



Crowe Chizek and Company LLC
Member Horwath International

Southern Illinois University Foundation
(at Carbondale)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2006

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

Southern Illinois University Foundation
(at Carbondale)

FINANCIAL STATEMENTS
June 30, 2006

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Southern Illinois University Foundation
(at Carbondale)

June 30, 2006

AGENCY OFFICIALS

Mr. Rickey McCurry	Chief Executive Officer
Mr. Jeff Lorber	Director of Development
Mr. Bryan Vagner	Managing Director
Ms. Elizabeth Banycky	Treasurer

AGENCY OFFICE LOCATIONS

Southern Illinois University Foundation
Carbondale, Illinois 62901

Southern Illinois University Foundation
School of Medicine
Springfield, Illinois 62702

Southern Illinois University Foundation
(at Carbondale)

June 30, 2006

FINANCIAL STATEMENT REPORT
SUMMARY

The audit of the accompanying basic financial statements of Southern Illinois University Foundation (at Carbondale) was performed by Crowe Chizek and Company LLC.

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



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Honorable William G. Holland
Auditor General, State of Illinois
and the Board of Directors
Southern Illinois University Foundation (at Carbondale)

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Southern Illinois University Foundation (at Carbondale) (the "Foundation"), a component unit of Southern Illinois University, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2005 financial statements. The financial statements of the Foundation as of June 30, 2005, were audited by other Special Assistant Auditors for the Auditor General whose report dated September 2, 2005 expressed an unqualified opinion on those financial statements.


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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Illinois University Foundation (at Carbondale) as of June 30, 2006, 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 6, 2006, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results

of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.


Crowe Chizek and Company LLC

Chicago, Illinois
September 6, 2006

Southern Illinois University Foundation (at Carbondale)
Management's Discussion and Analysis
For the Year Ended June 30, 2006 (Unaudited)

The attached statements are presented in a "business-type activities" format to provide the reader with statements which indicate the available economic resources of the entity. In order to understand the statements, below is a brief description of each statement.

Statements of Net Assets:

The Statements of Net Assets, indicates assets available for current use (current assets) and those assets to be held (noncurrent assets). Please note, the terminology of short-term investments listed under current assets does not indicate the investment duration, but the ability of the Foundation to expend the investments for current uses. This statement also indicates which liabilities are due within one year (current liabilities) and those due in a year or more (noncurrent liabilities). Net Assets located at the bottom of the statement are grouped by the assets' purpose. A donor can restrict an asset for a certain purpose such as current expenditures (expendable) or to be held in perpetuity (nonexpendable, i.e., endowments).

As indicated below, the Foundation's net assets increased by \$14,019,667 over the previous year. (The increase in net assets is also indicated on the Statements of Revenue, Expenses, and Changes in Net Assets. See page 10.) There were a couple of items which generated this increase. Pledge receivable had the largest percentage increase. The Foundation received a large pledge which benefits cancer research. This pledge has been discounted to present value for these statements. Endowment Investments was the other major item which increased by almost \$7.8 million.

The increase in net capital assets is due to the construction of the Trout-Wittman Center for athletics. This building is complete and the Foundation is in the process of transferring the building to the University with a value of \$3,128,386.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current Assets	\$23,788,451	\$24,732,487
Capital assets, net	3,155,263	2,171,781
Noncurrent Assets	<u>93,879,744</u>	<u>80,161,054</u>
Total Assets	<u>120,823,458</u>	<u>107,065,322</u>
Current Liabilities	1,086,141	1,231,654
Noncurrent Liabilities	<u>5,665,634</u>	<u>5,781,652</u>
Total Liabilities	<u>6,751,775</u>	<u>7,013,306</u>
Total Net Assets	<u>\$114,071,683</u>	<u>\$100,052,016</u>

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Invested in capital assets, net of related debt	\$3,155,263	\$2,171,781
Restricted Nonexpendable	59,011,985	53,926,413
Restricted Expendable	45,942,893	38,038,374
Unrestricted	<u>5,961,542</u>	<u>5,915,448</u>
Total Net Assets	<u>\$114,071,683</u>	<u>\$100,052,016</u>

Statements of Revenue, Expenses and Changes in Net Assets

The Statements of Revenue, Expenses, and Changes in Net Assets basically indicates the activity for the period and its effect on net assets. The activity from operations, which have the characteristics of exchange transactions, is shown first. Nonoperating Revenue (Expenses) are listed after operating activities. Nonoperating Revenue 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 Revenue, Expenses, Gains and Losses is the last grouping of transactions, which includes contributions received for capital assets (such as equipment and buildings) and additions to permanent endowments. Since the primary purpose of the Foundation is to solicit and hold contributions for the benefit of Southern Illinois University, Net Increase in Net Assets is a better indicator of the Foundation's core activity verses Operating Income(Loss).

As indicated above, the Foundation had a net increase in assets of \$14,019,667 over the previous year. This increase was mainly generated from revenue of contributions of \$16.2 million and investment income of approximately \$6.7 million, grants and operating revenue of approximately \$4.9 million and operating expenditures of approximately \$13.8 million.

Key activity for this period:

- a \$10.2 million pledge to benefit cancer research (which was discounted to present value)
- receipt of an additional \$992,000 grant for the benefit of the Paul Simon Public Policy Institute

	For the Year Ended <u>June 30, 2006</u>	For the Year Ended <u>June 30, 2005</u>
Income before other revenue, expenses, gains and losses	\$10,384,252	\$2,945,009
Contributions for capital assets	461,371	922,260
Additions to permanent endowments	<u>3,174,044</u>	<u>3,945,260</u>
Increase in net assets	14,019,667	7,812,529
Net assets – beginning of year	<u>100,052,016</u>	<u>92,239,487</u>
Net assets – end of year	<u>\$114,071,683</u>	<u>\$100,052,016</u>

Statements of Cash Flows:

The Statements of Cash Flows primary purpose is to provide relevant information about the cash receipts and cash payments of the Foundation during the period. The chart below indicates the Foundation basically received cash from contributions (noncapital and capital financing activities) then used the cash for operational expenditures. Any residual cash generate during the fiscal year is invested.

	For the Year Ended <u>June 30, 2006</u>	For the Year Ended <u>June 30, 2005</u>
Net cash used in operating activities	\$(8,658,791)	\$(8,523,965)
Net cash provided in noncapital financing activities	9,525,104	10,544,930
Net cash used in capital financing activities	(463,854)	(984,157)
Net cash used in investing activities	<u>(473,061)</u>	<u>(998,048)</u>
Net increase (decrease) in cash	(70,602)	38,760
Cash - beginning of the year	<u>245,427</u>	<u>206,667</u>
Cash - end of year	<u>\$174,825</u>	<u>\$245,427</u>

Overall financial position and results:

During this reporting period, the Foundation has shown strong financial growth. The positive investment returns and increase in fundraising activity are the significant elements of the growth.

Performance figures indicate the investments returned 9.4% for the endowment pool and 2.8% for the unrestricted/restricted pool during the 12 month period as compiled by our investment consultants Fund Evaluation Group. This performance plus the spending policy reduced the number of "underwater endowments" (endowments which have higher historical cost value verses market value) during most of Fiscal Year 2006. At the end of the 3rd quarter, only one endowment was underwater. However due to the negative performance of the last quarter, 16 endowments were underwater as compared to 17 at the end of Fiscal Year 2005. These endowments have a historical value of \$1,747,798 and a market value of \$1,720,286, or their market value is about 98 percent of the historical value.

Facts, Decisions, or Conditions Significantly Affecting Net Assets:

The SIU Foundation on behalf of SIU Carbondale officially launched its first ever comprehensive capital campaign this past fall. The Opportunity Through Excellence Campaign is designed to build the University's endowment while providing support for student scholarships and fellowships, faculty support, and academic programs. Facilities and technology are also a focus of the campaign. The goal of the Campaign is to generate over \$100 million in gifts and pledges. At the time of the kickoff, it was announced that gifts and pledges totaling approximately \$54 million had been received. The Campaign is scheduled to conclude in 2008.

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 that include additional details and further explanations of data presented in the financial statements. The notes are an integral part of the financial statements and should be included as part of any review or analysis.

**SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2006, WITH SUMMARIZED INFORMATION FOR 2005**

	June 30, 2006	June 30, 2005
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2A)	\$166,320	\$236,922
Short-term investments (Note 2B)	23,006,787	23,697,759
Accrued investment income	101,557	79,686
Accounts receivable	24,156	10,643
Pledge receivable, net	272,146	526,150
Net Investment in financing leases	161,558	156,789
Other assets	55,927	24,538
Total Current Assets	23,788,451	24,732,487
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2A)	8,505	8,505
Endowment investments (Note 2B)	71,814,107	64,028,616
Other long-term investments (Note 2B)	10,143,738	9,408,771
Pledge receivable, net (Note 3)	6,847,101	1,132,946
Irrevocable trust held by other	99,928	99,928
Cash surrender value of life insurance	251,646	231,506
Investment in real estate	158,000	158,000
Net Investment in financing leases	254,566	416,125
Capital assets, net of accumulated depreciation (Note 4)	3,155,263	2,171,781
Other assets	4,302,153	4,676,657
Total Noncurrent Assets	97,035,007	82,332,835
TOTAL ASSETS	120,823,458	107,065,322
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	433,324	608,260
Annuities payable-current portion (Note 6)	491,259	452,895
Agency funds payable-current portion (Note 6)	-	13,710
Long-term liabilities-current portion (Note 6)	161,558	156,789
Total Current Liabilities	1,086,141	1,231,654
Noncurrent Liabilities		
Annuities payable (Note 6)	3,214,618	3,269,560
Agency funds payable (Note 6)	1,828,612	1,742,855
Deposits held for others (Note 6)	359,340	344,614
Other accrued liabilities (Note 6)	8,498	8,498
Long-term liabilities (Note 6)	254,566	416,125
Total Noncurrent Liabilities	5,665,634	5,781,652
TOTAL LIABILITIES	6,751,775	7,013,306
NET ASSETS		
Invested in capital assets, net of related debt	3,155,263	2,171,781
Restricted for:		
Nonexpendable		
Scholarships, research, instruction, and other	56,418,340	51,377,890
Loans	2,449,038	2,436,024
Capital projects	144,607	112,499
Expendable		
Scholarships, research, instruction, and other	44,554,018	36,985,749
Loans	504,519	398,581
Capital projects	884,356	654,044
Unrestricted	5,961,542	5,915,448
TOTAL NET ASSETS	\$114,071,683	\$100,052,016

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

**SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006, WITH SUMMARIZED INFORMATION FOR 2005**

	Years Ended	
	June 30, 2006	June 30, 2005
REVENUE		
Operating revenue		
Payments from SIU	\$30,129	\$ --
Budget allocation from SIU	3,442,925	3,194,900
Other	438,467	463,746
Total operating revenue	3,911,521	3,658,646
EXPENSES		
Operating expenses		
General and operating expenses	1,672,054	1,318,383
Budget expended at SIU (Note 12)	3,442,925	3,194,900
Scholarships and cash grants to SIU	4,767,526	4,591,997
Expenditures for the benefit of SIU	3,166,848	3,695,176
Grants to other non-profits	--	2,539,080
Noncash grants to SIU	336,995	860,662
Amortization and depreciation expense (Notes 4 and 5)	368,782	381,720
Other	--	10,082
Total operating expenses	13,755,130	16,592,000
Operating loss	(9,843,609)	(12,933,354)
NONOPERATING REVENUE (EXPENSES)		
Contributions	12,584,041	7,907,611
Grants from University and Related Organizations (Note 12)	1,045,567	295,693
Grants from other government agencies	16,846	57,961
Investment income (Note 2B)	6,704,934	7,314,494
Payments received on capital financing leases	229,149	234,131
Reduction in capital financing leases	(156,789)	(152,161)
Interest on capital indebtedness	(15,043)	(19,672)
Adjustment of actuarial liability (Note 8)	284,526	323,970
Bad debt expense	(465,370)	(83,664)
Net nonoperating revenue	20,227,861	15,878,363
Income before other revenue, expenses, gains and losses	10,384,252	2,945,009
OTHER REVENUE, EXPENSES, GAINS, AND LOSS		
Contributions for capital assets	461,371	922,260
Additions to permanent endowments	3,174,044	3,945,260
Increase in net assets	14,019,667	7,812,529
NET ASSETS		
Net assets - beginning of year	100,052,016	92,239,487
Net assets - end of year	\$114,071,683	\$100,052,016

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

**SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
STATEMENTS OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED JUNE 30, 2006, WITH SUMMARIZED INFORMATION FOR 2005**

	Years Ended	
	June 30, 2006	June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from SIU	\$23,696	\$70,506
Other operating revenue	434,319	443,750
General and operating expenses	(1,659,354)	(1,319,960)
Scholarships and cash grants to SIU	(4,749,166)	(4,710,464)
Expenditures for the benefit of SIU	(2,708,286)	(2,998,125)
Other expenditures	--	(9,672)
Net cash used in operating activities	(8,658,791)	(8,523,965)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions and grants for other than capital purposes	6,877,611	7,044,844
Private contributions for endowment purposes	3,174,044	3,945,260
Payments to annuitants and recipients	(469,249)	(391,658)
Payments for agency funds to SIU	(57,302)	(53,516)
Net cash provided in noncapital financing activities	9,525,104	10,544,930
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments received on capital financing leases	229,149	234,131
Reduction in capital financing leases	(156,789)	(152,161)
Interest on capital indebtedness	(15,043)	(19,672)
Purchase of capital assets	(982,542)	(1,968,714)
Cash contributions for capital assets	461,371	922,259
Net cash used in capital financing activities	(463,854)	(984,157)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	4,803,900	4,422,788
Interest and dividend Income	3,003,728	2,038,476
Purchase of investments	(8,202,442)	(7,393,224)
Investment fees	(78,247)	(66,088)
Net cash used in investing activities	(473,061)	(998,048)
NET INCREASE (DECREASE) IN CASH		
	(70,602)	38,760
Cash - beginning of the year	245,427	206,667
Cash - end of year	\$174,825	\$245,427

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
(AT CARBONDALE)
STATEMENTS OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED JUNE 30, 2006, WITH SUMMARIZED INFORMATION FOR 2005

	Years Ended	
	June 30, 2006	June 30, 2005
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	(\$9,843,609)	(\$12,933,354)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization and depreciation expense	368,782	381,720
Noncash grants to SIU	336,995	860,662
Noncash expenditures for the benefit of SIU	728,696	487,323
Noncash other operating expenses	--	410
Noncash general and operating expenses	--	430
Changes in assets and liabilities:		
Receivables	(10,313)	67,620
Other assets	(33,858)	2,520,530
Accounts payable	(196,588)	129,949
Other accrued liabilities	1,271	437
Other liabilities	(10,167)	(39,692)
Net cash used in operating activities	(\$8,658,791)	(\$8,523,965)

SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During the year, the Foundation received \$1,065,971 in noncash contributions from donors. The actuarial liability for annuities payable decreased by \$284,526 for the year.

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

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements June 30, 2006

1. Summary of Significant Accounting Policies:

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

Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the State of Illinois stated that the Foundation should be included as a component unit of the University for financial reporting purposes and report under GASB on a stand-alone basis. The financial activities included in these financial statements are reported in a separate column in the University's financial statements to emphasize that the Foundation is an Illinois not-for-profit organization legally separate from the University.

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

- B. Financial Statement Presentation:** The Foundation follows GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public College and Universities*; GASB Statement No. 37, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentations required by GASB Statements Nos. 35, 37 and 38 provides a comprehensive perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued June 30, 2006

1. Summary of Significant Accounting Policies: - Continued

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

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

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

- D. Comparative Data:** Comparative totals for the prior year have been presented in the accompanying financial statements to facilitate an understanding of the changes in the Foundation's financial position and its revenues, expenses and net assets between years. The 2005 information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2005, from which the summarized financial information was derived.
- E. Cash Equivalents:** For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- F. Investments:** The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenue, expenses, and changes in net assets.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2006

1. Summary of Significant Accounting Policies: - Continued

G. Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of the donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

H. Intangible Assets: On December 15, 2003, the Foundation received a donation of two patents with an independent appraised value of \$4,970,000. The patents were filed on October 29 and November 19, 1997 with rights extending for 20 years.

Amortization expense is computed using the straight-line method over the remaining rights of 11 years, and 4 months.

I. Net Assets: The Foundation's net assets are classified as follows:

- **Invested in capital assets, net of related debt:** This represents the Foundation's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations related to those capital assets.
- **Restricted net assets – expendable:** Restricted expendable net assets include resources in which the Foundation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2006

1. Summary of Significant Accounting Policies: - Continued

- **Restricted net assets – nonexpendable:** Nonexpendable restricted net assets consist of endowment funds, gift annuities, and life income funds.

The endowment funds include those funds where donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

The gift annuities consist of funds acquired by the Foundation subject to agreements whereby they are made available to the Foundation on the condition that the Foundation binds itself to periodically pay stipulated amounts to designated individuals. Payments of such amounts terminate at a time specified in the agreements. Upon termination, the principal of annuity funds is transferred to the fund designated by the grantor or, in the absence of such a designation, to current unrestricted net assets.

The life income funds consist of assets which are normally trusts and the Foundation is usually trustee and the grantor stipulates that income generated by these assets is to be paid to an individual for a period of time. In some cases, the amount to be paid is the lesser of the income generated from the donated assets or a fixed percent of the fair value of the assets. If income in any year is less than the fixed percent, future years' income may be used in that year to bring the distributions up to the fixed percent; to the extent that income for a year exceeds the required payments, the excess is deferred. At the end of the specified period of time, any remaining assets are transferred to a fund designated by the donor or, in the absence of such a designation, to current unrestricted net assets.

- **Unrestricted net assets:** Unrestricted net assets represent resources used for transactions relating to the educational and general operations of the Foundation, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Foundation's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued June 30, 2006

1. Summary of Significant Accounting Policies: - Continued

- J. Income Taxes:** The U.S. Treasury Department issued a determination letter, dated March 20, 1999, indicating the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code except for taxes associated with unrelated business income. No provision has been made as management does not believe it has significant unrelated business income.
- K. Classification of Revenue and Expenses:** The Foundation has classified its revenue and expenses as either operating or nonoperating according to GASB criteria. Non-exchange transactions, including contributions from donors, are recorded in accordance with the recognition requirements of GASB 33. Since the primary purpose of the Foundation is to solicit and hold contributions for the benefit of SIU, net increase in the net assets is a better indicator of the Foundation's core activity versus operating income (loss).

GASB criteria:

- **Operating:** Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as the salary support from SIU and the fundraising expenditures.
 - **Nonoperating:** Nonoperating revenue and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources and expenditure uses that are defined as nonoperating revenue and expenditures by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*, such as investment income.
- L. Allowance for Bad Debts:** The allowance for bad debts, or uncollectible pledges, was \$506,913 or 4.5% of outstanding pledges. This allowance was calculated using the average of the last 5 years' percentage of actual pledges written off for the year divided by the ending balance of outstanding pledges for the prior year.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2006

2. Cash and Cash Equivalents, and Investments:

- A. Cash and Cash Equivalents:** At June 30, 2006, the carrying amount of the Foundation's deposits with financial institutions was \$174,825 and the bank balances were \$338,848.

Custodial Credited Risk – Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to the Foundation. The Foundation does have a policy to require banks to collateralize balances over the FDIC insured amount. As of June 30, 2006, the entire amount of funds held at the banks were either insured or collateralized by pledged bank assets in the Foundation's and University's name.

- B. Investments:** The Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Board, through the bylaws, has given authority to the Investment Committee to formulate an investment policy for funds and assets of the Foundation. The Investment Committee shall submit that policy to the Board for approval, periodically recommend changes in policy as appropriate, interpret that policy to the Foundation's investment managers, and oversee implementation of that policy. Investment performance is reviewed quarterly. The Foundation's Treasurer is authorized by the Board of Directors to invest funds in compliance with state investment policies.

If a donor has not provided specific instructions, state law permits the Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the Foundation's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation expended will be required to be spent for the purposes for which the endowment was established. The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates \$16,898,692 at June 30, 2006. At June 30, 2006, the fair value of the assets of certain donor-restricted endowment funds was approximately \$27,513 less than the original principal amount of those funds.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Financial Statements - Continued **June 30, 2006**

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

The Board chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board, four (4) percent of the average fair value of endowment investment pool at the end of the previous twelve (12) quarters has been authorized for expenditure. The remaining income, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income.

During Fiscal Year 2006, the Foundation realized a net gain of \$1,214,095 from the sale of investments, \$2,806,031 in interest and dividend income, investment fees of \$76,376, and an unrealized gain of \$2,761,184. The calculation of realized gains is independent of the calculation of the net increase <decrease> in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in investment income during Fiscal Year 2006 was \$7,363,586, of which \$6,704,934 is noted on the Statement of Revenues, Expenses, and Changes in Net Assets. Of the remaining amount, \$500,070 is included in Annuities Payable, \$144,566 is included in Agency Funds Payable and \$14,016 is included in Deposits Held for Others which are components of the Noncurrent Liabilities in the Statement of Net Assets. This amount includes all changes in fair value (including purchases and sales) that occurred during the year. The cumulative unrealized gain on investments held at June 30, 2006 was \$11,426,500 (market value of \$104,964,632 less historical value of \$93,538,132).

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

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued June 30, 2006

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

As of June 30, 2006:

*SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
Investment Disclosures
As of June 30, 2006*

Investment Type	Total Fair Value	Custodial Credit Risk Held by Financial Institution and not in Foundation's name	Maturity		Currency
			Less than 1 year	More than 10 years	
Short-Term Securities:					
Commercial Paper	\$282,500	\$282,500	\$282,500		
Investments Other than Short-Term Securities:					
U.S. Agency Bonds	29,461	29,461		\$29,461	
External Investment Pools:					
U.S. Equity Mutual Funds	36,453,374		36,453,374		
U.S. Equity Commingled Funds	11,690,816		11,690,816		
Non-U.S. Equity Mutual Funds	13,036,073		13,036,073		Various
U.S. Fixed Income Mutual Funds	42,370,183		42,370,183		
Money Market Funds	<u>1,102,225</u>		<u>1,102,225</u>		
Total Short-Term Securities and Investments, as of June 30, 2006	<u>\$104,964,632</u>		<u>\$104,935,171</u>	<u>\$29,461</u>	

The cost basis of these investments is \$93,538,132.

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

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

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2006

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

The Foundation's U.S. Agency Bonds investment of \$29,461 has a Moody's rating of Aaa. Since there is not a nationally recognized rating for the mutual funds held by the Foundation, the investments are not rated with the exception of the above mentioned bond. For purposes of additional disclosure, the credit risk profile for securities at June 30, 2006 per Morningstar is as follows:

*SOUTHERN ILLINOIS UNIVERSITY FOUNDATION
Credit Rating per Morningstar
As of June 30, 2006*

Investment Type	5	4	3	2	1	Not Rated	Total
Short-Term Securities:							
Commercial Paper						\$282,500	\$282,500
Investments Other than Short-Term Securities:							
U.S. Agency Bonds						29,461	29,461
External Investment Pools:							
U.S. Equity Mutual Funds	\$406,079	\$35,578,023	\$446,400	\$22,872			36,453,374
U.S. Equity Commingled Funds						11,690,816	11,690,816
Non-U.S. Equity Mutual Funds		12,968,773		67,300			13,036,073
U.S. Fixed Income Mutual Funds	42,134,321					235,862	42,370,183
Money Market Funds						1,102,225	1,102,225
Total Short-Term Securities and Investments, as of June 30, 2006	\$42,540,400	\$48,546,796	\$446,400	\$90,172	\$0	\$13,340,864	\$104,964,632

Concentration of Credit Risk – the Foundation has no limit on the amount it may invest in any one issuer. As of June 30, 2006, the Foundation did not have more than 5% of its investments with any one issuer.

Custodial Credit Risk – for an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2006 the Foundation had \$282,500 of securities which were at risk. These are the securities the Student Saluki Club invests for the Foundation.

Foreign Currency Risk – The Foundation had investments in three different non-U.S. mutual funds. These funds invest in securities of various countries. The Foundation's investment policy permits it to invest up to 15% of the total endowment pool investments in foreign securities. This type of investment provides diversity which can reduce investment risk.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued June 30, 2006

3. Receivables:

The only receivables not expected to be collected within one year are \$6,847,101 of net pledge receivables.

4. Capital Assets:

Following are the changes in capital assets for Fiscal Year 2006:

	Balance June 30, 2005	Additions	Retirement	Balance June 30, 2006
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$2,135,389	\$ 992,997	\$ -	\$3,128,386
<i>Capital assets being depreciated:</i>				
Furniture, fixtures and equipment	422,221	2,141	(78,437)	345,925
Less accumulated depreciation for furniture, fixtures and equipment	(385,829)	(11,656)	78,437	(319,048)
Capital assets being depreciated, net	36,392	(9,515)	-	26,877
Capital assets, net	<u>\$2,171,781</u>	<u>\$ 983,482</u>	<u>\$ -</u>	<u>\$3,155,263</u>

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

5. Acquired Intangible Assets:

As of June 30, 2006:

	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets		
Patent	<u>\$ 4,970,000</u>	<u>\$ 907,695</u>

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

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued June 30, 2006

5. Acquired Intangible Assets: - Continued

Aggregate Amortization Expense:

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

Estimated Amortization Expense:

For year ended 06/30/07 \$357,126
 For year ended 06/30/08 \$357,126
 For year ended 06/30/09 \$357,126
 For year ended 06/30/10 \$357,126
 For year ended 06/30/11 \$357,126

6. Long-Term Liabilities:

Long-term liability activity for Fiscal Year 2006 is as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Mortgage payable	\$ 572,914	\$ -	\$ (156,790)	\$ 416,124	\$ 161,558
Other liabilities					
Annuities payable	3,722,455	742,841	(759,419)	3,705,877	491,259
Agency funds payable	1,756,565	144,666	(72,619)	1,828,612	-
Deposits held for others	344,614	15,154	(428)	359,340	-
Other accrued liabilities	35,670	8,393	(17,289)	26,774	18,276
Total other liabilities	5,859,304	911,054	(849,755)	5,920,603	509,535
Total long-term liabilities	\$ 6,432,218	\$ 911,054	\$ (1,006,545)	\$ 6,336,727	\$ 671,093

7. Notes Payable:

A. Mortgage Payable: The Evergreen Terrace housing project (see Note 12) was financed by a 3% FHA mortgage, payable monthly with the final payment due in 2009. Thirty-eight acres of land, buildings and improvements, with a carrying value of \$4,161,703, are pledged as collateral for this mortgage. As described in Note 12, the property is leased to SIU under the terms of a direct financing lease and the assets are reflected in SIU's financial statements. Equal monthly interest and principal payments of \$14,319 are due during fiscal 2007.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2006

7. Notes Payable: - Continued

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

	Principal	Interest	Total Payments
2007	\$ 161,558	\$ 10,275	\$ 171,833
2008	166,472	5,361	171,833
2009	88,094	797	88,891
Totals	\$ 416,124	\$ 16,433	\$ 432,557

8. Annuities Payable:

The following summarizes annuities payable transactions for the Fiscal Year 2006:

Balance, July 1, 2005	\$ 3,722,455
Annuity Funds:	
Investment income	172,056
Payments to annuitants	(128,589)
Adjustment for actuarial liability	(137,106)
Liability portion of funds established during current year	16,537
Life Income Funds:	
Investment income	332,522
Investment fees	(4,508)
Payments to recipients	(340,659)
Adjustment for actuarial liability	(148,557)
Liability portion of funds established during current year	221,726
Balance, June 30, 2006	\$ 3,705,877

An additional adjustment for actuarial liability in the amount of \$1,137 was made for the deposits held for others.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2006

9. Agency Funds Payable:

The following summarizes agency funds payable transactions for the Fiscal Year 2006:

Balance, July 1, 2005	\$ 1,756,565
Annuity Funds:	
Net investment income	144,566
Payments to SIU	(72,619)
Liability portion of funds established during current year	<u>100</u>
Balance, June 30, 2006	<u>\$ 1,828,612</u>

10. Retirement Plan:

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

During the year ended June 30, 2006, SIU contributed \$122,617 to the Plan on behalf of Foundation personnel. This amount is included in the amounts shown as Budget allocation from SIU and Budget expended at SIU in the accompanying Statement of Revenue, Expenses, and Changes in Net Assets.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2006

11. Fees:

A. Investment and Overhead Recovery Fee:

The Foundation receives a 1% investment fee on endowment funds, which is computed quarterly by using the fair value of the pool as of the prior quarter end. The fee was \$685,344 for Fiscal Year 2006.

B. Supplement Fee:

Beginning July 1, 2004, the University and Foundation assessed a six percent Supplement Fee on gifts of cash and securities. Five percent is retained by the University and Foundation for support of the Southern @ 150 strategic initiative to increase private support. The remaining one percent is provided to the college/department for which the contribution was restricted to support their advancement efforts. The Foundation's portion of the supplement fee was \$416,869 for Fiscal Year 2006.

12. Transactions With Related Parties:

The Foundation has entered into a master contract with the Board of Trustees of SIU which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1982 and amended in 1997. Among the provisions of the contract is a requirement that the Foundation and SIU will provide services to each other to be reimbursed on an actual cost basis up to approved budgetary limits. During the year ended June 30, 2006, the Foundation provided fund-raising services on behalf of SIU with a portion of the Foundation's fund raising costs being reimbursed by SIU through in-kind payment. Total reimbursable costs satisfied through in-kind payments were \$9,532 for rental of office space and \$8,350 for Office of the Comptroller, Accounts Payable Office and Purchasing Office. These in-kind payments are not reflected in the accompanying financial statements.

Pursuant to GASB, the Foundation is required to recognize as revenue and expense those on-behalf payments for salaries and fringe benefits made by the University for personnel of the Foundation. These amounts are reflected as Budget allocation from SIU and Budget expended at SIU in the accompanying Statement of Revenue, Expenses, and Changes in Net Assets.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued **June 30, 2006**

12. Transactions With Related Parties: - Continued

In accordance with its corporate purposes, the Foundation solicits and accepts contributions for SIU. The Foundation receives cash contributions, which are recorded in the Foundation's books. Certain of these contributions are turned over to SIU in the form of scholarships, cash grants or expenditures for the benefit of SIU. The Foundation also receives certain non-cash contributions, which are recorded on the Foundation's books and then turned over to SIU.

The Foundation leases the Evergreen Terrace housing project, which consists of thirty-eight acres of land, including buildings and improvements, to SIU under a lease agreement through the year 2009. This lease has been classified and accounted for as a direct financing lease in the accompanying statement of net assets at the gross investment (minimum lease payments) less unearned interest income. The terms of the lease provide for annual rental with renewal options. At the conclusion of the lease, SIU may purchase the project from the Foundation for one dollar. The annual rental is equal to the amount of principal and interest payments, and deposits to the repair and replacement reserve and hazard insurance escrow funds, as required by the Federal Housing Administration ("FHA"), the mortgagee. Future minimum lease payments to be received are consistent with the Foundation's mortgage note maturities, as described in Note 7B.

During the year ended June 30, 2006, the Foundation paid \$161,383 to the Association of Alumni, Former Students and Friends of Southern Illinois University (at Carbondale) (the "Association") to assist the Association in its support for SIU, relating primarily to the cost of printed materials distributed by the Association. During the year, the Association granted \$3,292 to various SIU Foundation restricted accounts. These accounts benefit SIU by providing funding for department operations and scholarships.

The Foundation received grants from SIU Physicians & Surgeons, Inc., which is a University related organization. At the SIU Physicians & Surgeons, Inc. February 2, 1998 meeting, it was approved to designate, at the discretion of the Dean and heads of recognized divisions at the SIU School of Medicine, monies to the Foundation to support teaching, research and missions of the Departments. This transfer of funds was discontinued upon the completion of SIU Physicians & Surgeons, Inc.'s accounting system. During the year ended June 30, 2006, the Foundation received \$5,386 from the SIU Physicians & Surgeons, Inc.

SOUTHERN ILLINOIS UNIVERSITY FOUNDATION (at Carbondale)

Notes to Basic Financial Statements - Continued

June 30, 2006

12. Transactions With Related Parties: - Continued

The Foundation received a grant from the SIU Board of Trustees for \$992,000 to further support the endowment for the Public Policy Institute as approved by the United States Department of Education/Fund for the Improvement of Postsecondary Education.

The Foundation also received several grants from the University totaling \$44,889.



Crowe Chizek and Company LLC
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland
Auditor General, State of Illinois
and the Board of Directors
Southern Illinois University Foundation (at Carbondale)

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Southern Illinois University Foundation (at Carbondale) (the "Foundation") as of and for the year ended June 30, 2006, and have issued our report thereon dated September 6, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the Board of Directors and Management of Southern Illinois University Foundation, and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

Chicago, Illinois
September 6, 2006