

STATE OF ILLINOIS

**SOUTHERN ILLINOIS UNIVERSITY
EDWARDSVILLE FOUNDATION**

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT AUDITORS**

June 30, 2007

(With comparative totals for 2006)

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

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION

FINANCIAL STATEMENTS
June 30, 2007

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION

AGENCY OFFICIALS

June 30, 2007

The Foundation's Board of Directors:

Mr. Thomas M. Allen	Mr. Larry R. Lexow
Mr. John C. Anderson	Mr. Robert E. Mc Clellan, Jr.
Mr. Gordon Broom	Mrs. Mara Meyers
Mr. Allen Cassens	Mrs. Karyn L. Molnar
Mrs. Sandra Hardy Chinn	Mr. Robert J. Murdick
Mr. John W. North	Mr. L. Thomas Lakin
Mr. John J. Conrad	Mr. David M. Oates
Mrs. Judy A. Dailey	Mr. John E. Oeltjen
Mr. Mark J. Deschaine	Mr. Lendell A. Phelps, Jr.
Mr. Robert L. Plummer	Dr. Brent D. Wohlford
Mr. Ted Eilerman	Dr. Glenn Poshard
Mr. Byron Farrell	Mr. James R. Rankin
Mr. James C. Fowler	Mr. Clinton H. Rogier
Mr. John A. Fruit	Dr. Gilbert L. Rutman
Dr. William T. Going	Mrs. Betty Lou Schmidt
Dr. Kathy J. Gugger	Mr. John Schmidt
Mr. Alfred C. Hagemann	Mr. Gerard Schuetzenhofer
Mrs. Rita A. Hardy	Mr. Mark S. Shashek
Dr. Edward E. Hightower	Ms. Ellen Sherberg
Mr. Merle T. Inman	Mr. Bill Simon
Mrs. Teddi Inman	Mr. Dennis M. Terry
Mrs. Maxine A. Johnson	Mr. Charles Tosovsky
Mr. Rick Jones	Dr. Vaughn Vandegrift
Mrs. Mary Kane	Mr. Robert A. Wetzell
Mr. Keith J. Kehrer	Mr. Gary Giamartino
Mr. Dale V. Keller	Mrs. S. Lavernn Wilson
Mr. Ralph F. Korte	

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

Chief Executive Officer	Mr. Gary Giamartino
Director of Financial Affairs	Mr. Rich Hampton
Assistant Director of Giving and Research	Ms. Gayla Bruning
Assistant Director of Financial Affairs	Ms. Emma Christensen
Accounting Associate	Ms. Joan Cummings

Foundation offices are located at:

Southern Illinois University Edwardsville
B. Barnard Birger Hall
#30 Circle Drive
Edwardsville, IL 62026

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION

FINANCIAL STATEMENT REPORT
SUMMARY

June 30, 2007

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 31-32 of this report, as finding 07-1, (Fraud Prevention and Detection Program) and finding 07-2, (Bank Reconciliations Not Completed Timely).

EXIT CONFERENCE

The Foundation waived an exit conference. Written responses to the findings were provided by Rich Hampton in a written correspondence on January 11, 2008.



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
Edwardsville Foundation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the Southern Illinois University Edwardsville Foundation (the Foundation), a component unit of Southern Illinois University, as of and for the year ended June 30, 2007, 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 2006 financial statements and, in our report dated September 15, 2006, 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 Southern Illinois University Edwardsville Foundation as of June 30, 2007, 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 January 11, 2008, 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 9 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.


Crowe Chizek and Company LLC

Chicago, Illinois
January 11, 2008

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

Introduction

Following this discussion and analysis are the financial statements for the Southern Illinois University Edwardsville Foundation (the Foundation). Significant changes were made to the financial statement format in recent years due to the implementation of new guidelines issued by the Governmental Accounting Standards Board (GASB). Similar to last year, the current year financial statements provide comparative data for last year and the current year under the new format. GASB Statements implemented in fiscal year 2002 included:

- GASB No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*
- GASB No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*
- GASB No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*
- GASB No. 38 *Certain Financial Statement Note Disclosures*

During fiscal year 2005, GASB No. 40 *Deposit and Investment Risk Disclosures* was implemented.

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

Financial Statements

The three financial statements presented for fiscal years 2007 and 2006 are the Statements of Net Assets; the Statements of Changes in Revenue, Expenses, and Changes in Net Assets; and the Statements of Cash Flows. The Statements of Net Assets shows all assets (resources) listed in order of their liquidity, and all liabilities (commitments) of the Foundation are listed in order of their term length. The net assets are presented in a manner that indicates the level of restriction, if any, placed on the net assets. The Foundation reports \$33,864,365 in net assets, of which \$1,344,001 is considered unrestricted.

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 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 June 30, 2007

**Condensed
 Foundation Net Assets**
 (in thousands of dollars)

	<u>FY 2007</u>	<u>FY 2006</u>	<u>% Change</u>
Assets:			
Current Assets	\$ 9,404	\$ 7,414	26.8%
Non-Current Assets	26,815	24,782	8.2
Total Assets	<u>36,219</u>	<u>32,196</u>	12.5
Liabilities:			
Current Liabilities	1,885	250	654.0
Non-Current Liabilities	470	2,117	-77.8
Total Liabilities	<u>2,355</u>	<u>2,367</u>	-0.5
Net Assets:			
Invested in Capital Assets	401	463	-13.4
Restricted	32,119	27,958	14.9
Unrestricted	1,344	1,408	-4.5
Total Net Assets	<u>\$ 33,864</u>	<u>\$ 29,829</u>	13.5

Total net assets for the Foundation increased in fiscal year 2007 (FY 2007) by approximately \$4,035,000, or 13.5%. The increase can be attributed primarily to two areas. Contributions continued to be significant with a total received of approximately \$4 million. Of this amount, \$841,000 was contributed to endowment funds. More information on significant contributions will be provided later in the discussion of Foundation revenues.

The second item contributing to the increase in net assets is the return on investments held by the Foundation. The endowment portfolio returned approximately 13%, which was the highest return in over 5 years. The non-endowment portfolio also experienced strong returns relative to Fiscal Year 2006. This can be attributed to the general increase in the interest rates for short-term invested balances. The non-endowment portfolio returned approximately 5%.

Total liabilities remained essentially equal from FY 2006 to FY 2007. However, a majority of the Foundation liabilities were reclassified in FY 2007 to current liabilities. The reclassification was due to the upcoming maturity date of the revenue bond that was issued to finance the construction of B. Barnard Birger Hall, the building that houses the Foundation and Alumni Association offices, as well as two University departments. Further details of the revenue bond, which has an outstanding balance of \$1,650,000, can be found in Note 9 of the financial statements.

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SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

**Condensed
Foundation Changes in Net Assets
(in thousands of dollars)**

	<u>FY 2007</u>	<u>FY 2006</u>	<u>% Change</u>
Operating Revenue	\$ 1,070	\$ 1,076	-.6%
Operating Expenses			
General and Operating	416	315	32.1
Expenditures for the	1,600	1,116	43.4
Benefit of SIUE			
Transfer of Gifts to SIUE	946	1,080	-12.4
Other Operating Expenses	522	428	22.0
Total Operating Expenses	<u>3,484</u>	<u>2,939</u>	18.5
Operating Loss	(2,414)	(1,863)	-29.6
Nonoperating Revenue			
(Expenses)			
Contributions	3,154	5,361	-41.2
Net Investment Income	2,102	761	176.2
Increase (Decrease) in			
Present Value of Trusts	131	257	-49.0
Other Nonoperating	221	(152)	245.4
Revenue (Expenses)			
Net Nonoperating Revenue	<u>5,608</u>	<u>6,227</u>	-9.9
Contributions to permanent			
Endowments	841	3,228	-73.9
Increase in Net Assets	<u>\$ 4,035</u>	<u>\$ 7,592</u>	-46.9

The Statements of Revenue, Expenses, and Changes in Net Assets details the activity for the fiscal year, including the change in net assets from last year due to this activity. Activity is segregated between operating activity and nonoperating activity. GASB defines operating activity as that which has the characteristics of exchange transactions, meaning each party to the transaction receives a material benefit. Nonoperating activity includes nonexchange transactions. In accordance with GASB, contributions are considered Nonoperating activity in these financial statements due to the lack of a two-party exchange, even though the primary function of the Foundation is to raise contributions for SIUE. Considering these facts, the Increase in net assets, which includes contributions in combination with all other transactions, may be a better indicator of the operational results than the operating loss. As stated earlier, the Foundation realized an increase in net assets of \$4,035,000 from the current year activity. This compares to \$7,592,000 in fiscal year 2006 (FY 2006).

Operating revenues were very consistent with FY 2006 resulting in an insignificant decrease of less than 1%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2007

Operating expenses increased from FY 2006 in the amount of \$545,000. This was due to a general increase in expenditures overall and various projects that occurred during FY 2007. Two examples of these projects include The Gardens at SIUE and the School of Dental Medicine Clinic Enhancement, which increased expenses by \$150,000 and \$50,000 respectively from FY 2006 to FY 2007.

Nonoperating revenue, net of expenses, decreased by nearly 10%, or roughly \$620,000. The 41% decrease in contributions, none of which were endowed, is due to the extraordinary year in FY 2006, which included a \$2.1 million gift designated for the construction of a wrestling and volleyball facility. There was not gift of similar magnitude in FY 2007. The net investment income increase of 176% offset most of the decrease experienced in non-endowed contributions. As mentioned earlier, investment returns were much higher than in FY 2006 in all investment categories.

The final significant item to note under nonoperating revenue is a \$343,000 gain on sale of Assets. The asset sold was a donated house and associated property that was used as the former offices of the Foundation and SIUE Alumni Association. The property was vacated in FY 2001 when B. Barnard Birger Hall was completed. The property was sold for \$600,000 less selling expenses, and was listed in FY 2006 as an asset held for resale at its original book value of approximately \$220,000. The proceeds of this property will be applied to the principal of the outstanding revenue bonds of the Foundation which have a current balance of \$1,650,000. The bonds are due on March 1, 2008, but may be reissued prior to this date. The Foundation is currently reviewing options regarding this issue.

The final statement presented is the Statement of Cash Flows. The primary purpose of this statement is to categorize all cash transactions into either operating, financing, or investing transactions, and reconcile the change in cash from operating activities to the operating loss as presented on the Statements of Revenue, Expenses and Changes in Net Assets. Again, please note that contributions are not considered operating activity according to GASB and therefore have been categorized under Nonoperating activity in the Statements of Cash Flows. During the fiscal year, the Foundation experienced a \$1,973,770 increase in the cash and cash equivalent balance, compared to an increase of \$781,962 in FY 2006.

A significant variance between years is a decrease in payments for the benefit of SIUE of about \$790,000. The amount paid in FY 2006 is abnormally high due to the expenses paid for the renovation of the Simmons Cooper Baseball Complex. These expenses, totaling approximately \$470,000 were incurred in FY 2005, but not paid out until FY 2006. The amount of Payments for the Benefit of SIUE shown in FY 2007 is a more normalized amount going forward.

Two other significant variances are in the contributions lines under noncapital financing activities, and in the net proceeds from assets held for resale line. Each of these items was explained earlier in this discussion. The purchases of investments decreased by about \$820,000. This item includes any cash inflows that were transferred from cash to investments during the year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2007

The lower amount in FY 2007 corresponds to the lower amount of cash inflows from contributions compared to FY 2006.

Facts, Decisions, or Conditions Significantly Affecting Financial Position

Contributions and assets held for resale: During Fiscal Year 2002 (FY 2002), the Foundation received title to a large collection of art and collectibles from an estate bequest. At the time, the Foundation did not have a reasonable basis for estimating the value of this contribution so it was not included in the FY 2002 financial statements. During Fiscal Year 2003 (FY 2003), the value of a portion of this collection was estimated at \$1,520,000, and was included in the financial statements. During FY 2004, \$1,476,960 in additional assets were valued and included in the financial statements. During FY 2005, \$1,447,818 in additional assets were valued and included in the financial statements. During FY 2006, \$1,549,295 in additional assets were valued and included in the financial statements. All of the FY 2006 additional valued assets are included in assets held for resale. The valuation of this collection was substantially complete at the end of FY 2006. However, during fiscal year 2007, the Foundation valued a few additional items from the estate that were sold. See Note 11 in the financial statements for further details.

Revenue Bond Payable: As discussed earlier, the \$1.65 million revenue bond outstanding will reach final maturity on March 1, 2008. Proceeds from the sale of a property during FY 2007 will be used to pay toward the principal on this revenue bond. The proceeds were approximately \$560,000 and are currently invested at a rate exceeding that of the revenue bond. On or prior to March 1, 2008, the Foundation intends to evaluate the re-issuance of the revenue bond. If a reissuance is executed, the amount of principal will not exceed \$1.1 million on the new issue.

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

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
STATEMENTS OF NET ASSETS
June 30, 2007
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash equivalents (Note 3)	\$ 3,648,218	\$ 1,674,448
Short-term investments (Note 3)	4,499,087	2,558,052
Deposits with SIUE	323,045	340,258
Pledges receivable, net of allowance of \$24,000 for 2007 and \$22,000 for 2006 (Note 13)	137,983	252,383
Accounts receivable – SIUE (Note 8)	11,743	1,555
Accounts receivable – Alumni Association (Note 8)	9,658	7,582
Other receivables (Note 4)	637,481	2,471,950
Interest receivable	111,435	93,556
Prepaid expenses	<u>25,759</u>	<u>14,563</u>
Total current assets	9,404,409	7,414,347
Noncurrent assets		
Noncurrent investments (Note 3)	16,242,957	14,356,204
Pledges receivable, net of allowance of \$59,000 for 2007 and \$60,000 for 2006 (Note 13)	603,981	392,676
Loans receivable	54,174	16,435
Assets held for resale (Note 11)	5,174,469	5,353,824
Capital assets, net of depreciation (Note 5)	2,050,564	2,113,011
Cash surrender value of life insurance	45,549	37,047
Beneficial interest in trusts (Note 10)	<u>2,643,396</u>	<u>2,512,571</u>
Total noncurrent assets	<u>26,815,090</u>	<u>24,781,768</u>
Total assets	<u>36,219,499</u>	<u>32,196,115</u>
LIABILITIES		
Current liabilities		
Accounts payable - SIUE (Note 8)	86,235	64,329
Accounts payable - other	63,476	101,857
Accrued interest (Note 9)	34,238	34,238
Annuity payable	50,686	48,986
Revenue Bond Payable (Note 9)	<u>1,650,000</u>	-
Total current liabilities	1,884,635	249,410
Noncurrent liabilities		
Revenue bond payable (Note 9)	-	1,650,000
Annuity payable	<u>470,499</u>	<u>467,287</u>
Total noncurrent liabilities	<u>470,499</u>	<u>2,117,287</u>
Total liabilities	<u>2,355,134</u>	<u>2,366,697</u>
NET ASSETS		
Invested in capital assets, net of related debt	400,564	463,011
Restricted nonexpendable		
Scholarships, research, instruction, and other	16,218,493	14,188,262
Loans	377,219	356,693
Restricted expendable		
Scholarships, research, instruction, and other	13,874,088	11,763,390
Capital projects and debt service	1,650,000	1,650,000
Unrestricted	<u>1,344,001</u>	<u>1,408,062</u>
Total net assets	<u>\$ 33,864,365</u>	<u>\$ 29,829,418</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2007
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Operating revenue		
Payments from SIUE (Note 8)	\$ 190,000	\$ 190,000
Membership dues – Alumni Association	4,770	7,582
Budget allocation from SIUE (Note 8)	381,588	357,247
Events, sales, and other	<u>494,002</u>	<u>521,618</u>
Total operating revenue	1,070,360	1,076,447
Operating expenses		
General and operating	415,655	314,698
Budget expended at SIUE (Note 8)	381,588	357,247
Expenditures for the benefit of SIUE	1,600,393	1,115,832
Expenditures for the benefit of Alumni Association (Note 8)	78,399	8,351
Gifts to SIUE	945,893	1,080,438
Depreciation (Note 5)	<u>62,447</u>	<u>62,681</u>
Total operating expenses	<u>3,484,375</u>	<u>2,939,247</u>
Operating loss	(2,414,015)	(1,862,800)
Nonoperating revenue (expenses)		
Contributions	3,154,425	5,360,822
Net investment income (Note 3)	2,101,746	760,713
Bad debt	(372)	(16,762)
Increase in present value of beneficial interest in trusts (Note 10)	130,825	256,814
Bond interest expense (Note 9)	(75,281)	(75,281)
Grants to other organizations	(500)	(4,600)
Payments to annuitants	(48,986)	(48,986)
Gain on sale of assets	343,913	-
Other	<u>1,987</u>	<u>(5,544)</u>
Net nonoperating revenue	<u>5,607,757</u>	<u>6,227,176</u>
Income before permanent endowments	3,193,742	4,364,376
Additions to permanent endowments	<u>841,205</u>	<u>3,227,727</u>
Increase in net assets	4,034,947	7,592,103
Net assets at beginning of year	<u>29,829,418</u>	<u>22,237,315</u>
Net assets at end of year	<u>\$ 33,864,365</u>	<u>\$ 29,829,418</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
STATEMENTS OF CASH FLOWS
Year ended June 30, 2007
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Payments received from related organizations	\$ 2,694	\$ 190,000
Payments received from other revenue sources	540,254	551,253
Payments for the benefit of SIUE, net of reimbursements	(1,822,966)	(2,611,792)
General and operating expenses	<u>(537,818)</u>	<u>(398,870)</u>
Net cash used by operating activities	(1,817,836)	(2,269,409)
Cash flows from noncapital financing activities		
Contributions for endowments	402,152	733,183
Other contributions	<u>1,837,498</u>	<u>3,328,086</u>
Net cash provided by noncapital financing activities	2,239,650	4,061,269
Cash flows from capital financing activities		
Payments of bond interest	<u>(75,281)</u>	<u>(75,281)</u>
Net cash used by capital financing activities	(75,281)	(75,281)
Cash flows from investing activities		
Interest and dividend income	6,082	6,756
Bank charges	(6,225)	(5,424)
Change in deposits with SIUE	(24,684)	(24,188)
Net proceeds from assets held for resale	575,899	20,000
Proceeds from sale of investments	(1,044,618)	(1,865,377)
Purchase of investments	<u>2,121,783</u>	<u>933,616</u>
Net cash used by investing activities	<u>1,627,237</u>	<u>(934,617)</u>
Net increase (decrease) in cash and cash equivalents	1,973,770	781,962
Cash and cash equivalents at beginning of year	<u>1,674,448</u>	<u>892,486</u>
Cash and cash equivalents at end of year	<u>\$ 3,648,218</u>	<u>\$ 1,674,448</u>

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
STATEMENTS OF CASH FLOWS
Year ended June 30, 2007
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (2,414,015)	\$ (1,862,800)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	62,447	62,681
Noncash gifts to SIUE	800,728	231,675
Change in assets and liabilities		
Receivables	(219,153)	(4,653)
Accounts payable	(28,145)	(680,740)
Other assets	<u>(19,698)</u>	<u>(15,572)</u>
Net cash used by operating activities	<u>\$ (1,817,836)</u>	<u>\$ (2,269,409)</u>

Schedule of noncash investing, capital, and financing activities:

The Foundation received noncash contributions from donors of \$1,003,508 and \$1,884,682 during the years ended June 30, 2007 and 2006, respectively, of which \$743,832 and \$205,411, respectively, were forwarded to Southern Illinois University Edwardsville.

See accompanying notes to financial statements.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity: The Southern Illinois University Edwardsville Foundation (the Foundation) exists for the primary purpose of aiding and assisting Southern Illinois University (SIUE or the 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 Foundation is included as a component unit of the University for financial reporting purposes. 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 included 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.

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

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.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Cash and Cash Equivalents: The Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include cash held by investment custodians and money market accounts stated at cost, which approximates fair value.

Investments: The Foundation carries investments at fair value as determined by 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.

Capital Assets: Property and equipment purchased by the Foundation are recorded at cost. Donated assets are capitalized at estimated fair value at the date of the donation. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. The Foundation's capitalization policy includes all items with a unit cost of \$500 or more and an estimated useful life greater than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 7 years for equipment and 40 years for real property.

Assets Held for Resale: Assets held for resale primarily represent a marble staircase, a collection of artwork and historical treasures, and a building formerly housing the operations of the Foundation. The staircase sections are carried at the appraised value, the artwork and historical treasures are carried at fair value based upon appraised amounts or auction values published by internationally recognized auction houses for similar type objects, and the building is carried at cost.

Annuities Payable: The Foundation uses the actuarial method of recording annuities payable. Under this method, when a gift is received, the present value of the aggregate annuities payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as net assets. Investment income and gains are recorded as an increase to net assets, and annuity payments and investment losses are charged to liability accounts with annual adjustments made between the liability and the net assets to record adjustment of the actuarial liability.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 investments in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations, if any, related to those capital assets.
- **Restricted net assets - expendable:** Restricted expendable net assets include resources for which the Foundation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- **Restricted net assets – nonexpendable:** Nonexpendable restricted net assets consist of endowment funds, annuity funds, and loan 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 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 bind 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 restricted in accordance with the donor's wishes or, in the absence of such a restriction, transferred to unrestricted net assets.

The loan funds consist of gifts received from donors stipulating that the funds are to be used for loans to students, faculty, or staff and from interest on specific endowment funds, which stipulate that income is to be used for loans.

- **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 toward restricted resources, and then toward unrestricted resources.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classifications of Revenue and Expenses: The Foundation has classified its revenue and expenses as either operating or nonoperating according to the following criteria:

- **Operating:** Operating revenue and expenses include activities that have the characteristics of exchange transactions, such as contract payments from Southern Illinois University.
- **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 expenses 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. Nonexchange transactions, including contributions from donors, are recorded in accordance with the recognition requirements of GASB 33.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Reclassification: Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 - TAX STATUS

The Internal Revenue Service has issued a determination letter, dated August 19, 1982, indicating that the Foundation qualifies for federal income tax exemption under Section 501(c)(3) of the Internal Revenue Code except for income taxes associated with unrelated business income. No provision has been made as management does not believe it has significant unrelated business income.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - CASH AND INVESTMENTS

Deposits with SIUE: The Foundation owns a participating share of pooled cash and investments maintained by the University. The underlying financial instruments which comprise the University's pooled cash and investments consist primarily of cash, certificates of deposit and U.S. government and U.S. government agency securities, and are stated at cost which approximates fair value. The Foundation's share of pooled cash and investments is classified with investments in the accompanying statements of net assets, since specific investment securities of the pooled fund are not purchased on behalf of, and/or separately allocated to, the participants of the fund. The Foundation uses its share of the pooled cash and investments to advance loan funds to students.

Investments: The Foundation has pooled its operating cash and investments to provide for efficiencies and economies in its management. 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 parties. 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 for the year ended June 30, 2007, of \$2,101,746 is presented net of investment management fees and bank service charges, which amounted to \$98,618 and \$6,225, respectively. The net increase in the fair value of investments for the fiscal year 2007 was \$1,380,188. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year.

Endowment Investments: State law permits the Board of Directors to authorize for expenditure the net appreciation (realized and unrealized) of the endowment investments. The Board has established a policy regarding spending net income with the stated purpose of ensuring that administrators of these funds are able to make the best possible use of the earnings of these funds "while preserving the interests and intent of the donor, the Foundation, and the University." The Foundation's Investment Policy is administered to all endowment funds unless exceptions have been stipulated by the donor. The net appreciation on investments of donor-restricted endowments authorized for expenditure in fiscal year 2007 was \$489,493. The fair value of the assets of donor-restricted endowment funds not authorized for expenditure was \$1,922,392 greater than the original principal amount of those funds at June 30, 2007.

Under the policy established by the Board, up to four and one half (4.5) percent of the average balance (end of previous year's fair value plus new contributions) at the end of the previous twelve (12) months may be authorized for expenditure if investment income from the current or previous years is available. The remaining income, if any, is retained and may be used in the future if the investment return does not equal or exceed four and one half (4.5) percent.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investment Policy: It is Foundation 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 Foundation. Funds are invested in accordance with the approved Board policy for investments. The Foundation's investment policy authorizes the Foundation to invest in securities of the U.S. government or its agencies, banker's acceptances, certificates of deposit, interest bearing savings accounts, interest bearing time deposits, and other direct obligations of any bank defined in the Illinois Banking Act. The Foundation's policy also authorizes additional types of investments in corporate debt securities, open and closed end mutual funds, and common and preferred stocks subject to United States' securities regulation and enforcement.

The Foundation has specific investment objectives based on the type of investment. For student assistance endowments and quasi-endowments, the main objective of the investment policy is maintenance of the purchasing power of the assets in perpetuity. For general endowments and quasi-endowments, the main objective is maximizing total return on the assets. For charitable gift annuity funds, the main objective of the investment policy is to generate sufficient cash flow to meet the financial commitments to the annuitants while obtaining a total investment return that provides for a residual balance of at least 50% of the original gift amount at the termination of the agreement. The investment policy has an overall return objective to preserve the inflation adjusted value of the funds and to maximize total return net of investment expense (i.e., total interest, dividends, and capital appreciation reduced by management fees and transaction costs).

Cash and Investment Risks:

Custodial Credit Risk:

Deposits: The risk that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover deposits that are in the possession of an outside party. The bank balance on deposits with the Foundation's financial institution was \$69,633 and the carrying value was zero at June 30, 2007, all of which is insured or collateralized. The Foundation's policy for custodial credit risk is to ask the bank at which its accounts are maintained to collateralize amounts in excess of Federal Deposit Insurance Corporation (FDIC) insurance at all times.

Investments: 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 that are in the possession of an outside party. The investment custodians hold these investments in their name for the benefit of the Foundation. The Foundation does not maintain a policy regarding custodial credit risk.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - CASH AND INVESTMENTS (Continued)

Foreign Currency Risk: The risk that changes in exchange rates will adversely affect the investment. At June 30, 2007, the Foundation had no investment in common stocks of foreign companies. The Foundation's policy related to foreign currency risk is that no purchase of a foreign equity may be made if such purchase would cause the total value of foreign equity assets to exceed the lesser of 10% of the total or 25% of the equity portion of the endowment portfolio.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by limiting investments to those specified in the Board-approved policy; and diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the Foundation. Board policy requires investments in fixed income government or corporate securities to be purchased or retained only if the security is rated A2 or higher by Moody's Investor Service or is rated A or higher by Standard & Poor's Corporation, Fitch Investors Service or Duff & Phelps Credit Rating Co. Commercial paper, money markets, and banker's acceptances must be rated at least Prime-1 by Moody's Investor Service or at least A1 by Standard & Poor's Corporation. U.S. Treasuries are federal government securities that do not require the disclosure of credit risk.

The U.S. agencies investments include the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank, all rated AAA and Aaa by Standard & Poor's Corporation and Moody's Investor Services, respectively.

The Foundation has corporate bond investments as follows (n/r = not rated):

<u>Corporate Bonds</u>	<u>Investment</u>	<u>Credit Quality Rating</u>	
		<u>Standard & Poor's</u>	<u>Moody's</u>
Goldman Sachs Group 01-15-11	\$ 52,008	AA-	Aa3
Lehman Brothers Fm 09-28-07	49,786	A+	A1
HSBC Finance Corp. CPI FLT RT 02-10-10	92,991	AA-	Aa3
Verizon Communications 02-15-11	49,706	A	A3
Verizon New Jersey Inc. 01-17-12	50,186	A	A3
Gcb Morgan Stanley 01-09-17	47,342	A+	Aa3
Genworth Finl Inc. 06-15-14	49,782	A	A2
Wachovia Corp 08-01-14	48,570	A+	A1
Wells Fargo Bank 02-01-11	<u>51,555</u>	AA+	Aa1
	<u>\$ 491,926</u>		

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - CASH AND INVESTMENTS (Continued)

Using Morningstar ratings, the Foundation has fixed income mutual funds as follows:

	<u>Amount</u>	<u>Rating</u>
TIAA-CREF Inst Bond Fund #1835	\$ 296,304	***
TIAA-CREF Short-term Bond Fund II #2226	118,608	new fund
Vanguard GNMA Admiral Fund #36	29,476	****
First American Inflation Protected Class Y	276,458	new fund
First American Core Bond Class Y	567,347	***
	<u>\$ 1,288,193</u>	

Since there is not a nationally recognized rating for the mutual funds held by the Foundation, the investments ratings above are using ratings by Morningstar.

Concentration of Credit Risk: The risk of loss attributable to the magnitude of investment in a single issuer. The Foundation's investment policy encourages diversification and prohibits investments of 5% or more of total investments in any one issuer.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation does not maintain a policy that limits investment maturities in regards to interest rate risk; however, its overall risk management requires sound investment decisions and diversification of overall risk.

Overall Risk: The portfolio should not be limited to any one asset class, industry segment, and type of security or single issue. The investment policy requires funds to be managed as a balanced portfolio consisting of equities, fixed income, and cash equivalents. The Foundation has defined benchmark indices and parameters of ratios per asset class as follows:

<u>Asset Class</u>	<u>Ratio</u>		<u>Benchmark Index</u>
	<u>Minimum</u>	<u>Maximum</u>	
Equities	30%	70%	Standard & Poor's 500 Index
Fixed Income	30	70	Lehman Brothers Intermediate Govt/Credit Bond Index
Cash (and equivalents)	0	20	U.S. 3-month Treasury Bill

The Foundation currently uses Allegiant Investment Counselors, U.S. Bank, and The Bank of Edwardsville Financial Management Group to manage its external portfolio.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - CASH AND INVESTMENTS (Continued)

As of June 30, 2007, the Foundation had the following cash and investment balances:

<u>Investment Type</u>	<u>Fair value</u>	<u>Investment maturities (in Years)</u>			<u>No maturity</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	
Investments:					
U.S. Treasuries	\$ 1,397,715	\$ 272,369	\$ 983,936	\$ 141,410	\$ -
U.S. Agencies	3,445,867	-	3,049,434	396,433	-
Corporate Bonds	491,926	99,610	246,622	145,694	-
Common Stock – domestic	6,192,909	-	-	-	6,192,909
Mutual Funds – equity	3,227,326	-	-	-	3,227,326
Mutual Funds – fixed income	1,288,193	-	-	-	1,288,193
Other	108	108	-	-	-
Certificates of Deposit	<u>4,698,000</u>	<u>4,127,000</u>	<u>571,000</u>	-	-
Sub-total Investments	<u>20,742,044</u>	<u>4,499,087</u>	<u>4,850,992</u>	<u>683,537</u>	<u>10,708,428</u>
Cash Equivalents:					
Money Markets	<u>3,648,218</u>	-	-	-	<u>3,648,218</u>
Total externally managed	<u>\$ 24,390,262</u>	<u>\$ 4,499,088</u>	<u>\$ 4,850,991</u>	<u>\$ 683,537</u>	<u>\$ 14,356,646</u>

Under the Board's policy, the maximum term of fixed income investments is 15 years.

NOTE 4 - OTHER RECEIVABLES

Included in other receivables is an endowed estate gift of approximately \$313,000 that will provide funds for student scholarships and library materials. Also included in other receivables is a non-endowed estate gift of approximately \$46,000 that will provide scholarships to students based on financial need. Other receivables also include \$190,000 of receivables due from Southern Illinois University Edwardsville for services provided to the University.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	<u>Additions</u>	<u>Retirements</u>	Balance End of Year
Building	\$ 2,478,121	\$ -	\$ -	\$ 2,478,121
Furniture, fixtures, and equipment	<u>91,589</u>	<u>-</u>	<u>-</u>	<u>91,589</u>
Total	2,569,710	-	-	2,569,710
Total accumulated depreciation	<u>(456,699)</u>	<u>(62,447)</u>	<u>-</u>	<u>(519,146)</u>
Capital assets, net	<u>\$ 2,113,011</u>	<u>\$ (62,447)</u>	<u>\$ -</u>	<u>\$ 2,050,564</u>

NOTE 6 - OVERHEAD RECOVERY FEE

During and prior to Fiscal Year 2006, the Foundation classified 5% of all restricted contributions received, except certain exempted funds, as an acceptance fee. The fee was used for the general operations of the Foundation. On July 1, 2007, this policy was terminated by the SIUE Foundation. Therefore, there were no gifts in Fiscal Year 2007 that were assessed this fee.

Donors have agreed to an investment fee as a percentage of assets under management. The Foundation receives a management fee, which for endowed investments, is the difference between 1.25% of endowed assets in the custody of The Bank of Edwardsville and the amount of management fees assessed by the investment managers. For the year ended June 30, 2007, \$95,489 was collected from the endowment management fee and used for the general operations of the Foundation. For other, non-endowed investments, the management fee is the difference between 2% of non-endowed assets in the custody of The Bank of Edwardsville and the amount of management fees assessed by the investment manager. For the year ended June 30, 2007, \$138,835 was collected from the non-endowment management fee.

NOTE 7 - RETIREMENT PLAN

All full-time Foundation personnel are SIUE employees. Retirement benefits and post-retirement benefits, other than pension, are available for eligible SIUE employees under a contributory retirement plan (the Plan) administered by the State Universities Retirement System.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 - RETIREMENT PLAN (Continued)

Participants of the Plan contribute 8% of their gross earnings, and SIUE annually contributes an amount determined by the State Legislature from State appropriations and other resources, based on actuarially determined rates. Information pertaining to the Plan and plan benefits can be found in the SIUE financial statements. The Foundation does not own any of the Plan's assets and has no responsibility for the Plan's obligations.

During the year ended June 30, 2007, SIUE contributed \$19,512 to the Plan on behalf of Foundation personnel. These amounts are included in the amounts shown as budget allocation from SIUE and budget expended at SIUE in the accompanying statements of revenue, expenses, and changes in net assets.

NOTE 8 - TRANSACTIONS WITH RELATED PARTIES

The Foundation has entered into a master contract with the Board of Trustees of SIUE which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997. Among the provisions of the master contract is a requirement that the Foundation and SIUE provide services to each other to be reimbursed based on actual costs within the approved budgetary limits.

During the year, the Foundation provided fund-raising services on behalf of SIUE with a portion of the Foundation's fund-raising costs being reimbursed by SIUE through cash and in-kind payments. Total reimbursable costs satisfied through cash payments from SIUE for the year ended June 30, 2007, was \$150,000 and is included in payments from SIUE in the accompanying statements of revenue, expenses, and changes in net assets.

Pursuant to governmental accounting standards, 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 totaled \$381,588 (including retirement payments described in Note 7), for the year ended June 30, 2007, and are reflected as budget allocation from SIUE and budget expended at SIUE in the accompanying statements of revenue, expenses, and changes in net assets.

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

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 8 - TRANSACTIONS WITH RELATED PARTIES (Continued)

During the year ended June 30, 2007, the Foundation received \$1,003,508 in non-cash contributions from donors, of which \$743,382 was forwarded to the University.

The Foundation has entered into a contract with the Board of Trustees of SIUE to provide all aspects of coordination of alumni services. Under the terms of the contract, SIUE provided the Foundation with \$40,000 for the year ended June 30, 2007, which is included in payments from SIUE in the accompanying statements of revenues, expenses, and changes in net assets. During the year ended June 30, 2007, the Foundation expended \$78,399 for alumni services.

The Foundation maintains restricted fund accounts for various campus units. The disbursements from these accounts are included in the statements of revenue, expenses, and changes in net assets as expenditures for the benefit of SIUE. Some of these disbursements are paid by SIUE and then invoiced to the Foundation for reimbursement. At June 30, 2007, the Foundation included on the statements of net assets \$86,235 for accounts payable – SIUE for such reimbursements and \$11,743 for accounts receivable – SIUE for overpayments of such reimbursements.

The Foundation also receives payments from the Alumni Association of Southern Illinois University Edwardsville (the Association) that represent a percentage of alumni membership dues collected by the Association. These payments are made to each of the schools or colleges based on the number of graduates from the respective school or college and deposited into restricted fund accounts maintained by the Foundation. The amount collected by the Association but not paid to the Foundation as of June 30, 2007 is \$9,658 and is included in the statement of net assets as accounts receivable - Alumni Association.

The Foundation offices are located at B. Barnard Birger Hall, which is positioned on land for which the Foundation has a 99-year lease, dated June 14, 1999, with the University. The lease states that the Foundation shall surrender the premises and all improvements upon expiration or termination of the lease. The Foundation paid the University \$1 for the lease of this land and \$1 for the lease of the land known as The Gardens at SIUE. The fair value of these leases has not been determined.

The Foundation has entered into two separate lease contracts with the Board of Trustees of SIUE for office space for Marketing and Communications and Graphics at \$15,000 each per year.

The Foundation maintains a substantial portion of its cash and investments at a financial institution which has two common Board members with the Foundation.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 9 - REVENUE BOND PAYABLE

On October 22, 1999, the Foundation issued a revenue bond payable in the amount of \$2,000,000 for the purpose of financing the construction of a new 12,000 sq. ft. office building following Board approval on August 25, 1999. The bond bore an interest rate of 5.25% and was to mature on July 15, 2005. Annual interest of \$106,459 was payable semi-annually on January 15 and July 15. On March 14, 2003, the revenue bonds were reissued with a final maturity of March 1, 2008, at an interest rate of 4.5%. A principal payment of \$350,000 was also made upon refinancing. Annual interest of \$75,281 is payable semi-annually on January 15 and July 15. As June 30, 2007, the revenue bond of \$1,650,000 and accrued interest of \$34,238 were outstanding. Aggregate maturities of bonds payable through bond maturity of March 1, 2008 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,650,000	\$ 84,769	\$ 1,734,769
	<u>\$ 1,650,000</u>	<u>\$ 84,769</u>	<u>\$ 1,734,769</u>

The City of Edwardsville was the conduit issuer for the tax-exempt revenue bonds. The bonds are bank-qualified revenue bonds and the sole security is the pledged revenue of the Foundation and certain of its assets consisting of real estate properties. If these properties are sold, some or all of the proceeds are pledged to the repayment of the bond issue. There is no mortgage on the facility and SIUE is not obligated for the repayment of the bonds.

NOTE 10 - BENEFICIAL INTEREST IN TRUSTS

The Foundation has a life-estate interest in a real estate trust established in 1997. Per the terms of this agreement, upon the death of the surviving spouse, the Foundation will receive 100% of the assets. The underlying assets consist of cash, securities, and farmland with a net present value of \$2,605,759 at June 30, 2007.

The Foundation also has an interest in a residual trust established in 1997. Per the terms of this agreement, upon the death of the surviving spouse, the Foundation will receive 25% of the net trust income for 20 years and 25% of the net assets upon the expiration of that 20-year period. The underlying assets consist of personal property, cash, and securities with the Foundation's share of the net present value being \$37,637 at June 30, 2007. The present value of the interests in both trusts increased by \$130,825 during the year ended June 30, 2007.

Both interests are maintained in a perpetual trust and administered by a bank. The Foundation receives no current income from either interest.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 11 - COLLECTION OF ARTWORK AND HISTORICAL TREASURES

In fiscal year 2002, the Foundation received title to a large collection of artwork and collectibles from an estate bequest. The Foundation did not capitalize this collection in fiscal year 2002. In determining not to capitalize this collection in fiscal year 2002, the Foundation considered the following factors. First, the amount at which to value the gift was not available at the time because the donor's cost of the items was not considered to be a fair representation of the value of the collection. The second factor considered was that the Foundation, in consultation with the University Museum, has the option of selling a portion of the collection and transferring the remainder to the University Museum for the benefit of the University.

During fiscal year 2003, the University Museum estimated the value of a portion of the collection to be \$1,520,000 of which \$1,500,000 was transferred to the University.

During fiscal year 2004, the Foundation valued additional items from the estate and the University Museum estimated the value at \$1,476,960, all of which are being maintained as assets held for resale in the accompanying statements of net assets.

During fiscal year 2005, the Foundation valued additional items from the estate and the University Museum estimated the value at \$1,447,817, all of which are being maintained as assets held for resale in the accompanying statements of net assets.

During fiscal year 2006, the Foundation valued additional items from the estate and the University Museum estimated the value at \$1,549,295, all of which are being maintained as assets held for resale in the accompanying statements of net assets.

During fiscal year 2007, the Foundation valued additional items from the estate and the University Museum estimated the value at \$7,266, all of which were sold, with the proceeds going to benefit the University Museum.

NOTE 12 - SUMMARIZED FINANCIAL INFORMATION

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2006, from where the summarized information was derived.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 13 – RECEIVABLES

The only receivables not expected to be collected within one year are \$603,981 of net pledge receivables and \$54,174 of loans receivable.



Crowe Chizek and Company LLC
Member Horwath International

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
Edwardsville Foundation

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Southern Illinois University Edwardsville Foundation (Foundation), as of and for the year ended June 30, 2007, and have issued our report thereon dated January 11, 2008. 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, but not for the purpose of expressing an opinion on the effectiveness of Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 07-01 and 07-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are a material weakness.

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*. We are currently conducting a State compliance examination of the Foundation as required by the Illinois State Auditing Act. The results of the examination will be reported to management under separate cover. We also noted certain other matters which we have reported to management of the Foundation in a separate letter dated January 11, 2008.

The Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Foundation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, and the board of directors 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
January 11, 2008

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
SCHEDULE OF FINDINGS
June 30, 2007

07-1 Fraud Prevention and Detection Program

The Foundation does not have a fraud risk assessment program in place. According to Foundation management, the Foundation has established internal controls in order to prevent and detect fraud as well as errors that may occur, however, these controls and associated risks are not monitored on an on-going basis.

The Foundation relies on current internal controls that have been put in place to prevent and detect fraud. Additionally, Foundation management has relied on the external audits for identification of control weaknesses.

Accounting industry trends have increased organizations' awareness of the prevalence of fraud. Many organizations rely in part on their auditors to uncover any internal fraud, but audits, even those of the highest quality, are not a substitute for management establishing good internal control.

The Foundation is responsible for the development of internal controls and the monitoring of their operating effectiveness. Additionally, it is management's responsibility to prevent and detect fraud. Therefore, the Foundation should implement a formal policy regarding evaluation of fraud risk and a system of controls to help prevent and detect fraudulent activity within its organization. Preparing a written policy will serve to document the Foundation's awareness and responsibility for fraud prevention and detection.

The Foundation does not have a Fraud Prevention and Detection program which could result in fraud risks facing the Foundation not to be recognized and addressed by Foundation management. (Finding Code No. 07-1)

Recommendation

We recommend that management establish a continuous fraud prevention, deterrence and detection program. This program should include evaluating whether appropriate internal controls have been implemented in any areas identified as posing a higher risk of fraudulent activity, as well as controls over financial reporting process. In addition, the Board of Directors should evaluate management's identification of fraud risks, implementation of anti-fraud measures.

Management Response

The Foundation relies on a strong set of internal controls to assist in preventing and detecting fraud. Management also evaluates internal controls on a regular basis. However, the Association agrees that a formal, documented policy has not been adopted and that this recommendation is beneficial to the operation of the organization. Management will identify the steps necessary to move forward in creating and implementing a continuous fraud prevention, deterrence, and detection program, as well as determine a process for the Board of Directors' involvement in the prevention and detection of fraud.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
SCHEDULE OF FINDINGS
June 30, 2007

07-2 Bank Reconciliations Not Completed Timely

The Foundation did not ensure that its cash reconciliations were performed on a timely basis. Specifically, ten out of the 12 (83%) monthly bank reconciliations were completed more than 30 days after the statement date, and of these, three were completed more than 90 days after the statement date.

Strong internal controls require that bank reconciliations be completed within 30 days of the statement date to ensure accuracy and timeliness. Untimely preparation of the reconciliations delays correction of errors and detection of possible misappropriations.

Foundation management indicated that there is no written policy that requires bank reconciliations to be completed in a timely manner (i.e. within 30 days of the statement date).

Bank reconciliations:

- may uncover differences that may need further investigating;
- help to safeguard cash by detecting errors on the part of the bank and/or the organization when recording activities in accounts;
- identify recording errors and other problems;
- help to create stronger internal control, whereby accountability over cash assets is greatly enhanced; and
- help ensure that account balances are accurate, and that they reflect the true financial position of the organization, so governing bodies can make more informed decisions.

Although no errors were noted as a result of the untimely completion of the reconciliations, completing bank reconciliations in a timely fashion helps ensure that items such as these are discovered in a manner that would limit the adverse operational effects to the Foundation. (Finding Code No. 07-2)

Recommendation

We recommend that the Foundation implement procedures to ensure that bank reconciliation's be completed no later than 30 days after the end of the statement period.

Management Response

The Foundation maintains a practice of completing bank reconciliations in a timely fashion. As noted, a number of the reconciliations were not finalized within a timely fashion. Management will immediately implement procedures to ensure compliance with the existing practices of the Foundation. As a point of clarification, some of the reconciliations were initiated and reconciled to within an immaterial amount in a timely fashion, then finalized and dated at a later date. This was not the case with several of the noted exceptions however; therefore management will work to resolve this issue going forward.
