Southern Illinois University Edwardsville Foundation

Financial Report
June 30, 2013

Contents

Southern Illinois University Edwardsville Foundation

Agency Officials
June 30, 2013

The Foundation's Board of Directors:

Mr. Thomas M. Allen
Mr. Gordon Broom
Mr. Allen Cassens
Mrs. Sandra Hardy Chinn
Mr. John J. Conrad
Mrs. Judy A. Dailey
Ms. Camille Emig-Hill
Mr. Byron Farrell
Mr. James C. Fowler
Mr. John A. Fruit
Ms. Julie Furst-Bowe
Mrs. Bev George
Ms. Mona Haberer
Mr. Alfred C. Hagemann
Mrs. Rita A. Hardy
Mr. Bruce B. Holland
Mr. Thomas Holloway
Mr. Patrick Hundley
Mr. Merle Inman
Ms. Maxine Johnson
Mrs. Mary Kane
Mr. Kevin Kaufhold
Mr. Keith J. Kehrer
Mr. Dale V. Keller
Ms. Lisa L. Klaustermeier
Mr. Walter R. Knepper
Mr. Ralph F. Korte
Mr. Larry R. Lexow
Mrs. Mara Meyers
Mr. SJ Morrison
Ms. Susan W. Nall
Mr. David M. Oates
Mr. John E. Oeltjen
Mr. Lendell A. Phelps, Jr.
Mr. Robert L. Plummer
Ms. Shirley Portwood
Dr. Glenn Poshard
Mr. James R. Rankin, Sr.
Mr. Clinton H. Rogier
Dr. Neal W. Roller
Mrs. Betty Lou Schmidt
Mr. John Schmidt
Mr. Gerard Schuetzenhofer
Mr. Mark Shashek
Mr. Duane O. Steiner
Mr. Dennis M. Terry
Mr. Charles Tosovsky
Mr. Michael N. Wenzel
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

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Southern Illinois University Edwardsville Foundation (Foundation), a component unit of Southern Illinois University Edwardsville, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Southern Illinois University Edwardsville Foundation, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Member of the RSM International network of independent accounting, tax and consulting firms.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013, for the year ended June 30, 2013, and dated October 24, 2012, for the year ended June 30, 2012, on our consideration of the Southern Illinois University Edwardsville Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southern Illinois University Edwardsville Foundation's internal control over financial reporting and compliance.

McGladrey LLP

Springfield, Illinois
October 29, 2013

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.

Foundation Mission and Impact

The Foundation exists to support the mission, vision and values of Southern Illinois University Edwardsville (University or SIUE). On behalf of the University, the Foundation provides fundraising coordination and implementation, serves as the steward for contributions, produces donor receipts, conducts the decentralized annual fund drive programs and upholds the highest standards of fiscal responsibility and investment management. These efforts are conducted in relation to the donors' expressed wishes as well as the instructional, scholarship and public service pursuits of the University.

The Foundation has had a tremendous impact on the success of SIUE over the course of the Foundation's history. The most significant impact is in the funds and other assets raised in order to benefit SIUE. These contributions can benefit SIUE in one of two ways, by providing a source of funds for worthy expenditures such as scholarships or by providing assets such as equipment and facilities. These two types of benefits to SIUE are expressed in the following financial statements as Expenses for the benefit of SIUE and Gifts and grants to SIUE, respectively.

During fiscal year 2013, the Foundation provided over $2.3 million in funds to benefit SIUE and over $820,000 in gifts and grants to SIUE. Even more significant is that over the last 10 years, the Foundation provided more than $20.3 million and over $15 million in these areas of support.

Financial Statement Highlights

The three financial statements presented are the statements of net position, statements of revenues, expenses and changes in net position and statements of cash flows. The statements of net position show all assets (resources) listed in order of their liquidity and all liabilities (commitments) listed in order of their term length. The net position is presented in a manner that indicates the level of restriction, if any, placed on the net position. The Foundation reported a net position of approximately $33,324,000, $31,318,000 and $35,413,000 as of June 30, 2013, 2012 and 2011, respectively. Total net position increased by approximately $2,006,000 from fiscal year 2012 to 2013 and decreased $4,095,000 from fiscal year 2011 to 2012.

The increase in net position for fiscal year 2013 of 6.4% compares favorably to the 2012 decrease of approximately (11.6%). The two most significant factors contributing to the increase in comparison with fiscal year 2012 were the expenditures for the completion of a major capital project last year and strong investment returns during fiscal year 2013. A significant decline in contributions offset some of the comparative increase. Much more detail on these items, including additional financial commentary, is presented in the next few pages along with a review of the condensed versions of the financial statements and comparative percentage changes.

Condensed Statements of Net Position

	June 30, 2013	June 30, 2012	% Change '13 - '12	June 30, 2011	% Change '12 - '11
	(Dollars in Thousands)				
Assets:					
Current assets	$ 3,765	$ 3,620	4.0%	$ 6,503	(44.3%)
Capital assets, net of depreciation	2,197	2,103	4.5	2,239	(6.1)
Noncurrent assets	28,453	26,545	7.2	27,581	(3.8)
Total assets	34,415	32,268	6.7	36,323	(11.2)
Liabilities:					
Current liabilities	551	386	42.7	352	9.7
Noncurrent liabilities	540	563	(4.1)	558	0.9
Total liabilities	1,091	949	15.0	910	4.3
Net Position:					
Invested in capital assets	2,197	2,103	4.5	2,239	(6.1)
Restricted	30,024	28,311	6.1	32,451	(12.8)
Unrestricted	1,103	905	21.9	723	25.2
	$ 33,324	$ 31,319	6.4%	$ 35,413	(11.6%)

As reported last year, current assets decreased by approximately $2.9 million, or approximately 44% from fiscal year 2011 to 2012. At June 30, 2011, cash and cash equivalents were abnormally high because they were being built up in order to fund the addition of the Lukas Annex to the Vadalabene Center at SIUE. In addition to the $242,000 spent in FY11 on the project, approximately $3.3 million was expended during fiscal year 2012. The remainder of the $4.2 million commitment, approximately $640,000, was spent in the first quarter of fiscal year 2013 and did not have a significant impact on current assets, which increased approximately 4% in fiscal year 2013. The annex was funded by the proceeds from the Charles and Mary Lukas estate that were realized in fiscal year 2010 and designated for capital purposes.

Noncurrent assets increased in fiscal year 2013 by approximately $1.9 million, or 7.2%. The increase can be attributed primarily to an increase in noncurrent investments of approximately $1.9 million. Both the endowment portfolio and non-endowment portfolio experienced noteworthy increases from investment returns during the fiscal year. Details will be discussed in a later section of this analysis. Noncurrent assets also include pledge receivables, assets held for resale, and Birger Hall, the home of the SIUE Foundation and Alumni Association. These asset values were fairly consistent with fiscal year 2012.

The above variances resulted in an increase in total assets of approximately $2,147,000, or 6.7% from fiscal year 2012. This compares to a decrease of $4,055,000, or 11.2% from fiscal year 2011 to fiscal year 2012. These fluctuating results in net assets from the last two years are indicative of the unusually large transactions that can occur in the normal operating cycle of the Foundation. As reported last year, the 11.2% decrease in fiscal year 2012 was due both to the large expenses related to the Lukas Annex and to the relatively low investment earnings of fiscal year 2012 compared to fiscal year 2011. Though short-term results can vary significantly, over the long-term, management expects some growth, both 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.

Liabilities increased by approximately $142,000, or 15%, primarily due to a $165,000 increase in the current liabilities line. This is primarily a timing issue, where expenses are incurred near the end of the fiscal year, but not yet paid as of June 30, 2013. The main source of the increase was expenses related to the creation of the SIUE Call Center at Birger Hall. The Call Center was completed shortly after year end; so a majority of the expenditures incurred during fiscal year 2013, over $68,000, were still owed to vendors at year end. Current liabilities are made up of both money owed to SIUE (approximately $283,000) for services they provide (such as postage, catering and utilities), as well as money owed to outside vendors (approximately $219,000) in the normal course of operations. Noncurrent liabilities made up entirely of the present value of annuity payments owed to Charitable Gift Annuitants decreased by nearly $23,000, a 4.1% decrease that was anticipated as the annuitants increase in age. There were no new annuities added in fiscal year 2013. Another approximately $49,700 in annuity liabilities is included in current liabilities. Annuity payables in total made up approximately 54% of the Foundation's liabilities at June 30, 2013.

Net position components include: invested in capital assets, up 4.5%; restricted net position, up 6.1%; and unrestricted net position, up 21.9%. The $94,000 increase in capital assets was due primarily to the addition of a garage/storage facility located in The Gardens at SIUE and capital improvements made to Birger Hall for the Annual Fund Call Center previously mentioned. Other minor fixed asset additions and disposals impacted the change only to a small extent, along with depreciation that is annually recognized on all capital assets. Capital assets primarily include the Foundation's facility, B. Barnard Birger Hall and the Gardens office facility and new storage garage, as well as miscellaneous equipment, computer hardware, and software. Total capital assets net of depreciation as of June 30, 2013, 2012 and 2011 were approximately $2,197,000, $2,103,200, and $2,238,900, respectively. See Note 4 to the financial statements for more detail.

Unrestricted net position is the portion of the Foundation assets used for operations of the Foundation, as opposed to directly controlled by SIUE colleges, schools and major units. Unrestricted funds grew by approximately $198,000, similar to the growth experienced in fiscal year 2011. Spending the last two years was somewhat conservative as no major projects were initiated. Steady endowment growth the last few years also aided in the increase because a portion of the Foundation's funding is provided by a small management fee on endowment assets. Interest earned on non-endowment assets also helps fund Foundation expenses and the return on this portfolio was strong in fiscal year 2013 as well.

Restricted net position includes both nonexpendable net position such as endowments and gift annuity funds, as well as expendable net position such as funds that can be utilized as needed by the area at SIUE to which the donors designated their contributions. These sub-categories are itemized on the Statements of Net Position, following this discussion. Restricted nonexpendable net position increased by approximately $1,768,100 or 10.8%. This substantial increase is tied to endowment returns and will be discussed later in this analysis. Restricted expendable net position showed very little change with a $54,100 decrease. These comparative results are consistent with what management expects over time, a growth track for endowment assets, and expendable assets remaining relatively stable as money is expended when raised for the benefit of SIUE.

Statement of Revenues, Expenses and Changes in Net Position

	2013	2012	% Change '13 - '12	2011	% Change '12 - '11
			(Dollars in Thousands)		
Operating revenue	$ 3,402	$ 5,282	(35.6%)	$ 4,861	8.7%
Operating expenses:					
General and operating	365	402	(9.2)	300	34.0
Expenses for the benefit of SIUE	2,352	2,927	(19.6)	2,477	18.2
Transfer of gifts to SIUE	821	5,116	(84.0)	813	529.3
Other operating expenses	774	1,554	(50.2)	688	125.9
Total operating expenses	4,312	9,999	(56.9)	4,278	133.7
Operating (loss) income	(910)	(4,717)	(80.7)	583	(909.1)
Nonoperating revenue (expense):					
Net investment gains	2,039	321	535.2	3,257	(90.1)
Other nonoperating expenses	(7)	(450)	(98.4)	(5)	8,900.0
Total nonoperating revenue (expense)	2,032	(129)	(1,675.2)	3,252	(104.0)
Income (loss) before permanent endowments	1,122	(4,846)	(123.2)	3,835	(226.4)
Contributions to permanent endowments	883	751	17.6	282	166.3
Increase (decrease) in net position	$ 2,005	$ (4,095)	(149.0%)	$ 4,117	(199.5%)
Total revenue	$ 5,441	$ 5,603	(2.9%)	$ 8,118	(31.0%)
Total expenses	$ 4,319	$ 10,449	(58.7%)	$ 4,283	144.0%

The statements of revenues, expenses and changes in net position details the activity for the fiscal year, including the change in net position 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 position of approximately $2,005,000 in fiscal year 2013.

Operating revenues were approximately $3,402,000, 36% lower than the fiscal year 2012 total of $5,282,000. The major factor influencing this drop was a decrease in contribution revenue from $4,078,000 in fiscal year 2012 to $2,138,000 in the current fiscal year. Major fluctuations from year to year in contributions are fairly regular as the Foundation experiences significant one-time gifts and pledges in some years and not in others. Fiscal Year 2012 included a $450,000 estate gift and over $300,000 in pledges for the School of Dental Medicine Preclinical Laboratory. Also in fiscal year 2012, the Foundation received a building valued at $810,000 (discussed later), and an art collection valued at $469,000 from an estate. In fiscal year 2013, though the Foundation received several significant gifts in excess of $100,000, there was an absence of gifts above $200,000.

There are several major components of operating revenue in addition to contributions. These include payments from SIUE, which were unchanged from fiscal year 2012 at the $190,000 level; revenue from events, sales and other activities, down 8% to approximately $509,000; and Salaries and Benefits provided by SIUE came in at approximately $559,000, 21% over fiscal year 2012.

In the current year, operating expenses decreased by approximately $5.7 million to $4,312,000. Last year, operating expenses were approximately $10 million which was an unusually high amount historically for the Foundation. In fiscal year 2012, there were two primary reasons for the variance from more normal levels in fiscal years 2011 and 2013, both of which are categorized as gifts and grants to other organizations. First, gifts to SIUE in fiscal year 2012 included two significant capital projects that were funded by Foundation money and then transferred to the University for ownership and maintenance. The Lukas Annex addition to the Vadalabene Center athletics facility made up $3.3 million of these costs. The other significant project was the Science, Technology, Engineering, and Mathematics (STEM) Center at the East St. Louis Campus. This was funded from a $1 million private donation received in a previous fiscal year. Total capitalized costs for the STEM Center included in FY12 gifts to SIUE were nearly $700,000.

Another significant transaction, which led to a $781,000 decrease in other operating expenses, was a gift to University Park, another University Related Organization. During FY12 the Foundation received a gift of an office building located in University Park. The building, valued at $810,000, was transferred to University Park at the request of the University since it will be able to be utilized consistently with the mission of the Park. All of these gifts to other organizations flowed through the revenues of the Foundation either in FY12 or a previous year as contributions; so there was no permanent impact on the net assets of the Foundation from these significant transactions.

Two other categories are included in Operating Expenses. General and operating expenses decreased by approximately $37,000 from fiscal year 2012, and expenses for the benefit of SIUE decreased by approximately $575,000. Expenses for the benefit of SIUE 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, which is the case this year. The total of $2,352,000 in fiscal year 2013 is comparable to the fiscal year 2011 total of $2,477,000.

In the nonoperating revenue net of nonoperating expenses section, the total is comprised of two categories. Net investment gains/losses and gains/losses on assets held for resale both are generally unpredictable and can be very significant. As a result, the total can be quite volatile from year to year. In fiscal year 2011, investment gains made up a majority of the nonoperating revenue due to a 21% gain in the endowment portfolio which has significant exposure to market-based asset categories. In total, the Foundation realized $3,256,000 in investment gains, net of investment fees. In fiscal year 2012 however, a majority of the total in this section was a nonoperating expense, from a reduction of the fair value of the remaining Harrington Collection for a loss of approximately $430,000. Details of this transaction are described under the Facts, Decisions, or Conditions Significantly Affecting Financial Condition section later in this discussion.

In fiscal year 2013, a strong 10.2% return in the endowment portfolio once again contributed to the investment gains that account for a majority of the nonoperating revenue of the Foundation. Of the $2,039,000 in net investment gain in fiscal year 2013, approximately $1,600,000 was earned on the endowment portfolio with the remaining earned on the non-endowed pool and the planned giving pool. Approximate balances at year end for these pools were as follows:

- Endowment Pool - $18.7 million
- Non-Endowment Pool - $9.3 million
- Planned Giving Pool - $500,000

See Note 3 in the financial statements for a detailed explanation of the Foundation's Cash and Investments holdings, policy, and associated risk.

Contributions to permanent endowments were up $132,000, or approximately 17.6%. As with other contributions, these vary significantly from year to year as evidenced by the 166% increase from fiscal year 2011 to fiscal year 2012. Management does anticipate a continued trend of giving to endowments due to the relatively stable upward movement of the equity markets over the last four years.

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, noncapital and capital financing or investing transactions, and reconcile the change in cash from operating activities to the operating (loss) income as presented on the statement of revenues, expenses and changes in net position. During the fiscal year, the Foundation experienced an increase in cash and cash equivalents of approximately $1,213,000. This is a stark contrast to the prior year when the Foundation used approximately $3.2 million in cash and cash equivalents during the period. Fiscal year 2011, however, also produced a significant increase in cash and cash equivalents of approximately $2,414,000.

The largest variance from last year to the current year exists in the cash flows from operating activities section. Cash used in operating activities in fiscal year 2012 was approximately $4,862,000 whereas in fiscal year 2013 it was only $476,000 The main contributing factor to last year's use of cash was a nearly $7.1 million outflow under payments for the benefit of SIUE. The $7.1 million included two projects mentioned in a previous section, the STEM Center and the Lukas Annex. Approximately $4.3 million was paid out to construct these two important facility additions in fiscal year 2012. The STEM center was complete in fiscal year 2012 and the Lukas Annex was nearly complete, so fiscal year 2013 only included approximately $600,000 in payments to SIUE for these projects, accounting for the substantial decrease.

Other cash flows from operating activities were relatively consistent with the prior year. These include payments from related organizations, unchanged at $190,000, payments received from other revenue sources such as events and athletic camps, down $14,000 to $551,000, cash contributions up $282,000 to $2,194,000, payments to annuitants relatively unchanged at nearly $50,000, and general and operating expenses, up $20,000 to approximately $411,000.

The category titled cash flows provided by non-capital financing activities, consists solely of endowment contributions and were up approximately 18%, to $883,400 in fiscal year 2013. Both the fiscal year 2013 total and the fiscal year 2012 total of approximately $751,200 were significantly higher than the fiscal year 2011 amount of $281,800. As mentioned above, these contributions fluctuate greatly from year to year, and the last three years' results reflect that variability. Significant estate gifts, designated for endowments, in both fiscal years 2013 and 2012 were received and accounted for the higher level of contributions as compared to fiscal year 2011.

Cash flows from capital financing activities for the last three fiscal years are comprised solely of outflows from the purchase of capital assets. Fiscal year 2013 included purchases of approximately $146,000. Major purchases included approximately $25,000 for the garage/storage building in the Gardens mentioned earlier, and $110,000 for major capital upgrades to Birger Hall. The upgrades affected two areas: the creation of the SIUE Call Center, and technology and equipment related to the Special Events room. For comparative purposes, in fiscal years 2012 and 2011, cash flows in this category were approximately $5,700 and $68,600, respectively. Fiscal year 2011 included $37,000 for equipment and materials for improving the Gardens at SIUE.

Cash flows from investing activities, the final category, reflect net inflows of approximately $951,200, $925,200 and $1,203,200 in fiscal years 2013, 2012 and 2011, respectively. Though fairly consistent the last three years, large variances between years can be 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 (net of purchases) of investments of approximately $476,000 versus only $230,200 and $155,100 in fiscal years 2012 and 2013. 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.

Interest income is a lesser but still significant component of changes in this category, totaling approximately $782,000, $760,000, and $795,700, respectively, for fiscal years 2013, 2012, and 2011. Bank and investment fees are included here and are highly predictable, ranging between $94,000 and $108,000 during the last three fiscal years. Other lines in this category include proceeds from assets held for resale and sales of gift-in-kind contributions. Only proceeds from assets held for resale showed any significant change during the three year period due to the donation of a residential home received and sold in fiscal year 2013 for approximately $80,000. Such proceeds in fiscal years 2012 and 2011 were minimal.

Facts, Decisions or Conditions Significantly Affecting Financial Position

Assets Held for Resale: As noted in the previous financial statements for the Foundation, 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. There have also been sales from this collection every year since fiscal year 2009. From the initial value of the collection of approximately $6,000,000, after transfers to the University and sales of individual items, the Foundation still retains a portion of these assets for resale. Though the remaining assets had an original value of $858,000, during the prior fiscal year management evaluated several previous years of sales and determined that the assigned value was no longer a reasonable approximation of the fair value. Therefore, the value of the assets was reduced by 50%, leaving an assigned value of approximately $429,000 on the financial statements herein.

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 the improvement of the campus environment. A major factor in achieving this goal will be continued success in fundraising efforts and continued positive trending of the overall financial markets that will allow the endowment to grow over the long term. Management believes that the Foundation is well positioned to work with alumni and friends of the University both for current gifts as well as in building the endowment to enhance the level of contributions provided by private support.

On June 30, 2013, the Foundation formally ended its *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, at the close of the campaign, a total of approximately $37 million was raised toward the $50 million goal. The campaign was a comprehensive campaign with a variety of objectives in terms of both the areas within the University as well as the amount of the individual project or purpose. In hindsight, the economic downturn that began in fiscal year 2008 no doubt had an impact on the completion date and totals realized for the campaign. Though the overall total was not reached, there were many individual successes achieved throughout the five-year campaign. To continue the fundraising momentum, SIUE has already begun planning a series of mini-campaigns targeting specific needs and objectives throughout the campus. The expected date for the kickoff of the mini-campaigns is sometime during fiscal year 2014.

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 long-term focused, well-diversified, and maintains adequate liquidity in accordance with the Foundation's investment policy. The Committee continuously reviews the policy to ensure it is current and best reflects the needs and goals of the Foundation going forward.

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 Position
June 30, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 1,957,170	$ 744,355
Short-term investments	1,083,857	1,765,320
Deposits with SIUE	423,671	404,615
Pledges receivable, net of allowance 2013 $15,803; 2012 $55,507	150,851	537,865
Accounts receivable:		
SIUE	7,167	3,560
Alumni Association	1,165	5,840
Other receivable	27,890	59,664
Interest receivable	80,354	75,498
Prepaid expenses	32,325	22,712
Total current assets	3,764,450	3,619,429
Noncurrent Assets		
Noncurrent investments	26,402,655	24,516,551
Pledges receivable, net of allowance 2013 $89,261; 2012 $83,970	803,113	755,729
Notes receivable from SIUE	46,439	73,187
Assets held for resale	1,112,689	1,119,519
Capital assets, net of depreciation	2,196,993	2,103,193
Cash surrender value of life insurance	88,518	80,331
Total noncurrent assets	30,650,407	28,648,510
Total assets	34,414,857	32,267,939
Liabilities		
Current Liabilities		
Accounts payable:		
SIUE	282,611	289,031
Other	218,706	48,432
Annuities payable	49,709	49,097
Total current liabilities	551,026	386,560
Noncurrent Liabilities		
Annuities payable	539,723	562,675
Total liabilities	1,090,749	949,235
Net Position		
Invested in capital assets	2,196,993	2,103,193
Restricted nonexpendable:		
Scholarships, research, instruction and other	18,200,143	16,446,507
Loans	492,036	477,593
Restricted expendable:		
Scholarships, research, instruction and other	11,065,613	10,267,530
Capital projects and debt service	266,230	1,118,402
Unrestricted	1,103,093	905,479
Total net position	$ 33,324,108	$ 31,318,704

See Notes to Basic Financial Statements.

Southern Illinois University Edwardsville Foundation

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Contributions	**$ 2,137,572**	$ 4,077,548
Payments from SIUE	**190,000**	190,000
Membership dues, Alumni Association	**6,185**	250
Budget allocation from SIUE	**559,415**	460,719
Events, sales and other	**508,510**	553,538
Total operating revenues	**3,401,682**	5,282,055
Operating expenses:		
General and operating	**364,681**	401,750
Budget expended at SIUE	**559,415**	460,719
Expenses for benefit of SIUE	**2,352,336**	2,926,940
Expenses for the benefit of Alumni Association	**43,746**	82,852
Payments to annuitants	**49,709**	49,891
Gifts and grants:		
SIUE	**820,690**	5,116,310
University Park	**355**	810,000
Other	**-**	9,040
Depreciation	**120,549**	141,337
Total operating expenses	**4,311,481**	9,998,839
Operating loss	**(909,799)**	(4,716,784)
Nonoperating revenues (expenses):		
Net investment gain	**2,038,774**	320,485
Loss on assets held for resale	**(6,971)**	(449,526)
Net nonoperating revenue (expense)	**2,031,803**	(129,041)
Income (loss) before permanent endowments	**1,122,004**	(4,845,825)
Additions to permanent endowments	**883,400**	751,178
Increase (decrease) in net position	**2,005,404**	(4,094,647)
Net position:		
Beginning	**31,318,704**	35,413,351
Ending	**$ 33,324,108**	$ 31,318,704

See Notes to Basic Financial Statements.

Southern Illinois University Edwardsville Foundation

Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Payments received from related organizations	**$ 190,000**	$ 190,000
Payments received from other revenue sources	**550,514**	564,102
Contributions	**2,194,242**	1,912,569
Payments for the benefit of SIUE, net of reimbursements	**(2,950,203)**	(7,087,766)
Payments to annuitants	**(49,709)**	(49,891)
General and operating expenses	**(410,744)**	(391,024)
Net cash used in operating activities	**(475,900)**	(4,862,010)
Cash Flows Provided by Noncapital Financing Activities, contributions for endowments	**883,400**	751,178
Net cash provided by noncapital financing activities	**883,400**	751,178
Cash Flows from Capital Financing Activities		
Purchase of capital assets	**(145,836)**	(5,671)
Net cash used in capital financing activities	**(145,836)**	(5,671)
Cash Flows from Investing Activities		
Interest and dividend income	**781,774**	760,037
Bank and investment fees	**(107,657)**	(104,428)
Change in deposits with SIUE	**9,835**	7,026
Net proceeds from assets held for resale	**91,290**	1,750
Sales of investments	**10,033,640**	9,098,333
Purchases of investments	**(9,878,503)**	(8,868,141)
Sales of gift-in-kind investment contributions	**20,772**	30,576
Net cash provided by investing activities	**951,151**	925,153
Net increase (decrease) in cash and cash equivalents	**1,212,815**	(3,191,350)
Cash and cash equivalents:		
Beginning	**744,355**	3,935,705
Ending	**$ 1,957,170**	$ 744,355

(Continued)

Southern Illinois University Edwardsville Foundation

Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	**$ (909,799)**	$ (4,716,784)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	**120,549**	141,337
Noncash gifts to SIUE	**182,232**	1,832,857
Noncash contributions	**56,597**	(2,168,775)
Change in assets and liabilities:		
Decrease in receivables	**32,703**	15,372
Increase in accounts payable	**141,514**	39,350
Increase in other assets	**(99,696)**	(5,367)
Net cash used in operating activities	**$ (475,900)**	$ (4,862,010)
Schedule of Noncash Investing Activities		
Change in unrealized gains and losses on investments	**$ 1,380,550**	$ (365,867)
Schedule of Noncash Investing Activities, increase in accounts payable incurred for the acquisition of property and equipment	**$ 68,513**	$ -

See Notes to Basic Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

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*, and GASB No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation is included as a component unit of the University for financial reporting purposes. The financial activities included in these basic financial statements are reported 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 basic 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 provide a comprehensive perspective of the Foundation's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows. This presentation replaces the fund-group perspective previously required.

Basis of accounting: For GASB 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 accounting policies of the Foundation conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

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 approximate fair value.

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

Investments: The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the fair value of investments are reported in the nonoperating section of the accompanying Statements of Revenues, Expenses and Changes in Net Position. 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.

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 management 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 position. Investment income and gains are recorded as an increase to net position, and annuity payments and investment losses are charged to liability accounts with annual adjustments made between the liability and the net position to record adjustment of the actuarial liability. Annuity investments are carried at fair value based on quoted market prices.

Net position: The Foundation's net position is classified as follows:

> **Invested in capital assets:** 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.

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

Restricted net position, expendable: Restricted expendable net position includes resources for which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted net position, non-expendable: Restricted non-expendable net position consists of endowment funds, annuity funds and loan funds.

The endowment funds include those funds where donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

The 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 position.

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 position: Unrestricted net position represents 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 revenues and expenses: The Foundation has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

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

Nonoperating: Nonoperating revenues and expenses include activities that have the characteristics of non-exchange transactions, such as investment income and other revenue sources and expenditure uses that are defined as nonoperating revenues 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.* Non-exchange transactions, including contributions from donors, are recorded in accordance with the recognition requirements of GASB Statement No. 33.

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

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

Adoption of accounting pronouncements: The Foundation adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus: An Amendment of GASB Statements No. 14 and No. 34.* The adoption of this statement had no effect on the current year financial statements.

The Foundation adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The adoption of this statement had no effect on the current year financial statements, other than the wording of certain notes to the basic financial statements.

The Foundation adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The adoption of this statement changed the presentation of the basic financial statements to a statement of net position format.

The Foundation adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The adoption of this statement had no effect on the current year financial statements.

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.

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, U.S. government securities 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 and losses 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 gain for the years ended June 30, 2013 and 2012 were $2,038,774 and $320,485, respectively, and are presented net of investment management fees and bank service charges, which amounted to $97,047 and $10,591, respectively, in 2013 and $95,546 and $8,687, respectively, in 2012. The net increase (decrease) in the fair value of investments for the fiscal years 2013 and 2012 were $1,380,550 and ($365,867), respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year.

Note 3. Cash and Investments (Continued)

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 2013 and 2012 was $762,365 and $178,576, respectively.

Under the policy established by the Board, up to 4.25% 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 4.25%.

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.

Note 3. Cash and Investments (Continued)

As of June 30, 2013 and 2012, the Foundation had the following investment balances subject to interest rate risk (using the segmented time distribution method):

	June 30, 2013				
		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 - 5	6 - 10	No Maturity
Investments:					
Mutual Funds, equity	$ 13,059,565	$ -	$ -	$ -	$ 13,059,565
Mutual Funds, fixed income	7,097,287	-	-	-	7,097,287
Mutual Funds, multi class	1,058,156	-	-	-	1,058,156
Mutual Funds, other	961,425	-	-	-	961,425
Corporate Bonds	101,988	-	-	-	101,988
U.S. Government Agency	484,155	-	-	-	484,155
Common Stock	1,452,923	-	-	-	1,452,923
	$ 24,215,499	$ -	$ -	$ -	$ 24,215,499

	June 30, 2012				
		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 - 5	6 - 10	No Maturity
Investments:					
Mutual Funds, equity	$ 9,946,968	$ -	$ -	$ -	$ 9,946,968
Mutual Funds, fixed income	7,468,897	-	-	-	7,468,897
Mutual Funds, multi class	1,597,360	-	-	-	1,597,360
Mutual Funds, other	734,397	-	-	-	734,397
Exchange Traded Funds	560,610	-	-	-	560,610
Common Stock	913,218	-	-	-	913,218
	$ 21,221,450	$ -	$ -	$ -	$ 21,221,450

The Foundation had money market accounts not subject to interest rate risk of $1,119,278 and $510,884 at June 30, 2013 and 2012, respectively. The Foundation had certificates of deposit not subject to interest rate risk of $3,271,017 and $5,060,421 at June 30, 2013 and 2012, respectively. The total investments at June 30, 2013 and 2012 were $27,486,512 and $26,281,871, respectively.

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 at June 30, 2013 and 2012 was $871,390 and $294,467, respectively, and the carrying value was $837,892 and $233,470, 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.

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 years 2013 and 2012, 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, 2013 and 2012 was $26,486,512 and $25,281,871, respectively.

Foreign currency risk:

The risk that changes in exchange rates will adversely affect the investment. As of June 30, 2013, 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 corporate bonds and U.S. government agency investments of $101,988 and $484,155, respectively, as of June 30, 2013 and $0 and $0, respectively, as of June 30, 2012.

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.

Note 3. Cash and Investments (Continued)

The Foundation has mutual funds, corporate bonds, U.S. government agency and exchange traded funds as follows as of June 30, 2013 and 2012:

	June 30, 2013		June 30, 2012	
	Amount	Rating	Amount	Rating
Mutual Funds, equity:				
Aberdeen Emerging Markets Inst Cl	$ 520,958	5 Stars	$ 498,735	5 Stars
Dodge & Cox Intl Stock	528,214	4 Stars	-	n/a
EII Global Property Inst	349,200	4 Stars	358,387	4 Stars
Jensen Quality Growth Fd	771,336	4 Stars	642,062	4 Stars
JHancock2 GLBL Absolute	740,517	n/a	-	n/a
MFS Intl Value	573,150	5 Stars	-	n/a
Morgan Stanley Inst	364,705	5 Stars	720,095	4 Stars
RS Global Natural	336,327	4 Stars	327,593	5 Stars
Vanguard Div Appr Index	927,877	5 Stars	866,372	5 Stars
Vanguard Developed Mkts	1,403,893	3 Stars	1,025,092	3 Stars
Vanguard Emrg Mkts Stk	637,936	3 Stars	628,647	4 Stars
Vanguard 500 Index Fd	1,127,588	4 Stars	518,960	4 Stars
Vanguard Growth Index	356,979	4 Stars	860,663	4 Stars
Van Eck Global Hard	526,359	3 Stars	380,511	4 Stars
Vanguard Total Stock Market #1341 Sig	-	n/a	17,276	4 Stars
Federated International Strategic Value Dividend Fund	471,193	4 Stars	310,526	5 Stars
Goldman Sachs Satellite Strategies Ptf Instl Class	31,850	2 Stars	256,622	3 Stars
Royce Pennsylvania Mutual	-	n/a	118,152	3 Stars
Scout Mid Cap Fund	257,321	5 Stars	146,879	5 Stars
First Eagle US Value Fund Class I	-	n/a	41,600	5 Stars
Goldman Sachs Satellite Strategies Ptf Instl Class	406,104	4 Stars	32,637	3 Stars
Harbor International Fund Inst #011	-	n/a	30,960	4 Stars
Ridgeworth Large Cap Value Equity I	27,226	4 Stars	45,297	4 Stars
Royce Pennsylvania Mutual	-	n/a	19,951	3 Stars
Wells Fargo Advantage Growth Fd Instl Class	27,300	5 Stars	43,639	5 Stars
T Rowe Price Smallcap Value Fund	211,751	4 Stars	-	n/a
Oakmark International I	41,738	5 Stars	-	n/a
Mairs & Power Growth Fund	31,618	5 Stars	-	n/a
Virtus Emerging Markets	10,656	5 Stars	-	n/a
Mercer GMA (formerly CIO) Fund	2,377,769	n/a	2,056,312	n/a
	13,059,565		9,946,968	
Mutual Funds, fixed income:				
Charles Schwab - Harbor High Yield Bond	343,668	3 Stars	325,317	3 Stars
Charles Schwab - Doubleline Total Return	356,944	5 Stars	-	n/a
Charles Schwab - PIMCO Total Return Fund	517,375	5 Stars	636,283	5 Stars
Charles Schwab - Templeton Global Bond	496,386	5 Stars	459,822	5 Stars
Charles Schwab - Vanguard Inflation	491,733	3 Stars	616,530	4 Stars
Charles Schwab - JPMorgan Core Bond Slct	478,075	4 Stars	477,766	4 Stars
Charles Schwab - Vanguard Interm Term	330,733	4 Stars	326,584	4 Stars
Vanguard GNMA #536 Adm	28,863	5 Stars	809,507	4 Stars
Vanguard Short Term Federal #549adm	-	n/a	631,622	4 Stars
Fed Total Return Govt Bond #647	-	n/a	724,107	4 Stars
Vanguard Inf Protected Sec #5119 Adm	-	n/a	807,544	4 Stars
Federated Institutional High Yield Bond	528,270	5 Stars	36,362	5 Stars
Federated Ultrashort Bond Fund Instl	29,730	5 Stars	-	n/a
Harbor Bond Fund #14	385,685	4 Stars	142,406	4 Stars
Vanguard Inf Protected Sec #5119 Adm	313,708	3 Stars	67,872	4 Stars
Vanguard Short Term Federal #549adm	19	5 Stars	60,080	4 Stars
Goldman Sachs Strategic Inc Instl	1,562,659	4 Stars	-	n/a
Mercer GMA (formerly CIO) Fund	1,233,439	n/a	1,347,095	n/a
	7,097,287		7,468,897	
Mutual Funds, multi class:				
PIMCO All Asset Fund Instl Cl	1,058,156	3 Stars	1,597,360	5 Stars
Mutual Funds, other:				
Mercer GMA (formerly CIO) Fund	961,425	n/a	734,397	n/a
Corporate Bonds:				
Morgan Stanley Dean Witter Disc Note	101,988	n/a	-	n/a
U.S. Government Agency				
FNMA	192,666	n/a	-	n/a
FHLB	97,510	n/a	-	n/a
FHLB	96,815	n/a	-	n/a
FHLB	97,164	n/a	-	n/a
	484,155		-	
Exchange Traded Funds:				
iShares MSCI EAFE Growth Index	-	n/a	560,610	n/a
Total investments, excluding common stock	$ 22,762,576		$ 20,308,232	n/a

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 10% of total investments in any one issuer. As of June 30, 2013 and 2012, the Foundation had no investments in a single issuer that made up more than 10% of the Foundation's total investments.

Overall risk: The Foundation maintains two investment policies; one for the non-endowment assets and another for the endowment assets. Since these two portfolios have unique characteristics, separate policies have been instituted to ensure the portfolios are invested according to their respective investment objectives. Each investment policy indicates that the portfolios should not be exposed to a high concentration of any one asset class, industry segment and type of security or single issue. Each policy requires funds to be managed as a balanced portfolio consisting of growth assets (U.S. and international equities), risk reduction assets (fixed income and absolute return) and inflation protection assets (real assets and inflation protected bonds). The Foundation has defined parameters of ratios per asset class as follows:

	Non-Endowment Ratio		Endowment Ratio	
	Minimum	Maximum	Minimum	Maximum
Growth assets	20%	40%	50%	70%
Risk reduction	50	70	10	40
Inflation protection	0	20	10	35

Note 4. Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012, was as follows:

	Fiscal Year 2013			
	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Buildings	$ 2,669,188	$ 165,056	$ -	$ 2,834,244
Furniture, fixtures and equipment	497,126	49,293	(84,804)	461,615
Total	3,166,314	214,349	(84,804)	3,295,859
Accumulated depreciation, buildings	(759,769)	(67,362)	-	(827,131)
Accumulated depreciation, furniture, fixtures and equipment	(303,352)	(53,187)	84,804	(271,735)
Capital assets, net	$ 2,103,193	$ 93,800	$ -	$ 2,196,993

Note 4. Capital Assets (Continued)

	Fiscal Year 2012			
	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Buildings	$ 2,669,188	$ -	$ -	$ 2,669,188
Furniture, fixtures and equipment	491,455	5,671	-	497,126
Total	3,160,643	5,671	-	3,166,314
Accumulated depreciation, buildings	(693,039)	(66,730)	-	(759,769)
Accumulated depreciation, furniture, fixtures and equipment	(228,745)	(74,607)	-	(303,352)
Capital assets, net	$ 2,238,859	$ (135,666)	$ -	$ 2,103,193

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, 2013 and 2012, $62,968 and $56,069, respectively, was collected from the endowment management fee and used for the general operations of the Foundation.

Note 6. Retirement Plan

All full-time Foundation personnel are SIUE employees. Retirement benefits and post-retirement benefits, other than pension, are available for eligible SIUE employees under a contributory retirement plan (the Plan) administered by the State Universities Retirement System (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 amounts from other current funds based on actuarially determined rates. Information pertaining to the Plan and Plan's benefits can be found in the University's 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, 2013 and 2012, SIUE contributed $103,988 and $72,118, respectively, to the Plan on behalf of Foundation personnel. These amounts are included in the amounts shown as budget allocations from SIUE and budget expended at SIUE in the accompanying statements of revenues, expenses and changes in net position.

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, 2013 and 2012 was $150,000 each year, and is included in budget allocation from SIUE in the accompanying statements of revenue, expenses and changes in net position.

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 $559,415 and $460,719 (including retirement payments described in Note 6), for the years ended June 30, 2013 and 2012, 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 position.

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, 2013 and 2012, the Foundation received $283,034 and $1,844,991, respectively, in non-cash contributions from donors, of which $153,787 and $772,995, 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, 2013 and 2012, which is included in budget allocation from SIUE in the accompanying statements of revenues, expenses and changes in net position. During the years ended June 30, 2013 and 2012, the Foundation expended $43,746 and $82,852, 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 position 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, 2013 and 2012, the Foundation included on the statements of net position $282,611 and $289,031, respectively, for accounts payable – SIUE for such reimbursements and $7,167 and $3,560, 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, 2013 and 2012 was $1,165 and $5,840, respectively, and is included as part of accounts receivable, Alumni Association balance in the statements of net position.

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 position.

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.

In fiscal year 2012, assets valued at $58,685 and $9,040 were sold at public auction and donated, respectively. The remaining assets, with an original value of $858,000, were reduced by approximately $430,000 to more accurately reflect the fair value of the remaining collection. As a result, the value of the collection maintained as assets at June 30, 2012 is $429,799. This amount is included as assets held for resale in the accompanying statements of net position.

Note 8. Collection of Artwork and Historical Treasures (Continued)

In fiscal year 2013, assets valued at $50 were sold at public auction. Additionally, other assets classified as assets held for resale at June 30, 2013, include a staircase valued at $569,340, land valued at $50,000, lithographs valued at $61,650, and miscellaneous other assets valued at approximately $1,950. As a result, the value of the collection maintained as assets at June 30, 2013 is $429,749. This amount is included as assets held for resale in the accompanying statements of net position.

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.

Note 10. New and Pending Pronouncements

As of June 30, 2013, the GASB issued the following statements that have not been implemented by the Foundation. Management is currently assessing the potential effects of these standards on the Foundation's net position, results of operations and cash flows.

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. This Statement is effective for periods beginning after December 15, 2012.

Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No.27*, is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for periods beginning after June 15, 2014.

Note 11. Subsequent Event

The Foundation has evaluated subsequent events through October 29, 2013, the date on which the financial statements were available to be issued.

McGladrey

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

Independent Auditor's Report

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

We have audited, in accordance with the 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, the basic financial statements of the Southern Illinois University Edwardsville Foundation (Foundation), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered Southern Illinois University Edwardsville Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southern Illinois University Edwardsville Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Illinois University Edwardsville Foundation's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Member of the RSM International network of independent accounting, tax and consulting firms.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southern Illinois University Edwardsville Foundation's basic financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Springfield, Illinois
October 29, 2013