

State of Illinois
The Alumni Association
of Southern Illinois University Edwardsville

FINANCIAL AUDIT

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

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

State of Illinois
The Alumni Association
of Southern Illinois University Edwardsville

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*Note: Presented under separate cover.

State of Illinois
The Alumni Association
of Southern Illinois University Edwardsville

ALUMNI ASSOCIATION OFFICIALS

June 30, 2005

The Alumni Association Board of Directors:

Ms. Elzora P. Douglas, President
Mr. Edward T. Pinnell, Immediate Past President
Mr. Larry R. Lexow, President Elect
Ms. Marcia Wickenhauser, Vice President
Mr. Roger Belshe
Ms. Ann Ficken
Mr. Ajay K. Kansal
Mr. Frank A. Nave
Ms. Debra O'Neill
Mr. John Simmons
Mr. Christopher Slusser
Ms. Janet Sprehe
Mr. Michael Stewart

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

Director of Alumni Affairs
Assistant Director of Alumni Affairs
Administrative Assistant

Mr. Remy Billups, through July 12, 2005
Mrs. Anna Pugh-Dunham
Mrs. Melissa Ocepek

Alumni Association offices are located at:

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

State of Illinois
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of Southern Illinois University Edwardsville

FINANCIAL STATEMENT REPORT
SUMMARY

June 30, 2005

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

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



Independent Auditors' Report

Honorable William G. Holland
Auditor General, State of Illinois
and
Board of Directors
The Alumni Association
of Southern Illinois University Edwardsville

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the Alumni Association of Southern Illinois University Edwardsville (the "Association"), a component unit of Southern Illinois University, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2004 financial statements and, in our report dated September 20, 2004, we expressed an unqualified opinion on those financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2005, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Kuhner, Eck & Brantner LLP

Springfield, Illinois
September 20, 2005

State of Illinois
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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2005

Introduction

Following this discussion and analysis are the financial statements for the Alumni Association of Southern Illinois University Edwardsville (Alumni Association). Significant changes have been made to the financial statement format in recent years due to the implementation of 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 Statement No. 35 | <i>Basic Financial Statements - and Management's Discussion and Analysis -For Public Colleges and Universities</i> |
| GASB Statement No. 37 | <i>Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus</i> |
| GASB Statement No. 38 | <i>Certain Financial Statement Note Disclosures</i> |

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

This discussion and analysis will identify the financial statements and their relationship to each other, explain significant changes implemented this fiscal year, and outline any additional facts, decisions, or conditions that are expected to have a significant effect on the financial position of the Alumni Association.

Financial Statements

The three financial statements presented for fiscal years 2005 and 2004 are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The format is intended to provide the financial statement user with a better indication of the resources available to the organization and the existing commitments against those resources.

The Statement of Net Assets for the Alumni Association identifies all assets (resources) in order of their liquidity, and lists all liabilities (commitments) in order of their term length. The Statement of Net Assets is presented in a manner that indicates the level of restriction, if any, placed on the net assets. The Alumni Association reports \$ 241,736 in net assets at June 30, 2005, of which \$ 240,830 are unrestricted and \$ 906 are invested in capital assets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2005

SIUE Alumni Association Net Assets
(in thousands of dollars)

| | <u>June 30,</u> | | |
|----------------------------------|-----------------|---------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
| Assets | | | |
| Current assets | \$ 170 | \$ 73 | 132.9 % |
| Non-current assets | <u>147</u> | <u>193</u> | -23.8 % |
| Total assets | 317 | 266 | 19.2 % |
| | | | |
| Total current liabilities | <u>75</u> | <u>52</u> | 44.2 % |
| | | | |
| Total net assets | <u>\$ 242</u> | <u>\$ 214</u> | 13.1 % |

The Net Assets of the Alumni Association increased by 13.1%, due primarily to the increase in the cash and investments accounts held by the Alumni Association. Cash and investments in total increased by \$ 37,220 from a nearly 7% gain on the Alumni Association's investment portfolio in addition to an operating profit from ordinary operations that will be discussed in the next section.

Current Liabilities increased by 44.2% when comparing June 30, 2005 to June 30, 2004. This increase can be attributed to a change in how the Alumni Association recognizes its income from Life Membership Dues. According to current policy, which was implemented last year, life dues are recognized over a 5 year period to better match the period of time over which these members will receive their benefits. This policy has the effect of lowering the amount of revenue recorded and increasing the liabilities for the first few years of implementation in comparison to previous policy. Regarding the Statement of Net Assets overall, the 13.1% increase in net assets was anticipated and is in line with a 15.7% increase in net assets when comparing June 30, 2003 to June 30, 2004.

SIUE Alumni Association Revenues, Expenses and Changes in Net Assets
(in thousands of dollars)

| | <u>FY 2005</u> | <u>FY 2004</u> | <u>% Change</u> |
|---------------------------------|----------------|----------------|-----------------|
| Total operating revenues | \$ 262 | \$ 288 | -9.0% |
| Operating expenses: | | | |
| Activities | 19 | 18 | 5.6% |
| Budget expended at SIU | 173 | 174 | -0.6% |
| Postage and publications | 31 | 61 | -49.2% |
| Other operating expenses | <u>27</u> | <u>32</u> | -15.6% |
| Total operating expenses | 250 | 285 | -12.3% |
| | | | |
| Operating income | 12 | 3 | 300.0 % |
| Non-operating revenues | <u>16</u> | <u>26</u> | -38.5 % |
| | | | |
| Increase in net assets | <u>28</u> | <u>29</u> | -3.4 % |
| Net assets-July 1 | <u>214</u> | <u>185</u> | 15.7 % |
| Net assets-June 30 | <u>\$ 242</u> | <u>\$ 214</u> | 13.1 % |

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2005

The Statement of Revenues, 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 non-operating activity. The Increase in Net Assets of \$ 27,660, which is presented near the end of the statement, reflects the overall increase in available financial resources experienced during FY 2005.

The decrease in Operating Revenues of 9.0 % was due to a couple of specific situations. First, the activities income of the Alumni Association was down approximately \$ 5,200 in FY 2005 due to the cancellation of some events. Cancellation was recommended after the events did not acquire enough interest to proceed. All indications are that these events and possibly additional events will be scheduled next year to attempt to increase participation by Alumni. Additionally, there was a decrease of approximately \$ 17,000 in SIUE Foundation support. This represents the amount of funds spent by the SIUE Foundation on behalf of the Alumni Association. In the past, most of these funds were spent on printing the quarterly SIUE Alumni newsletter. This publication has been temporarily halted as the Alumni Association and University Marketing and Communications personnel review the publication and determine how best to publish the information while achieving the maximum benefit for the Alumni Association and University. Since there is a corresponding expense for items paid for by the Foundation however, this decrease does not affect the change in net assets for the Association. The decrease related to this situation can be seen under Operating Expenses, in the Publications line. The significant decrease in this line is due primarily to the temporary discontinuance of the newsletter.

A significant item to note is the Budget expended at SIUE line, part of Operating Expenses. This represents the salaries and benefits of the Alumni Association employees that are provided by the University. There is a corresponding amount of revenue included under Operating Revenues on the first line of the Statement of Revenues, Expenses and Changes in Net Assets presented on the previous page. Consequently, this has no impact on the Alumni Association's Net Assets.

Non-Operating Revenues decreased by approximately \$ 10,000 and is due almost entirely to the decrease in earnings from the Alumni Association investment portfolio. Though a return of 7% was earned in FY 2005, the previous year saw gains in excess of this amount that caused the comparison to look negative. However, a 7% gain on investments is reasonable and acceptable for the Alumni Association investments in this year and any year going forward.

The final statement presented is the Statement of Cash Flows. The primary purpose of this statement is to categorize all cash transactions into operating, financing, and investing activities, and reconcile the cash flows provided by operating activities to the Operating Income as presented on the Statement of Revenues, Expenses and Changes in Net Assets. During the fiscal year, the Alumni Association experienced a cash increase of \$ 21,996. This is consistent with and relatively equal to the cash increase last year of \$ 20,426.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2005

Cash flows from operating activities were \$ 21,678, a slight decrease from the last fiscal year. Most items were stable compared to last year, including major revenues such as dues from Association memberships and commissions from the affinity credit card program. Cash Flows from Investing Activities consist merely of interest income, and there are no other significant variances or items to point out on the Statement of Cash Flows for FY 2005.

Facts, Decisions, or Conditions Significantly Affecting Net Assets

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

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STATEMENT OF NET ASSETS

June 30, 2005
(with comparative totals for 2004)

| | <u>2005</u> | <u>2004</u> |
|--|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash (Note C3) | \$ 65,424 | \$ 43,428 |
| Short-term investments (Note C3) | 87,200 | 27,264 |
| Interest receivable | 783 | 783 |
| Other receivables | 7,584 | 450 |
| Prepaid expenses | <u>8,656</u> | <u>949</u> |
| Total current assets | <u>169,647</u> | <u>72,874</u> |
| Non-current assets | | |
| Capital assets, net of accumulated depreciation (Note D) | 906 | 1,992 |
| Investments (Note C3) | <u>146,446</u> | <u>191,158</u> |
| Total non-current assets | <u>147,352</u> | <u>193,150</u> |
| Total assets | <u>316,999</u> | <u>266,024</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable - SIUE | 5,802 | 3,679 |
| Accounts payable - other | 8,152 | 9,530 |
| Deposits held in custody | 1,079 | 1,079 |
| Deferred revenue (Note A7) | <u>60,230</u> | <u>37,660</u> |
| Total current liabilities | <u>75,263</u> | <u>51,948</u> |
| NET ASSETS | | |
| Net assets | | |
| Invested in capital assets, net of related debt | 906 | 1,992 |
| Unrestricted | <u>240,830</u> | <u>212,084</u> |
| Total net assets | <u>\$ 241,736</u> | <u>\$ 214,076</u> |

The accompanying notes are an integral part of this statement.

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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| Operating revenues | | |
| Activities | \$ 8,949 | \$ 14,155 |
| Annual dues | 33,041 | 32,717 |
| Budget allocations from SIUE (Note G) | 172,598 | 173,546 |
| Life memberships | 3,966 | 12,194 |
| Miscellaneous | 71 | 499 |
| SIUE Foundation Support (Note G) | 21,807 | 38,818 |
| Commissions (Note E) | <u>21,561</u> | <u>15,944</u> |
| Total operating revenues | <u>261,993</u> | <u>287,873</u> |
| Operating expenses | | |
| Activities | 19,038 | 18,169 |
| Administrative | 2,857 | 2,086 |
| Audit fees | 4,717 | 9,000 |
| Awards and scholarships | 12,086 | 10,286 |
| Budget expended at SIUE (Note G) | 172,598 | 173,546 |
| Miscellaneous | 4,410 | 4,798 |
| Depreciation (Note D) | 1,086 | 1,087 |
| Postage | 15,526 | 19,504 |
| Publications | 15,455 | 41,089 |
| Travel | <u>2,103</u> | <u>4,965</u> |
| Total operating expenses | <u>249,876</u> | <u>284,530</u> |
| Operating income | <u>12,117</u> | <u>3,343</u> |
| Non-operating revenues | | |
| Contributions | 100 | 35 |
| Investment income (Note C1) | 8,756 | 6,593 |
| Net change in fair value of investments (Note C1) | <u>6,687</u> | <u>18,931</u> |
| Net non-operating revenues | <u>15,543</u> | <u>25,559</u> |
| Increase in net assets | 27,660 | 28,902 |
| Net assets | | |
| Net assets - beginning of year | <u>214,076</u> | <u>185,174</u> |
| Net assets - end of year | <u>\$ 241,736</u> | <u>\$ 214,076</u> |

The accompanying notes are an integral part of this statement.

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STATEMENT OF CASH FLOWS

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

| | <u>2005</u> | <u>2004</u> |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Payments received for annual dues | \$ 32,305 | \$ 34,170 |
| Payments received for life memberships | 27,272 | 19,830 |
| Commissions received | 18,447 | 15,944 |
| Payments received for activities | 8,782 | 4,493 |
| Miscellaneous cash receipts | 71 | 499 |
| Payments to the Foundation (note G) | (5,280) | (3,480) |
| Payments to SIUE (note G) | (25,987) | (33,938) |
| General and operating payments | <u>(33,932)</u> | <u>(17,258)</u> |
| Net cash provided by operating activities | <u>21,678</u> | <u>20,260</u> |
| Cash flows from noncapital financing activities | | |
| Contributions for other than capital purposes | <u>100</u> | <u>35</u> |
| Net cash provided by noncapital financing activities | <u>100</u> | <u>35</u> |
| Cash flows from investing activities | | |
| Interest income | <u>218</u> | <u>131</u> |
| Net cash provided by investing activities | <u>218</u> | <u>131</u> |
| Net increase in cash | 21,996 | 20,426 |
| Cash - beginning of year | <u>43,428</u> | <u>23,002</u> |
| Cash - end of year | <u>\$ 65,424</u> | <u>\$ 43,428</u> |
| Reconciliation of net operating income to net cash provided by operating activities | | |
| Operating income | \$ 12,117 | \$ 3,343 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation expense | 1,086 | 1,087 |
| Changes in assets and liabilities | | |
| Receivables | (7,134) | (450) |
| Prepaid expenses | (7,706) | 7,605 |
| Payables | 745 | 9,415 |
| Other Liabilities | <u>22,570</u> | <u>(740)</u> |
| Net cash flows provided by operating activities | <u>\$ 21,678</u> | <u>\$ 20,260</u> |

The accompanying notes are an integral part of this statement.

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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial Reporting Entity

The Alumni Association of Southern Illinois University Edwardsville (the "Association") exists for the primary purpose of aiding and assisting Southern Illinois University Edwardsville ("SIUE" or "University") in achieving its educational, research and service goals and responsibilities.

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

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

2. Financial Statement Presentation

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

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

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Basis of Accounting

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

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

4. 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.

5. Investments

The Association accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the fair value of investments are reported in the nonoperating section of the accompanying statement of revenues, expenses, and changes in net assets. Also, certain money market investments having a remaining maturity of one year or less at the time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. *Capital Assets*

Property and equipment purchased by the Alumni Association are recorded at cost. For equipment, the Alumni Association's capitalization policy includes all items with a unit cost of \$ 1,000 or more, and an estimated useful life of greater than one year. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

7. *Deferred Revenue*

During the year ended June 30, 2004, the Alumni Association changed to an accounting method of recognizing revenue on lifetime memberships ratably over a 5 year period beginning with the first year after receipt. Previously Life memberships were recognized in the year of receipt. Annual memberships are recognized over a twelve month period beginning the month after receipt. Deferred revenue represents the unexpired portion of dues received.

8. *Net Assets*

The Association's net assets are classified as follows:

- **Invested in capital assets, net of related debt:** This represents the Association's total investment in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations, if any, related to those capital assets.
- **Restricted:** Restricted net assets include resources for which the Association is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The Association has no restricted net assets at June 30, 2005.
- **Unrestricted:** Unrestricted net assets represent resources used for transactions relating to the educational and general operations of the Association, and may be used at the discretion of the governing board to meet current expenses for any purpose.

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

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Classifications of Revenues and Expenses

The Association has classified its revenues and expenses as either operating or non-operating according to the following criteria:

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

NOTE B - TAX STATUS

An IRS ruling dated September 1973, determined that the Association qualifies for federal income tax exemption under Section 501(c)(3). The IRS has further determined that the Association is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section 509(a)(3).

NOTE C - CASH AND INVESTMENTS

1. Investments

Investments are reported at fair value. The fair value is determined to be the amount, usually quoted market prices, at which financial instruments could be exchanged in a current transaction between willing partners. 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. The net increase in the fair value of investments was \$ 6,687 for 2005. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE C - CASH AND INVESTMENTS - Continued

1. Investments - Continued

Investment income for the year ended June 30, 2005, of \$ 8,537 combined with operating account interest of \$ 219 is reported as investment income on the statement of revenues, expenses and changes in net assets.

2. Investment Policy

The Association has no written investment policy. The Association's Board of Directors practice a self directed approach to investing in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the Association and conforming to all statutes governing the investments of funds.

3. Cash and Investment Risks

Custodial Credit Risk

Deposits: The risk that, in the event of the failure of a depository financial institution, the Association will not be able to recover deposits that are in the possession of an outside party. The Association's informal policy is to maintain balances below the Federal Deposit Insurance Corporation's (FDIC) limit. The carrying amount of cash in bank at June 30, 2005, is \$ 65,424, all of which is insured by FDIC.

Investments: The risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments that are in the possession of an outside party. The carrying amount of the Association's investment securities held by the counterparties at June 30, 2005, is as follows:

| | |
|-------------------------|-------------------|
| Corporate bonds | \$ 50,395 |
| Common stock | 43,643 |
| Mutual funds - equities | 107,303 |
| Cash and equivalents | <u>32,305</u> |
| Total investments | <u>\$ 233,646</u> |

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE C - CASH AND INVESTMENTS - Continued

3. *Cash and Investment Risks - Continued*

Custodial Credit Risk - Continued

The investment custodian holds these investments in its name for benefit of the Association. The Association does not maintain a policy regarding custodial credit risk.

Foreign currency risk: The risk that changes in exchange rates will adversely affect the investment. The Association does not have any foreign investments at June 30, 2005. The Association does not maintain a policy regarding foreign currency risk.

Credit risk: The risk that an issue or other counterparty to an investment will not fulfill its obligations. The Association has corporate bond investments of \$ 50,395 which are rated BBB by Standard & Poor's, BBB by Fitch and Baa3 by Moody's. The Association does not have any fixed income mutual funds in its portfolio.

Concentration of credit risk: The risk of loss attributable to the magnitude of investment in a single issuer. The Association does not maintain a policy regarding concentration of credit risk. At June 30, 2005, the Association has investments in one entity's corporate bonds of \$ 50,395, which represents approximately twenty-two (22) percent of its portfolio.

Interest rate risk: The risk that changes in interest rates will adversely affect the fair value of an investment. The Association does not maintain a policy regarding interest rate risk. However, the Board's overall approach to risk management requires sound investment decisions and diversification.

As of June 30, 2005, the Association had the following cash and investment balances:

Internally Managed Investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | |
|-------------------------|-------------------|---|--------------------|
| | | <u>Less than 1</u> | <u>More than 1</u> |
| Corporate bonds | \$ 50,395 | \$ 50,395 | \$ - |
| Common stock | 43,643 | na | - |
| Mutual funds - equities | 107,303 | na | - |
| Cash and equivalents | <u>32,305</u> | <u>32,305</u> | <u>-</u> |
| Total investments | <u>\$ 233,646</u> | <u>\$ 87,200</u> | <u>\$ -</u> |

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE D - CAPITAL ASSETS

As a result of the adoption of GASB Statement No. 35, the Association has recognized depreciation on its capital assets. Capital assets consist of the following:

| | Balance <u>July 1, 2004</u> | <u>Additions</u> | <u>Retirements</u> | Balance <u>June 30, 2005</u> |
|-------------------------------------|--------------------------------|-------------------|--------------------|---------------------------------|
| Equipment | \$ 3,260 | \$ - | \$ - | \$ 3,260 |
| Less accumulated depreciation | <u>(1,268)</u> | <u>(1,086)</u> | <u>-</u> | <u>(2,354)</u> |
| Capital assets, net of depreciation | <u>\$ 1,992</u> | <u>\$ (1,086)</u> | <u>\$ -</u> | <u>\$ 906</u> |

NOTE E - CREDIT CARD ARRANGEMENT

The Association entered into an agreement with MBNA America Bank, N.A. (the "Bank") whereby the Association and the Bank will market the Bank's credit card services to University students, alumni, employees and others, using the Association's name and logo. In conjunction with this agreement, the Association will receive certain fees and royalties based upon each new account opened and amounts charged on these accounts.

Fees or royalties earned were \$ 19,824 for 2005, which are included with commissions in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2005.

NOTE F - RETIREMENT PLAN

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

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NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE F - RETIREMENT PLAN - Continued

During 2005, SIUE contributed \$ 11,363 to the Plan on behalf of Association personnel. This amount is included in the amounts shown as Budget allocations from SIUE and Budget expended at SIUE in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

NOTE G - TRANSACTIONS WITH RELATED PARTIES

The Association receives benefits from an agreement between the Board of Trustees of SIUE and the Foundation, which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997. Under the terms of the contract, the Foundation provides coordination of alumni services on behalf of SIUE and provides various services to the Association without charge. The Foundation expended \$ 21,807 in 2005, as reimbursement to SIUE on the Association's behalf. This amount is reflected as SIUE Foundation Support in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

The Association also uses various services of SIUE and directly reimburses SIUE at a cost equal to that charged by SIUE to other users. The Association expended \$ 25,987 in 2005 to SIUE. The Association also expended \$ 5,280 in 2005 to the Foundation for support of Foundation activities. Both amounts are reflected as payments to related organizations in the Statement of Cash Flows.

Pursuant to governmental accounting standards, the Association 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 Association. The amount reflected as Budget allocations from SIUE and Budget expended at SIUE in the accompanying Statement of Revenues, Expenses and Changes in Net Assets totaled \$ 172,598 for the year ended June 30, 2005.

NOTE H - SUMMARIZED FINANCIAL INFORMATION

The financial statements include 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 organization's financial statements for the year ended June 30, 2004, from where the summarized information was derived.