

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

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



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NOTE: State Compliance Audit Report for the year ended June 30, 2004, has been issued under a separate cover, which includes the 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*.

Southern Illinois University – Board of Trustees

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CARBONDALE, ILLINOIS 62901-6801



September 30, 2004

TO THE BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

I am pleased to submit the annual financial report of Southern Illinois University for the period ended June 30, 2004.

The report consists of the University's financial statements, notes to the financial statements, and the Report of the Independent Certified Public Accountants. It presents the financial position of the University and is intended for the use of administrative officers and other interested parties.

The financial statements of the University have been audited by Kerber, Eck and Braeckel, LLP, Certified Public Accountants, for fiscal year 2004. As Special Assistant Auditors for the Auditor General, they have issued reports covering their audits of the compliance of the University with applicable state and federal laws and regulations and a report containing supplementary financial information and special data requested by the Auditor General. These reports are available at the Office of the Auditor General, State of Illinois.

In addition, the University has published under separate cover Treasurer's Reports to the Bondholders, which provide more detailed information on the University's revenue bond systems. These reports are available upon request from the Office of the President at Carbondale, Illinois.

Respectfully submitted,

A handwritten signature in black ink that reads "Duane Stucky". The signature is written in a cursive, flowing style.

Duane Stucky
Board Treasurer

DS/lap

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of Southern Illinois University was conducted by Kerber, Eck & Braeckel LLP.

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

Southern Illinois University
Board of Trustees and
Officers of Administration
Fiscal Year 2004

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Independent Auditors' Report

Honorable William G. Holland
Auditor General, State of Illinois
and Board of Trustees
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements, as listed in the table of contents, of Southern Illinois University and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the University'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 University's 2003 financial statements and, in our report dated November 21, 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 respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the University adopted early the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2004, on our consideration of the University'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 4 through 8 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.

Kerber, Geck + Braeckel LLP

Springfield, Illinois
November 16, 2004

Southern Illinois University

Management's Discussion and Analysis

For the Year Ended June 30, 2004

Introduction

The following discussion and analysis of the financial statements of Southern Illinois University (the "University") provides an overview of the University's financial activities for the year ended June 30, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes.

This discussion focuses on the financial activities of the University (the primary unit). The seven component units of the University consist of the following entities: the Southern Illinois University Foundation at Carbondale; the Southern Illinois University at Edwardsville Foundation; the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc.; the Alumni Association of Southern Illinois University at Edwardsville; University Park at Edwardsville; Southern Illinois Research Park, Inc. at Carbondale; and SIU Physicians and Surgeons, Inc. Complete financial statements for the component units may be obtained from each entity, and addresses are provided in Note 1 in the Notes to Financial Statements.

Using the financial statements

The University's 2004 financial report includes three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The notes to the basic financial statements include additional details and should be included as part of any review or analysis. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and provide information on the University as a whole.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting and presents the financial position of the University at a specified time, namely, June 30. The difference between total assets and total liabilities is net assets, which is one indicator of the current financial health of the University. The changes in the net assets that occur over time indicate improvements or deterioration in the University's financial condition.

The following summarizes the University's assets, liabilities and net assets at June 30, 2004 and 2003:

	<u>June 30, 2004</u>	<u>June 30, 2003</u> <u>(Restated)</u>
Assets:		
Current assets	\$ 139,303,534	\$ 137,441,104
Capital assets, net	449,902,411	432,434,427
Other assets	123,334,770	108,396,463
Total Assets	<u>\$ 712,540,715</u>	<u>\$ 678,271,994</u>
Liabilities:		
Current liabilities	107,730,830	103,420,697
Noncurrent liabilities	249,379,323	228,568,135
Total Liabilities	<u>\$ 357,110,153</u>	<u>\$ 331,988,832</u>
Net Assets:		
Invested in capital assets, net	303,479,541	284,455,612
Restricted - nonexpendable	3,780,020	3,009,559
Restricted - expendable	36,956,308	41,121,489
Unrestricted	11,214,693	17,696,502
Total Net Assets	<u>\$ 355,430,562</u>	<u>\$ 346,283,162</u>

The University's financial position remained strong at June 30, 2004, with assets of \$712,540,715 and liabilities of \$357,110,153. Net assets, which include the assets available to continue the operations of the University, increased from \$346,283,162 at June 30, 2003, to \$355,430,562 at June 30, 2004. The net assets at June 30, 2003, have been restated to correct an error in the accounting for a renovation project at the Cougar Village apartment complex, Edwardsville, during 2001. The effect of the restatement was an increase to net assets invested in capital assets of \$15,233,096.

The increase in capital assets during fiscal year 2004 is the result of several projects, including the renovation of Altgeld Hall at the Carbondale campus, the consolidated laboratory at the School of Medicine in Springfield, and an upgrade to the HVAC system in Prairie Hall and Bluff Hall, both at Edwardsville.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the results of the University's revenue and expense activity categorized as operating or nonoperating. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Operating revenues and expenses involve exchange transactions. In general, operating revenues include student tuition and fees which are net of scholarship allowances, most grants and contracts, auxiliary enterprises, and sales and services of educational departments. Operating expenses are those expenses incurred to carry out the mission of the University, and include educational and general program expenses, as well as auxiliary enterprises and depreciation.

Nonoperating revenues and expenses involve non-exchange transactions and include state appropriations, investment income, payments on-behalf of the University, and gifts. State appropriations are mandated as nonoperating because they are provided by the legislature to the University without the legislature directly receiving commensurate goods and services for those revenues. Therefore, an operating loss will always result.

The following summarizes the University's financial activity for fiscal years 2004 and 2003:

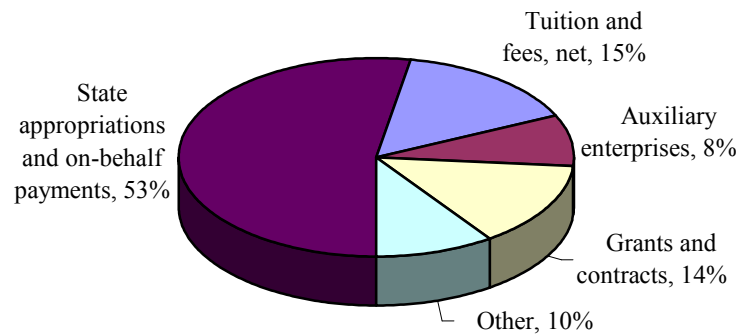
	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003 (Restated)</u>
Operating revenues:		
Tuition and fees, net	\$ 128,651,935	\$ 114,958,280
Auxiliary enterprises	70,679,014	64,914,964
Grants and contracts	88,010,306	81,993,496
Other	73,375,210	69,566,824
Operating expenses	<u>(843,989,618)</u>	<u>(661,218,053)</u>
Operating loss	(483,273,153)	(329,784,489)
Nonoperating revenues and expenses	<u>471,700,795</u>	<u>341,634,445</u>
Income (loss) before other revenues, expenses, gains or losses	(11,572,358)	11,849,956
Other revenues, expenses, gains or losses	<u>20,719,758</u>	<u>45,519,549</u>
Increase in net assets	9,147,400	57,369,505
Net assets at beginning of year, as previously reported	332,207,010	273,680,561
Restatement of net assets	<u>14,076,152</u>	<u>15,233,096</u>
Net assets at beginning of year, as restated	<u>346,283,162</u>	<u>288,913,657</u>
Net assets at end of year	<u>\$ 355,430,562</u>	<u>\$ 346,283,162</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets for the year. The restatement of net assets during fiscal year 2003 includes an increase in the beginning net assets related to Cougar Village at Edwardsville in the amount of \$15,233,096.

The operating expenses for the year ended June 30, 2004, include an additional on-behalf allocation to the State Universities Retirement System in the amount of \$141,111,746 to be used for unfunded liabilities of the pension plan. This amount is offset by the same amount in nonoperating revenues.

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the University's operating activities for the year ended June 30, 2004. The revenue from charges for tuition and fees is shown net of the scholarship allowance of \$20,992,469. Other revenues consist primarily of income from sales and services of educational activities that include conferences and seminars, and investment income.

REVENUES BY SOURCE



Operating Expenses

A summary of the University's operating expenses by functional classification for the years ended June 30, 2004 and 2003, is as follows:

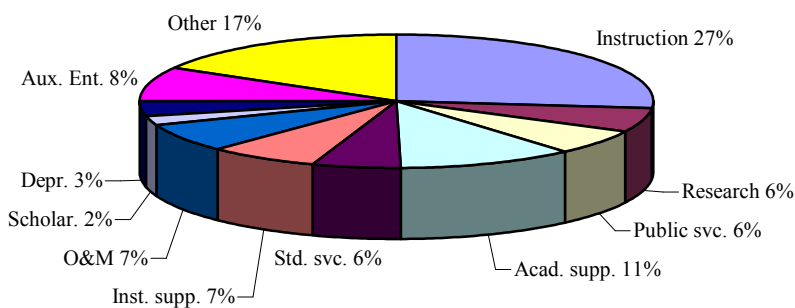
	Year Ended June 30, 2004	Year Ended June 30, 2003 (Restated)
Instruction	\$ 225,548,481	\$ 215,399,317
Research	48,493,944	45,042,557
Public service	52,498,428	53,751,664
Academic support	92,270,967	80,617,219
Student services	47,787,416	42,418,011
Institutional support	58,298,105	57,209,271
Operation and maintenance of plant	59,610,827	59,180,579
Scholarships and fellowships	18,501,136	18,032,631
Depreciation	29,140,624	28,585,677
Auxiliary enterprises	70,637,616	61,046,594
Other expenditures	141,202,074	(65,467)
	\$ 843,989,618	\$ 661,218,053

The restatement for the year ended June 30, 2003, is due to additional depreciation of \$1,156,944 on the capitalization of the Cougar Village Apartment complex of \$15,233,096.

Other expenditures primarily consist of the additional on-behalf State Universities Retirement System allocation for the unfunded pension liability in the amount of \$141,111,746.

The following is a graphic illustration of operating expenses by function for the year ended June 30, 2004.

EXPENSES BY FUNCTION



Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's sources and uses of cash during the fiscal year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

	<u>Year Ended</u> <u>June 30, 2004</u>	<u>Year Ended</u> <u>June 30, 2003</u>
Cash provided by (used in):		
Operating activities	\$ (211,439,696)	\$ (226,264,611)
Noncapital financing activities	247,422,001	264,518,700
Capital and related financing activities	(10,395,452)	(41,878,028)
Investing activities	<u>(33,333,026)</u>	<u>14,928,511</u>
Net increase (decrease) in cash	(7,746,173)	11,304,572
Cash and cash equivalents, beginning of year	<u>43,485,013</u>	<u>32,180,441</u>
Cash and cash equivalents, end of year	<u><u>\$ 35,738,840</u></u>	<u><u>\$ 43,485,013</u></u>

For additional information regarding the detail behind the four categories summarized above, please refer to the Statement of Cash Flows.

Capital Asset and Debt Administration

Long-term debt activity included the issuance of Series 2004A Certificates of Participation (COPS) on June 17, 2004, in the par amount of \$32,740,000. The COPS were issued to finance, in combination with University funds, the renovation of Morris Library, the construction of a library storage facility, the construction of a Research Park, the replacement of campus signage, the purchase of computer and research equipment, and energy conservation measures, all at Carbondale; the construction of a Pharmacy building and the renovation of the Dental School building, both at Edwardsville; and energy performance measures at the School of Medicine in Springfield.

For additional information concerning the University's Capital Assets and Debt Administration, see Note 5 in the Notes to Financial Statements.

Economic Outlook

Fiscal year 2005 appropriations for higher education operations were approved at the same funding level as the fiscal year 2004 original appropriations. The Governor and legislative leadership signed a memorandum of understanding stating that there would be no reserve or other spending restrictions imposed by the State on the amounts appropriated to the Illinois public universities for fiscal year 2005. The State continues to request that public universities contribute toward the cost of group health insurance premiums, a cost previously paid in full by the State on behalf of the universities. Southern Illinois University's portion of the payment for health insurance is approximately \$7 million per year.

Effective for fiscal year 2005, all public universities in the state of Illinois were required to implement a "guaranteed tuition program" in which charges to enrolling undergraduate resident freshmen students remain constant for four continuous academic years following the initial enrollment. The implementation of this program required a hard look at the budget process to assure that tuition levels approved balanced both operational needs with student affordability. Southern Illinois University approved tuition increases for first time resident freshmen of 7.9% at Carbondale and 7.4% at Edwardsville for fall 2005.

As state funding has declined, Southern Illinois University will continue to develop and expand its resource base to seek more funding from tuition and fees, grants, contracts, and fund raising activities. This is demonstrated in the fiscal year 2005 budget in which, despite level funding levels from the state, there is a projected increase in revenues of 2.4%. As part of the university's normal budgetary process, 2% of state appropriated funds and tuition income are held as a contingency reserve. During fiscal year 2004, Southern Illinois University successfully reduced administrative costs by 27.3% or \$19.67 million from the 2002 budget level and will continue to streamline operations, reallocate funds, review priorities, and utilize other efficiency measures into fiscal year 2005.

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. Please see the notes to the financial statements for additional details and further explanations of the data presented in the other sections of this discussion and analysis. The notes are an integral part of the financial statements and should be included as part of any review or analysis.

Southern Illinois University
Statement of Net Assets
June 30, 2004 (with comparative totals for 2003)

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2004	2003 (Restated)	2004	2003
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 3)	\$ 32,559,288	\$ 42,379,832	\$ 594,712	\$ 1,309,378
Short-term investments (Note 3)	60,470,238	36,831,293	29,082,979	26,763,892
Deposits with University	-	-	9,895,974	6,690,484
Appropriations receivable from State of Illinois General Revenue	193,411	534,575	-	-
Appropriations receivable from State of Illinois Capital Development	2,901	429,701	-	-
Reimbursement due from State Treasurer	2,232,337	10,042,819	-	-
Accounts receivable, net (Note 6)	27,471,903	32,248,499	11,967,680	10,354,523
Notes receivable, net (Note 6)	5,115,493	4,509,277	678,876	-
Accrued interest receivable	1,467,335	1,500,971	108,712	102,639
Due from related organizations	2,380,522	1,504,748	508,322	208,551
Inventories	6,159,935	6,600,554	-	-
Prepaid expenses and other assets	1,250,171	858,835	629,783	815,156
Total Current Assets	139,303,534	137,441,104	53,467,038	46,244,623
Noncurrent Assets:				
Cash and cash equivalents (Note 3)	3,179,552	1,105,181	48,542	48,570
Long-term investments (Note 3)	100,795,663	90,352,407	76,682,583	61,835,127
Notes receivable, net (Note 6)	14,521,247	14,028,104	29,791	27,040
Prepaid expenses and other assets	4,838,308	2,910,771	13,630,688	7,669,625
Due from related organizations	-	-	572,914	757,490
Capital assets, net (Note 7)	449,902,411	432,434,427	3,360,759	2,766,819
Total Noncurrent Assets	573,237,181	540,830,890	94,325,277	73,104,671
TOTAL ASSETS	712,540,715	678,271,994	147,792,315	119,349,294
LIABILITIES				
Current Liabilities:				
Accounts payable	20,508,322	17,751,983	746,817	913,006
Notes payable (Note 5)	313,939	624,397	308,239	147,670
Accrued interest payable	1,042,741	1,073,497	34,444	22,275
Accrued payroll	7,270,663	6,379,593	2,859,893	2,717,332
Accrued compensated absences (Note 5)	4,224,198	4,604,437	-	-
Revenue bonds payable (Note 5)	8,142,996	7,347,066	-	-
Certificates of participation (Note 5)	1,593,513	359,512	-	-
Liabilities under capitalized leases (Note 5)	1,244,336	1,597,098	-	-
Annuities payable (Note 5)	-	-	367,886	361,971
Accrued liability for self-insurance (Notes 4 and 5)	4,214,627	4,504,533	-	-
Deposits held for University related organizations	9,895,974	6,690,484	-	-
Deposits held in custody for others (Note 5)	1,197,490	1,078,502	53,341	37,539
Deferred revenue	47,460,922	51,092,228	434,116	362,412
Housing deposits (Note 5)	112,787	111,139	-	-
Due to related organizations (Note 5)	508,322	206,228	2,380,522	1,507,071
Total Current Liabilities	107,730,830	103,420,697	7,185,258	6,069,276
Noncurrent Liabilities:				
Notes payable (Note 5)	669,247	983,186	1,204,264	725,075
Accrued compensated absences (Note 5)	40,205,928	42,105,257	-	-
Revenue bonds payable (Note 5)	139,190,892	143,354,747	1,650,000	1,650,000
Certificates of participation (Note 5)	34,881,856	3,823,317	-	-
Liabilities under capitalized leases (Note 5)	2,320,329	3,617,796	-	-
Annuities payable (Note 5)	-	-	3,629,144	3,480,361
Accrued liability for self-insurance (Notes 4 and 5)	14,565,994	17,287,026	-	-
Federal loan program contributions refundable (Note 5)	16,642,668	16,301,803	-	-
Due to related organizations (Note 5)	572,914	757,490	-	-
Housing deposits (Note 5)	137,850	135,836	-	-
Other accrued liabilities (Note 5)	191,645	201,677	1,233,026	1,361,784
Deposits held in custody for others (Note 5)	-	-	1,740,087	67,826
Total Noncurrent Liabilities	249,379,323	228,568,135	9,456,521	7,285,046
TOTAL LIABILITIES	357,110,153	331,988,832	16,641,779	13,354,322
NET ASSETS				
Invested in capital assets, net of related debt	303,479,541	284,455,612	1,316,952	1,116,819
Restricted for:				
Nonexpendable	3,780,020	3,009,559	57,610,111	50,129,307
Expendable				
Quasi-endowment	213,711	251,121	-	-
Scholarships, research, instruction and other	8,693,709	6,805,080	43,272,936	30,268,830
Loans	3,880,665	5,533,816	202,163	127,970
Capital projects and debt service	24,168,223	28,531,472	2,329,006	2,483,168
Unrestricted	11,214,693	17,696,502	26,419,368	21,868,878
TOTAL NET ASSETS	\$ 355,430,562	\$ 346,283,162	\$ 131,150,536	\$ 105,994,972

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2004 (with comparative totals for 2003)

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2004	2003 (Restated)	2004	2003
	REVENUES			
Operating Revenues:				
Student Tuition and Fees (net of scholarship allowances of \$20,992,469)	\$ 128,651,935	\$ 114,958,280	\$ -	\$ -
Federal grants and contracts	37,459,244	33,162,133	-	-
State of Illinois grants and contracts	23,713,814	30,086,737	-	-
Other government grants and contracts	6,241,787	5,128,571	-	-
Private grants and contracts	20,595,461	13,616,055	-	-
Sales and services of educational departments	72,907,124	69,202,526	-	-
Auxiliary enterprises:				
Funded debt enterprises (net of scholarship allowances of \$4,397,968)	64,090,248	55,176,630	-	-
Other auxiliary enterprises (net of scholarship allowances of \$939,645)	6,588,766	9,738,334	-	-
Loan interest income	325,567	257,961	-	-
Other operating revenues	142,519	106,337	64,729,267	54,643,971
Total Operating Revenues	360,716,465	331,433,564	64,729,267	54,643,971
EXPENSES				
Operating Expenses:				
Instruction	225,548,481	215,399,317	-	-
Research	48,493,944	45,042,557	-	-
Public service	52,498,428	53,751,664	-	-
Academic support	92,270,967	80,617,219	-	-
Student services	47,787,416	42,418,011	-	-
Institutional support	58,298,105	57,209,271	74,048,122	67,039,659
Operation and maintenance of plant	59,610,827	59,180,579	-	-
Scholarships and fellowships	18,501,136	18,032,631	-	-
Depreciation (Note 7)	29,140,624	28,585,677	199,817	180,491
Auxiliary enterprises:				
Funded debt enterprises	62,597,481	49,676,540	-	-
Other auxiliary enterprises	8,040,135	11,370,054	-	-
Additional on behalf SURS allocation for unfunded liability (Note 2)	141,111,746	-	-	-
Provision for doubtful notes receivable	(183,894)	(233,883)	-	-
Loan cancellations	77,535	66,435	-	-
Loan administrative expenses	196,687	101,981	-	-
Total Operating Expenses	843,989,618	661,218,053	74,247,939	67,220,150
Operating Loss	(483,273,153)	(329,784,489)	(9,518,672)	(12,576,179)
NONOPERATING REVENUES (EXPENSES)				
State appropriations - General Revenue Fund	213,458,064	195,609,913	-	-
State appropriations - Education Assistance Fund	-	31,796,200	-	-
Gifts and contributions	7,840,550	7,179,972	9,046,021	13,126,155
Investment income (Note 3)	569,096	10,230,629	10,199,109	3,902,223
Grants and contracts	25,512,441	26,884,002	-	-
Interest on capital asset-related debt	(4,417,034)	(4,165,370)	(112,043)	(125,755)
Accretion on bonds payable	(3,979,140)	(3,884,204)	-	-
University related organizations	(2,291,754)	737,778	-	-
Payments on behalf of the university (Note 2)	92,928,477	75,905,748	-	-
Additional on behalf SURS allocation for unfunded liability (Note 2)	141,111,746	-	-	-
Other nonoperating revenues	968,349	1,339,777	6,140,359	2,155,002
Net Nonoperating Revenues	471,700,795	341,634,445	25,273,446	19,057,625
Income (Loss) Before Other Revenues	(11,572,358)	11,849,956	15,754,774	6,481,446
Other Revenues:				
Capital state appropriations	17,072,430	32,796,342	-	-
Additions to permanent endowments	-	555,034	3,587,322	1,246,642
Capital grants and gifts	3,647,328	12,168,173	5,813,468	664,081
Total Other Revenues	20,719,758	45,519,549	9,400,790	1,910,723
Increase in Net Assets	9,147,400	57,369,505	25,155,564	8,392,169
NET ASSETS				
Net assets at beginning of year, as previously reported	332,207,010	273,680,561	105,994,972	98,449,682
Restatement of net assets (Note 2)	14,076,152	15,233,096	-	(929,179)
Activity from inception through June 30, 2002	-	-	-	82,300
Net assets at beginning of year, as restated	346,283,162	288,913,657	105,994,972	97,602,803
Net Assets at End of Year	\$ 355,430,562	\$ 346,283,162	\$ 131,150,536	\$ 105,994,972

The accompanying notes are an integral part of this statement.

Southern Illinois University
Statement of Cash Flows
For the Year Ended June 30, 2004 (with comparative totals for 2003)

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2004	2003 (Restated)	2004	2003
Cash Flows from Operating Activities				
Tuition and fees	\$ 142,649,900	\$ 126,936,367	\$ -	\$ -
Grants and contracts	83,132,389	78,825,849	-	-
Sales and services of educational activities	71,317,328	61,645,267	-	-
Auxiliary enterprise revenues:				
Funded debt	67,725,505	59,186,295	-	-
Other auxiliary	7,582,185	9,925,290	-	-
Payments to employees for salaries and benefits	(390,034,765)	(387,396,443)	(20,485,310)	(18,006,299)
Payments to suppliers	(212,749,366)	(196,194,950)	(41,800,545)	(37,378,214)
Payments for scholarships and fellowships	(44,582,700)	(35,843,453)	(4,903,564)	(3,814,705)
Loans issued to students	(6,335,126)	(1,625,994)	-	-
Interest earned on loans to students	309,456	254,289	-	-
Collection of loans from students	5,406,218	1,249,492	-	-
Patient service revenue	-	-	52,280,282	47,265,381
Other operating receipts	64,139,280	56,773,380	2,504,427	3,037,384
Net cash used by operating activities	(211,439,696)	(226,264,611)	(12,404,710)	(8,896,453)
Cash Flows from Noncapital Financing Activities				
State appropriations	213,799,227	229,711,438	-	-
Direct lending receipts	120,708,468	99,130,495	-	-
Direct lending payments	(120,470,794)	(99,189,107)	-	-
Grants and contracts	25,512,441	27,769,412	-	-
Government advances for federal loan funds	401,396	293,434	-	-
Payments to annuitants	-	-	(317,778)	(312,883)
Other	(3,395,639)	(486,874)	2,017,173	273,945
Gifts for other than capital purposes	10,866,902	7,289,902	15,447,218	13,619,835
Net cash provided by noncapital financing activities	247,422,001	264,518,700	17,146,613	13,580,897
Cash Flows from Capital and Related Financing Activities				
Capital appropriations	18,004,647	21,189,475	-	-
Capital gifts received	-	-	827,768	664,081
Capital grants	-	11,220,111	-	-
Payments received on capital financing leases	-	-	232,940	218,415
Retained bond proceeds	-	17,020,000	400,000	-
Deposit to bond escrow account	-	(8,391,544)	-	-
Sale of capital assets	18,000	24,000	-	-
Purchases of capital assets	(48,622,675)	(71,380,888)	(281,955)	(147,417)
Proceeds from long-term debt	-	-	-	-
Proceeds from 2004A Certificates of Participation	32,648,520	-	-	-
Issuance costs paid on new debt issue	(434,733)	-	-	-
Principal paid on capital debt	(7,820,000)	(7,160,000)	(153,863)	(493,311)
Interest paid on capital debt	(4,189,211)	(4,399,182)	(96,938)	(151,897)
Net cash provided (used) by capital and related financing activities	(10,395,452)	(41,878,028)	927,952	89,871
Cash Flows from Investing Activities				
Purchases of investments	(104,245,825)	(57,060,900)	(10,783,125)	(9,114,670)
Proceeds from sales of investments and maturities	65,610,138	63,376,255	2,155,044	2,127,558
Investment income	5,302,661	8,613,156	2,243,532	2,107,030
Net cash provided (used) by investing activities	(33,333,026)	14,928,511	(6,384,549)	(4,880,082)
Net increase (decrease) in cash	(7,746,173)	11,304,572	(714,694)	(105,767)
Cash and cash equivalents, beginning of the year	43,485,013	32,180,441	1,357,948	1,463,715
Cash and cash equivalents, end of the year	\$ 35,738,840	\$ 43,485,013	\$ 643,254	\$ 1,357,948

Southern Illinois University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2004 (with comparative totals for 2003)

	UNIVERSITY		UNIVERSITY RELATED ORGANIZATIONS	
	2004	2003 (Restated)	2004	2003
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	\$ (483,273,153)	\$ (329,784,489)	\$ (9,518,672)	\$ (12,576,179)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation expense	29,140,624	28,585,677	199,817	180,491
Impairment loss	3,787,837	-	-	-
Amortization expense	-	-	193,443	-
Noncash grants to University	-	-	1,181,247	1,911,540
Noncash expenditures for the benefit of the University	-	-	1,301	775,016
Budget expended at University	(170,150)	(155,801)	-	-
Payments on behalf of the university	234,040,223	75,905,748	-	-
Change in assets and liabilities:				
Accounts receivable (net)	979,183	161,422	(1,205,561)	901,905
Deposits with University	-	-	(177,663)	(177,408)
Reimbursement due from State Treasurer	7,810,483	810,843	-	-
Inventories	440,619	(23,853)	-	-
Prepaid expenses	(362,677)	535,920	7,604	(7,691)
Other assets	111,531	(190,095)	(3,667,629)	(1,150,996)
Accounts payable	3,661,329	(2,243,510)	700,797	1,185,578
Accrued payroll	891,070	452,267	-	-
Deferred revenue	(3,076,212)	1,158,795	(42,634)	(11,117)
Compensated absences	(2,279,568)	(2,088,888)	-	-
Deposits held for others	(19,195)	(247,617)	(2,900)	115
Other liabilities	(3,007,277)	689,134	16,202	2,737
Due to/from related organizations	(114,363)	169,836	(90,062)	69,556
Net cash used in operating activities	\$ (211,439,696)	\$ (226,264,611)	\$ (12,404,710)	\$ (8,896,453)

The accompanying notes are an integral part of this statement.

Southern Illinois University

Notes to Financial Statements

June 30, 2004

Note 1 - The financial reporting entity and component unit disclosures

Southern Illinois University (the "University"), a component unit of the State of Illinois (the "State"), conducts education, research, public service, and related activities principally at its two campuses. One is in Carbondale and includes the School of Medicine in Springfield. The other is in Edwardsville and includes the School of Dental Medicine in Alton and the East St. Louis Center. The governing body of the University is the Board of Trustees of Southern Illinois University (the "Board"). As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary unit) and its component units as well as certain activities and expenditures funded by other State agencies on behalf of the University or its employees. The component units discussed below are included in the University's financial reporting entity because of the significance of their financial relationship with the University.

The University Related Organizations' column in the financial statements includes the financial data of the University's component units which consist of the following seven entities: the Southern Illinois University Foundation (at Carbondale) and the Southern Illinois University at Edwardsville Foundation (the "Foundations"), The Association of Alumni, Former Students and Friends of Southern Illinois University, Incorporated, and The Alumni Association of Southern Illinois University at Edwardsville (the "Alumni Associations"), University Park, Southern Illinois University at Edwardsville, Inc. ("University Park"), Southern Illinois Research Park, Inc., Carbondale, and SIU Physicians & Surgeons, Inc. The University's related organizations are reported in a separate column to emphasize that they are Illinois non-profit organizations legally separate from the University. These entities are University Related Organizations as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982 and amended in 1997.

The Foundations were formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's education, research, and public service goals. In this capacity, the Foundations solicit, receive, hold, and administer gifts for the benefit of the University. Complete financial statements for the Foundations may be obtained by writing: Southern Illinois University Foundation (at Carbondale), MC 6805, 1235 Douglas, Carbondale, IL 62901-6805 and Southern Illinois University at Edwardsville Foundation, Edwardsville, IL 62026-1082.

The Alumni Associations were formed to promote the general welfare of the University and to encourage and stimulate interest among students, former students, and others in the University's programs. In this capacity, the Alumni Associations offer memberships to former students, conduct various activities for students and alumni, and publish periodicals for the benefit of the alumni. Complete financial statements for the Alumni Associations may be obtained by writing: The Association of Alumni, Former Students and Friends of Southern Illinois University, Incorporated, MC 6809, Colyer Hall, Carbondale, IL 62901-6809 and The Alumni Association of Southern Illinois University at Edwardsville, Southern Illinois University, Edwardsville, IL 62026-1031.

University Park, Southern Illinois University at Edwardsville, Inc. was formed for the purpose of providing such management, administrative, and other services as deemed essential to the operation and development of the University Park facility. Complete financial statements for the University Park may be obtained by writing: University Park, Southern Illinois University at Edwardsville, Inc., Southern Illinois University, Edwardsville, IL 62026-1333.

Southern Illinois Research Park, Inc. was formed to promote high technology and knowledge-based enterprise development within Carbondale and southern Illinois. Complete financial statements for the Research Park may be obtained by writing: Southern Illinois Research Park, 150 East Pleasant Hill Road, Carbondale, IL 62901-6891.

SIU Physicians & Surgeons, Inc. was formed to aid in the education and training of medical students, residents, fellows, and physicians for the delivery of cost-effective, high-quality patient care and the conduct of medical and other scientific investigations. Complete financial statements for SIU Physicians & Surgeons, Inc. may be obtained by writing: SIU Physicians & Surgeons, Inc., SIU School of Medicine, P.O. Box 19606, Springfield, IL 62794-9606.

Note 1 - The financial reporting entity and component unit disclosures – Continued

The University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report.

Note 2 - Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The University now follows the business-type activity reporting requirements of GASB Statement No. 35 that provides a comprehensive, entity-wide perspective of the University's financial activities and replaces the fund group presentation previously required.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting applicable to public colleges and universities. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred. All significant intra-agency transactions have been eliminated. The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

The accounts of the University's financial reporting entity are still maintained internally in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting purposes into funds according to specified activities or objectives.

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 the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Change and Restatement of Net Assets

Cougar Village, Edwardsville: The financial statements for fiscal year 2003 have been restated to correct an error in the recording of a major renovation project at the Cougar Village apartment complex at the Edwardsville campus in 2001; the project was expensed rather than capitalized. The effect of the restatement was to increase the beginning net assets for 2003 by \$15,233,096. Additional depreciation expense totaled \$1,156,944 for fiscal year 2003 and has resulted in an increase to the ending net assets invested in capital assets at June 30, 2003, of \$14,076,152.

Allowance for uncollectibles

The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at the statement of net assets date, considering type, age, collection history of receivables, and any other factors as considered appropriate. The University's accounts receivable and notes receivable are reported net of allowances of \$7,790,487 and \$2,371,818, respectively, at June 30, 2004.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market with the exception of the Textbook Rental Service at the Edwardsville campus. The rental books are recorded at depreciated cost with the related expense reported as depreciation expense.

Note 2 - Summary of significant accounting policies – Continued

Student Financial Assistance

In fiscal year 1996, the University was accepted to participate in the United States Department of Education Direct Student Loan Program at both campuses. For fiscal year 2004, loans under the program amounted to \$70,504,454 at the Carbondale campus and \$41,181,672 at the Edwardsville campus. The University has classified this loan program as Noncash Federal Awards in the Office of Management and Budget (OMB) Circular A-133, Schedule of Expenditures of Federal Awards, Note C in the Compliance Audit Report. Accordingly, no revenue or expenditures are included in the financial statements of the University.

Capital assets

Capital assets are recorded at cost at the date of acquisition or at the fair market value at the date of donation in the case of gifts. In accordance with accounting principles generally accepted in the United States of America for public colleges and universities, depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following month prorate convention is being used, in which no depreciation is recorded in the month of acquisition and an entire month of depreciation is recorded in the month of disposition. Capitalization thresholds and useful lives are as follows:

<u>Category</u>	<u>Capitalization Threshold</u>	<u>Useful Life</u>
Land	\$ -	not depreciated
Improvements	25,000	15 years
Infrastructure	1,000,000	20 years
Buildings	100,000	40 years
Building improvements	25,000	15 years
Equipment and library books	5,000	5-10 years
Works of art, historical treasures	5,000	not depreciated

Vehicles and electronic data processing equipment are depreciated over five years. Other equipment and books are depreciated over seven years.

Revenue and expense recognition

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments of \$92,928,477 for fiscal year 2004 for health care and retirement costs. These costs are reflected in the Statement of Revenues, Expenses and Changes in Net Assets as nonoperating revenues entitled "Payments on behalf of the University" and as operating expenses under the appropriate functional classifications.

Substantially all employees participate in group health insurance plans administered by the State of Illinois. The employer contributions to these plans for University employees paid from State appropriations and auxiliary enterprises are paid by the State on behalf of the University. On-behalf payments for health care costs totaled \$62,208,957 for the year ended June 30, 2004. The employer contributions to these plans for employees paid from other University held funds are paid by the University.

On-behalf payments of \$30,719,520 for the year ended June 30, 2004, were made for retirement costs. In addition, the State Universities Retirement System received a proportionate share of the proceeds from House Bill 3759 (PA 93-002), allocating an additional \$1.432 billion to be applied against the unfunded liability. This payment was in addition to the regular state appropriation received each year. The University's share of this allocation was \$141,111,746 and has been reflected in the Statement of Revenues, Expenses and Changes in Net Assets as nonoperating revenues and as operating expenses entitled "Additional on behalf SURS allocation for unfunded liability." This allocation is only for the year ended June 30, 2004. No such allocation was made for fiscal year 2003.

Note 2 - Summary of significant accounting policies – Continued

Revenues

The University has classified its revenues as either operating or nonoperating revenues as follows:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, sales and services of educational departments, sales and services of auxiliary enterprises, and most grants and contracts. Tuition and fees are generally recognized as operating revenues as they are assessed. The summer session tuition and fees are allocated between the two fiscal years.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government 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 state appropriations, investment income, and federal student aid programs. Appropriations made to the University from the State of Illinois General Revenue Fund are recognized as nonoperating revenues in the year appropriated to the extent expended. Other nonoperating revenues include transactions relating to capital and financing activities, noncapital financing activities, and investing activities.

Restricted grant revenues from external sources are recognized to the extent of related expenditures on the accrual basis.

Expenses

Accrued compensated absences for University personnel are charged to current funds based on earned but unused vacation and sick leave days including the University's share of Social Security and Medicare taxes. At June 30, 2004, the University estimates \$35,672,206 will be paid from state appropriated accounts funded by the State of Illinois General Revenue Fund and the Income Fund, and \$8,757,920 from local funds in subsequent years for a combined total of \$44,430,126.

Adoption of New Government Accounting Standards (GASB Statement Nos. 40, 41, and 42)

GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, is effective for periods beginning after June 15, 2004. This statement addresses common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. The University will be required to disclose investments that have fair values that are highly sensitive to changes in interest rates and its deposit and investment policies related to these risks.

GASB Statement No. 41, *Budgetary Comparison Schedules-Perspective Differences-an amendment of GASB Statement No. 34*, clarifies the budgetary presentation requirements for governments. It is not applicable to the University.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, was established to recognize a reduction in the value of impaired capital assets whenever service utility has declined significantly and unexpectedly and is effective for periods beginning after December 15, 2004. The University has elected earlier application and has reported an impairment loss of \$3,787,837 due to mold contamination at the Edwardsville residence halls and \$1,860,500 in mold remediation costs reported in maintenance and repairs in fiscal year 2004.

Note 3 – Cash and Investments

It is University policy to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University and conforming to all statutes governing the investments of funds. Illinois Compiled Statutes, specifically the *Public Funds Investment Act*; the policies of the Board; and covenants provided from the University’s bond issuance activities authorize the University to invest in obligations of the U. S. Treasury, agencies, and instrumentalities; bank and savings and loan time deposits; corporate bonds, stocks, and commercial paper; repurchase agreements; and money market mutual funds.

Note 3 – Cash and Investments - Continued

Risk Profile

The three basic objectives of the University's investment policy are safety of invested funds; maintenance of sufficient liquidity to meet cash flow needs; and attainment of the maximum yields possible consistent with the first two objectives. The University insures the safety of its invested funds by limiting credit and interest rate risks. The University's portfolio is structured to ensure that securities mature at the same time as cash is needed to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets. The yield on the University's portfolio is a priority after the safety and liquidity objectives have been met. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk is mitigated by limiting investments to those specified in the *Illinois Public Funds Investment Act*; pre-qualifying the financial institutions which are utilized; and diversifying the investment portfolio so that the failure of any one issue or backer will not place an undue financial burden on the University. Interest rate risk is the risk that the market value of portfolio securities will fall due to an increase in general interest rates. Interest rate risk is mitigated by structuring the University's portfolio so that securities mature to meet the University's cash requirements for ongoing operations.

Cash and Investments

The University has pooled its cash and investments, except for certain funds that are required by bond resolution to be in separate accounts. The investments are pooled for the purposes of securing a greater return on investment and of providing an equitable distribution of the investment return. Investment income, including realized gains and losses resulting from the sale or other disposition of investments, is distributed on a monthly basis at Carbondale and quarterly at Edwardsville to the pooled participants based upon their respective average balances over the prior three-month period.

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

The calculation of realized gains is independent of the calculation of the net increase 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.

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2004, are reflected below.

<u>UNIVERSITY</u>	
Interest earnings	\$ 5,306,775
Realized gain on investments	83,518
Unrealized loss on investments	<u>(4,821,197)</u>
Net investment income	<u><u>\$ 569,096</u></u>

<u>UNIVERSITY RELATED ORGANIZATIONS</u>	
Interest earnings and realized gain on investments	\$ 5,074,758
Unrealized gain on investments	<u>5,124,351</u>
Net investment income	<u><u>\$ 10,199,109</u></u>

Note 3 – Cash and Investments - Continued

Western Asset Management manages a portion of the University's operational funds, and The Northern Trust Company keeps custody of these funds and assists in the accounting and reporting functions related to these investments. The funds are allocated into a Short Maturity Portfolio and an Intermediate Maturity Portfolio.

At June 30, 2004, the actual bank balances related to the cash deposits of the University and the University Related Organizations amounted to \$22,157,674 and \$6,716,635, respectively; all such balances were covered by federal depository insurance or collateral held by an agent in the University or its related organizations' name, except for \$137,148 (foreign banks) which was uninsured and uncollateralized by the University.

The cash and investments have been classified into the following categories to reflect the University and University Related Organizations' level of risk as of June 30, 2004:

UNIVERSITY				
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
U.S. Government securities	\$ 135,958,388	\$ -	\$ -	\$ 135,958,388
Other Investments	25,307,513	-	-	25,307,513
Total Investments	<u>\$ 161,265,901</u>	<u>\$ -</u>	<u>\$ -</u>	161,265,901
The Illinois Funds				28,496,787
Cash				<u>7,242,053</u>
Total Cash and Investments				<u>\$ 197,004,741</u>

UNIVERSITY RELATED ORGANIZATIONS				
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
U.S. Government securities	\$ 1,217	\$ -	\$ 4,287,078	\$ 4,288,295
Stocks and corporate debt	2,015,008	-	4,880,991	6,895,999
Fixed income securities	177,792	-	1,400	179,192
Total Investments	<u>\$ 2,194,017</u>	<u>\$ -</u>	<u>\$ 9,169,469</u>	11,363,486
Mutual funds				84,079,773
Money market funds				6,672,087
Cash				643,254
Certificates of Deposit				<u>3,650,216</u>
Total Cash and Investments				<u>\$ 106,408,816</u>

Category 1: Includes investments that are insured or registered, or for which the securities are held by the University or its related organizations, or an agent in their name.

Category 2: Includes uninsured and unregistered investments for which the securities are held by the financial institutions' trust department or agent in the name of the University or its related organizations.

Category 3: Includes uninsured and unregistered investments for which the securities are held by the financial institution or by its trust department or agent but not in the name of the University or its related organizations.

Pooled funds, mutual funds, money markets, cash and certificates of deposit are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The University Related Organizations' exposure to potential losses from the respective mutual funds' and money market funds' investment in derivatives cannot be reasonably determined at June 30, 2004.

Note 4 – Accrued Self Insurance

The University is exposed to various risks of loss relative to general liability, professional liability, and certain group coverage of student health and life benefits. The University minimizes its exposure through a combination of risk reduction and self-insurance programs, as well as primary and excess insurance coverage with commercial carriers.

The general and professional liability self-insurance fund provides for comprehensive general and professional liability coverage. The University also purchases excess insurance coverage with commercial carriers for claims that may result in catastrophic losses. The University makes contributions to the general and professional liability self-insurance fund based on yearly actuarial analysis.

The student health and life self-insurance fund hereafter known as “Extended Care” was established on August 15, 1995. Extended Care is a secondary coverage plan that provides the students at the Carbondale campus with limited protection against the financial costs of health care not covered by other primary provider plans. Extended Care is supported by student fees and covers all students enrolled at the Carbondale campus for the semester with the exception of those students who have demonstrated comparable coverage and have applied for a refund. Extended Care provides benefits up to \$250,000 for Extended Medical Care, \$10,000 for Accidental Death and Dismemberment, and \$15,000 for Medical Evacuation and/or Repatriation. To protect against excessive losses, the University established a gap-reserve fund and purchased a stop-loss insurance policy with a commercial carrier in the amount of \$5,000,000. Contributions to the Extended Care self-insurance program are based on historic and estimated future year claims.

As of June 30, 2004, the accrual for self-insurance was \$12,969,986 for the general and professional liability fund and \$5,810,635 for the student medical benefit Extended Care fund for a total accrued liability for self-insurance of \$18,780,621. Because the amounts accrued and funded are estimates, the aggregate actual claims covered by the self-insurance funds could differ from the amount that has been accrued. Changes in these estimates will be reflected in the Statement of Revenues, Expenses, and Changes in Net Assets in the period in which additional information becomes available. Changes in the self-insurance accrual for the year ended June 30, 2004, are reflected below.

	Total	General and Professional	Extended Care
Accrued liability, June 30, 2003	\$ 21,791,559	\$ 14,682,365	\$ 7,109,194
Current year claims and other changes	3,849,034	(720,279)	4,569,313
Payment of Claims	(6,859,972)	(992,100)	(5,867,872)
Accrued liability, June 30, 2004	<u>\$ 18,780,621</u>	<u>\$ 12,969,986</u>	<u>\$ 5,810,635</u>

Note 5 - Long-term liabilities

Long-term liability activity for the year ended June 30, 2004, is as follows:

<u>UNIVERSITY</u>					
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Notes payable	\$ 1,607,583	\$ -	\$ 624,397	\$ 983,186	\$ 313,939
Compensated absences	46,709,694	1,838,329	4,117,897	44,430,126	4,224,198
Revenue bonds payable	150,701,813	3,979,140	7,347,065	147,333,888	8,142,996
Certificates of participation	4,182,829	32,648,520	355,980	36,475,369	1,593,513
Capitalized leases	5,214,894	35,883	1,686,112	3,564,665	1,244,336
Self insurance	21,791,559	3,849,034	6,859,972	18,780,621	4,214,627
Federal loan programs refundable	16,301,803	340,865	-	16,642,668	-
Due to related organizations	963,718	269,679	152,161	1,081,236	508,322
Other accrued liabilities	211,033	-	19,388	191,645	-
Housing deposits	246,975	158,835	155,173	250,637	112,787
Total long-term liabilities	<u>\$ 247,931,901</u>	<u>\$ 43,120,285</u>	<u>\$ 21,318,145</u>	<u>\$ 269,734,041</u>	<u>\$ 20,354,718</u>
<u>UNIVERSITY RELATED ORGANIZATIONS</u>					
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Notes payable	\$ 872,745	\$ 793,621	\$ 153,863	\$ 1,512,503	\$ 308,239
Revenue bonds payable	1,650,000	-	-	1,650,000	-
Annuities payable	3,842,332	472,476	317,778	3,997,030	367,886
Other accrued liabilities	1,361,784	6,739	135,497	1,233,026	-
Deposits held in custody for others	105,365	1,711,304	23,241	1,793,428	53,341
Total long-term liabilities	<u>\$ 7,832,226</u>	<u>\$ 2,984,140</u>	<u>\$ 630,379</u>	<u>\$ 10,185,987</u>	<u>\$ 729,466</u>

(A) Housing and Auxiliary Facilities System

On December 12, 2002, the Board adopted the "Ninth Supplemental System Revenue Bond Resolution" which amended and supplemented the Original Resolution of August 29, 1984, the First Supplemental Resolution of November 13, 1986, the Second Supplemental Resolution of February 13, 1992, the Third Supplemental Resolution of May 13, 1993, the Fourth Supplemental Resolution of September 12, 1996, the Fifth Supplemental Resolution of July 10, 1997, the Sixth Supplemental Resolution of May 13, 1999, the Seventh Supplemental Resolution of May 11, 2000, and the Eighth Supplemental Bond Resolution of July 12, 2001. The bond issues related to the respective bond resolutions of the System are as follows:

Series 2003A Bonds: These bonds were authorized by the Board under the Ninth Supplemental Bond Resolution dated December 12, 2002, and issued as current interest bonds in the original amount of \$17,020,000. The bonds were sold on February 25, 2003, at par. The 1993A current interest bonds of \$8,010,000 were called and redeemed in full on April 1, 2003. The remaining bond proceeds will be used for the design and construction of a new Student Health Programs building in Carbondale. As of June 30, 2004, these bonds were outstanding in the amount of \$16,545,623.

Series 2001A Bonds: These bonds were authorized by the Board under the Eighth Supplemental Bond Resolution dated July 12, 2001, as amended on December 11, 2003, and were issued as current interest bonds in the original amount of \$27,730,000. The bonds were sold at a premium of \$440,042. The 1992A bonds of \$7,985,000 were called and redeemed in full on April 1, 2002. The remaining bond proceeds were used to finance improvements to the University Center at Edwardsville, design and construction of a new softball complex at Carbondale, complete replacement of the turf at McAndrew Stadium on the Carbondale campus, and modifications of the heating, ventilation, air conditioning and humidity control systems in Prairie Hall, Bluff Hall, and Woodland Hall on the Edwardsville campus. As of June 30, 2004, these bonds were outstanding in the amount of \$24,248,487.

Note 5 - Long-term liabilities - Continued

Series 2000A Bonds: These bonds were authorized by the University's Board under the Seventh Supplemental Bond Resolution dated May 11, 2000, and were issued as current interest bonds in the original amount of \$6,525,000. The bonds were issued at a discount of 45,359. These bonds were issued to finance energy conservation improvements at the East Campus housing area on the Carbondale campus. As of June 30, 2004, these bonds were outstanding in the amount of \$5,843,847.

Series 1999A Bonds: These bonds were authorized by the University's Board under the Sixth Supplemental Bond Resolution dated May 13, 1999, and were issued as capital appreciation bonds in the original amount of \$21,001,900. The bonds were issued at a premium of \$53,851. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of a residence hall and renovations of the University Center food service facilities, all at the Edwardsville campus. As of June 30, 2004, after accreting the capital appreciation, these bonds were outstanding in the amount of \$27,366,681.

Series 1997A Bonds: These bonds were authorized by the University's Board under the Fifth Supplemental Bond Resolution dated July 10, 1997, and were issued as current interest bonds and capital appreciation bonds in the original amounts of \$8,575,000 and \$29,521,284, respectively. The current interest bonds were issued at a net discount of \$21,507 while the capital appreciation bonds were issued at par. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the construction of Prairie Hall, a residence hall, renovations of existing housing and food service facilities, and construction and improvement to the parking facilities. All projects financed by the Series 1997A bonds are associated with the Edwardsville campus. As of June 30, 2004, after accreting the capital appreciation, these bonds were outstanding in the amount of \$33,904,660.

Series 1996A Bonds: These bonds were authorized by the University's Board under the Fourth Supplemental Bond Resolution dated September 12, 1996, and were issued in the original amount of \$22,800,000. These bonds were sold on October 30, 1996 at a net premium of \$59,738. The bond proceeds of \$22,270,576 were deposited in the bond escrow account in either cash or U.S. Government securities which, together with interest earned thereon, were used solely for the interest, premium, and principal payments on the \$21,885,000 of the Housing and Auxiliary Facilities System Revenue Refunding Bonds Series 1986A (the "Series 1986A Bonds") outstanding as of October 30, 1996. The payments include accrued interest through the date of closing in the amount of \$128,396. The Series 1986A Bonds were called and redeemed in full on December 5, 1996. As of June 30, 2004, the 1996A bonds were outstanding in the amount of \$7,289,574.

Series 1993A Bonds: These bonds were authorized by the University's Board under the Third Supplemental Bond Resolution dated May 13, 1993, and were issued as current interest bonds and capital appreciation bonds in the original amounts of \$8,010,000 and \$8,660,506, respectively. The current interest bonds were issued at a nominal discount while the capital appreciation bonds were issued at par. The capital appreciation bonds are non-interest bearing and will accrete the interest factor as additional bonds payable over the term of the bonds. These bonds were issued to finance the acquisition of the Northwest Annex, an existing facility, and the construction of the Child Care Center at the Carbondale campus and the construction of the Woodland Hall Facility at the Edwardsville campus. On December 12, 2002, the Board authorized the current refunding of the current interest bond portion of the Series 1993A bonds. The bonds were called and redeemed in full on April 1, 2003. As of June 30, 2004, after accreting the capital appreciation, the capital appreciation bonds were outstanding in the amount of \$16,816,378.

The bonds do not constitute a general obligation of either the State of Illinois or Southern Illinois University but, together with interest thereon, are payable solely from and are secured by, subject to the prior pledge and lien on, (i) the net revenues of the related Housing and Auxiliary Facilities System, (ii) pledged tuition in an amount not to exceed maximum annual debt service (subject to prior payment of operating and maintenance expenses of the System), (iii) the Bond and Interest Sinking Fund, (iv) the Debt Service Reserve, and (v) the Repair and Replacement Reserve.

The bond resolution requires that debt service coverage on a cash basis (as defined) be at a minimum of 120% of the debt service reserve requirement. For the year ended June 30, 2004, the debt service reserve requirement was \$11,158,009 and the coverage was 237%.

Note 5 - Long-term liabilities – Continued

The bonds bear interest at rates ranging from 1.40% to 6.20% and are payable in annual principal installments ranging from \$6,400,000 to \$10,385,000 through the year 2029. The bonds are callable prior to their maturity in accordance with the provisions of the bond resolution, including premiums of up to 2%.

All of the refunded bonds are considered to be defeased and, accordingly, have been accounted for as if they were retired. As of June 30, 2004, \$3,535,000 of the bonds refunded in 1978, and \$18,690,000 of the bonds refunded in 1985 were outstanding. The market values of the related escrow funds were \$3,640,520 and \$20,597,367, respectively.

(B) Medical Facilities System

On October 10, 1996 the Board authorized the creation of the Southern Illinois University Medical Facilities System and the sale of Medical Facilities System Revenue Bonds. The Series 1997 Bonds were issued on March 27, 1997 in the amount of \$16,855,000 for the purpose of acquiring the SIU Clinics Building, an existing facility, located at 751 N. Rutledge, Springfield, Illinois. These bonds were sold at a discount of \$94,059. As of June 30, 2004, these bonds were outstanding in the amount of \$15,318,638.

The bonds bear interest at rates ranging from 5.05% to 5.875% payable semi-annually and annual principal installments ranging from \$295,000 to \$1,530,000 are payable annually April 1 beginning 1999 through the year 2023. Bonds maturing after April 1, 2008 are subject to redemption at the option of the Board, on or after April 1, 2007, in whole or in part at any time with premiums of up to 2%.

These bonds do not constitute a debt of the State of Illinois or the individual members, officers or agents of the Board of Trustees of the University. The Series 1997 bonds are limited obligations of the Board payable by the Board from and secured by (i) Net Revenues of the Medical Facilities System, (ii) pledged tuition (subject to prior payment of operation and maintenance expenses of the Medical Facilities System and subject to the prior pledge thereof to revenue bonds of the Housing and Auxiliary Facilities System), (iii) the Bond and Interest Sinking Fund Account and, (iv) the Debt Service Reserve Account.

(C) Certificates of Participation

Series 2004A: On June 17, 2004, the University issued Certificates of Participation (COPS) in the par amount of \$32,740,000. The COPS were issued at a discount of \$91,480. The certificates were issued to finance, in combination with University funds, the renovation of Morris Library, the construction of a library storage facility, the construction of a Research Park, the replacement of campus signage, the purchase of computer and research equipment, and energy conservation measures, all at Carbondale; the construction of a Pharmacy building and the renovation of the Dental School building, both at Edwardsville; and energy performance measures at the School of Medicine in Springfield. The certificates bear interest at rates ranging from 2% to 5% payable semi-annually, and principal installments ranging from \$1,070,000 to \$2,720,000 are payable annually on February 15 beginning 2005 through the year 2024. As of June 30, 2004, these certificates were outstanding in the amount of \$32,648,686.

Series 2002: On June 5, 2002, the University issued Certificates of Participation (COPS) in the par amount of \$4,180,000. The COPS were issued at a premium of \$10,540. The certificates were issued to finance, in combination with University funds, the construction of a new support services building to house business services offices and warehouse space for the University's Springfield medical campus. The certificates bear interest at rates ranging from 3.25% to 4.40% payable semi-annually, and principal installments ranging from \$355,000 to \$495,000 are payable annually on August 15 beginning 2003 through the year 2012. As of June 30, 2004, these certificates were outstanding in the amount of \$3,826,683.

(D) University note payable

During fiscal year 2002, the purchase of a replacement chiller for the heating and cooling system at Edwardsville was financed through the issuance of a note payable in the amount of \$1,600,000 at an interest rate of 4.33%. It is payable in annual installments through fiscal year 2007. As of June 30, 2004, the note was outstanding in the amount of \$983,186.

Note 5 - Long-term liabilities – Continued

(E) Carbondale Foundation mortgage note payable

On July 3, 1967, the Southern Illinois University Foundation (at Carbondale) entered into a financing agreement with the Federal Housing Administration (FHA) to construct on behalf of the University a 304-unit apartment complex known as Evergreen Terrace (FHA Project No. 072-55010-NP). The original mortgage note was issued in the amount of \$4,000,000 and bears interest at the rate of 3%. It is payable in monthly installments of \$14,319 through February, 2009. It is secured by a pledge of thirty-eight acres of land, including buildings and improvements, with a carrying value of \$4,161,703. As of June 30, 2004, the mortgage note was outstanding in the amount of \$725,075.

(F) Edwardsville Foundation revenue bonds payable

On October 22, 1999, the Southern Illinois University Edwardsville Foundation issued a revenue bond payable in the amount of \$2,000,000. The bond was refinanced on March 14, 2003, and principal was paid down in the amount of \$350,000. The bond bears an interest rate of 4.5% and matures in 2008. Annual interest ranging from \$75,488 to \$84,769 is payable through the year 2008. As of June 30, 2004, the revenue bond was outstanding in the amount of \$1,650,000.

(G) SIU Physicians and Surgeons note payable

During 2004, SIU Physicians and Surgeons borrowed \$393,621 from Southern Illinois University School of Medicine to fund the malpractice tail premium related to the acquisition of a medical practice in Springfield, IL. The note is due June 30, 2008, in periodic installments in amounts ranging from \$125,000 to \$143,621. The current interest rate is 4%. As of June 30, 2004, the note was outstanding in the amount of \$393,621.

(H) Edwardsville University Park note payable

On December 12, 2003, University Park at Edwardsville issued a note payable in the amount of \$400,000 at an interest rate of 4.85% for the purchase of a building at 110 N. Research Dr., Edwardsville. It is payable in 35 monthly installments of \$2,608 with a final payment due December 12, 2007, in the amount of \$377,329. As of June 30, 2004, the note was outstanding in the amount of \$393,807.

Note 5 - Long-term liabilities – Continued

Annual aggregate principal and interest payments applicable to bonds payable, certificates of participation, and notes payable for years subsequent to June 30, 2004, are:

	UNIVERSITY					
	Revenue Bonds		Certificates of Participation		Notes Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 8,260,000	\$ 3,711,617	\$ 1,600,000	\$ 1,065,895	\$ 313,939	\$ 42,572
2006	8,600,000	3,471,514	1,670,000	1,414,302	327,532	28,978
2007	8,975,000	3,214,489	2,345,000	1,372,278	341,715	14,796
2008	9,000,000	2,924,589	2,590,000	1,304,097	-	-
2009	9,365,000	2,695,639	2,670,000	1,217,090	-	-
2010-14	51,375,000	10,149,213	11,700,000	4,581,783	-	-
2015-19	51,780,000	6,191,736	5,780,000	2,808,762	-	-
2020-24	40,760,000	2,012,620	8,210,000	1,372,100	-	-
2025-29	32,830,000	379,045	-	-	-	-
Total payments	220,945,000	<u>\$ 34,750,462</u>	36,565,000	<u>\$ 15,136,307</u>	<u>\$ 983,186</u>	<u>\$ 86,346</u>
Unaccreted appreciation	(73,027,598)					
Total payable	147,917,402					
Unamortized premiums (discounts) on bonds	305,790		(89,631)			
Unamortized deferred loss on refunding	(889,304)		-			
Total payable	<u>\$ 147,333,888</u>		<u>\$ 36,475,369</u>			

	UNIVERSITY RELATED ORGANIZATIONS			
	Revenue Bonds		Note Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ -	\$ 75,488	\$ 308,239	\$ 38,506
2006	-	75,281	294,865	33,259
2007	-	75,281	529,833	19,329
2008	1,650,000	84,769	291,472	21,361
2009	-	-	88,094	797
	<u>\$ 1,650,000</u>	<u>\$ 310,819</u>	<u>\$ 1,512,503</u>	<u>\$ 113,252</u>

(I) Leases

The University, acting through the Department of Central Management Services (CMS), acquired certain energy conservation measures (ECM's) under a capital lease agreement which is payable over a period of years. The University also leases certain items of equipment from other lessors that are classified as capital leases.

Minimum lease payments under capital leases together with the present value of the net minimum lease payments are:

Year Ending	UNIVERSITY		
	<u>CMS</u>	<u>Other</u>	<u>Total</u>
2005	\$ 667,030	\$ 736,198	\$ 1,403,228
2006	1,016,120	685,435	1,701,555
2007	-	561,225	561,225
2008	-	93,481	93,481
2009	-	93,481	93,481
Total minimum lease payments	1,683,150	2,169,820	3,852,970
Less amount representing interest	158,150	130,155	288,305
Present value of net minimum lease payments	<u>\$ 1,525,000</u>	<u>\$ 2,039,665</u>	<u>\$ 3,564,665</u>

Note 5 - Long-term liabilities – Continued

The University also leases the Evergreen Terrace apartment complex from Southern Illinois University Foundation (at Carbondale) under a capital lease agreement through the year 2009. It has been classified and accounted for as a liability being reported as an amount "Due to Related Organizations." The agreement obligates the University to make rental payments in an amount sufficient to cover principal and interest payments and the required deposits to the repair and replacement reserve and the hazard insurance escrow account.

The University leases office and instructional space and equipment (principally office machines, automobiles, and farm equipment) under contracts which are renewable annually and many of which are subject to escalation upon proper notice by the lessor. Rental payments on these operating leases totaled \$10,422,596 in 2004.

Note 6 - Accounts and notes receivable

Accounts and notes receivable consisted of the following at June 30, 2004:

	<u>ACCOUNTS RECEIVABLE</u>	<u>NOTES RECEIVABLE</u>
UNIVERSITY		
Student tuition and fees	\$ 10,768,924	\$ -
Auxiliary enterprises	5,334,921	-
Grants and contracts	12,828,095	-
General operating	5,422,893	-
Student loans	-	21,802,012
Plant funds	167,145	206,546
Other accounts receivable	740,412	-
	<u>35,262,390</u>	<u>22,008,558</u>
Less: Allowance for doubtful accounts	(7,790,487)	(2,371,818)
Net accounts receivable	<u>\$ 27,471,903</u>	<u>\$ 19,636,740</u>
 UNIVERSITY RELATED ORGANIZATIONS		
Accounts receivable	\$ 28,129,785	\$ -
Other loans	-	678,876
Student loans	-	35,246
	<u>28,129,785</u>	<u>714,122</u>
Less: Allowances for assignment losses and doubtful accounts	<u>(16,162,105)</u>	<u>(5,455)</u>
Net accounts receivable	<u>\$ 11,967,680</u>	<u>\$ 708,667</u>

During fiscal year 2003, Southern Illinois University entered into a contract for deed agreement with Equipping the Saints Ministry, International, Inc. for the sale of the Auburn Clinic building in Auburn, Illinois. The contract is in the amount of \$240,000 at an interest rate of 4%, to be paid over a term of ten years in eighteen semi-annual installments of \$9,000, including interest, beginning June 19, 2003, with a final installment of \$124,790 due on December 19, 2011. A down payment of \$24,000 was paid upon signing of the contract. As of June 30, 2004, the outstanding balance of the note was \$206,546.

Note 7 - Capital assets

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

UNIVERSITY					
	Beginning Balance (restated)	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 17,922,831	\$ 806,397	\$ 1,542	\$ 1,000	\$ 18,728,686
Nondepreciable historical treasures and works of art	5,807,937	160,785	-	-	5,968,722
Construction in progress	96,806,105	34,435,831	3,637,697	(67,253,725)	60,350,514
Total capital assets not being depreciated	<u>120,536,873</u>	<u>35,403,013</u>	<u>3,639,239</u>	<u>(67,252,725)</u>	<u>85,047,922</u>
Capital assets being depreciated:					
Site improvements	36,137,365	133,234	-	1,436,629	37,707,228
Buildings	566,565,214	4,657,219	5,500,414	60,349,020	626,071,039
Equipment	244,232,769	14,158,727	8,653,327	5,467,076	255,205,245
Infrastructure	8,607,727	-	-	-	8,607,727
Total capital assets being depreciated	<u>855,543,075</u>	<u>18,949,180</u>	<u>14,153,741</u>	<u>67,252,725</u>	<u>927,591,239</u>
Less accumulated depreciation for:					
Site improvements	29,718,422	734,883	-	-	30,453,305
Buildings	313,327,895	12,190,328	1,712,577	-	323,805,646
Equipment	192,621,861	16,061,034	8,336,818	-	200,346,077
Infrastructure	7,977,343	154,379	-	-	8,131,722
Total accumulated depreciation	<u>543,645,521</u>	<u>29,140,624</u>	<u>10,049,395</u>	<u>-</u>	<u>562,736,750</u>
Capital assets, net	<u>\$ 432,434,427</u>	<u>\$ 25,211,569</u>	<u>\$ 7,743,585</u>	<u>\$ -</u>	<u>\$ 449,902,411</u>

The buildings and related accumulated depreciation at June 30, 2003, have been restated to correct an error in the recording of a major renovation project as described in Note 2. The effect was an addition to buildings of \$17,354,160 and an increase in accumulated depreciation of \$3,278,008, for a net difference of \$14,076,152.

UNIVERSITY RELATED ORGANIZATIONS

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	\$ 14,859	\$ 168,414	\$ 14,859	\$ -	\$ 168,414
Capital assets being depreciated:					
Buildings	2,478,122	527,086	-	-	3,005,208
Equipment	1,283,132	141,238	71,438	-	1,352,932
Total capital assets being depreciated	<u>3,761,254</u>	<u>668,324</u>	<u>71,438</u>	<u>-</u>	<u>4,358,140</u>
Less accumulated depreciation for:					
Buildings	180,696	71,470	-	-	252,166
Equipment	828,598	128,347	43,316	-	913,629
Total accumulated depreciation	<u>1,009,294</u>	<u>199,817</u>	<u>43,316</u>	<u>-</u>	<u>1,165,795</u>
Capital assets, net	<u>\$ 2,766,819</u>	<u>\$ 636,921</u>	<u>\$ 42,981</u>	<u>\$ -</u>	<u>\$ 3,360,759</u>

Note 8 - Donor-restricted Endowments

The University entered into an agreement with the Southern Illinois University Foundation at Carbondale on July 1, 2003, in which the University transferred Endowment funds in the amount of \$1,105,181 to the Foundation. The Foundation has agreed to hold and administer these funds as agency funds based upon and consistent with the desires of the donor and/or the University. During fiscal year 2004, an additional \$500,100 was deposited with the Foundation, and \$7,329 was returned to the University, resulting in a balance of \$1,597,952 held by the Foundation at June 30, 2004. The Foundation distributes earnings to the University on a quarterly basis. Payments during fiscal year 2004 totaled \$23,241.

Note 9 - State Universities Retirement System

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of state employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

Plan members are required to contribute 8% of their annual covered salary, and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 9.65% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the year ended June 30, 2004, was \$33,359,341, equal to the required contributions for the year. The FY 2004 contribution consisted of \$30,719,520 from State appropriations and \$2,639,821 from other current funds.

All full-time employees of the Foundations, the Alumni Associations, University Park, and the Research Park are paid as University employees. Accordingly, the benefits related to these employees are covered by the University's plan.

Note 10 - Post-employment benefits

In addition to providing the above pension benefits, the State provides certain health, dental, and life insurance benefits to the University's annuitants who participate in SURS. Substantially all University employees become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under the age of 60 are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to five thousand dollars per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental, and life insurance benefits. The cost of health, dental, and life insurance benefits is recognized by the State on a pay-as-you-go basis. These costs are funded by the State except for certain non-appropriated funds funded by the University.

Note 11 - Commitments and contingencies

Grants and contracts

The University receives monies from federal and state government agencies under grants and contracts for research and other activities, including medical service reimbursements. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. The University administration believes that any disallowances or adjustments would not have a material effect on the University's financial position.

Legal action

The University is a defendant in several lawsuits. However, University officials are of the opinion, based on the advice of legal counsel, that any ultimate liability which could result from such litigation would not have a material effect on the University's financial position or its future operations.

Note 12 – Subsequent event

On October 14, 2004, the Board of Trustees of Southern Illinois University authorized the issuance of the Housing and Auxiliary Facilities System Revenue Bonds, Series 2004A in the amount of \$40,650,000 for the purpose of construction of apartment-style living quarters for 400 students and the installation of automatic sprinkler systems in three residence halls, all on the Carbondale campus; and the modification of the HVAC systems and humidity controls and remediation of damage in three residence halls on the Edwardsville campus. It is expected the bonds will be delivered in November 2004.

Note 13 - Segment information

A segment is an identifiable activity for which one or more revenue bonds or other revenue-backed debt instruments are outstanding. A segment has a specific identifiable revenue stream pledged in support of the revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that can be identified.

The University has issued revenue bonds with the net revenues from the two segments pledged to pay the bond interest and principal. The Housing and Auxiliary Facilities System segment is comprised of University owned housing units, student centers, recreation and athletic facilities, and similar auxiliary enterprise units. The Medical Facilities System is comprised of clinical facilities used to provide patient care at the School of Medicine in Springfield. Condensed financial statements for the University's two segments are shown below. Additional information relating to these segments is included in Note 5, Long-term liabilities.

	<u>Housing and Auxiliary Facilities System</u>	<u>Medical Facilities System</u>
CONDENSED STATEMENTS OF NET ASSETS (DEFICIT)		
June 30, 2004		
Assets:		
Current assets	\$ 38,096,349	\$ 3,214,562
Capital assets, net	89,227,364	13,427,897
Other assets	13,693,427	1,683,210
Total Assets	<u>141,017,140</u>	<u>18,325,669</u>
Liabilities:		
Current liabilities	16,358,219	1,039,023
Noncurrent liabilities	126,096,888	17,032,151
Total Liabilities	<u>142,455,107</u>	<u>18,071,174</u>
Net Assets (Deficit)		
Invested in capital assets, net of related debt	(32,500,271)	(1,969,908)
Restricted - expendable	22,801,794	2,564,303
Unrestricted	8,260,510	(339,900)
Total Net Assets (Deficit)	<u>\$ (1,437,967)</u>	<u>\$ 254,495</u>
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)		
Year ended June 30, 2004		
Operating revenues	\$ 68,464,188	\$ 21,673,393
Operating expenses	81,069,489	33,912,868
Operating loss	<u>(12,605,301)</u>	<u>(12,239,475)</u>
Nonoperating revenues and expenses - net	7,894,019	11,709,823
Loss before other revenues, expenses, gains or losses	(4,711,282)	(529,652)
Other revenues, expenses, gains or losses - net	<u>183,780</u>	<u>66,333</u>
Decrease in net assets	(4,527,502)	(463,319)
Net assets at beginning of year, as previously reported	(10,986,617)	717,814
Restatement of net assets	14,076,152	-
Net assets at beginning of year, as restated	<u>3,089,535</u>	<u>717,814</u>
Net assets (deficit) at end of year	<u>\$ (1,437,967)</u>	<u>\$ 254,495</u>
CONDENSED STATEMENTS OF CASH FLOWS		
Year ended June 30, 2004		
Cash provided by (used in):		
Operating activities	\$ 9,851,835	\$ 375,593
Noncapital financing activities	144,858	-
Capital financing activities	(17,138,204)	(1,391,135)
Investing activities	4,670,005	136,977
Net decrease in cash	<u>(2,471,506)</u>	<u>(878,565)</u>
Cash, beginning of year	27,979,303	1,573,234
Cash, end of year	<u>\$ 25,507,797</u>	<u>\$ 694,669</u>

Note 14 - University Related Organizations

Condensed financial statements for the component units of the University are as follows:

	SIUC FOUNDATION	SIUE FOUNDATION	SIUC PHYSICIANS & SURGEONS	SIUC ALUMNI	SIUE ALUMNI	SIUC RESEARCH PARK	SIUE UNIV. PARK	TOTAL
CONDENSED STATEMENTS OF NET ASSETS								
JUNE 30, 2004								
Assets:								
Current assets	\$ 26,087,572	\$ 4,289,091	\$ 21,071,416	\$ 1,590,470	\$ 72,874	\$ 109,481	\$ 246,134	\$ 53,467,038
Noncurrent assets	72,611,686	18,231,547	366,432	2,397,944	193,150	-	524,518	94,325,277
Total Assets	98,699,258	22,520,638	21,437,848	3,988,414	266,024	109,481	770,652	147,792,315
Liabilities:								
Current liabilities	1,008,222	362,378	5,146,868	494,648	51,948	7,007	114,187	7,185,258
Noncurrent liabilities	5,451,549	2,189,094	250,000	1,079,620	-	-	486,258	9,456,521
Total Liabilities	6,459,771	2,551,472	5,396,868	1,574,268	51,948	7,007	600,445	16,641,779
Net Assets:								
Invested in capital assets, net of related debt	227,662	586,444	366,432	3,711	1,992	-	130,711	1,316,952
Restricted - nonexpendable	46,918,133	10,691,978	-	-	-	-	-	57,610,111
Restricted - expendable	38,652,300	7,148,805	-	-	-	3,000	-	45,804,105
Unrestricted	6,441,392	1,541,939	15,674,548	2,410,435	212,084	99,474	39,496	26,419,368
Total Net Assets	\$ 92,239,487	\$ 19,969,166	\$ 16,040,980	\$ 2,414,146	\$ 214,076	\$ 102,474	\$ 170,207	\$ 131,150,536

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Year ended June 30, 2004

Operating revenues	\$ 3,822,459	\$ 1,077,473	\$ 57,602,696	\$ 1,417,626	\$ 287,873	\$ 149,769	\$ 371,371	\$ 64,729,267
Operating expenses	14,961,034	2,767,097	54,486,098	1,254,713	284,530	158,032	336,435	74,247,939
Operating income (loss)	(11,138,575)	(1,689,624)	3,116,598	162,913	3,343	(8,263)	34,936	(9,518,672)
Nonoperating revenues and expenses - net	20,653,698	4,010,079	180,640	404,943	25,559	869	(2,342)	25,273,446
Income (loss) before other revenues, expenses, gains or losses	9,515,123	2,320,455	3,297,238	567,856	28,902	(7,394)	32,594	15,754,774
Other revenues	8,516,818	883,972	-	-	-	-	-	9,400,790
Increase (decrease) in net assets	18,031,941	3,204,427	3,297,238	567,856	28,902	(7,394)	32,594	25,155,564
Net assets at beginning of year	74,207,546	16,764,739	12,743,742	1,846,290	185,174	109,868	137,613	105,994,972
Net assets at end of year	\$ 92,239,487	\$ 19,969,166	\$ 16,040,980	\$ 2,414,146	\$ 214,076	\$ 102,474	\$ 170,207	\$ 131,150,536

CONDENSED STATEMENTS OF CASH FLOWS Year ended June 30, 2004

Cash provided by (used in):								
Operating activities	\$ (10,237,197)	\$ (1,217,713)	\$ (982,404)	\$ (27,221)	\$ 20,260	\$ (30,770)	\$ 70,335	\$ (12,404,710)
Noncapital financing activities	15,253,084	1,442,079	391,958	10,616	35	-	48,841	17,146,613
Capital financing activities	715,047	(63,319)	(108,130)	-	-	-	384,354	927,952
Investing activities	(5,923,823)	(152,595)	194,692	16,605	131	869	(520,428)	(6,384,549)
Net increase (decrease) in cash	(192,889)	8,452	(503,884)	-	20,426	(29,901)	(16,898)	(714,694)
Cash, beginning of year	399,556	7,314	562,744	-	23,002	110,993	254,339	1,357,948
Cash, end of year	\$ 206,667	\$ 15,766	\$ 58,860	\$ -	\$ 43,428	\$ 81,092	\$ 237,441	\$ 643,254