

Southern Illinois University Edwardsville Foundation

Financial Report
June 30, 2011

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Southern Illinois University Edwardsville Foundation

Agency Officials

June 30, 2011

The Foundation's Board of Directors:

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

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, 2011 and 2010, 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 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 audits provide 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, 2011 and 2010, and the changes in 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 October 28, 2011 for the year ended June 30, 2011, and dated November 30, 2010 for the year ended June 30, 2010 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 presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Springfield, Illinois
October 28, 2011

Southern Illinois University Edwardsville Foundation

Management Discussion and Analysis Years Ended June 30, 2011 and 2010

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 \$35,413,300, \$31,296,000 and \$28,660,000 as of June 30, 2011, 2010 and 2009, respectively. Total net assets increased by approximately \$4,117,000 from fiscal year 2010 to 2011 and \$2,636,000 from fiscal year 2009 to 2010.

The increase in net assets for fiscal year 2011 of 13.2% compares favorably to the 2010 change of approximately 9.2%. The most significant contributing factor was investment returns experienced in the endowment portfolio which were good in fiscal year 2010 at 10%, but even better in fiscal year 2011 at over 20%. Of course this comes on the heels of a historical decline in investment values in fiscal year 2009 of approximately (23%). Fortunately, the endowment portfolio, with some help from new gifts, is now back to historical highs. Much more financial commentary is presented over the next few paragraphs along with a review of the condensed versions of the financial statements and comparative percentage changes.

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, 2011 and 2010

Condensed Statements of Net Assets

	June 30, 2011	June 30, 2010	% Change '11 - '10	June 30, 2009	% Change '10 - '09
<i>(Dollars in Thousands)</i>					
Assets:					
Current assets	\$ 6,503	\$ 4,555	42.8%	\$ 8,227	(44.6%)
Capital assets, net of depreciation	2,239	2,310	(3.1)	2,343	(1.4)
Noncurrent assets	27,581	25,221	9.4	20,128	25.3
Total assets	36,323	32,086	13.2	30,698	4.5
Liabilities:					
Current liabilities	352	210	67.6	335	(37.3)
Noncurrent liabilities	558	580	(3.8)	1,703	(65.9)
Total liabilities	910	790	15.2	2,038	(61.2)
Net Assets:					
Invested in capital assets	2,239	2,310	(3.1)	1,243	85.8
Restricted	32,451	28,555	13.6	26,694	7.0
Unrestricted	723	431	67.7	723	(40.4)
	\$ 35,413	\$ 31,296	13.2%	\$ 28,660	9.2%

Current assets increased by nearly \$2 million, or approximately 43% from fiscal year 2010. This increase can be attributed primarily to the increase in cash equivalents, otherwise known as short-term, liquid investments and cash. Approximately \$4.2 million is scheduled to be expended over the next three to four quarters for the addition of the Lukas Annex to the Vadalabene Center at SIUE. The annex is being funded by the proceeds from the Lukas estate that were realized in fiscal year 2010 and designated for capital purposes.

Non-current assets increased by approximately \$2.3 million, or 9.4%. Two factors contributed to the change. The investment returns mentioned in the highlights section were the key to an approximately \$2.5 million increase in non-current investments (investments with no maturities or with maturities greater than one year). Partially offsetting that increase was a decrease in assets held for resale. SIUE requested that a portion of the Harrington estate be transferred to the University and added to its permanent Harrington collection. Upon this request, the Foundation transferred \$277,000 in Harrington assets to the University, decreasing assets held for resale by this amount. More information on the Harrington gift and subsequent transactions are included in the notes to the financial statements

Capital asset activity for the years ended June 30, 2011 and 2010 was insignificant.

The above resulted in an increase in total assets of approximately \$4,236,000 or 13.2% from fiscal year 2010. This compares to an increase of approximately \$1,388,000, or 4.5% from fiscal year 2009 to fiscal year 2010. This increase is more indicative of the normal growth of the Foundation, as the outstanding investment earnings of fiscal year 2011 are not sustainable going forward. Additional growth is expected however, from modest investment returns and continued increases in contributions as our development program continues to mature and the alumni base continues to grow in both numbers and in affinity to SIUE.

Southern Illinois University Edwardsville Foundation

Management Discussion and Analysis Years Ended June 30, 2011 and 2010

Liabilities increased by approximately \$120,000, or 15.2%, primarily in the current liabilities line. This is practically speaking, a timing issue, where expenses are incurred near the end of the fiscal year, but not yet paid as of June 30th. Current liabilities are made up of both money owed to SIUE for services they provide such as postage, catering, and utilities, as well as money owed to outside vendors in the normal course of operations. Non-current liabilities made up entirely of the present value of annuity payments owed to Charitable Gift Annuitants did not change much but are worth mentioning since they totaled approximately \$609,000, a majority of the foundation liabilities.

Net asset components include invested in capital assets, net of related debt, down 3.1%; restricted net assets, up 13.6%; and unrestricted net assets, up 67.7%. The small decrease in capital assets was due to depreciation on the Foundation owned office building with few other changes during the fiscal year. Capital assets primarily include the Foundation's facility, Birger Hall, the Gardens office facility, and miscellaneous equipment, computer hardware, and software. Total capital assets net of depreciation as of June 30, 2011, 2010 and 2009 were \$2,238,859; \$2,310,367 and \$2,343,039, respectively. See Note 4 to the financial statements.

The 67.7% increase in unrestricted net assets is not representative of the normal increases experienced historically. Unrestricted assets are the portion of the Foundation assets used for operations of the Foundation as opposed to directly benefitting SIUE colleges, schools, and major units. Unrestricted funds were expended at a higher than normal level in fiscal year 2010 due to the expenses related to the conversion of the fundraising and accounting software used by the Foundation and Alumni Association. In fiscal year 2011, there was virtually no money spent on this project and spending was very conservative to allow the reserves to be built back up to a more normal level. Endowment growth also aided in the increase as a portion of the Foundation funding is provided by a small management fee on endowment assets.

Restricted net assets include both non-expendable net assets such as endowments and gift annuity funds, as well as expendable net assets such as funds that can be utilized as needed by the area at SIUE to which the donor designated their contribution. Restricted non-expendable net assets increased by approximately \$2,361,000 or 16.9% primarily due to investment gains in the current fiscal year. Restricted expendable net assets increased by about 10%, or approximately \$1,536,000. A modest amount of growth in this area is normal as contributions for scholarships, departments, or other programs continue to rise. In fiscal year 2011, however, the 10% growth is due, in large part, to the distribution from endowment fund earnings. Per Foundation policy, up to 4.5% of endowment fund value can be reclassified as expendable when earnings are sufficient to do so. Due to the 20% gains in the endowment portfolio, approximately \$556,000 was distributed from the endowment pool and reclassified as expendable. The individuals assigned authority for these funds are then allowed to use the money for the restricted purpose established by the donor, such as scholarships or in support of a particular department or program.

Southern Illinois University Edwardsville Foundation

Management Discussion and Analysis Years Ended June 30, 2011 and 2010

Statement of Revenues, Expenses and Changes in Net Assets

	2011	2010	% Change '11 - '10	2009	% Change '10 - '09
<i>(Dollars in Thousands)</i>					
Operating revenue	\$ 4,861	\$ 4,603	5.6%	\$ 8,439	(45.5%)
Operating expenses:					
General and operating	300	492	(39.0)	461	6.7
Expenses for the benefit of SIUE	2,477	2,173	14.0	2,098	3.6
Transfer of gifts to SIUE	813	363	124.0	3,656	(90.1)
Other operating expenses	687	614	11.9	658	(6.7)
Total operating expenses	<u>4,277</u>	<u>3,642</u>	17.4	<u>6,873</u>	(47.0)
Operating income	<u>584</u>	<u>961</u>	(39.2)	<u>1,566</u>	(38.6)
Nonoperating revenue (expense):					
Net investment gains (loss)	3,257	1,577	106.5	(2,947)	(153.5)
Other nonoperating expenses	(5)	(93)	(94.6)	(178)	(47.8)
Total nonoperating revenue (expense)	<u>3,252</u>	<u>1,484</u>	119.1	<u>(3,125)</u>	(147.5)
Income (loss) before permanent endowments	3,836	2,445	56.9	(1,559)	(256.8)
Contributions to permanent endowments	<u>282</u>	<u>191</u>	47.6	<u>336</u>	(43.2)
Increase (decrease) in net assets	<u>\$ 4,118</u>	<u>\$ 2,636</u>	56.2%	<u>\$ (1,223)</u>	315.5%
Total revenue	\$ 8,118	\$ 6,180	31.4%	\$ 8,439	(26.8%)
Total expenses	\$ 4,283	\$ 3,735	14.7%	\$ 9,998	(62.6%)

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 non-operating activity. As stated earlier, the Foundation realized an increase in net assets of approximately \$4,117,000 in fiscal year 2011.

Operating revenues were approximately \$4,861,000, 5.6% higher than the fiscal year 2010 total of \$4,603,000. This is a sharp increase from the approximately 45% decrease realized in fiscal year 2010 compared to fiscal year 2009. However, in fiscal year 2009, there was a \$4.4 million estate gift received that was an atypical contribution, temporarily inflating contributions revenue high above normal expectations. Excluding the estate gift, operating revenue for fiscal year 2010 would have actually increased about 14% over 2009. Major components of operating revenue include contributions, which were up approximately \$210,000 in fiscal year 2011; payments from SIUE unchanged at \$190,000; revenue from events, sales, and other activities, up 2% to approximately \$625,000, and Salaries and Benefits provided by SIUE at about \$436,000, up approximately 6% over fiscal year 2010.

Southern Illinois University Edwardsville Foundation

Management Discussion and Analysis Years Ended June 30, 2011 and 2010

In the current year, operating expenses increased approximately \$636,000, or about 17% over fiscal year 2010 and decreased by approximately \$3,231,000, or 47% in fiscal year 2010 over fiscal year 2009. Operating expenses include expenses for the benefit of SIUE which represent expenses authorized and for the benefit of a school, college, department or unit of the University. Also included are general and operating expenses which support the operation of the Foundation, and budget expended at SIUE which is comprised of the salaries and benefits for those personnel assigned to the Foundation operation. The other two significant line items under operating expenses are gifts to SIUE, which are non-cash transfers of gifts-in-kind and other assets purchased with Foundation funds, and finally, depreciation on Foundation assets, primarily Birger Hall which houses the Foundation operation and Alumni Association offices.

The 17% increase this year was a net result of significant variances in four areas. General and operating expenses decreased by approximately \$191,000 as the accounting and donor management system conversion came to an end with all of the related expenses occurring in fiscal years 2010 and 2009. Expenses for the benefit of SIUE increased by approximately \$304,000 or 14% over fiscal year 2010. As stated earlier, this category includes all expenditures authorized by all areas within SIUE so the total can vary by several hundred thousand dollars from year to year without any significant projects or changes in programs from year to year as is the case this year. However, the total expenditures generally fall in a reasonable range every year and in fact the last four fiscal years have all ranged between approximately \$2.1 million and \$2.4 million.

Total gifts to SIUE this year were approximately \$813,000 which included a \$277,000 transfer of numerous items from a museum collection that were previously held by the Foundation as an Asset Held for Resale. This particular line also explains why operating expenses in fiscal year 2009 were extraordinarily higher than either 2011 or 2010. During fiscal year 2009, an agreement was reached whereby items from this same collection totaling \$3,032,000 were transferred to SIUE. In both cases, these transfers are to be used for educational purposes going forward and are 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.

Gifts to SIUE also included gifts-in-kind received by the Foundation totaling \$231,000 and assets purchased with Foundation funds of \$305,000. Both categories of assets are transferred to the University's asset roll and maintained by the University going forward. Gifts-in-kind included a \$199,000 dental equipment gift to the School of Dental Medicine. The assets purchased included \$242,000 construction in progress expenditures toward the construction of the Lukas Annex, an addition to the Vadalabene Center at SIUE.

The fourth variance under operating expenses was small in dollar amount, an increase of approximately \$35,000, but was significant in the percentage change coming in at an approximately 140% increase. This increase under expenses for the benefit of the Alumni Association was a result of the Foundation providing funds to support an alumni-wide production and mailing of the Association's publication, the e-Connection. Since the Association is a related organization, support for this separate non-profit corporation is itemized on the Foundation financial statements. Most of these publications, produced three times per year, are distributed to association members only at a much lower cost. In fiscal year 2009, support for the association was approximately \$32,000, slightly higher than fiscal year 2010.

Southern Illinois University Edwardsville Foundation

Management Discussion and Analysis Years Ended June 30, 2011 and 2010

In the non-operating revenue net of non-operating expenses section, it was reported last year that the total for fiscal year 2010 was approximately \$1,484,000 compared to approximately (\$3,124,000) in fiscal year 2009. The primary factor affecting this dramatic turnaround was the increase in investments in fiscal year 2010 versus the unprecedented market decline in fiscal years 2009 and 2008. The recovery was extended in a big way in fiscal year 2011. Due primarily to the Foundation endowment portfolio which has significant correlation to equity markets, the net investment gain for fiscal year 2011 was approximately \$3,257,000, more than double the fiscal year 2010 amount. The endowment portfolio experienced more than a 20% increase in investment returns.

In fiscal year 2010 and prior years, non-operating revenue included bond expenses but these no longer exist thanks to the payoff of the Birger Hall bonds in March of 2010. Birger Hall holds the offices of the Foundation, the Alumni Association, and a small number of University employees for which the Foundation receives rental income. The final piece of non-operating revenue is the gain or loss on the sale of assets that have been received from donations. The amount is usually minor, but in fiscal year 2009, there was a loss on the sale of assets in the amount of approximately \$129,000. 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. In fiscal year 2011, there were no significant sales.

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 accumulated a significant increase in cash and cash equivalents of approximately \$2,414,000 compared to an increase in fiscal year 2010 of approximately \$942,000 and a decrease in 2009 of approximately \$2,390,000.

Cash provided by operating activities in fiscal year 2011 was approximately \$997,000, down approximately 85% from fiscal year 2010 when it was unusually high, primarily due to the collection of the approximately \$4,400,000 estate gift mentioned previously which was recorded as a contribution last year. Cash flows from operating activities were much higher in fiscal year 2010, nearly \$6.8 million higher than fiscal year 2009 which was unusually low as there were no major contributions in that year.

Cash flows provided by non-capital financing activities, consisting solely of endowment contributions, were up approximately \$91,000, or nearly 48% from fiscal year 2010. These contributions fluctuate greatly from year to year, and the last three years' results reflect that inconsistency with totals of approximately \$282,000, \$191,000, and \$336,000, respectively.

Cash flows from capital financing activities include the purchase of capital assets and in fiscal year 2010 and prior years, this category includes bond principal and interest payments. The final payment on Birger Hall occurred in fiscal year 2010 with the payment of bond principal in the amount of \$1,100,000 and interest payments were made in fiscal years 2010 and 2009 of \$26,870 and \$72,392, respectively. Excluding bond payments for comparative purposes in fiscal years 2011, 2010, and 2009, cash flows in this category are solely comprised of the purchase of Foundation assets and were approximately \$69,000, \$94,000, and \$203,000, respectively. The fiscal year 2009 amount includes costs related to the conversion of both hardware and software. The other two years are more representative of a normal year, but both include relatively significant assets purchased for The Gardens at SIUE such as a tractor and other gardening implements.

Southern Illinois University Edwardsville Foundation

Management Discussion and Analysis Years Ended June 30, 2011 and 2010

Cash flows from investing activities, the final category, was a net inflow of approximately \$1,203,000 in fiscal year 2011, versus a net outflow of approximately \$4,502,000 in 2010, and a net outflow of approximately \$2,144,000 in fiscal year 2009. As illustrated by the above numbers, large variances between years are typical and have much to do with purchases and sales of investments throughout the year. In fiscal year 2011 for example, there were net sales of investments of approximately \$475,000. Sales of investments occur sometimes when there is a shift in asset allocation, but the primary reason is when fixed income investments mature, which happens on a regular basis as the non-endowment portfolio is structured for regular maturities in order to meet cash needs of the Foundation. There was a net purchase of investments of approximately \$5,205,000 in fiscal year 2010 because the large estate gift was received and put into the laddered fixed income portfolio. In fiscal year 2009, there was also a net purchase of investments in the amount of approximately \$2,998,000. Much of this was due to normal cash management scenarios. 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. Consequently, these funds were reinvested in fiscal year 2009.

Interest income is a lesser but still significant driver of changes in this category, totaling approximately \$796,000, \$681,000 and \$901,000, respectively, for fiscal years 2011 through 2009. Other lines in this category include bank and investment fees, proceeds from assets held for resale, and sales of gift-in-kind contributions. The bank and investment fees are fairly consistent with modest growth from year to year.

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 years 2011 and 2009 and impacted the Foundation financial statements by reducing the net assets of the Foundation by approximately \$277,000 and \$3,032,000, respectively. From the initial value of the collection of approximately \$6,000,000, the Foundation maintains assets with an assigned value of nearly \$920,000 on the financial statements herein. In fiscal year 2012, 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.

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 Foundation has recently announced the \$50 million *Defining Excellence: The Campaign for SIUE* to raise essential funds to support Southern Illinois University Edwardsville. The campaign's silent phase began in fiscal year 2008 and, as of the end of fiscal year 2011, reports a total of nearly \$28 million toward the \$50 million goal. The campaign is a comprehensive campaign with a variety of objectives in terms of both the area within the University as well as the amount of the individual project or purpose. The economic downturn that began in fiscal year 2008 has no doubt had an impact on the completion date of the campaign, but the Foundation is very grateful and pleased with the support received to date and optimistic that the campaign can be completed within the next few fiscal years.

Southern Illinois University Edwardsville Foundation

Management Discussion and Analysis Years Ended June 30, 2011 and 2010

The Finance and 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. The Committee is currently in the process of reviewing and revising the policy to ensure it is current and best reflects the needs and goals of the Foundation going forward.

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 North Circle Drive, Edwardsville, IL, 62026.

Southern Illinois University Edwardsville Foundation

Statements of Net Assets

June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,935,705	\$ 1,521,856
Short-term investments	1,664,154	2,182,875
Deposits with SIUE	398,953	378,967
Pledges receivable, net of allowance 2011 \$57,436; 2010 \$52,233	330,347	308,177
Accounts receivable:		
SIUE	4,822	4,451
Alumni Association	7,374	8,049
Other receivable	61,480	47,082
Interest receivable	61,758	53,993
Prepaid expenses	38,289	49,298
Total current assets	6,502,882	4,554,748
Noncurrent Assets		
Noncurrent investments	25,191,175	22,603,643
Pledges receivable, net of allowance 2011 \$112,846; 2010 \$100,618	639,463	570,169
Notes receivable from SIUE	66,538	80,266
Assets held for resale	1,617,042	1,902,890
Capital assets, net of depreciation	2,238,859	2,310,367
Cash surrender value of life insurance	67,277	64,308
Total noncurrent assets	29,820,354	27,531,643
Total assets	\$ 36,323,236	\$ 32,086,391
Liabilities and Net Assets		
Current Liabilities		
Accounts payable:		
SIUE	\$ 194,765	\$ 90,758
Other	106,147	68,424
Annuity payable	50,686	50,686
Total current liabilities	351,598	209,868
Noncurrent Liabilities		
Annuity payable	558,287	580,515
Total liabilities	909,885	790,383
Net Assets		
Invested in capital assets, net of related debt	2,238,858	2,310,367
Restricted nonexpendable:		
Scholarships, research, instruction and other	15,788,791	13,446,550
Loans	478,056	459,233
Restricted expendable:		
Scholarships, research, instruction and other	11,499,853	9,687,610
Capital projects and debt service	4,685,034	4,961,004
Unrestricted	722,759	431,244
Total net assets	35,413,351	31,296,008
Total liabilities and net assets	\$ 36,323,236	\$ 32,086,391

See Notes to Basic Financial Statements.

Southern Illinois University Edwardsville Foundation

**Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010**

	2011	2010
Operating revenue:		
Contributions	\$ 3,606,844	\$ 3,388,457
Payments from SIUE	190,000	190,000
Membership dues, Alumni Association	2,455	3,300
Budget allocation from SIUE	436,172	410,748
Events, sales and other	625,655	610,474
Total operating revenue	4,861,126	4,602,979
Operating expenses:		
General and operating	300,435	491,438
Budget expended at SIUE	436,172	410,748
Expenses for benefit of SIUE	2,477,031	2,173,388
Expenses for the benefit of Alumni Association	60,251	25,358
Payments to annuitants	50,686	50,686
Gifts to SIUE	813,229	363,211
Depreciation	140,155	126,988
Total operating expenses	4,277,959	3,641,817
Operating income	583,167	961,162
Nonoperating revenue (expenses):		
Net investment gain	3,256,692	1,577,263
Bond interest expense	-	(26,870)
Loss on sale of assets	(4,875)	(64,588)
Other	-	(1,887)
Net nonoperating revenue	3,251,817	1,483,918
Income before permanent endowments	3,834,984	2,445,080
Additions to permanent endowments	282,359	190,908
Increase in net assets	4,117,343	2,635,988
Net assets:		
Beginning	31,296,008	28,660,020
Ending	\$ 35,413,351	\$ 31,296,008

See Notes to Basic Financial Statements.

Southern Illinois University Edwardsville Foundation

Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Payments received from related organizations	\$ 190,000	\$ 190,000
Payments received from other revenue sources	600,183	609,775
Contributions	3,246,209	8,628,224
Payments for the benefit of SIUE, net of reimbursements	(2,612,283)	(2,349,247)
Payments to annuitants	(50,686)	(50,686)
General and operating expenses	(375,944)	(552,952)
Net cash provided by operating activities	997,479	6,475,114
Cash Flows Provided by Noncapital Financing Activities, contributions for endowments		
	281,827	190,908
Cash Flows from Capital Financing Activities		
Payments of bond interest	-	(26,870)
Payments of loan principal	-	(1,100,000)
Purchase of capital assets	(68,647)	(94,316)
Net (used in) capital financing activities	(68,647)	(1,221,186)
Cash Flows from Investing Activities		
Interest and dividend income	795,684	680,670
Bank and investment fees	(94,304)	(94,283)
Change in deposits with SIUE	-	(666)
Net proceeds from assets held for resale	357	65,527
Sales of investments	4,447,572	16,395,375
Purchases of investments	(3,971,614)	(21,600,476)
Sales of gift-in-kind investment contributions	25,495	51,115
Net cash provided by (used in) investing activities	1,203,190	(4,502,738)
Net increase in cash and cash equivalents	2,413,849	942,098
Cash and cash equivalents:		
Beginning	1,521,856	579,758
Ending	\$ 3,935,705	\$ 1,521,856

(Continued)

Southern Illinois University Edwardsville Foundation

Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income	\$ 583,167	\$ 961,162
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	140,155	126,988
Noncash gifts to SIUE	539,777	332,768
Noncash contributions	(372,929)	767,123
Change in assets and liabilities:		
(Increase) decrease in receivables	(16,005)	4,466,293
(Increase) decrease in other assets	3,813	(31,450)
Increase (decrease) in accounts payable	119,501	(147,770)
Net cash provided by operating activities	\$ 997,479	\$ 6,475,114

Schedule of Noncash Investing, Capital and Financing Activities,

The Foundation received noncash contributions from donors of \$281,997 and \$467,194 during the years ended June 30, 2011 and 2010, respectively, of which \$230,802 and \$130,857, respectively, were forwarded to Southern Illinois University Edwardsville. The Foundation had unrealized investment gains of \$1,440,402 and losses of \$424,503 during the years ended June 30, 2011 and 2010, respectively.

See Notes to Basic Financial Statements.

Southern Illinois University Edwardsville Foundation

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business:

Nature of business: The Southern Illinois University Edwardsville Foundation (Foundation) exists for the primary purpose of aiding and assisting Southern Illinois University Edwardsville (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 non-negotiable certificates of deposit with redemption terms that do not consider market rates are carried at cost.

Southern Illinois University Edwardsville Foundation

Notes to Basic Financial Statements

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, non-expendable: Restricted non-expendable net assets consist of endowment funds, annuity funds and loan funds.

Southern Illinois University Edwardsville Foundation

Notes to Basic Financial Statements

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 non-exchange transactions, such as investment losses and other revenue sources and expenditure uses that are defined as non-operating revenue and expenses by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable 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 Basic Financial Statements

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 for the years ended June 30, 2011 and 2010 were \$3,256,692 and \$1,577,263, respectively, and are presented net of investment management fees and bank service charges, which amounted to \$86,889 and \$7,415, respectively, in 2011 and \$85,750 and \$8,533, respectively, in 2010. The net increase in the fair value of investments for the fiscal years 2011 and 2010 were \$2,557,652 and \$1,087,757, 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 2011 and 2010 was \$556,295 and \$87,318, respectively.

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 Basic Financial Statements

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 Basic Financial Statements

Note 3. Cash and Investments (Continued)

As of June 30, 2011 and 2010, the Foundation had the following cash and investment balances subject to interest rate risk (using the segmented time distribution method):

	June 30, 2011				
	Fair Value	Investment Maturities (in Years)			No Maturity
		Less than 1	1 - 5	6 - 10	
Investments:					
Mutual Funds, equity	\$ 8,957,142	\$ -	\$ -	\$ -	\$ 8,957,142
Mutual Funds, fixed income	7,893,575	-	-	-	7,893,575
Mutual Funds, multi class	1,550,517	-	-	-	1,550,517
Mutual Funds, other	736,265	-	-	-	736,265
Exchange Traded Funds	643,129	-	-	-	643,129
	<u>\$ 19,780,628</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,780,628</u>
	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>

The Foundation had money market accounts not subject to interest rate risk of \$2,758,069 and \$1,470,761 in fiscal year 2011 and 2010, respectively. The Foundation had certificates of deposit not subject to interest rate risk of \$7,074,701 and \$8,641,518 in fiscal years 2011 and 2010, respectively. The total investments at June 30, 2011 and 2010 were \$26,855,329 and \$24,786,518, 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 2011 and 2010 was \$1,247,908 and \$149,554, respectively, and the carrying value was \$1,177,636 and \$51,095, 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 Basic Financial Statements

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. In fiscal year 2010, the Foundation's investments were managed by three different investment firms, each offering SIPC protection up to \$500,000. In fiscal 2011, the Foundation's investments were managed by two different investment firms, each offering SIPC protection up to \$500,000. The investment balance exposed to custodial credit risk as of June 30, 2011 and 2010 was \$25,855,329 and \$23,286,518, respectively.

Foreign currency risk:

The risk that changes in exchange rates will adversely affect the investment. As of June 30, 2011, 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, 2011 or 2010.

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 Basic Financial Statements

Note 3. Cash and Investments (Continued)

The Foundation has mutual funds as follows as of June 30, 2011 and 2010:

	June 30, 2011		June 30, 2010	
	Amount	Rating	Amount	Rating
<i>Mutual Funds, equity:</i>				
Morgan Stanley Inst - Intl Equity Fund Class A	\$ 777,687	5 Stars	\$ 608,065	4 Stars
Aberdeen Emerging Markets Instl	349,245	5 Stars	-	N/A
Jensen Portfolio Class I	639,394	4 Stars	500,219	5 Stars
RS Global Natural	365,122	4 Stars	-	N/A
Vanguard Dividend - Appreciation IDX Inv	837,709	5 Stars	645,698	5 Stars
Vanguard Developed Mkts - Index Fund	1,093,239	3 Stars	827,323	3 Stars
Vanguard Emerging Markets Stk - IDX Signal	484,051	3 Stars	640,925	3 Stars
Vanguard 500 Index - Signal	646,573	4 Stars	494,859	3 Stars
Vanguard Growth Index - FD Signal	992,288	4 Stars	736,906	4 Stars
Vanguard Total Stock Market Index Signal SHS #1341	16,959	4 Stars	13,037	4 Stars
Van Eck Global Hard	501,682	5 Stars	583,252	5 Stars
TIAA-Cref Inst Growth & Inc #1832	-	N/A	113,938	4 Stars
TIAA-Cref Inst Intl Equity FD #1830	-	N/A	42,812	3 Stars
TIAA-Cref Inst Sm-Cap Equity FD #1634	-	N/A	35,629	3 Stars
Eaton Vance Large Cap	38,335	3 Stars	-	N/A
Fairholme Fd	35,875	4 Stars	-	N/A
Harbor International Fund #011	49,985	5 Stars	-	N/A
Goldman Sachs Satellite Strategies Ptf Instl Class	34,937	1 Stars	-	N/A
T Rowe Price Growth Stock Fund	38,626	4 Stars	-	N/A
Ridgeworth Mid Cap Value Equity I	10,875	5 Stars	-	N/A
Royce Pennsylvania Mutual	21,900	4 Stars	-	N/A
Hammond CIO Fund	2,022,660	N/A	1,306,896	N/A
	<u>\$ 8,957,142</u>		<u>\$ 6,549,559</u>	
<i>Mutual Funds, fixed income:</i>				
TIAA-CREF - Inst. Bond Fund #1835	\$ -	N/A	\$ 238,633	3 Stars
TIAA-CREF - Short-Term bd Fd Inst Cl	-	N/A	100,104	4 Stars
Charles Schwab - PIMCO Total Return Fund	594,893	5 Stars	561,567	5 Stars
Charles Schwab - Templeton Global Bond	463,798	5 Stars	407,006	5 Stars
Charles Schwab - Vanguard Inflation	1,233,010	4 Stars	1,149,348	4 Stars
Charles Schwab - JP Morgan Core Bond Select	444,465	4 Stars	424,544	4 Stars
Charles Schwab - Vanguard Interm Term US	299,492	4 Stars	292,895	5 Stars
Non-Endowment - Vanguard GNMA Admiral #536	641,476	5 Stars	630,809	5 Stars
Non-Endowment Vanguard Short Term Federal Fund	1,017,196	4 Stars	1,010,972	5 Stars
Fed Total Return Govt Bond #647	1,017,930	4 Stars	1,022,655	4 Stars
Charles Schwab - Vanguard Inf Protected Sec #5119	590,901	4 Stars	571,391	4 Stars
Federated Institutional High Yield Bond	36,322	4 Stars	-	N/A
Harbor Bond Fund #14	160,557	5 Stars	-	N/A
Vanguard Short Term Federal #549	64,612	4 Stars	-	N/A
Vanguard Inflation Protect Sec #119	67,345	4 Stars	-	N/A
Hammond CIO Fund	1,261,578	N/A	982,185	N/A
	<u>\$ 7,893,575</u>		<u>\$ 7,392,109</u>	
<i>Mutual Funds, multi class:</i>				
PIMCO All Asset Fund - Institutional Fund	<u>\$ 1,550,517</u>	4 Stars	<u>\$ 1,513,687</u>	5 Stars
<i>Mutual Funds, other:</i>				
Hammond CIO Fund	\$ 736,265	N/A	\$ 174,432	N/A
TIAA-Cref Inst Real Est SEC FD #1604	-	N/A	34,314	3 Stars
	<u>\$ 736,265</u>		<u>\$ 208,746</u>	

Southern Illinois University Edwardsville Foundation

Notes to Basic 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, 2011 and 2010, 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:

	Ratio		Benchmark Index
	Minimum	Maximum	
Asset class:			
US and International Equities	50%	75%	Standard & Poor's 500 Index
Fixed income	10	40	Lehman Brothers Intermediate Government/Credit Bond Index
Real Assets and Inflation			
Protected Bonds	15	35	HFR Fund of Funds Index

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, 2011 and 2010, was as follows:

	Fiscal Year 2011			
	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Buildings	\$ 2,669,188	\$ -	\$ -	\$ 2,669,188
Furniture, fixtures and equipment	423,356	68,647	(548)	491,455
Total	3,092,544	68,647	(548)	3,160,643
Accumulated depreciation, buildings	(626,309)	(66,730)	-	(693,039)
Accumulated depreciation, furniture, fixtures and equipment	(155,868)	(73,425)	548	(228,745)
Capital assets, net	\$ 2,310,367	\$ (71,508)	\$ -	\$ 2,238,859

Southern Illinois University Edwardsville Foundation

Notes to Basic Financial Statements

Note 4. Capital Assets (Continued)

	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
Total	2,998,227	94,316	-	3,092,543
Accumulated depreciation, buildings	(559,580)	(66,730)	-	(626,310)
Accumulated depreciation, furniture, fixtures and equipment	(95,608)	(60,258)	-	(155,866)
Capital assets, net	\$ 2,343,039	\$ (32,672)	\$ -	\$ 2,310,367

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, 2011 and 2010, \$141,672 and \$102,328, 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 in fiscal year 2010 was the difference between 2% of non-endowed assets in the custody of The Bank of Edwardsville and the amount of management fees assessed by the investment manager. For the year ended June 30, 2010, \$140,373 was collected from the non-endowment management fee. In fiscal year 2011, the non-endowed management fee was discontinued.

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 (SURS). SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.surs.org, or by calling 1-800-275-7877.

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, 2011 and 2010, SIUE contributed \$56,086 and \$51,235, 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 Basic Financial Statements

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, 2011 and 2010 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 \$436,172 and \$410,748 (including retirement payments described in Note 6), for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, the Foundation received \$281,997 and \$467,194, respectively, in non-cash contributions from donors, of which \$230,802 and \$130,857, 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 each of the years ended June 30, 2011 and 2010, 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, 2011 and 2010, the Foundation expended \$60,251 and \$25,358, 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, 2011 and 2010, the Foundation included on the statements of net assets \$194,765 and \$90,758, respectively, for accounts payable – SIUE for such reimbursements and \$4,822 and \$4,451, 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, 2011 and 2010 was \$7,374 and \$8,049, 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 Basic Financial Statements

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

Note 8. 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.

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 approximately \$170,000 were sold at public auction in fiscal year 2009.

In fiscal year 2011, a joint decision between the University and the Foundation was made to transfer to the University, approximately \$277,000 in assets which will be maintained permanently and used for educational, display and other University purposes. Additionally, assets valued at approximately \$8,000 and \$61,000 were sold at public auction in fiscal years 2011 and 2010, respectively.

The value of the collection maintained as assets on the Foundation financial statements at June 30, 2011, is approximately \$918,000. 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 9. 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.

Southern Illinois University Edwardsville Foundation

Notes to Basic Financial Statements

Note 10. New and Pending Pronouncements

As of June 30, 2011, the Governmental Accounting Standards Board (GASB) issued the following statements which were implemented by the Foundation during the year ended June 30, 2011.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued March 2009, is effective for the Foundation beginning with its year ended June 30, 2011. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. Implementation of this standard had no effect on the Foundation's financial statements.

GASB Statement No. 59, *Financial Instruments Omnibus*, issued June 2010, will be effective for the Foundation beginning with its year ended June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investment pools, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Implementation of this standard had no effect on the Foundation's financial statements.

As of June 30, 2011, the Governmental Accounting Standards Board (GASB) issued the following statements that have not been implemented by the Foundation. Management is currently assessing the potential effect of these standards on the Foundation's financial position, results of operations and cash flows.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the Foundation beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic. This standard is not yet effective.

Southern Illinois University Edwardsville Foundation

Notes to Basic Financial Statements

Note 10. New and Pending Pronouncements (Continued)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the Foundation beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports. This standard is not yet effective.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the Foundation beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. This standard is not yet effective.



**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, 2011, and have issued our report thereon dated October 28, 2011. 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

Management of the Foundation is responsible for establishing and maintaining effective 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 our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

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
October 28, 2011