operations of the Association, and may be used at the discretion of the governing board to meet current expenses for any purpose.

Honorary life memberships are given to those individuals who have received honorary degrees from the University. An amount is transferred for undesignated funds to designated honorary life memberships at the current rate applicable to life members at the time of the honorary membership.

**I. Income Taxes:** The U.S. Treasury Department issued a determination letter, dated August 20, 1990, indicating the Association is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code.



State of Illinois  
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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**J. Classification of Revenues:** The Association 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 membership dues, and royalties received under contractual arrangements.
- **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 the 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.

**K. Accounting Changes:** During fiscal year 2003, the method for accounting for life membership dues changed which has a significant effect on net assets and liabilities. Eighty percent of life memberships collected will be recognized as a liability, specifically deferred revenue, with a portion of this amount recognized each year as current income.

**L. 2003 Financial Information:** The financial statements include certain prior-year 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 Association's financial statements for the year ended June 30, 2003, from which the summarized financial information was derived.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

**A. Deposits with SIU:** The Association deposits its cash receipts in the University's pooled cash investment accounts. The University, acting as agent for the Association, makes all disbursements as directed. Pooled cash and cash equivalents consist principally of cash and money market funds. The Association's pooled cash and cash equivalents are not classified with investments since specific investment securities of the pooled fund, maintained by the University, are not purchased on behalf of, and/or separately allocated to, the participants of the fund. At June 30, 2004, the amount on deposit with the University totaled \$ 753,471 and the carrying amount was \$ 754,508.

**B. Investments:** The Board of Directors of the Association is responsible for the management of the Association's investments. The Board, through the bylaws, has given authority to the Investment and Transaction Committees to formulate an investment policy for funds and assets held by the Association. These Committees shall submit that policy to the Board for approval, periodically recommend changes in policy as appropriate, interpret that policy to any of Association's investment managers, and oversee implementation of that policy. Investment performance is reviewed quarterly and investments are reported at fair value in the Statement of Net Assets.

The Association determines the fair value of investments 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. Realized gains and losses and the unrealized appreciation (depreciation) of investments are included in the net investment gain/(loss) in the Statement of Revenues, Expenses, and Changes in Net Assets.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

The following schedule provides a summary of the fair values of the Association's investments and the related categories of risk under GASB Statement No. 3 as of June 30, 2004.

	Risk Category			Fair Value
	1	2	3	
Certificates of Deposit	\$ 200,216	\$ -	\$ -	\$ 200,216
Corporate Fixed Income	177,792	-	-	177,792
U.S. Government Securities	1,217	-	-	1,217
Common and Preferred Stocks	2,015,008	-	-	2,015,008
	<u>\$ 2,394,233</u>	<u>\$ -</u>	<u>\$ -</u>	2,394,233
Not categorized:				
Mutual funds				255,535
Money Market Funds				538,317
Total investments				<u>\$ 3,188,085</u>

Category 1 includes investments that are insured or registered in the Association's name, or for which securities are held by the Association or its agent in the Association'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 Association's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Association'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 the year, the Association realized \$ 93,561 in interest and dividend income. The unrealized gain in investments for the year was \$ 300,766.

State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

3. CAPITAL ASSETS

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

	Furniture, Fixtures and Equipment	Less Accumulated Depreciation	Capital Assets, Net
Balance, June 30, 2003	\$ 136,172	\$ (130,515)	\$ 5,657
Additions	-	(1,946)	(1,946)
Retirements	-	-	-
	<u>\$ 136,172</u>	<u>\$ (132,461)</u>	<u>\$ 3,711</u>
Balance, June 30, 2004	<u>\$ 136,172</u>	<u>\$ (132,461)</u>	<u>\$ 3,711</u>

4. CREDIT CARD ARRANGEMENT

The Association entered into an agreement with Chase Card Services, formerly Bank One and First USA, whereby the Association and the Bank market the Bank's credit card services to alumni, employees, students, and others, using the Association's name and logo. In conjunction with this agreement, the Association receives certain fees and royalties based upon each new account opened and amounts charged on these accounts.

As fees and royalties are earned, they are applied against these advances and recognized as revenue. For the period ended June 30, 2004, the Association earned \$ 357,143 under this agreement, which is included in royalties in the accompanying statement of revenues, expenses, and changes in net assets.

This agreement ended in 2004 and the Association is no longer receiving royalties from Chase Card Services. The Association is currently in the process of looking for another bank with which to negotiate a credit card agreement.

State of Illinois  
The Association of Alumni, Former Students and Friends  
of Southern Illinois University, Incorporated

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

5. LONG-TERM LIABILITIES

Long-term liabilities consist of deferred revenue. Activity for fiscal year 2004 was as follows:

	Balance June 30, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2004</u>	Amounts Due within <u>One Year</u>
<u>Deferred Revenue</u>					
Royalties	\$ 408,333	\$ 229,666	\$ 357,143	\$ 280,856	\$ 280,856
Dues	1,083,861	233,395	155,014	1,162,242	82,620
Activities & Events	<u>24,798</u>	<u>32,002</u>	<u>24,798</u>	<u>32,002</u>	<u>32,002</u>
Total	<u>\$1,516,992</u>	<u>\$495,063</u>	<u>\$ 536,955</u>	<u>\$1,475,100</u>	<u>\$ 395,480</u>

6. RETIREMENT PLAN

All full-time Association personnel are University 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 the University 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 University financial statements. The Association does not own any of the Plan assets and has no responsibility for the Plan obligations.

During the year ended June 30, 2004, the University contributed \$ 53,787 to the Plan on behalf of Association 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.

State of Illinois  
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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

7. TRANSACTIONS WITH RELATED PARTIES

The Association has entered into a master contract with the Board of Trustees of SIU that specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997, as amended. Among the provisions of the contract is a requirement that the Association, in return for staff and use of the facilities, agrees to annually reimburse the University for the proportionate share of costs involved. This reimbursement is computed as the annual salary cost of the University's Alumni Services Department times a percentage (7.75% in 2004), based on the total number of addressable alumni members divided by the total number of addressable alumni on file. Both the Association and the University agree to the percentage on an annual basis. The reimbursement amounted to \$ 39,583 in 2004.

Pursuant to governmental accounting standards, the Association is required to recognize as revenue and expense those on-behalf payments for salaries made by the University for personnel of the Association. For the year ended June 30, 2004, these amounts totaled \$ 710,952 (including \$ 53,787 in pension costs) and are included in Budget allocation from SIU in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

The Association paid the University \$ 1,402 for rental space for housing the Association's staff for 2004. Additionally, the Association uses various services of the University and directly reimburses the University at a cost equal to that charged by the University to other users.

During the year ended June 30, 2004, the Association received \$ 135,370 from the Southern Illinois University Foundation at Carbondale, primarily for the cost of printed materials distributed by the Association. This amount included \$ 134,000 classified as revenue and \$ 1,370 for partial reimbursement of costs incurred for special events and activities held for the benefit of both parties. Also 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.

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  
The Association of Alumni, Former Students  
and Friends of Southern Illinois University, Incorporated

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of The Association of Alumni, Former Students and Friends of Southern Illinois University, Incorporated (“Association”) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 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 Association’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 Association'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 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, the Association 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 & Brauchel LLP*

Springfield, Illinois  
September 24, 2004