

STATE OF ILLINOIS

**SOUTHERN ILLINOIS UNIVERSITY
EDWARDSVILLE FOUNDATION**

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT AUDITORS**

June 30, 2008

(With comparative totals for 2007)

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

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION

FINANCIAL STATEMENTS
June 30, 2008

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION

AGENCY OFFICIALS
June 30, 2008

The Foundation's Board of Directors:

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

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

Chief Executive Officer (through June 30, 2008)	Mr. Gary Giamartino
Chief Executive Officer (beginning July 1, 2008)	Mr. Patrick Hundley
Exec Director of Financial Affairs & Info Systems	Mr. Rich Hampton
Director of Information Systems	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 N. Circle Drive
Edwardsville, Illinois 62026

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION

FINANCIAL STATEMENT REPORT
SUMMARY

June 30, 2008

The audit of the accompanying basic financial statements of Southern Illinois University Edwardsville Foundation (the Foundation) was performed by Crowe Horwath LLP.

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 - 33 of this report, as finding 08-1, (*Fraud Prevention and Detection Program*), 08-2, (*Review of Other Asset Detail*), 08-3, (*Segregation of Duties over Investments*).

EXIT CONFERENCE

The Foundation waived an exit conference. Written responses to the findings were provided by Rich Hampton in a written correspondence on November 4, 2008.



Crowe Horwath LLP
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, 2008, 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 2007 financial statements and, in our report dated January 11, 2008, 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, 2008, 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 November 24, 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 Horwath LLP

Chicago, Illinois
November 24, 2008

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2008

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 are the Statement of Net Assets; the Statement of Changes in Revenue, Expenses, and Changes in Net Assets; and the Statement 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 \$32,926,439 in net assets, of which \$1,881,701 is considered unrestricted.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2008

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

	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>	<u>% Change</u>
Assets:			
Current Assets	\$ 4,356	\$ 9,404	-53.7%
Non-Current Assets	30,509	26,815	13.8
Total Assets	<u>34,865</u>	<u>36,219</u>	<u>-3.7</u>
Liabilities:			
Current Liabilities	1,451	1,885	-23.0
Non-Current Liabilities	488	470	3.8
Total Liabilities	<u>1,939</u>	<u>2,355</u>	<u>-17.7</u>
Net Assets:			
Invested in Capital Assets	1,114	401	177.8
Restricted	29,930	32,119	-6.8
Unrestricted	1,882	1,344	40.0
Total Net Assets	<u>\$ 32,926</u>	<u>\$ 33,864</u>	<u>-2.8%</u>

Total net assets for the Foundation decreased in fiscal year 2008 (FY 2008) by approximately \$938,000, or nearly 3%. Though revenues, consisting primarily of contributions, continued the increasing trend in recent years, non-operating expenses were much higher than anticipated and more than offset the growth provided by contributions and other revenues.

During FY 2008, approximately \$2.5 million was granted to other organizations through the Donor Advised Fund program offered to SIUE donors. The amount granted to other organizations is typically a much smaller amount. The grants were primarily from the requests of one donor who originally provided the funds to construct a wrestling and volleyball facility at SIUE. Detailed information regarding this situation is explained further in the last section of this analysis.

The second area contributing to the decrease in net assets is the return on investments held by the Foundation. The endowment portfolio loss for FY 2008 was -5.6%, which was the lowest return in over 15 years. The non-endowment portfolio experienced growth which helped offset the investment return, but overall the decrease was about \$448,000. This compares to an increase in FY 2007 of \$2.1 million, the highest return in five previous years.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2008

Total liabilities decreased by \$416,000 from FY 2007 to FY 2008 primarily due to a principal payment of \$550,000 on an outstanding bond issue for the construction of B. Barnard Birger Hall, the building that houses the Foundation and Alumni Association offices and two University departments. Further details of this liability, which now has an outstanding balance of \$1,100,000, can be found in Note 8 of the financial statements.

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

	<u>FY 2008</u>	<u>FY 2007</u>	<u>% Change</u>
Operating Revenue	\$ 1,029	\$ 1,070	-3.8%
Operating Expenses			
General and Operating	421	416	1.2
Expenditures for the	2,471	1,600	54.4
Benefit of SIUE			
Transfer of Gifts to SIUE	634	946	-33.0
Other Operating Expenses	522	522	0
Total Operating Expenses	<u>4,048</u>	<u>3,484</u>	<u>16.2</u>
Operating Loss	(3,019)	(2,414)	-25.1
Nonoperating Revenue			
(Expenses)			
Contributions	5,149	3,154	63.3
Net Investment Income	(448)	2,102	-121.3
Increase (Decrease) in			
Present Value of Trusts	(157)	131	-219.8
Other Nonoperating	(2,840)	221	-1,385.1
Revenue (Expenses)			
Net Nonoperating Revenue	<u>1,704</u>	<u>5,608</u>	<u>-69.6</u>
Contributions to permanent			
Endowments	377	841	-55.2
Increase in Net Assets	<u>(938)</u>	<u>\$ 4,035</u>	<u>-123.3</u>

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2008

As stated earlier, the Foundation realized a decrease in net assets of \$938,000 from the current year activity. This compares to an increase of \$4,035,000 in fiscal year 2007 (FY 2007).

Operating revenues were down slightly from FY 2007 by approximately \$41,000.

Operating expenses increased from FY 2007 in the amount of \$564,000. This was due to a general increase in expenditures overall and various projects that occurred during FY 2008. Two examples of these projects include planning expenses for the wrestling and volleyball facility and the School of Dental Medicine Clinic enhancement, which increased expenses by \$480,000 and \$100,000 respectively from FY 2008 to FY 2007.

Nonoperating revenue, net of expenses, decreased by nearly 70%, or roughly \$4 million. The two primary factors causing this decrease were grants to other organizations, and investment losses, the same two factors described above as contributing to the decrease in overall net assets.

Another significant difference between FY 2008 and FY 2007 under nonoperating revenue is a \$343,000 gain on sale of assets. In FY2007, 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 proceeds of this property in the amount of \$550,000 were applied to the principal of the outstanding revenue bonds of the Foundation which are described in Note 8 of the Financial Statements.

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 Statement 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 Statement of Cash Flows. During the fiscal year, the Foundation experienced a decrease in cash and cash equivalents of \$678,000, compared to an increase in FY 2007 of \$1,973,770.

Cash used in FY 2008 was significantly more than last year for reasons identified earlier in this discussion. These items included \$550,000 paid toward principal of the outstanding bond issue, expenses paid related to the Wrestling and Volleyball facility as well as clinic enhancements at the School of Dental Medicine, and finally a decrease due to sale in FY 2007 of a property held for resale in the amount of \$575,000.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2008

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, \$1,447,817 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.

During fiscal year 2007 and FY 08, the Foundation also valued a few additional items from the estate that were sold. See Note 10 in the financial statements for further details.

Revenue Bond Payable: As discussed earlier, the \$1.65 million revenue bond outstanding at June 30, 2007, reached final maturity on March 1, 2008. Proceeds from the FY 2007 sale of a property during FY 2007 were used to pay toward the principal on this revenue bond. The proceeds were approximately \$550,000 and reduced the outstanding principal to \$1.1 million. At June 30, 2008, the liability is carried as a loan since the new bond issue did not close until July 2, 2008.

Donor Advised Funds: The Investment Committee of the SIUE Foundation Board voted in FY 2008 to discontinue the Donor Advised Fund program initiated in FY 2003. The major factor in the decision was the lack of growth in the number of donors participating in the program. The remaining funds were approximately \$170,000 at June 30, 2008. The program will be phased out in early FY 2009 with a target date of September 20, 2008.

Donor Advised Fund Grants to Other Organizations: These expenses are grants to qualified non-profit organizations from the Donor Advised Fund program. Past recipients have included religious organizations, programs of other Universities, and various Edwardsville and St. Louis area charities. The amount has been consistently near \$5,000 since inception of the program. In FY 2008 however, over \$2.5 million was granted to three local organizations at the recommendation of a donor. The source of the funds was from donations to the Wrestling & Volleyball facility scheduled to begin construction in FY 2008. Due primarily to a lack of funding, it was determined by SIUE that the facility would not be built. Subsequently, the donor requested the funds be transferred to a donor advised fund. Shortly thereafter, grant requests were received and processed transferring these funds to other charitable organizations.

Endowment Pool: During FY 2008, the Endowment Pool was converted to a new investment platform. Custody was moved to Charles Schwab and the assets were moved from three local investment managers to a mutual fund platform. An investment advisor, Hammond Associates, was also hired to assist the Investment Committee in managing the Endowment portfolio assets. Additional information is included in Note 3 of these Financial Statements.

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, 2008
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and Cash equivalents (Note 3)	\$ 2,970,506	\$ 3,648,218
Short-term investments (Note 3)	696,511	4,499,087
Deposits with SIUE	372,552	323,045
Pledges receivable, net of allowance of \$25,900 for 2008 and \$24,000 for 2007	193,510	137,983
Accounts receivable - SIUE (Note 7)	4,150	11,743
Accounts receivable - Alumni Association (Note 7)	14,114	9,658
Other receivables	17,926	637,481
Interest receivable	60,175	111,435
Prepaid expenses	<u>26,880</u>	<u>25,759</u>
Total current assets	4,356,324	9,404,409
Noncurrent assets		
Noncurrent investments (Note 3)	18,206,869	16,242,957
Pledges receivable, net of allowance of \$267,100 for 2008 and \$59,000 for 2007	1,793,404	603,981
Loans receivable	30,225	54,174
Assets held for resale (Note 10)	5,174,469	5,174,469
Capital assets, net of depreciation (Note 4)	2,213,662	2,050,564
Cash surrender value of life insurance	46,221	45,549
Beneficial interest in trusts (Note 9)	<u>3,043,680</u>	<u>2,643,396</u>
Total noncurrent assets	<u>30,508,530</u>	<u>26,815,090</u>
Total assets	<u>34,864,854</u>	<u>36,219,499</u>
LIABILITIES		
Current liabilities		
Accounts payable - SIUE (Note 7)	173,106	86,235
Accounts payable - other	98,711	63,476
Accrued interest (Note 8)	28,188	34,238
Annuity payable	50,686	50,686
Note Payable (Note 8)	<u>1,100,000</u>	<u>1,650,000</u>
Total current liabilities	1,450,691	1,884,635
Noncurrent liabilities		
Annuity payable	<u>487,724</u>	<u>470,499</u>
Total noncurrent liabilities	<u>487,724</u>	<u>470,499</u>
Total liabilities	<u>1,938,415</u>	<u>2,355,134</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,113,662	400,564
Restricted nonexpendable		
Scholarships, research, instruction, and other	14,403,774	16,218,493
Loans	402,777	377,219
Restricted expendable		
Scholarships, research, instruction, and other	14,024,525	13,874,088
Capital projects and debt service	1,100,000	1,650,000
Unrestricted	<u>1,881,701</u>	<u>1,344,001</u>
Total net assets	<u>\$ 32,926,439</u>	<u>\$ 33,864,365</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, 2008
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Operating revenue		
Payments from SIUE (Note 7)	\$ 190,000	\$ 190,000
Membership dues - Alumni Association	4,456	4,770
Budget allocation from SIUE (Note 7)	403,362	381,588
Events, sales, and other	<u>430,886</u>	<u>494,002</u>
Total operating revenue	1,028,704	1,070,360
Operating expenses		
General and operating	421,406	415,655
Budget expended at SIUE (Note 7)	403,362	381,588
Expenditures for the benefit of SIUE	2,470,579	1,600,393
Expenditures for the benefit of Alumni Association (Note 7)	50,495	78,399
Gifts to SIUE	633,748	945,893
Depreciation (Note 4)	<u>68,004</u>	<u>62,447</u>
Total operating expenses	<u>4,047,594</u>	<u>3,484,375</u>
Operating loss	(3,018,890)	(2,414,015)
Nonoperating revenue (expenses)		
Contributions	5,149,098	3,154,425
Net investment income (loss) (Note 3)	(448,127)	2,101,746
Bad debt	(210,722)	(372)
Increase (decrease) in present value of beneficial interest in trusts (Note 9)	(157,252)	130,825
Bond interest expense (Note 8)	(69,231)	(75,281)
Grants to other organizations	(2,505,172)	(500)
Payments to annuitants	(52,386)	(48,986)
Gain on sale of assets	-	343,913
Other	<u>(2,764)</u>	<u>1,987</u>
Net nonoperating revenue	<u>1,703,444</u>	<u>5,607,757</u>
Income (loss) before permanent endowments	(1,315,446)	3,193,742
Additions to permanent endowments	<u>377,520</u>	<u>841,205</u>
Increase (decrease) in net assets	(937,926)	4,034,947
Net assets at beginning of year	<u>33,864,365</u>	<u>29,829,418</u>
Net assets at end of year	<u>\$ 32,926,439</u>	<u>\$ 33,864,365</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
STATEMENTS OF CASH FLOWS
Year ended June 30, 2008
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Payments received from related organizations	\$ 380,000	\$ 2,694
Payments received from other revenue sources	469,393	540,254
Payments for the benefit of SIUE, net of reimbursements	(2,536,787)	(1,822,966)
General and operating expenses	<u>(454,758)</u>	<u>(537,818)</u>
Net cash from operating activities	(2,142,152)	(1,817,836)
Cash flows from noncapital financing activities		
Contributions for endowments	682,439	402,152
Other contributions	<u>2,606,729</u>	<u>1,837,498</u>
Net cash from noncapital financing activities	3,289,168	2,239,650
Cash flows from capital financing activities		
Payments of bond interest	(75,281)	(75,281)
Payments of loan principal	(550,000)	-
Purchase of Capital Assets	<u>(220,838)</u>	<u>-</u>
Net cash from capital financing activities	(846,119)	(75,281)
Cash flows from investing activities		
Interest and dividend income	1,039,362	6,082
Bank charges	(117,952)	(6,225)
Change in deposits with SIUE	(24,319)	(24,684)
Net proceeds from assets held for resale	-	575,899
Purchase (sale) of investments	525,589	(996,132)
Grants to Other Organizations	(2,505,172)	(500)
Payments to Annuitants	(52,386)	(48,986)
Income from Gift-In-Kind Contributions	<u>156,269</u>	<u>2,121,783</u>
Net cash from investing activities	<u>(978,609)</u>	<u>1,627,237</u>
Net increase (decrease) in cash and cash equivalents	(677,712)	1,973,770
Cash and cash equivalents at beginning of year	<u>3,648,218</u>	<u>1,674,448</u>
Cash and cash equivalents at end of year	<u>\$ 2,970,506</u>	<u>\$ 3,648,218</u>

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
STATEMENTS OF CASH FLOWS
Year ended June 30, 2008
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (3,018,890)	\$ (2,414,015)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	68,004	62,447
Noncash gifts to SIUE	459,106	800,728
Change in assets and liabilities		
(Increase) decrease in receivables	212,092	(219,153)
(Increase) decrease in other assets	(1,793)	(19,698)
Increase (decrease) in accounts payable	<u>139,329</u>	<u>(28,145)</u>
Net cash from operating activities	<u>\$ (2,142,152)</u>	<u>\$ (1,817,836)</u>

Schedule of noncash investing, capital, and financing activities:

The Foundation received noncash contributions from donors \$628,256 and \$1,003,508 during the years ended June 30, 2008 and 2007, respectively, of which \$408,509 and \$743,832, 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, 2008

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.

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.

(Continued)

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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.

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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, 2008

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, 2008

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 losses for the year ended June 30, 2008 of \$448,127 is presented net of investment management and advisor fees and bank service charges, which amounted to \$109,233 and \$8,719, respectively. The net decrease in the fair value of investments for the fiscal year 2008 was \$1,341,583. 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 2008 was \$419,041. The fair value of the assets of donor-restricted endowment funds not authorized for expenditure was \$629,173 greater than the original principal amount of those funds at June 30, 2008.

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.

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 \$155,948 and the carrying value was \$85,639 at June 30, 2008, 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.

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 - CASH AND INVESTMENTS (Continued)

Foreign Currency Risk: The risk that changes in exchange rates will adversely affect the investment. At June 30, 2008, 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 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 had no corporate bond investments at June 30, 2008.

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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	\$ 281,394	****
TIAA CREF- Inst Short Term Bond Fund II #2226	118,155	N/A
Charles Schwab- PIMCO Total Return Fund	1,918,504	****
Charles Schwab- Templeton Global Bond	659,221	*****
Charles Schwab- Vanguard Inflation	833,587	****
Non-Endowment- Vanguard GNMA Admiral #536	<u>766,107</u>	*****
	<u>\$ 4,576,968</u>	

Since there is not a nationally recognized rating for the mutual funds, the ratings shown are the overall rating assigned by Morningstar. Morningstar ranks funds within their categories according to their risk-adjusted return. The 10% of funds in each category with the highest risk-adjusted return receive five stars, the next 22.5% receive four stars, the middle 35% receive three stars, the next 22.5% receive two stars, and the bottom 10% receive one star.

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

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 - CASH AND INVESTMENTS (Continued)

The Foundation currently uses a number of mutual fund managers as listed above in this Note as well as The Bank of Edwardsville Financial Management Group to manage its external portfolio.

As of June 30, 2008, the Foundation had the following cash and investment balances (using the segmented time distribution method):

<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. Agencies	\$ 255,292	\$ 100,088	\$ 155,204	\$ -	\$ -
Mutual Funds - equity	6,955,744	-	-	-	6,955,744
Mutual Funds - fixed income	4,576,968	-	-	-	4,576,968
Mutual Funds- Multi Class	1,384,416	-	-	-	1,384,416
Exchange Traded Funds	2,258,149	-	-	-	2,258,149
Certificates of Deposit	<u>3,472,811</u>	<u>596,423</u>	<u>2,876,388</u>	-	-
Sub-total Investments	<u>18,903,380</u>	<u>696,511</u>	<u>3,031,592</u>	-	<u>15,175,277</u>
Cash Equivalents:					
Money Markets	<u>2,884,867</u>	-	-	-	<u>2,884,867</u>
Total externally managed	<u>\$ 21,788,247</u>	<u>\$ 696,511</u>	<u>\$ 3,031,592</u>	<u>\$ -</u>	<u>\$ 18,060,144</u>

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

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008, was as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Buildings	\$ 2,478,121	\$ 191,066	\$ -	\$ 2,669,187
Furniture, fixtures, and equipment	<u>91,589</u>	<u>40,036</u>	-	<u>131,625</u>
Total	2,569,710	231,102	-	2,800,812
Total accumulated depreciation	<u>(519,146)</u>	<u>(68,004)</u>	-	<u>(587,150)</u>
Capital assets, net	<u>\$ 2,050,564</u>	<u>\$ 163,098</u>	<u>\$ -</u>	<u>\$ 2,213,662</u>

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - 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 2008 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 Charles Schwab and the amount of management fees assessed by the investment managers and investment advisors. For the year ended June 30, 2008, \$66,332 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, 2008, \$149,782 was collected from the non-endowment management fee.

NOTE 6 - 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.

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, 2008, SIUE contributed \$27,304 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.

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 - 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, 2008, 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 \$403,362 (including retirement payments described in Note 6), for the year ended June 30, 2008, 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.

During the year ended June 30, 2008, the Foundation received \$628,256 in non-cash contributions from donors, of which \$408,509 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, 2008, 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, 2008, the Foundation expended \$50,495 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, 2008, the Foundation included on the statements of net assets \$173,106 for accounts payable - SIUE for such reimbursements and \$4,150 for accounts receivable - SIUE for overpayments of such reimbursements.

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 - TRANSACTIONS WITH RELATED PARTIES (Continued)

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, 2008 is \$13,918 and is included as part of Accounts Receivable - Alumni Association balance in the Statements of Net Assets.

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.

NOTE 8 - NOTES PAYABLE

On October 22, 1999, the Foundation issued a note 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 note bore an interest rate of 5.25% and was to mature on July 15, 2005. Annual interest was payable semi-annually on January 15 and July 15. On March 14, 2003, the note was reissued at an interest rate of 4.5%. A principal payment of \$350,000 was also made upon refinancing. On March 1, 2008, the note matured. However the financial institution extended the term of the note until July 2, 2008. A principal payment of \$550,000 was made on March 31, 2008. At June 30, 2008, the note principal of \$1,100,000 and accrued interest of \$28,188 were outstanding.

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STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 9 - 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, 2008.

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, 2008. The present value of the interests in both trusts increased by \$130,825 during the year ended June 30, 2008.

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

In Fiscal Year 2008, the Foundation received notice that it was the beneficiary of a perpetual trust from an individual who passed away in FY 2008. Per the terms of the trust agreement, the assets will be used to establish a foundation from which the SIUE Foundation will receive annual distributions. The value of the assets was \$1,115,071 at June 30, 2008 and the SIUE Foundation will receive 50% of the distributions. The present value of the perpetual stream of income was recorded in FY 2008 financial statements as a contribution in the amount of one half of the asset value, or \$557,535.

NOTE 10 - 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.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - COLLECTION OF ARTWORK AND HISTORICAL TREASURES (continued)

During fiscal year 2004, the Foundation valued additional items from the estate and the University Museum estimated the value at \$1,476,960, a majority 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, a majority 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, a majority 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.

During fiscal year 2008, the Foundation valued additional items from the estate and the University Museum estimated the value at \$2,335, all of which were sold, with the proceeds going to benefit the university Museum.

NOTE 11 - 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, 2007, from where the summarized information was derived.

NOTE 12 - SUBSEQUENT EVENT

On July 2, 2008, 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. The Foundation issued a note payable on July 2, 2008 with an interest rate of 3.95% for the principal amount of the revenue bonds payable.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 – SUBSEQUENT EVENT (continued)

The aggregate payments on the note payable through note maturity of July 2, 2013 are as follows:

NOTE PAYABLE	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ 43,450	\$ 43,450
2010	-	43,450	43,450
2011	-	43,450	43,450
2012	-	43,450	43,450
2013	<u>1,100,000</u>	<u>43,450</u>	<u>1,143,450</u>
	<u>\$ 1,100,000</u>	<u>\$ 217,250</u>	<u>\$ 1,317,250</u>

NOTE 13 – SUBSEQUENT DECLINE IN INVESTMENTS

During 2008, investment markets experienced significant volatility and a general decline in values. As reported in the accompanying financial statements, the value of the Foundation's investment portfolio also declined.

Subsequent to June 30, 2008, and through October 31, 2008, the fair value of the Foundation's long-term investments declined in value from \$18,206,869 to approximately \$14,700,000. The composition of these declines was primarily due to unrealized losses partially off-set by investment gains.

Since the values of the Foundation's investments fluctuate with market conditions, the amount of investment gains or losses that will be recognized in future financial statements, if any, cannot be predicted.



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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
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, 2008, and have issued our report thereon dated November 24, 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 08-1, 08-2 and 08-3 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 also noted certain matters which we have reported to management of the Foundation in a separate letter dated November 24, 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 Horwath LLP

Chicago, Illinois
November 24, 2008

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2008

CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS

08-1 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. 08-1, 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 the financial reporting process. In addition, the Board of Directors should evaluate management's identification of fraud risks and implementation of anti-fraud measures.

STATE OF ILLINOIS
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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2008

Management Response

Management agrees that establishing a formal assessment program would provide a framework for a regular, on-going review of internal controls. Management will initiate the development of this program during the current fiscal year in coordination with the Foundation Board or the appropriate standing committee of the Foundation Board.

08-2 Review of Other Assets Detail

The Foundation owns a large museum collection currently valued at \$4.5 million which is maintained in a secure facility and throughout various departments at the University. The Foundation maintains an asset listing for the collection; however, inventory spot checks on the existence and condition of the assets are not performed on a periodic basis, making the historical artifacts vulnerable to misappropriation without the knowledge of the institution.

During our testing of internal controls, we noted that one asset on the listing could not be located. Specifically, a white jade goddess on a green wooden stand with an estimated value of \$1,000 could not be located during our testing.

Strong internal controls dictate that periodic observations or reconciliations should be performed on Capital Assets and other assets of high monetary value.

Failure to perform periodic independent spot checks of these assets could result in the misappropriation of assets.

Foundation management indicated they did not deem the performance of spot checks on these assets necessary. (Finding Code No. 08-2)

Recommendation

We recommend the Foundation perform periodic spot checks on the existence and condition of museum artifacts.

Management Response

The staff of the University Museum maintains meticulous records on assets administered and housed by the Museum. Activity related to these assets is immediately reported to Foundation management. Management does rely on Museum staff for maintaining appropriate documentation related to Foundation owned assets.

Given the estimated value of the Foundation owned assets, it would be appropriate to further increase controls by implementing a system of periodically inventorying a sample of these assets. Management will determine the most efficient and effective way to implement these procedures during the current fiscal year.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2008

08-3 Segregation of Duties over Investments

During the period of April 2008 through June 2008, the Executive Director reconciled the investment statements including the year end reconciliation with no secondary review of the reconciliation process. In addition, the Executive Director has the ability to initiate investment transactions.

Strong internal controls require that in order for an entity to have effective control over a process, the control structure should be properly designed and control activities should be implemented. Thus, if the control structure over a process is not properly designed to restrict management from being able to override the control activities in place for that process, the entity would not have adequate control over preventing or detecting inappropriate actions made by management during that process.

Foundation management indicated that one member of the Foundation's accounting staff was on an extended leave of absence. This resulted in the Executive Director taking over the investment reconciliation process during this time period.

This weakness in the design of the control system over the investment process could result in management override of controls and thus result in an inappropriate investment activity being made by management that is not prevented or detected by the entity. (Finding Code No. 08-3)

Recommendation

We recommend that investment statements be reconciled to the general ledger by an individual independent of the investment authorization function. Additionally, investment reconciliations should be reviewed and approved by an independent, authorized individual.

Management Response

Management agrees that the risks of management override of controls should be minimized through appropriate segregation of duties. As indicated, the reconciliation was performed by an individual who would not normally perform these duties due to an extended leave of absence in the accounting staff. Due to the small staff size, the duties were temporarily performed by the only other person familiar with Foundation investments, the Executive Director.

Investment reconciliations were reviewed in detail by the external auditors and no discrepancies were noted. When the employee returned from leave, the duties were re-assigned according to existing procedures. Management will continue to enforce proper segregation of duties whenever possible and look for opportunities to utilize other staff members to minimize issues that arise due to unusual and unforeseen circumstances.

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE FOUNDATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2008

PRIOR FINDINGS NOT REPEATED

A. Bank Reconciliations Not Completed Timely

In the prior year, 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.

In the current year, bank statements were all performed within 30 days of the end of the month.
(Finding Code No. 07-2)