

**Southern Illinois University  
Edwardsville Foundation**

Financial Report

06.30.2010

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## Southern Illinois University Edwardsville Foundation

### Agency Officials

June 30, 2010

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#### The Foundation's Board of Directors:

Mr. Thomas M. Allen	Mr. Larry R. Lexow
Mr. Gordon Broom	Mr. Robert E. McClellan, Jr.
Mr. Allen Cassens	Mrs. Mara Meyers
Mrs. Sandra Hardy Chinn	Ms. Susan W. Nall
Mr. John J. Conrad	Mr. David M. Oates
Mrs. Judy A. Dailey	Mr. John E. Oeltjen
Mr. Ted Eilerman	Ms. Patricia Peverly
Mr. Byron Farrell	Mr. Lendell A. Phelps, Jr.
Mr. James C. Fowler	Mr. Robert L. Plummer
Mr. John A. Fruit	Dr. Glenn Poshard
Dr. Kathy J. Gugger	Mr. James R. Rankin, Sr.
Mr. Alfred C. Hagemann	Mr. Clinton H. Rogier
Mrs. Rita A. Hardy	Dr. Neal W. Roller
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Mr. Thomas Holloway	Mr. Gerard Schuetzenhofer
Mr. Patrick Hundley	Mr. Mark Shashek
Mr. Merle Inman	Mrs. Ellen Sherberg
Ms. Maxine Johnson	Mr. Mark Showers
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Mr. Ajay Kansal	Mr. Duane O. Steiner
Mr. Kevin Kauhold	Mr. Dennis M. Terry
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Mr. Dale V. Keller	Dr. Vaughn Vandegrift
Ms. Lisa L. Klaustermeier	Mr. Michael N. Wenzel
Mr. Walter R. Knepper	Mr. Robert A. Wetzel
Mr. Ralph F. Korte	Dr. Brent Wohlford

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

Chief Executive Officer	Mr. Patrick Hundley
Executive 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



## Independent Auditor's Report

To the Board of Directors  
Southern Illinois University Edwardsville Foundation  
Edwardsville, Illinois

We have audited the accompanying financial statements of the Southern Illinois University Edwardsville Foundation (Foundation), a component unit of the Southern Illinois University Edwardsville, as of and for the years ended June 30, 2010 and 2009, 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 audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Southern Illinois University Edwardsville Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Illinois University Edwardsville Foundation as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years 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 reports dated November 10, 2010 for the year ended June 30, 2010, and dated November 30, 2009 for the year ended June 30, 2009 on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of our reports are 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the 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 representation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*McGladrey & Pullen, LLP*

Springfield, Illinois  
November 10, 2010

## **Southern Illinois University Edwardsville Foundation**

### **Management Discussion and Analysis Years Ended June 30, 2010 and 2009**

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#### **Introduction**

Following this discussion and analysis are the financial statements for the Southern Illinois University Edwardsville Foundation (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.

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 Statement Highlights**

The three financial statements presented are the statements of net assets, statements of revenue, expenses and changes in net assets and statements of cash flows. The statements of net assets show all assets (resources) listed in order of their liquidity and all liabilities (commitments) 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 reported net assets of approximately \$31,296,000, \$28,660,000 and \$29,883,000 as of June 30, 2010, 2009 and 2008, respectively. Total net assets increased by approximately \$2,636,000 from fiscal year 2009 to 2010 and decreased by approximately \$1,223,000 from fiscal year 2008 to 2009.

The increase in net assets for fiscal year 2010 of approximately 9.2% is more representative of the expected growth of the SIUE Foundation than the previous two years. The major contributing factor was investment returns in the endowment portfolio which were poor in fiscal year 2008 at (5%), but even worse in fiscal year 2009 at (23%), a loss that could be described as unprecedented. Fiscal year 2010 brought a partial recovery of investment returns with a welcome 10% gain that still did not bring the endowment portfolio back to previous highs, but did contribute to an increase in net assets of approximately \$1,200,000.

Financial highlights are presented over the next few paragraphs with a review of the condensed versions of the financial statements.

## Southern Illinois University Edwardsville Foundation

### Management Discussion and Analysis Years Ended June 30, 2010 and 2009

#### Condensed Statements of Net Assets

	June 30, 2010	June 30, 2009	% Change '10 - '09	June 30, 2008	% Change '09 - '08
<i>(Dollars in Thousands)</i>					
Assets:					
Current assets	\$ 4,555	\$ 8,227	(44.6%)	\$ 4,356	88.9%
Capital assets, net of depreciation	2,310	2,343	(1.4)	2,214	5.8
Noncurrent assets	25,221	20,128	25.3	25,251	(20.3)
<b>Total assets</b>	<b>32,086</b>	<b>30,698</b>	<b>4.5</b>	<b>31,821</b>	<b>(3.5)</b>
Liabilities:					
Current liabilities	210	335	(37.4)	351	(4.4)
Noncurrent liabilities	580	1,703	(65.9)	1,587	7.3
<b>Total liabilities</b>	<b>790</b>	<b>2,038</b>	<b>(61.2)</b>	<b>1,938</b>	<b>5.2</b>
Net Assets:					
Invested in capital assets	2,310	1,243	85.8	1,114	11.6
Restricted	28,555	26,694	7.0	28,229	(5.4)
Unrestricted	431	723	(40.4)	540	33.8
<b>\$ 31,296</b>	<b>\$ 28,660</b>	<b>9.2%</b>	<b>\$ 29,883</b>	<b>(4.1%)</b>	

Current assets decreased by nearly \$3.7 million, or 45% from fiscal year 2009. This decrease is due to the receipt of an estate that was included as a current receivable in fiscal year 2009. Note 10 in these financial statements provides more detail on this gift. Upon receipt of this generous gift, a majority of the proceeds were invested in the Foundation's non-endowment portfolio.

In addition to the gains experienced in the endowment portfolio, this gift also contributed to the increases in both the cash and cash equivalents line and the noncurrent investments total compared to the previous fiscal year. Changes in other items included in current assets were relatively insignificant in year over year comparisons.

Noncurrent assets increased by approximately \$5 million, or 25%. In addition to the two factors identified above, another significant variance is in the amount of noncurrent pledges outstanding. The decrease was \$1.7 million down to \$570,000 at the end of fiscal year 2010. This decrease was due to the payment of \$1,042,000 toward a pledge committed to a program within the School of Dental Medicine. The pledge was gratefully accepted earlier than anticipated; there is an additional \$225,000 pledge still to be received from this donor.

Capital asset activity for the year ended June 30, 2010 was insignificant.

In fiscal year 2009, total assets decreased by \$1,123,000 or 3.5% from fiscal year 2008. Current assets increased by \$3,871,000 or 88.9%, primarily the result of an increase in short term investments, other receivables, and pledges receivable, offset by a decrease in cash and cash equivalents of \$2,391,000. Noncurrent assets decreased by \$5,123,000, primarily the result of the investment losses mentioned previously in the amount of \$2,947,000, and the transfer of \$3,656,000 of assets classified as assets held for resale to the University.

Total assets decreased by approximately \$1,755,000 or 5.2%, in fiscal year 2008 compared to fiscal year 2007, primarily related to the decrease in fair market value of investments.

## **Southern Illinois University Edwardsville Foundation**

### **Management Discussion and Analysis Years Ended June 30, 2010 and 2009**

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Capital asset activity for the year ended June 30, 2009 was insignificant.

The liabilities of the Foundation decreased significantly in fiscal year 2010 going from \$2,038,000 to \$790,000, a decrease of 61%. The primary reason for the decrease was related to the estate gift mentioned previously and also described in Note 10 at the end of these statements. A portion of this gift was used to pay the remaining outstanding principal on a loan that was entered into originally in fiscal year 1998. The proceeds from this loan in the original amount of \$2 million was used to construct B. Barnard Birger Hall, a facility on the SIUE campus that houses the SIUE Foundation, the SIUE Alumni Association, and one SIUE department. The Foundation board celebrated with a mortgage burning ceremony at the February, 2010 board meeting.

Total Liabilities increased in fiscal year 2009 by approximately \$100,000 due to normal operating expenses. In fiscal year 2008 however, total liabilities decreased by \$417,000 or 17.7% from 2007 due to a principal payment of \$550,000 on the Birger Hall bond issue.

There was no bond payable activity for the year ended June 30, 2009.

Net asset components include invested in capital assets, net of related debt, up 85.8%, restricted expendable, restricted non-expendable, together up 7%, and unrestricted net assets, down 40.4%. The 85.9% increase in the net assets invested in capital assets was due to the payoff of the Birger Hall bonds mentioned in the previous paragraph. Capital assets primarily include the Foundation's facility, Birger Hall, the University Gardens facilities, and miscellaneous equipment, computer hardware, and software. Total capital assets net of depreciation as of June 30, 2010, 2009 and 2008 were \$2,310,367, \$2,343,039 and \$2,213,662, respectively. See Note 4 to the financial statements.

The 40.4% decrease in unrestricted net assets is due to the expenses related to the conversion of the fundraising and accounting software used by the Foundation and Alumni Association. In fiscal year 2010, budget was set aside to proceed with this conversion since the current software was outdated and was going to stop being supported by the vendor. The funds to accomplish the conversion are covered by Foundation controlled funds that have no donor restrictions attached, and are therefore considered unrestricted.

Restricted non-expendable net assets decreased by \$2,378,000 or 16.1% primarily due to investment losses in the current fiscal year. Restricted expendable net assets increased by \$843,000 or 6% primarily related to the transfer of assets held for resale of \$3,656,000 to the University in fiscal year 2009, offset by an increase in capital projects and debt service of \$4,945,000, primarily as a result of the increase in other receivables due to a large trust receivable that is discussed in Note 10 to the financial statements.

## Southern Illinois University Edwardsville Foundation

### Management Discussion and Analysis Years Ended June 30, 2010 and 2009

#### Statement of Revenues, Expenses and Changes in Net Assets

	2010	2009	% Change '10 - '09	2008	% Change '09 - '08
<i>(Dollars in Thousands)</i>					
Operating revenue	\$ 4,603	\$ 8,439	(45.5%)	\$ 5,409	56.0%
Operating expenses:					
General and operating	492	461	6.7	421	9.3
Expenses for the benefit of SIUE	2,173	2,098	3.6	2,471	(15.1)
Transfer of gifts to SIUE	363	3,656	(90.1)	634	476.8
Other operating expenses	614	658	(6.7)	3,079	(78.6)
<b>Total operating expenses</b>	<b>3,642</b>	<b>6,873</b>	<b>(47.0)</b>	<b>6,605</b>	<b>4.1</b>
Operating income (loss)	961	1,566	(38.7)	(1,196)	(231.0)
Nonoperating revenue (expense):					
Net investment gains (loss)	1,577	(2,947)	(153.5)	(448)	(557.6)
Other nonoperating revenue (expenses)	(93)	(178)	(47.6)	(72)	(141.1)
<b>Total nonoperating revenue (expense)</b>	<b>1,484</b>	<b>(3,125)</b>	<b>(147.5)</b>	<b>(520)</b>	<b>(500.6)</b>
Income (loss) before permanent endowments	2,445	(1,559)	(256.8)	(1,716)	9.1
Contributions to permanent endowments	191	336	(43.2)	378	(10.7)
<b>Increase (decrease) in net         assets</b>	<b>\$ 2,636</b>	<b>\$ (1,223)</b>	<b>315.5%</b>	<b>\$ (1,338)</b>	<b>8.6%</b>
Total revenue	\$ 6,180	\$ 8,439	(26.8%)	\$ 5,409	56.0%
Total expenses	\$ 3,735	\$ 9,998	(62.6%)	\$ 7,125	40.3%

The statement of revenue, expenses and changes in net assets detail the activity for the fiscal year, including the change in net assets from last year due to this activity. The activity is segregated between operating activity and nonoperating activity. As stated earlier, the Foundation realized an increase in net assets of \$2,636,000 in Fiscal year 2010.

Operating revenues were approximately \$4,603,000 or 45.5% lower in fiscal year 2010 compared to fiscal year 2009. The primary factor affecting the decrease was the \$4.4 million estate gift mentioned previously. The estate gift was included in contributions under operating revenue in fiscal year 2009 thereby causing contributions in that year to be higher than normal. Excluding the estate gift, contributions increased around \$410,000, which is within the normal variance that occurs from year to year given the characteristics of this type of revenue. Operating revenues were \$3,029,000 or 56% higher in fiscal year 2009 compared to fiscal year 2008 which can also be attributed to the recognition of this estate gift. Operating revenues also increased in fiscal year 2008 from fiscal year 2007 by approximately \$1,186,000, primarily due to an increase in contribution revenue.

## **Southern Illinois University Edwardsville Foundation**

### **Management Discussion and Analysis Years Ended June 30, 2010 and 2009**

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Operating expenses decreased by approximately \$3,231,000, or 47% in fiscal year 2010 and increased by \$268,000 or 4.1% in fiscal year 2009. This variance was due primarily to the transfer of assets to SIUE in fiscal year 2009. The total Gifts to SIUE line in that year was approximately \$3,656,000 which included a transfer of numerous items from a museum collection that was previously held by the Foundation as an Asset Held for Resale. During fiscal year 2009, an agreement was reached whereby items in this collection totaling \$3,032,000 were transferred to SIUE to be used for educational purposes and no longer available for sale by the Foundation. The University will maintain these assets permanently or until such time as they dispose of them through the state of Illinois surplus asset procedures. There was no transfer to SIUE from the museum collection during fiscal year 2010.

Other variances in operating expenses included a decrease in grants to other organizations from approximately \$119,000 in fiscal year 2009 to \$0 in fiscal year 2010. The donor advised fund program was eliminated in fiscal year 2009 and the balance of the funds remaining was transferred to SIUE programs and other charities. Since the program was eliminated, there will be no grants to other organizations going forward.

A component of operating expenses is expenses for the benefit of SIUE. This represents expenses authorized and for the benefit of a school, college, department or unit of the University. Expenses in this category were down from fiscal year 2008 by approximately \$373,000 or 15.1%. This can be attributed to expenses related to two nonrecurring projects that occurred during fiscal year 2008, including the wrestling and volleyball facility and the School of Dental Medicine Clinic enhancement. This decrease helped offset the negative impact to net assets due to the transfers of assets to SIUE.

Operating expenses in fiscal year 2008 increased from fiscal year 2007 in the amount of \$3,071,000. This was due to a general increase in expenditures and various projects including planning expenses for the wrestling and volleyball facility and the School of Dental Medicine Clinic enhancement. More significantly, \$2,505,000 was granted to other organizations through the Donor Advised Fund program offered to SIUE donors. The grants were primarily from the requests of one donor who originally provided the funds to construct a wrestling and volleyball facility at SIUE. This facility was not built and the donor requested that most of his funds be transferred to other charities. At the end of fiscal year 2008, the Foundation Board voted to discontinue the program and most of the remaining assets were transferred out of the program.

In the non-operating revenue, net of non-operating expenses section, the total for fiscal year was approximately \$1,484,000 compared to (\$3,124,000) in fiscal year 2009 and (\$520,000) in fiscal year 2008. The primary factor affecting this dramatic turnaround was the increase in investments in fiscal year 2010 and the losses in fiscal years 2009 and 2008, discussed in the section covering the statement of net assets. Contributing slightly to the increase in non-operating revenue, bond interest expense was also down slightly due to the payoff of the Birger Hall bonds in March of 2010. This was described earlier in this discussion and is also outlined in Note 8 of these financial statements.

A significant difference between fiscal year 2008 and fiscal year 2007 included in non-operating revenue was a \$344,000 gain on sale of assets when the Foundation sold a donated house and associated property that was used as the former offices of the Foundation and SIUE Alumni Association.

Also included in non-operating activity is a loss on the sale of assets in the amount of approximately \$129,000 in 2009. Approximately 500 items which were donated as part of the museum collection were sold at auction. These items were valued at approximately \$170,000 but sold for less than the book value. Proceeds of the sale are deposited in a fund that benefits the SIUE Museum. In fiscal year 2010, the loss was only approximately \$65,000, primarily from the sale of donated jewelry that was sold for below the appraised amount and from the sale of stock sold for less than the value on the day it was donated.

## **Southern Illinois University Edwardsville Foundation**

### **Management Discussion and Analysis Years Ended June 30, 2010 and 2009**

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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 income as presented on the statement of revenue, expenses and changes in net assets. During the fiscal year, the Foundation experienced an increase in cash and cash equivalents of approximately \$ 942,000 compared to a decrease in fiscal year 2009 of approximately \$2,390,000, and a decrease in fiscal year 2008 of \$678,000.

Cash used in fiscal year 2010 increased dramatically, primarily due to factors already detailed in this discussion. Cash flows from operating activities were much higher, nearly \$6.8 million higher than fiscal year 2009. This was due to the collection of the approximately \$4,400,000 estate gift and the collection of the approximately \$1,042,000 pledge previously mentioned, each of which were recorded as contributions for accounting purposes last year.

Cash used in fiscal year 2009 increased dramatically, primarily related to cash management purposes. Approximately \$1,500,000 in fixed income investments matured in the two weeks prior to the end of fiscal year 2008 and therefore resided in cash and cash equivalents at year end. These funds were reinvested in fiscal year 2009. The cash used in fiscal year 2009 of \$2,391,000 includes purchases of investments of nearly \$2,998,000. Therefore the cash used is not indicative of cash flowing out of the Foundation but rather a reallocation to longer term investments.

During fiscal year 2008, the Foundation experienced a decrease in cash and cash equivalents of \$678,000, compared to an increase in fiscal year 2007 of \$1,974,000. Cash used in fiscal year 2008 was significantly more than the prior 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 fiscal 2007 of a property held for resale in the amount of \$575,000.

Under cash flows from non-capital financing activities, payments of bond interest was down from approximately \$72,000 last year to only approximately \$27,000 this year due to the \$1.1 million payoff of the Birger Hall bonds, both of which are reflected as a cash outflow from financing activities. Also in this category is the purchase of capital assets which was approximately \$109,000 less than in fiscal year 2009 because of a capital project in the Gardens at SIUE that was completed primarily in fiscal year 2009.

Cash flows from investing activities was a net outflow of approximately \$4,502,000, versus approximately \$2,144,000 in fiscal year 2009. Interest income was down approximately \$220,000 due to lower interest rates on deposits. Income from gift-in-kind contributions was up by approximately \$38,000 thanks to significant gifts of stock that benefited the softball program. But the primary driver of the increase in outflows from investing activities was the investment of money coming into the Foundation. The estate gift, for example, came in as a cash equivalent and was immediately put to work in the non-endowment investment portfolio, which is laddered across all maturities to provide for increased income as well as the liquidity needed for ongoing expenditures from assets managed by the Foundation.

#### **Facts, Decisions or Conditions Significantly Affecting Financial Position**

**Assets Held for Resale:** As noted in the discussion on operating expenses, a portion of a collection of artwork and collectibles was transferred to SIUE in fiscal year 2009 and impacted the Foundation financial statements by reducing the net assets of the Foundation by approximately \$3,032,000. From the initial value of the collection of approximately \$6,000,000, the Foundation maintains assets with an assigned value of \$1,203,000 on the financial statements herein. In fiscal year 2011, it is expected that another portion of the assets will be transferred to SIUE for educational use. The Foundation intends to work with SIUE to make a decision on the remaining assets as to their sale, disposal, or transfer in the next fiscal year.

## **Southern Illinois University Edwardsville Foundation**

### **Management Discussion and Analysis Years Ended June 30, 2010 and 2009**

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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.

#### **Factors Influencing the Future**

The Foundation's goal is to increase contribution revenue year over year and build the endowment for the benefit of students, faculty, research, and for the improvement of the campus environment. A major factor in achieving this goal will be continued success in fundraising efforts and recovery of the overall financial markets that will allow the endowment to grow over the long term.

The investment committee of the Foundation's board of directors monitors investment performance of the endowment and establishes asset allocation policies consistent with the Foundation's long term investment strategy. Under its leadership the endowment continues to be well diversified and maintains adequate liquidity in accordance with the Foundation's investment policy.

Management believes that the Foundation is well positioned to work with alumni and friends of the University in building the endowment to enhance the level of contributions provided by private support.

For more information contact the Southern Illinois University Edwardsville Foundation located at B. Barnard Birger Hall, 30 N. Circle Drive, Edwardsville, IL, 62026.

**Southern Illinois University Edwardsville Foundation**

**Statements of Net Assets**

**June 30, 2010 and 2009**

	2010	2009
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 1,521,856	\$ 579,758
Short-term investments	2,182,875	2,162,175
Deposits with SIUE	378,967	364,512
Pledges receivable, net of allowance 2010 \$52,233; 2009 \$14,950	308,177	438,920
Accounts receivable:		
SIUE	4,451	761
Alumni Association	8,049	9,750
Other receivable	47,082	4,516,159
Interest receivable	53,993	136,299
Prepaid expenses	49,298	18,853
<b>Total current assets</b>	<b>4,554,748</b>	<b>8,227,187</b>
Noncurrent Assets		
Noncurrent investments	22,603,643	16,320,433
Pledges receivable, net of allowance 2010 \$100,618; 2009 \$283,013	570,169	1,673,743
Notes receivable from SIUE	80,266	87,413
Assets held for resale	1,902,890	1,983,055
Capital assets, net of depreciation	2,310,367	2,343,039
Cash surrender value of life insurance	64,308	63,303
<b>Total noncurrent assets</b>	<b>27,531,643</b>	<b>22,470,986</b>
<b>Total assets</b>	<b>\$ 32,086,391</b>	<b>\$ 30,698,173</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable:		
SIUE	\$ 90,758	\$ 182,145
Other	68,424	102,639
Annuity payable	50,686	50,686
<b>Total current liabilities</b>	<b>209,868</b>	<b>335,470</b>
Noncurrent Liabilities		
Bond payable	-	1,100,000
Annuity payable	580,515	602,683
<b>Total liabilities</b>	<b>790,383</b>	<b>2,038,153</b>
Net Assets		
Invested in capital assets, net of related debt	2,310,367	1,243,039
Restricted nonexpendable:		
Scholarships, research, instruction and other	13,446,550	11,976,486
Loans	459,233	451,925
Restricted expendable:		
Scholarships, research, instruction and other	9,687,610	9,320,176
Capital projects and debt service	4,961,004	4,945,090
Unrestricted	431,244	723,304
<b>Total net assets</b>	<b>31,296,008</b>	<b>28,660,020</b>
<b>Total liabilities and net assets</b>	<b>\$ 32,086,391</b>	<b>\$ 30,698,173</b>

See Notes to Financial Statements.

**Southern Illinois University Edwardsville Foundation**

**Statements of Revenue, Expenses and Changes in Net Assets  
Years Ended June 30, 2010 and 2009**

	2010	2009
Operating revenue:		
Contributions	\$ 3,388,457	\$ 7,467,653
Payments from SIUE	190,000	190,000
Membership dues, Alumni Association	3,300	6,537
Budget allocation from SIUE	410,748	382,154
Events, sales and other	610,474	392,437
<b>Total operating revenue</b>	<b>4,602,979</b>	<b>8,438,781</b>
Operating expenses:		
General and operating	491,438	460,733
Budget expended at SIUE	410,748	382,154
Expenses for benefit of SIUE	2,173,388	2,097,693
Expenses for the benefit of Alumni Association	25,358	32,642
Grants to other organizations	-	119,632
Payments to annuitants	50,686	50,786
Gifts to SIUE	363,211	3,655,775
Depreciation	126,988	73,964
<b>Total operating expenses</b>	<b>3,641,817</b>	<b>6,873,379</b>
<b>Operating income</b>	<b>961,162</b>	<b>1,565,402</b>
Nonoperating revenue (expenses):		
Net investment gain (loss)	1,577,263	(2,947,058)
Bond interest expense	(26,870)	(44,204)
Loss on sale of assets	(64,588)	(128,535)
Other	(1,887)	(4,839)
<b>Net nonoperating revenue (expense)</b>	<b>1,483,918</b>	<b>(3,124,636)</b>
<b>Income (loss) before permanent endowments</b>	<b>2,445,080</b>	<b>(1,559,234)</b>
Additions to permanent endowments	190,908	336,495
<b>Increase (decrease) in net assets</b>	<b>2,635,988</b>	<b>(1,222,739)</b>
Net assets:		
Beginning	28,660,020	29,882,759
Ending	<b>\$ 31,296,008</b>	<b>\$ 28,660,020</b>

See Notes to Financial Statements.

**Southern Illinois University Edwardsville Foundation**

**Statements of Cash Flows**  
**Years Ended June 30, 2010 and 2009**

	2010	2009
<b>Cash Flows from Operating Activities:</b>		
Payments received from related organizations	\$ 190,000	\$ 190,000
Payments received from other revenue sources	609,775	413,764
Contributions	8,628,224	1,841,982
Payments for the benefit of SIUE, net of reimbursements	(2,349,247)	(2,172,677)
Grants to other organizations	-	(119,632)
Payments to annuitants	(50,686)	(50,686)
General and operating expenses	(552,952)	(410,279)
<b>Net cash provided by (used in) operating activities</b>	<b>6,475,114</b>	<b>(307,528)</b>
<b>Cash Flows Provided by Noncapital Financing Activities,</b>		
contributions for endowments	<b>190,908</b>	<b>336,495</b>
<b>Cash Flows from Capital Financing Activities:</b>		
Payments of bond interest	(26,870)	(72,392)
Payments of loan principal	(1,100,000)	-
Purchase of capital assets	(94,316)	(203,340)
<b>Net cash (used in) capital financing activities</b>	<b>(1,221,186)</b>	<b>(275,732)</b>
<b>Cash Flows from Investing Activities:</b>		
Interest and dividend income	680,670	900,600
Bank and investment fees	(94,283)	(82,068)
Change in deposits with SIUE	(666)	(14,283)
Net proceeds from assets held for resale	65,527	37,122
Sales of investments	16,395,375	-
Purchases of investments	(21,600,476)	(2,998,319)
Sales of gift-in-kind investment contributions	51,115	12,965
<b>Net cash (used in) investing activities</b>	<b>(4,502,738)</b>	<b>(2,143,983)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>942,098</b>	<b>(2,390,748)</b>
<b>Cash and cash equivalents:</b>		
Beginning	579,758	2,970,506
Ending	<b>\$ 1,521,856</b>	<b>\$ 579,758</b>

(Continued)

**Southern Illinois University Edwardsville Foundation**

**Statements of Cash Flows (Continued)  
Years Ended June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income	<b>\$ 961,162</b>	\$ 1,565,402
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	<b>126,988</b>	73,964
Noncash gifts to SIUE	<b>332,768</b>	3,564,153
Noncash contributions	<b>767,123</b>	(1,136,534)
Change in assets and liabilities:		
(Increase) decrease in receivables	<b>4,466,293</b>	(4,493,308)
(Increase) in other assets	<b>(31,450)</b>	(9,131)
Increase (decrease) in accounts payable	<b>(147,770)</b>	127,926
	<b>\$ 6,475,114</b>	\$ (307,528)

**Schedule of Noncash Investing, Capital and Financing Activities,**

The Foundation received noncash contributions from donors of \$467,194 and \$556,199 during the years ended June 30, 2010 and 2009, respectively, of which \$130,857 and \$241,354, respectively, were forwarded to Southern Illinois University Edwardsville. The Foundation had unrealized investment losses of \$424,503 and \$2,170,877 during the years ended June 30, 2010 and 2009, respectively.

See Notes to Financial Statements.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies

##### Nature of operations:

Nature of business: The Southern Illinois University Edwardsville Foundation (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 in the University's financial statements as a discretely presented component unit of the University. 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.

##### Significant accounting policies:

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 prepares its financial statements as a business type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Foundation has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements. The Foundation has elected not to follow FASB statements issues after 1989.

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 cost.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

Revenue recognition: Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Pledges receivable allowance: The Foundation estimates the amount of pledges that will be uncollectible. Pledges are reviewed by donor using information including previous payment history, relationship to the University, and economic factors. A percentage calculation is applied using the above factors and prior pledge write off history to determine the estimated amount uncollectible.

Other receivables: Other receivables primarily represent trust assets receivable. It is the Foundation's policy not to record a receivable until the Foundation physically receives title to the assets held by the trustee. The receivables are recorded at fair value at the date the Foundation receives title to the assets.

Capital assets: Property and equipment purchased by the Foundation is recorded at cost. Donated assets are recorded 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 three to seven years for furniture, fixtures and equipment and forty years for buildings.

Assets held for resale: Assets held for resale primarily represent a marble staircase and a collection of artwork and historical treasures. The staircase sections are carried at the appraised value at the date of donation and the artwork and historical treasures are carried at fair value at the date of donation based upon appraised amounts or auction values published by internationally recognized auction houses for similar type objects.

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. Annuity investments are carried at fair value based on quoted market prices.

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 in accordance with restrictions imposed by external third parties.

**Restricted net assets, nonexpendable:** Restricted nonexpendable net assets consist of endowment funds, annuity funds and loan funds.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

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 annuity funds consists of funds received 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 or remainder 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.

Classification of revenue and expenses: The Foundation has classified its revenue and expenses as either operating or non-operating according to the following criteria:

**Operating:** Operating revenue and expenses include activities that have the characteristics of exchange transactions. Also included in operating revenue is contribution revenue, as the Foundation's primary purpose is to raise contributions on behalf of the University.

**Non-operating:** Non-operating revenue and expenses include activities that have the characteristics of nonexchange transactions, such as investment losses 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.

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.

#### 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.

## **Southern Illinois University Edwardsville Foundation**

### **Notes to Financial Statements**

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#### **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 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 gains (losses) for the years ended June 30, 2010 and 2009 were \$1,577,263 and (\$2,947,058), respectively, and are presented net of investment management fees and bank service charges, which amounted to \$85,750 and \$8,533, respectively, in 2010 and \$73,214 and \$8,854, respectively, in 2009. The net increase (decrease) in the fair value of investments for the fiscal years 2010 and 2009 were \$1,087,757 and (\$3,873,777), respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year.

##### **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 years 2010 and 2009 was \$87,318 and \$8,724, respectively. Due to the dramatic decreases in nearly all asset classes experienced in fiscal year 2009, the fair value of the assets of donor-restricted endowment funds not authorized for expenditure was \$1,671,035 less than the original principal amount of those funds as of June 30, 2010.

Under the policy established by the Board, up to 4.5% of the average balance (end of previous year's fair value plus new contributions) at the end of the previous 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 4.5%.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

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#### **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:**

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.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

#### Note 3. Cash and Investments (Continued)

As of June 30, 2010 and 2009, the Foundation had the following cash and investment balances subject to interest rate risk (using the segmented time distribution method):

	June 30, 2010				
	Fair Value	Investment Maturities (in Years)			No Maturity
		Less than 1	1 - 5	6 - 10	
Investments:					
Mutual Funds, equity	\$ 6,549,559	\$ -	\$ -	\$ -	\$ 6,549,559
Mutual Funds, fixed income	7,392,109	-	-	-	7,392,109
Mutual Funds, multi class	1,513,687	-	-	-	1,513,687
Mutual Funds, other	208,746	-	-	-	208,746
Exchange Traded Funds	480,652	-	-	-	480,652
	<u>\$ 16,144,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,144,753</u>
	June 30, 2009				
	Fair Value	Investment Maturities (in Years)			No Maturity
		Less than 1	1 - 5	6 - 10	
Investments:					
U.S. Agencies	\$ 154,383	\$ 154,383	\$ -	\$ -	\$ -
Mutual Funds, equity	4,547,265	-	-	-	4,547,265
Mutual Funds, fixed income	5,773,513	-	-	-	5,773,513
Mutual Funds, multi class	1,160,025	-	-	-	1,160,025
Mutual Funds, other	53,718	-	-	-	53,718
Exchange Traded Funds	1,166,309	-	-	-	1,166,309
	<u>\$ 12,855,213</u>	<u>\$ 154,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,700,830</u>

The Foundation had money market accounts not subject to interest rate risk of \$1,470,761 and \$538,975 in fiscal year 2010 and 2009, respectively. The Foundation had certificates of deposit not subject to interest rate risk of \$8,641,518 and \$5,627,395 in fiscal year 2010 and 2009, respectively. The total investments at June 30, 2010 and 2009 were \$26,257,279 and \$19,021,583, respectively.

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

#### 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 deposit with the Foundation's financial institution in 2010 and 2009 was \$149,554 and \$318,283, respectively, and the carrying value was \$51,095 and \$40,783, respectively, 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.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

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#### **Note 3. Cash and Investments (Continued)**

**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's investments are managed by three separate investment firms, each offering SIPC protection up to \$500,000. The investment balance exposed to custodial credit risk as of June 30, 2010 and 2009 was \$23,286,518 and \$17,521,582, respectively.

#### **Foreign currency risk:**

The risk that changes in exchange rates will adversely affect the investment. As of June 30, 2010, 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. government agencies 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 as of June 30, 2010 or 2009.

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.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

#### Note 3. Cash and Investments (Continued)

The Foundation has mutual funds as follows as of June 30, 2010 and 2009:

	June 30, 2010		June 30, 2009	
	Amount	Rating	Amount	Rating
<i>Mutual Funds, equity:</i>				
Morgan Stanley Inst - Intl Equity Fund Class A	\$ 608,065	4 Stars	\$ 584,801	5 Stars
Jensen Portfolio Class I	500,219	5 Stars	-	N/A
Vanguard Dividend - Appreciation IDX Inv	645,698	5 Stars	569,471	4 Stars
Vanguard Developed Mkts - Index Fund	827,323	3 Stars	1,026,402	3 Stars
Vanguard Emerging Markets Stk - IDX Signal	640,925	3 Stars	577,650	N/A
Vanguard 500 Index - Signal	494,859	3 Stars	923,783	3 Stars
Vanguard Growth Index - FD Signal	736,906	4 Stars	471,466	N/A
Vanguard Total Stock Market Index Signal SHS #1341	13,037	4 Stars	11,464	3 Stars
Van Eck Global Hard	583,252	5 Stars	-	N/A
TIAA-Cref Inst Growth & Inc #1832	113,938	4 Stars	108,360	5 Stars
TIAA-Cref Inst Intl Equity FD #1830	42,812	3 Stars	34,623	3 Stars
TIAA-Cref Inst Sm-Cap Equity FD #1634	35,629	3 Stars	30,270	3 Stars
Hammond CIO Fund	1,306,896	N/A	-	N/A
Eaton Vance Large Cap	-	N/A	41,842	4 Stars
Fairholme Fd	-	N/A	40,834	5 Stars
Harbor International Fund #011	-	N/A	37,107	5 Stars
Perkins Mid Cap Value Fund Investor Shares	-	N/A	22,986	N/A
T Rowe Price Growth Stock Fund	-	N/A	41,548	N/A
Royce Pennsylvania Mutual	-	N/A	24,658	4 Stars
	<u>\$ 6,549,559</u>		<u>\$ 4,547,265</u>	
<i>Mutual Funds, fixed income:</i>				
TIAA-CREF - Inst. Bond Fund #1835	\$ 238,633	3 Stars	\$ 255,269	3 Stars
TIAA-CREF - Short-Term bd Fd Inst Cl	100,104	4 Stars	-	N/A
Charles Schwab - PIMCO Total Return Fund	561,567	5 Stars	1,958,921	5 Stars
Charles Schwab - Templeton Global Bond	407,006	5 Stars	774,751	5 Stars
Charles Schwab - Vanguard Inflation	1,149,348	4 Stars	1,021,093	3 Stars
Non-Endowment - Vanguard GNMA Admiral #536	630,809	5 Stars	356,283	5 Stars
Non-Endowment Vanguard Short Term Federal Fund	1,010,972	5 Stars	56,979	5 Stars
JP Morgan Core Bond Select	424,544	4 Stars	1,132,602	5 Stars
Charles Schwab - Vanguard Interm Term US	292,895	5 Stars	-	N/A
Fed Total Return Govt Bond #647	1,022,655	N/A	-	N/A
Charles Schwab - Vanguard Inf Protected Sec #5119	571,391	4 Stars	-	N/A
Hammond CIO Fund	982,185	N/A	-	N/A
TIAA-CREF - Inst. Short Term Bond Fund II #2226	-	N/A	109,180	3 Stars
Non-Endowment - Harbor Bond Fund	-	N/A	108,435	5 Stars
	<u>\$ 7,392,109</u>		<u>\$ 5,773,513</u>	
<i>Mutual Funds, multi class:</i>				
PIMCO All Asset Fund - Institutional Fund	<u>\$ 1,513,687</u>	5 Stars	<u>\$ 1,160,025</u>	5 Stars
<i>Mutual Funds, other:</i>				
Hammond CIO Fund	174,432	N/A	-	N/A
TIAA-Cref Inst Real Est SEC FD #1604	34,314	3 Stars	17,634	2 Stars
T Rowe Price Real Estate	-	N/A	22,391	N/A
Pimco Commodity Real Ret Strat	-	N/A	13,693	1 Star
	<u>\$ 208,746</u>		<u>\$ 53,718</u>	

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

#### Note 3. Cash and Investments (Continued)

Concentration of credit risk: The risk of loss attributable to the magnitude of investment in a single issuer. The Foundation's investment policy covering investments outside of the endowment pool encourages diversification and prohibits investments of more than 5% of total investments in any one issuer. As of June 30, 2010 and 2009, the Foundation had no investments in a single issuer that made up more than 5% of the Foundation's total investments.

Overall risk: The Foundation investment policy indicates that 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:

Asset class:	Ratio		Benchmark Index
	Minimum	Maximum	
Equities	30%	70%	Standard & Poor's 500 Index
Fixed income	30	70	Lehman Brothers Intermediate Government/Credit Bond Index
Cash and equivalents	-	20	U.S. 3-month Treasury Bill

The Foundation currently uses a number of mutual fund managers as well as The Bank of Edwardsville Financial Management Group to manage its external portfolio. The Foundation also utilizes an investment advisor to assist with managing the investments classified as endowments.

#### Note 4. Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009, was as follows:

	Fiscal Year 2010			
	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Buildings	\$ 2,669,187	\$ -	\$ -	\$ 2,669,187
Furniture, fixtures and equipment	329,040	94,316	-	423,356
<b>Total</b>	<b>2,998,227</b>	<b>94,316</b>	<b>-</b>	<b>3,092,543</b>
Accumulated depreciation, buildings	(559,580)	(66,730)	-	(626,310)
Accumulated depreciation, furniture, fixtures and equipment	(95,608)	(60,258)	-	(155,866)
Capital assets, net	<b>\$ 2,343,039</b>	<b>\$ (32,672)</b>	<b>\$ -</b>	<b>\$ 2,310,367</b>

**Southern Illinois University Edwardsville Foundation**

**Notes to Financial Statements**

**Note 4. Capital Assets (Continued)**

	Fiscal Year 2009			
	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Buildings	\$ 2,669,187	\$ -	\$ -	\$ 2,669,187
Furniture, fixtures and equipment	131,625	203,340	(5,925)	329,040
<b>Total</b>	<b>2,800,812</b>	<b>203,340</b>	<b>(5,925)</b>	<b>2,998,227</b>
Accumulated depreciation, buildings	(492,850)	(66,730)	-	(559,580)
Accumulated depreciation, furniture, fixtures and equipment	(94,300)	(7,233)	5,925	(95,608)
Capital assets, net	<u>\$ 2,213,662</u>	<u>\$ 129,377</u>	<u>\$ -</u>	<u>\$ 2,343,039</u>

**Note 5. Overhead Recovery 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 years ended June 30, 2010 and 2009, \$102,328 and \$98,961, respectively, 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 years ended June 30, 2010 and 2009, \$140,373 and \$102,692, respectively, was collected from the non-endowment management fee.

**Note 6. Retirement Plan**

All full-time Foundation personnel are SIUE employees. Retirement benefits and postretirement benefits, other than pensions, are available for eligible SIUE employees under a contributory retirement plan (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.

For the years ended June 30, 2010 and 2009, SIUE contributed \$51,235 and \$31,822, respectively, 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.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

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#### 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 years ended June 30, 2010 and 2009 was \$150,000 each year, and is included in budget allocation 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 \$410,748 and \$382,154 (including retirement payments described in Note 6), for the years ended June 30, 2010 and 2009, respectively, 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 expenses 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 years ended June 30, 2010 and 2009, the Foundation received \$467,194 and \$556,199, respectively, in noncash contributions from donors, of which \$130,857 and \$241,354, respectively, 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 both of the years ended June 30, 2010 and 2009, which is included in budget allocation from SIUE in the accompanying statements of revenues, expenses and changes in net assets. During the years ended June 30, 2010 and 2009, the Foundation expended \$25,358 and \$32,642, respectively, 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 expenses for the benefit of SIUE. Some of these disbursements are paid by SIUE and then invoiced to the Foundation for reimbursement. As of June 30, 2010 and 2009, the Foundation included on the statements of net assets \$90,758 and \$182,145, respectively, for accounts payable – SIUE for such reimbursements and \$4,451 and \$761, respectively, for accounts receivable – SIUE for overpayments of such reimbursements.

The Foundation also receives payments from the Alumni Association of Southern Illinois University Edwardsville (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, 2010 and 2009 was \$8,049 and \$9,750, respectively, and is included as part of accounts receivable, Alumni Association balance in the statements of net assets.

## **Southern Illinois University Edwardsville Foundation**

### **Notes to Financial Statements**

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#### **Note 7. Transactions with Related Parties (Continued)**

The Foundation offices are located at B. Bernard 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 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. One of the lease contracts was mutually terminated during fiscal year 2009 due to the relocation of marketing and communications staff to a University building. Beginning in fiscal year 2010, \$15,000 in lease revenue was received for the graphics department space only.

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

#### **Note 8. Bonds 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 and a principal payment of \$550,000 was made. The financial institution extended the term of the note until July 2, 2008 when new bonds were issued. On January 28, 2010 and February 24, 2010, principal payments of \$425,000 and \$675,000 were made, respectively. As of June 30, 2010, there was no principal or accrued interest outstanding.

#### **Note 9. 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 fair value of the gift was not available at the date of donation. 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.

In fiscal year 2003, the University determined it no longer had intentions of retaining the collection, as such they began to value and record the assets as assets held for sale at the lower of cost or market value, based on the date received. 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.

Over the next three fiscal years, the University Museum valued additional items from the estate. A small amount of assets of nominal value were also valued and sold during fiscal years 2007 and 2008. A majority of the items from the estate, approximately \$4,466,000, were recorded as assets held for resale in the fiscal year 2008 statement of net assets.

## Southern Illinois University Edwardsville Foundation

### Notes to Financial Statements

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#### **Note 9. Collection of Artwork and Historical Treasures (Continued)**

In fiscal year 2009, a joint decision between the University and the Foundation was made to transfer to the University \$3,032,000 in assets which will be maintained permanently and used for educational, display and other University purposes. Additionally, assets valued at \$61,000 and \$170,000 were sold at public auction in fiscal year 2010 and fiscal year 2009, respectively.

The value of the collection maintained as assets on the Foundation financial statements at June 30, 2010, is approximately \$1,203,000. This amount is included as assets held for resale in the accompanying statements of net assets.

Additionally, other assets classified as assets held for resale include a staircase valued at \$585,000, land valued at \$50,000, lithographs valued at \$62,000, and miscellaneous other assets valued at approximately \$2,000.

#### **Note 10. Non-Cash Transactions**

In fiscal year 2009, the Foundation became the beneficiary of an estate when the surviving spouse passed away. The Foundation recorded contribution revenue and a receivable related to trust assets when notified the spouse had passed in the amount of \$4,489,000. The assets consisted of cash, investments, and land, and were received from the third party trustee in February 2010.

#### **Note 11. Risk Management**

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Foundation has purchased commercial insurance to cover these risks. Settlements have not exceeded insurance coverages for each of the past three fiscal years.

#### **Note 12. New and Pending Pronouncements**

The Governmental Accounting Standards Board (GASB) issued the following statements which were implemented by the Foundation during the year ended June 30, 2010.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued June 2007. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Implementation of this standard had no effect on the Foundation's financial statements.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. Implementation of this standard had no effect on the Foundation's financial statements.

## **Southern Illinois University Edwardsville Foundation**

### **Notes to Financial Statements**

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#### **Note 12. New and Pending Pronouncements (Continued)**

GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, issued April 2009. This Statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. This Statement addresses three issues from the AICPA's literature—related party transactions, going concern considerations, and subsequent events. This Statement brings existing guidance (to the extent appropriate in a governmental environment) without substantive changes into the GASB's body of standards. Implementation of this standard had no effect on the Foundation's financial statements.



**Independent Auditor's Report  
on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of the  
Financial Statements Performed in Accordance with  
Government Auditing Standards**

To the Board of Directors  
Southern Illinois University Edwardsville Foundation  
Edwardsville, Illinois

We have audited the financial statements of Southern Illinois University Edwardsville Foundation (Foundation) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010. 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 as a basis for designing 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 the 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below (Findings 10-01 and 10-02), that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## 10-01

Finding: The design of controls over the year-end close process in place at the Foundation does not restrict the Director of Financial Affairs from having the authorization to approve and post entries directly to the year-end financial statements.

Condition: Segregation of duties issues exist as the Director of Financial Affairs can post entries and is also responsible for reviewing entries posted to the financial statements for completeness and accuracy.

Context: Proper internal control requires having these functions segregated.

Effect: There is a potential for financial statement misstatement or fraud.

Recommendation: We recommend that the Foundation implement a process to have an appropriate individual review all entries posted to the financial statements by the Director of Financial Affairs.

Auditee Response: Management will evaluate this process and will implement controls to prevent errors or misappropriations from going undetected.

## 10-02

Finding: The Director of Financial Affairs performs calculations surrounding capital assets and assets held for sale in preparation of the quarterly and year-end financial statements, with no secondary review of this process.

Condition: Segregation of duties issues exist as the Director of Financial Affairs reviews his own calculations in preparation of certain financial statement account balances.

Context: Proper internal control requires having these functions segregated.

Effect: There is a potential for financial statement misstatement or fraud.

Recommendation: We recommend that the Foundation implement controls surrounding the review and approval of these calculations.

Auditee Response: In the current fiscal year, management provided training to accounting staff, and the calculations involving fixed assets transferred to the University were performed by staff and reviewed by the Director. Management will evaluate the opportunity to train staff on the other segments of the fixed asset calculations in fiscal year 2011.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Southern Illinois University Edwardsville Foundation and the Office of the Comptroller, State of Illinois, and is not intended and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Springfield, Illinois  
November 10, 2010