

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

FINANCIAL AUDIT

For the year ended June 30, 2005
(with comparative totals for 2004)

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

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

FINANCIAL AUDIT

For the year ended June 30, 2005

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*Note: Presented under separate cover.

State of Illinois
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of Southern Illinois University, Incorporated

June 30, 2005

AGENCY OFFICIALS

Ms. Mimi Wallace	President
Mr. Randy Ragan, CPA	Treasurer
Mr. Edward Buerger	Executive Director
Mr. Tim Marlo	Assistant Director/Controller, effective February 7, 2005
Mr. Michael Dean	Assistant Director/Controller to February 2005

Agency offices are located at:

Colyer Hall
Mailcode 6805
Carbondale, Illinois 62901

Student Center
Carbondale, Illinois 62901

State of Illinois
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FINANCIAL STATEMENT REPORT
SUMMARY

June 30, 2005

Summary

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

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



CPAs and
Management Consultants
1116 W. Main Street
Carbondale, IL 62903-1417
ph 618.529.1040
fax 618.549.2311
www.kebcpa.com

Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of The Association of Alumni, Former Students and Friends of Southern Illinois University Association, Incorporated (the "Association"), a component unit of Southern Illinois University, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2004 financial statement and, in our report dated September 24, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Association of Alumni, Former Students and Friends of Southern Illinois University, Incorporated as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005, on our consideration of the Association's internal control over financial reporting and on our tests of the Association's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 7 through 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kerber, Eck + Braeckel LLP

Springfield, Illinois
September 15, 2005

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of Southern Illinois University, Incorporated

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2005

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

Financial Statements

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

Statement of Net Assets

The Statement of Net Assets indicates assets available for current use (current assets) and those assets to be held for use in future periods and are not available for current use (noncurrent assets). This statement also indicates which liabilities are due within one year (current liabilities) and those due in a year or more (noncurrent liabilities). Net Assets, located at the bottom of the statement, are grouped by those assets available for unrestricted uses and those assets which are an investment in capital assets.

During the year ended June 30, 2005, the Association had an increase in net assets of \$ 478,649 as indicated on the Statement of Revenues, Expenses, and Changes in Net Assets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2005

CONDENSED
STATEMENT OF NET ASSETS
June 30,

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
ASSETS			
Current assets	\$ 879,481	\$ 1,335,165	-34.13%
Long-term investments	3,971,561	2,649,538	49.90%
Capital assets, net of accumulated depreciation	<u>4,788</u>	<u>3,711</u>	29.02%
TOTAL ASSETS	<u>4,855,830</u>	<u>3,988,414</u>	21.75%
LIABILITIES			
Current liabilities	794,506	494,648	60.62%
Non-current deferred revenue	<u>1,168,529</u>	<u>1,079,620</u>	8.24%
TOTAL LIABILITIES	<u>1,963,035</u>	<u>1,574,268</u>	24.70%
NET ASSETS			
Invested in capital assets, net of related debt	4,788	3,711	29.02%
Unrestricted	<u>2,888,007</u>	<u>2,410,435</u>	19.81%
TOTAL NET ASSETS	<u>\$ 2,892,795</u>	<u>\$ 2,414,146</u>	19.83%

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets indicates the financial activity for the period and its effect on net assets. The activity from operations is shown first. As stated in the Notes to the Financial Statements, Operating Revenues include activities that have the characteristics of exchange transactions. In an exchange transaction, both parties receive a material benefit from the transaction such as membership dues and income from royalty agreements. Nonoperating Revenues (Expenses) are listed after operating activities. Nonoperating Revenues (Expenses) include activities that have the characteristics of nonexchange transactions. Contributions are considered a nonoperating activity because the donor does not receive a material financial benefit from the transaction. Other nonoperating

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2005

revenues are defined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, such as investment income. Since the primary purpose of the Association is to cultivate relationships for the benefit of Southern Illinois University, and most of this activity is located within Operating Revenues and Operating Expenses, the Statement of Revenues, Expenses, and Changes in Net Assets provides a suitable presentation of the Association's core activities.

For the year ended June 30, 2005, operating and non operating activities provided an increase in net assets of \$ 164,794 and \$ 313,855 respectively, which total \$ 478,649. Operating revenues increased by \$ 294,638 and operating expenses increased by \$ 292,757 from FY 2004. Of the \$ 478,649 increase in net assets, \$ 304,815 came from the year's investment gain.

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

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
REVENUES			
Budgeted allocation from SIU	\$ 793,314	\$ 710,952	11.58%
Other operating revenues	<u>918,950</u>	<u>706,674</u>	30.04%
TOTAL OPERATING REVENUES	<u>1,712,264</u>	<u>1,417,626</u>	20.78%
EXPENSES			
Budget expended at SIU	793,314	710,952	11.58%
Other operating expenses	<u>754,156</u>	<u>543,761</u>	38.69%
TOTAL OPERATING EXPENSES	<u>1,547,470</u>	<u>1,254,713</u>	23.33%
OPERATING INCOME	<u>164,794</u>	<u>162,913</u>	1.16%
NET NONOPERATING REVENUES	<u>313,855</u>	<u>404,943</u>	-22.49%
INCREASE IN NET ASSETS	<u>\$ 478,649</u>	<u>\$ 567,856</u>	-15.71%

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2005

Statement of Cash Flows

The Statement of Cash Flows' primary purpose is to provide relevant information about the cash receipts and payments of the Association during the period. The Association is required to use the direct method presentation for this statement which indicates the cash effects categorized by operations, noncapital financing transactions, capital and related financing transactions, and investing transactions. During the year ended June 30, 2005, the Association had a decrease of cash in the amount of \$ 542,870 primarily due to investing activities. However, this amount is kept on deposit with SIU, so it is reflected as a change in deposits with SIU instead of a decrease in cash.

Facts, Decisions or Conditions Affecting Net Assets

Accounting for Life Membership Dues

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

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

During FY 2004, 80% of life membership dues collected were recorded as deferred income to reflect economic resources from membership revenues that have not been earned and that are not available for spending. In FY 2004 and succeeding years, a portion (approximately 2% for 2004 and 2.5% for 2005) of this deferred revenue becomes available for spending and recognized as current income.

There are no other facts, decisions, or conditions significantly affecting net assets, other than those items explained elsewhere in this discussion and analysis. However, please see the notes to the financial statements that include additional details and further explanation of data presented in the basic financial statements. The notes are an integral part of the basic financial statements and should be included as part of any review or analysis.

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STATEMENT OF NET ASSETS

June 30, 2005
(with comparative totals for 2004)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Deposits with SIU (Note 2)	\$ 211,638	\$ 754,508
Short-term investments (Note 2)	609,180	538,547
Accounts receivable	5,044	6,221
Accrued interest receivable	5,595	4,894
Prepaid expenses	<u>48,024</u>	<u>30,995</u>
Total current assets	<u>879,481</u>	<u>1,335,165</u>
Noncurrent assets		
Long-term investments (Note 2)	3,971,561	2,649,538
Capital assets, net of accumulated depreciation (Note 3)	<u>4,788</u>	<u>3,711</u>
Total noncurrent assets	<u>3,976,349</u>	<u>2,653,249</u>
TOTAL ASSETS	<u>4,855,830</u>	<u>3,988,414</u>
 LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	46,781	65,608
Deposits held for others	39,197	33,560
Deferred revenue, current portion (Note 5)	<u>708,528</u>	<u>395,480</u>
Total current liabilities	<u>794,506</u>	<u>494,648</u>
Noncurrent liabilities		
Deferred revenue (Note 5)	<u>1,168,529</u>	<u>1,079,620</u>
Total noncurrent liabilities	<u>1,168,529</u>	<u>1,079,620</u>
TOTAL LIABILITIES	<u>1,963,035</u>	<u>1,574,268</u>
 NET ASSETS		
Invested in capital assets, net of related debt	4,788	3,711
Unrestricted	<u>2,888,007</u>	<u>2,410,435</u>
TOTAL NET ASSETS	<u>\$ 2,892,795</u>	<u>\$ 2,414,146</u>

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

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STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For year ended June 30, 2005
(with comparative totals for 2004)

	<u>2005</u>	<u>2004</u>
REVENUES		
Operating revenues		
Payments from SIU Foundation (Note 7)	\$ 134,000	\$ 134,000
Budget allocation from SIU (Note 7)	793,314	710,952
Membership dues	204,752	180,103
Royalties and other income	580,198	392,571
Activities	\$ 92,048	\$ 58,853
Less cost of direct benefit to participants	<u>(92,048)</u>	<u>(58,853)</u>
Total operating revenues	<u>1,712,264</u>	<u>1,417,626</u>
 EXPENSES		
Operating expenses		
Budget expended at SIU (Note 7)	793,314	710,952
Administrative	76,733	42,067
Alumni communications	289,908	276,246
Membership services	126,449	51,972
Alumni and public relations	40,234	31,620
Data base management	4,950	11,995
Board of Directors	15,678	14,783
Chapter development and alumni programs	55,897	30,889
Homecoming and reunions	19,145	12,441
University master contract payment (Note 7)	41,200	39,583
Student relations	15,328	8,697
College societies	5,841	2,433
Awards and contributions	31,738	3,540
Other	29,432	15,549
Depreciation (Note 3)	<u>1,623</u>	<u>1,946</u>
Total operating expenses	<u>1,547,470</u>	<u>1,254,713</u>
Operating income	<u>164,794</u>	<u>162,913</u>
 NONOPERATING REVENUES		
Investment gain	304,815	394,327
Contributions	<u>9,040</u>	<u>10,616</u>
Net nonoperating revenues	<u>313,855</u>	<u>404,943</u>
Increase in net assets	<u>478,649</u>	<u>567,856</u>
 NET ASSETS		
Net assets - beginning of year	<u>2,414,146</u>	<u>1,846,290</u>
Net assets - end of year	<u>\$ 2,892,795</u>	<u>\$ 2,414,146</u>

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

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STATEMENT OF CASH FLOWS

For the year ended June 30, 2005
(with comparative totals for 2004)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from (to) SIU	\$ 676,870	\$ (21,458)
Membership dues	323,157	258,483
Activities and event revenues	104,670	66,057
Royalty revenues	851,128	265,094
Operating expenses	<u>(873,624)</u>	<u>(595,397)</u>
Net cash provided (used) by operating activities	<u>1,082,201</u>	<u>(27,221)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions from other than capital purposes	<u>9,040</u>	<u>10,616</u>
Net cash provided by noncapital financing activities	<u>9,040</u>	<u>10,616</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(2,700)	-
Proceeds from sale and maturities of investments	58,285	42,915
Interest and dividend income	304,114	395,944
Purchase of investments	<u>(1,450,940)</u>	<u>(422,254)</u>
Net cash (used) provided by investing activities	<u>(1,091,241)</u>	<u>16,605</u>
NET INCREASE IN CASH	-	-
Cash - beginning of year	<u>-</u>	<u>-</u>
Cash- end of year	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 164,794	\$ 162,913
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,623	1,946
Changes in assets and liabilities		
Deposits with SIU	542,870	(177,663)
Receivables	1,176	16,946
Other current assets	(17,029)	(12,561)
Accounts payable and accrued liabilities	(18,827)	25,991
Deposits held for others	5,637	(2,900)
Deferred revenue	<u>401,957</u>	<u>(41,893)</u>
Net cash provided (used) by operating activities	<u>\$ 1,082,201</u>	<u>\$ (27,221)</u>

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

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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

- B. Financial Statement Presentation:** Effective July 1, 2001, the Association adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statements Nos. 35, 37, and 38 provides a comprehensive perspective of the Association's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required. The Association was also required to adopt depreciation on capital assets.

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

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Financial Statement Presentation - Continued: GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets*, is effective for periods beginning after December 15, 2004. However, the Association has elected to implement the standard early. There is no impact on the financial statements because the Association has no capital assets that are impaired as of June 30, 2005.

C. Basis of Accounting: For financial reporting purposes, the Association is considered a special-purpose government engaged only in business-type activities. Accordingly, the Association's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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

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

E. Investments: The Association accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment gain in the Statements of Revenues, Expenses, and Changes in Net Assets.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

G. Deferred Revenue: Revenue on annual and life memberships is recognized ratably over the membership period. Fees, including activities fees, are recognized when earned and credit card royalties are recognized over the length of the contract. Deferred revenue at June 30, 2005 represents the unexpired portion of memberships, unearned fees and royalties with a remaining contract life.

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

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

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

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Classification of Revenues and Expenses: The Association has classified its revenues and expenses as either operating or non-operating according to the following criteria:

- **Operating:** Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as membership dues, and royalties received under contractual arrangements.
- **Non-operating:** Non-operating revenues and expenses include activities that have the characteristics of non-exchange transactions, such as gifts and contributions. Also, included in this category are other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, such as investment income.

K. 2004 Financial Information: The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2004 from which the summarized financial information was derived.

During fiscal year 2005, the method of accounting for mutual funds changed from being reported as short-term investments to being classified as long term. For comparative purposes, fiscal year 2004 short-term and long-term investments have been adjusted to reflect this change.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. Deposits with SIU: The Association deposits its cash receipts in the University's pooled cash investment accounts. The University, acting as agent for the Association, makes all disbursements as directed. Pooled cash and cash equivalents consist principally of cash and money market funds. The Association's pooled cash and cash equivalents are not classified with investments since specific investment securities of the pooled fund maintained by the University are not purchased on behalf of, and/or separately allocated to the participants of the fund. At June 30, 2005, the Association's amount on deposit with the University totaled \$ 232,729, and the carrying amount was \$ 211,638.

Custodial Credit Risk- Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The pooled cash and cash equivalents held by the University follow strict collateralization requirements that are consistent with the requirements of the State Treasurer's Collateral Agreement. Deposits with the University are FDIC insured up to \$ 100,000, and deposits above \$ 100,000 are fully collateralized.

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

The Association determines the fair value of investments to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. Also, certain money market investments having a remaining maturity of one year or less at time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost. Realized gains and losses and the unrealized appreciation (depreciation) of investments are included in the investment gain (loss) in the Statement of Revenues, Expenses, and Changes in Net Assets.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

The Interest Rate Risk and Foreign Currency Risk profile for securities as of June 30, 2005, is as follows:

Investment Type	Total Fair Value	Maturity					Currency
		Less than 1 year	1-5 years	6-10 years	More than 10 years	No Maturity	
Short Term Securities:							
Money Market Funds	\$ 534,342	\$534,342					USD
Certificates of Deposit	74,838	74,838					USD
Long Term Investments:							
Stocks	2,216,379					\$2,216,379	USD
US Equity Mutual Funds	369,665					369,665	USD
Non US Equity Mutual Funds	517,789					517,789	Various
Certificates of Deposit	846,708		\$597,843	\$248,865			USD
Corporate Fixed Income	20,471		20,471				USD
US Fixed Income Securities	549		549				USD
Total Short Term and Long Term Investments as of June 30, 2005	\$4,580,741	\$609,180	\$618,863	\$248,865		\$3,103,833	

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In order to capture the highest yield and due to the fact that a majority of the Association's investments have a long time horizon, the Association has not set limits on investment maturities.

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of Southern Illinois University, Incorporated

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Association has investments in one mutual fund (American Funds Capital World Growth and Income) that invests in securities of various countries. The Association has not adopted a policy with respect to foreign currency risk.

Credit Risk - Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association's general investment policy is to produce the maximum total return consistent with acceptable risk levels. Moderately aggressive investment strategies are utilized to achieve investment goals, as growth of assets, rather than the production of income, is the primary portfolio objective.

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

Investment Type		5	4	3	2	1	Not Rated	Total
Short Term Securities:								
	Money Market Funds						\$ 534,342	\$ 534,342
	Certificates of Deposit						74,838	74,838
Long Term Investments:								
	Stocks						2,216,379	2,216,379
	US Equity Mutual Funds			\$369,665				369,665
	Non US Equity Mutual Funds	\$517,789						517,789
	Certificates of Deposit						846,708	846,708
	Corporate Fixed Income						20,471	20,471
	US Fixed Income Securities						549	549
Total Short Term and Long Term Investments as of June 30, 2005		\$517,789		\$369,665			\$3,693,287	\$4,580,741

Concentration of Credit Risk - The Association has no limit on the amount that can be invested with any one issuer. As of June 30, 2005, the Association did not have more than five percent of the Association's investments with any issuer.

State of Illinois
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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

Custodial Credit Risk - Custodial Credit Risk is the risk that, in the event of failure of the counter party, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2005, the Association did not have any securities at risk.

3. CAPITAL ASSETS

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

	Furniture, Fixtures and <u>Equipment</u>	Less Accumulated <u>Depreciation</u>	Capital Assets, <u>Net</u>
Balance, June 30, 2004	\$ 136,172	\$ (132,461)	\$ 3,711
Additions	2,700	(1,623)	1,077
Retirements	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2005	<u>\$ 138,872</u>	<u>\$ (134,084)</u>	<u>\$ 4,788</u>

4. CREDIT CARD ARRANGEMENT

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

As fees and royalties are earned, they are applied against these advances and recognized as revenue. For the year ended June 30, 2005, the Association earned \$ 416,070 under this agreement, which is included in royalties in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

5. NONCURRENT LIABILITIES

Noncurrent liabilities consist of deferred revenue. Activity for fiscal year 2005 was as follows:

	Balance June 30, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2005</u>	Amounts Due within <u>One Year</u>
<u>Deferred Revenue:</u>					
Royalties	\$ 280,856	\$ 700,000	\$ 429,070	\$ 551,786	\$ 551,786
Dues	1,162,242	293,466	175,061	1,280,647	112,118
Activities and events	<u>32,002</u>	<u>44,624</u>	<u>32,002</u>	<u>44,624</u>	<u>44,624</u>
Total	<u>\$ 1,475,100</u>	<u>\$ 1,038,090</u>	<u>\$ 636,133</u>	<u>\$ 1,877,057</u>	<u>\$ 708,528</u>

6. RETIREMENT PLAN

All full-time Association personnel are University employees. Retirement benefits and post-retirement benefits other than pension are available for eligible SIU employees under a contributory retirement plan (the "Plan") administered by the State Universities Retirement System. Participants of the Plan contribute eight percent of their gross earnings, and the University annually contributes an amount determined by the State Legislature from State appropriations and amounts from other current funds based on actuarially determined rates. Information pertaining to the Plan and Plan benefits can be found in the University financial statements. The Association does not own any of the Plan assets and has no responsibility for the Plan obligations.

During the year ended June 30, 2005, the University contributed \$ 47,388 to the Plan on behalf of Association personnel. This amount is included in the amounts shown as Budget allocation from SIU and Budget expended at SIU in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

7. TRANSACTIONS WITH RELATED PARTIES

The Association has entered into a master contract with the Board of Trustees of SIU that specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997, as amended. Among the provisions of the contract is a requirement that the Association, in return for staff and use of the facilities, agrees to annually reimburse the University for the proportionate share of costs involved. This reimbursement is computed as the annual salary cost of the University's Alumni Services Department times a percentage (7.12% in 2005), based on the total number of addressable alumni members divided by the total number of addressable alumni on file. Both the Association and the University agree to the percentage on an annual basis. The reimbursement amounted to \$ 41,200 in 2005.

Pursuant to governmental accounting standards, the Association is required to recognize as revenue and expense those on-behalf payments for salaries made by the University for personnel of the Association. For the year ended June 30, 2005, these amounts totaled \$ 793,314 (including \$ 47,388 in pension costs) and are included in Budget allocation from SIU and Budget expended at SIU in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

The Association paid the University \$ 1,708 for rental space for housing the Association's staff for 2005. Additionally, the Association uses various services of the University and directly reimburses the University at a cost equal to that charged by the University to other users.

During the year ended June 30, 2005, the Association received \$ 136,692 from the Southern Illinois University Foundation at Carbondale, primarily for the cost of printed materials distributed by the Association. This amount included \$ 134,000 classified as revenue and \$ 2,692 for partial reimbursement of costs incurred for special events and activities held for the benefit of both parties. Also, during the year, the Association granted \$ 4,152 to various SIU Foundation restricted accounts. These accounts benefit SIU by providing funding for department operations and scholarships.