

# **Southern Illinois University Foundation**

Accountants' Reports and Financial Statements

June 30, 2012 and 2011

**Southern Illinois University Foundation**  
**June 30, 2012 and 2011**

**Contents**

**Independent Accountants' Report..... 1**

**Financial Statements**

Statements of Financial Position ..... 2  
Statements of Activities..... 3  
Statements of Cash Flows ..... 5  
Notes to Financial Statements ..... 6

## Independent Accountants' Report

Board of Directors  
Southern Illinois University Foundation  
Carbondale, Illinois

We have audited the accompanying statement of financial position of Southern Illinois University Foundation as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Southern Illinois University Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Southern Illinois University Foundation as of and for the year ended June 30, 2011, were audited by other accountants whose report dated September 29, 2011, expressed an unqualified opinion on those statements.

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

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Southern Illinois University Foundation as of June 30, 2012, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

September 28, 2012

**Southern Illinois University Foundation**  
**Statements of Financial Position**  
**June 30, 2012 and 2011**

|  | <b>2012</b>    | <b>2011</b>    |
|--|----------------|----------------|
| <b>Assets</b>  |                |                |
| Cash and cash equivalents                                | \$ 296,937     | \$ 1,061,472   |
| Receivables  |                |                |
| Pledges receivable, less allowance for doubtful accounts | 13,386,862     | 13,995,469     |
| Other receivables  | 162,055        | 113,120        |
| Total receivables  | 13,548,917     | 14,108,589     |
| Investments  |                |                |
| Investments  | 124,029,184    | 124,854,199    |
| Assets held under split-interest agreements              | 6,990,206      | 7,956,773      |
| Investment in real estate                                | 190,000        | 190,000        |
| Cash surrender value of life insurance                   | 459,840        | 413,284        |
| Total investments  | 131,669,230    | 133,414,256    |
| Land, property and equipment, net                        | 734,816        | 753,411        |
| Intangible assets  | 1,919,551      | 2,276,677      |
| Other assets   | 334,484        | 345,144        |
| Total assets   | \$ 148,503,935 | \$ 151,959,549 |
| <b>Liabilities and Net Assets</b>                        |                |                |
| <b>Liabilities</b>                                       |                |                |
| Accounts payable and other liabilities                   | \$ 263,426     | \$ 162,465     |
| Obligations under split-interest agreements              | 3,305,122      | 3,678,989      |
| Agency funds payable                                     | 1,926,717      | 2,077,383      |
| Deposits held for others                                 | 197,909        | 218,243        |
| Total liabilities  | 5,693,174      | 6,137,080      |
| <b>Net Assets</b>  |                |                |
| Unrestricted   |                |                |
| Unrestricted   | 7,733,510      | 7,864,252      |
| Endowment fund deficits/board designated                 | (71,193)       | 407,843        |
| Temporarily restricted                                   | 58,551,042     | 60,779,673     |
| Permanently restricted                                   | 76,597,402     | 76,770,701     |
| Total net assets   | 142,810,761    | 145,822,469    |
| Total liabilities and net assets                         | \$ 148,503,935 | \$ 151,959,549 |

**Southern Illinois University Foundation**  
**Statements of Activities**  
**Years Ended June 30, 2012 and 2011**

|   | Year Ended June 30, 2012 |                           |                           | Total                 |
|---|--------------------------|---------------------------|---------------------------|-----------------------|
|   | Unrestricted             | Temporarily<br>Restricted | Permanently<br>Restricted |                       |
| <b>Support and Revenue</b>                                |                          |                           |                           |                       |
| Contributions   | \$ 284,013               | \$ 6,287,995              | \$ 1,427,616              | \$ 7,999,624          |
| Allowance for uncollectible receivables<br>and time value | -                        | (108,147)                 | 162,360                   | 54,213                |
| Change in value of split-interest agreements              | (7,044)                  | (87,376)                  | (16,291)                  | (110,711)             |
| Investment gain (loss)                                    | 807,964                  | (1,032,544)               | 5,775                     | (218,805)             |
| Fundraising service income                                | 80,513                   | -                         | -                         | 80,513                |
| Support service revenue                                   | 5,025,369                | -                         | -                         | 5,025,369             |
| Other   | 870                      | 307,031                   | 7,482                     | 315,383               |
|   | <u>6,191,685</u>         | <u>5,366,959</u>          | <u>1,586,942</u>          | <u>13,145,586</u>     |
| Net assets released from restrictions                     | 9,107,860                | (9,335,407)               | 227,547                   | -                     |
| Changes in donor restrictions                             | 7,500                    | 1,851,337                 | (1,858,837)               | -                     |
|   | <u>15,307,045</u>        | <u>(2,117,111)</u>        | <u>(44,348)</u>           | <u>13,145,586</u>     |
| <b>Expenses</b>   |                          |                           |                           |                       |
| Program services  |                          |                           |                           |                       |
| Scholarships  | 2,769,241                | -                         | -                         | 2,769,241             |
| University and community programs                         | 1,406,120                | -                         | -                         | 1,406,120             |
| Academic and research support                             | 3,672,464                | -                         | -                         | 3,672,464             |
|   | <u>7,847,825</u>         | <u>-</u>                  | <u>-</u>                  | <u>7,847,825</u>      |
| Support services  |                          |                           |                           |                       |
| Management and general                                    | 4,939,473                | 111,520                   | 128,951                   | 5,179,944             |
| Fundraising   | 3,129,525                | -                         | -                         | 3,129,525             |
|   | <u>8,068,998</u>         | <u>111,520</u>            | <u>128,951</u>            | <u>8,309,469</u>      |
|   | <u>15,916,823</u>        | <u>111,520</u>            | <u>128,951</u>            | <u>16,157,294</u>     |
| <b>Change in Net Assets</b>                               | (609,778)                | (2,228,631)               | (173,299)                 | (3,011,708)           |
| <b>Net Assets - Beginning of Year</b>                     | <u>8,272,095</u>         | <u>60,779,673</u>         | <u>76,770,701</u>         | <u>145,822,469</u>    |
| <b>Net Assets - End of Year</b>                           | <u>\$ 7,662,317</u>      | <u>\$ 58,551,042</u>      | <u>\$ 76,597,402</u>      | <u>\$ 142,810,761</u> |

**Southern Illinois University Foundation**  
**Statements of Activities (Continued)**  
**Years Ended June 30, 2012 and 2011**

|  | Year Ended June 30, 2011 |                           |                           | Total                 |
|--|--------------------------|---------------------------|---------------------------|-----------------------|
|  | Unrestricted             | Temporarily<br>Restricted | Permanently<br>Restricted |                       |
| <b>Support and Revenue</b>                   |                          |                           |                           |                       |
| Contributions and grants                     | \$ 298,761               | \$ 8,669,414              | \$ 1,071,394              | \$ 10,039,569         |
| Allowance for uncollectible receivables      | (112)                    | 1,431,353                 | 442                       | 1,431,683             |
| Change in value of split-interest agreements | (570)                    | 859,082                   | 387,041                   | 1,245,553             |
| Investment gain                              | 4,669,004                | 19,181,962                | 63                        | 23,851,029            |
| Fundraising service income                   | 24,744                   | -                         | -                         | 24,744                |
| Support service revenue                      | 5,019,089                | -                         | -                         | 5,019,089             |
| Other  | 509                      | 426,086                   | 3,056                     | 429,651               |
|  | <u>10,011,425</u>        | <u>30,567,897</u>         | <u>1,461,996</u>          | <u>42,041,318</u>     |
| Net assets released from restrictions        | 12,796,334               | (12,852,789)              | 56,455                    | -                     |
| Changes in donor restrictions                | -                        | (3,860,063)               | 3,860,063                 | -                     |
| Total support and revenue                    | <u>22,807,759</u>        | <u>13,855,045</u>         | <u>5,378,514</u>          | <u>42,041,318</u>     |
| <b>Expenses</b>                              |                          |                           |                           |                       |
| Program services                             |                          |                           |                           |                       |
| Student assistance                           | 2,678,296                | -                         | -                         | 2,678,296             |
| University and community programs            | 1,658,765                | -                         | -                         | 1,658,765             |
| Academic and research support                | 4,041,720                | -                         | -                         | 4,041,720             |
| Total program services                       | <u>8,378,781</u>         | <u>-</u>                  | <u>-</u>                  | <u>8,378,781</u>      |
| Support services                             |                          |                           |                           |                       |
| Management and general                       | 4,764,923                | 49,125                    | 37,999                    | 4,852,047             |
| Fundraising                                  | 3,170,326                | -                         | -                         | 3,170,326             |
| Total support services                       | <u>7,935,249</u>         | <u>49,125</u>             | <u>37,999</u>             | <u>8,022,373</u>      |
| Total expenses                               | <u>16,314,030</u>        | <u>49,125</u>             | <u>37,999</u>             | <u>16,401,154</u>     |
| <b>Change in Net Assets</b>                  | 6,493,729                | 13,805,920                | 5,340,515                 | 25,640,164            |
| <b>Net Assets - Beginning of Year</b>        | <u>1,778,366</u>         | <u>46,973,753</u>         | <u>71,430,186</u>         | <u>120,182,305</u>    |
| <b>Net Assets - End of Year</b>              | <u>\$ 8,272,095</u>      | <u>\$ 60,779,673</u>      | <u>\$ 76,770,701</u>      | <u>\$ 145,822,469</u> |

**Southern Illinois University Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

|  | <b>2012</b>    | <b>2011</b>   |
|--|----------------|---------------|
| <b>Cash Flows from Operating Activities</b>  |                |               |
| Change in net assets   | \$ (3,011,708) | \$ 25,640,164 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                |               |
| Depreciation and amortization  | 478,584        | 480,337       |
| Net realized and unrealized investment (gains) losses                                      | 3,117,539      | (20,708,583)  |
| Permanently restricted contributions   | (1,427,616)    | (1,071,394)   |
| Change in value of split-interest agreements   | 110,711        | (1,245,553)   |
| Donated land   | (96,500)       | -             |
| Net change in  |                |               |
| Pledges receivable   | 608,607        | (1,837,301)   |
| Other receivables  | (48,935)       | (8,271)       |
| Cash surrender value of life insurance   | (46,556)       | (28,393)      |
| Other assets   | 10,660         | (42,685)      |
| Accounts payable and other liabilities   | 81,308         | (240,013)     |
| Net cash provided by (used in) operating activities  | (223,906)      | 938,308       |
| <b>Cash Flows from Investing Activities</b>  |                |               |
| Proceeds from the sale/maturity of investments   | 3,358,641      | 4,204,347     |
| Purchase of investments, including reinvested income                                       | (4,795,309)    | (4,826,253)   |
| Purchase of equipment  | (6,363)        | (4,498)       |
| Net cash used by investing activities  | (1,443,031)    | (626,404)     |
| <b>Cash Flows from Financing Activities</b>  |                |               |
| Permanently restricted contributions   | 1,427,616      | 1,071,394     |
| Liability portion of funds established for trusts  | -              | 60,050        |
| Payments to annuitants and recipients  | (450,926)      | (545,733)     |
| Payments for agency funds to SIU   | (74,288)       | (74,947)      |
| Net cash provided by financing activities  | 902,402        | 510,764       |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                | (764,535)      | 822,668       |
| <b>Cash and Cash Equivalents - Beginning of Year</b>                                       | 1,061,472      | 238,804       |
| <b>Cash and Cash Equivalents - End of Year</b>   | \$ 296,937     | \$ 1,061,472  |

# Southern Illinois University Foundation

## Notes to Financial Statements

### June 30, 2012 and 2011

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

The Southern Illinois University Foundation (the “Foundation”) was established in 1942 to solicit, receive, hold and administer gifts from private sources for educational purposes. The Foundation is an independent, not-for-profit corporation, which exists solely to provide alumni and other friends a means to invest in and further the mission of Southern Illinois University Carbondale (SIU). These financial statements include all financial activities over which the Foundation exercises direct responsibilities.

The Foundation is a designated 501(c)(3) organization with appropriate approval from the Internal Revenue Service to issue tax-deductible receipts for private gifts received to support SIU.

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

##### ***Basis of Presentation***

Net assets and revenues, and gains and losses are classified based on donor imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Foundation’s Board of Directors has discretionary control.

Temporarily Restricted – Resources subject to donor imposed restrictions which will be satisfied by the passage of time or actions of the Foundation.

Permanently Restricted – Resources subject to donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation. Donors of these resources permit the Foundation to use all or part of the income earned, including capital appreciation of related investments for unrestricted or temporarily restricted purposes.

##### ***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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.



# **Southern Illinois University Foundation**

## **Notes to Financial Statements**

### **June 30, 2012 and 2011**

#### ***Cash and Cash Equivalents***

The Foundation considers all liquid debt instruments purchased with original maturities of three months or less to be cash equivalents that are not designated for investment purposes. At June 30, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At June 30, 2012 and 2011, the carrying amount of the Foundation's deposits with financial institutions was \$295,662 and \$1,059,998, respectively, and the bank balances were \$479,635 and \$2,777,153, respectively.

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to the Foundation. The Foundation does have a policy to require banks to collateralize balances over the FDIC insured amount. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2012, \$479,635 of funds held at the banks were either insured or collateralized by pledged bank assets in the Foundation's name.

#### ***Receivables***

Unconditional Promises to give (pledges) are recorded as an asset and contribution in the period in which they are received. Conditional Promises to give are recorded in the period in which the conditions have been met or it is deemed that it is remote that the condition will not be met. Matching gift expectancies are not accrued as receivable but are recognized upon receipt.

Promises to give that are collectable beyond one year are recorded at fair value of their estimated future cash flows. All pledges are presented net of an allowance for doubtful collections. Management calculates the allowance based upon collection history of prior contributions receivable.

Beneficial Interests in Trusts which are held by a third party are recognized in the period in which the Foundation was notified of its ownership. The Foundation's beneficial interest is recorded at fair value. Subsequent adjustments to fair value are based on information provided by the third-party trustee. Other receivables are stated at the amount which is expected cash flows.

#### ***Investments and Investment Return***

Investments are stated at fair value. Investment activity is recorded on the trade date. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The alternative investments (hedge funds, limited partnerships and other private equity) for which quoted market prices are not available, are carried at estimated fair market values as provided by the external general partners or investment managers/and or audited financial statements of the fund or partnership. Such values may be based on a variety of estimates and assumptions requiring varying degrees of judgment and may be subject to volatility in market conditions and the possibility that their value could substantially change in the near term and/or be materially different than the values reported in the statements of financial position. Management of the Foundation believes that the carrying amounts of these

# Southern Illinois University Foundation

## Notes to Financial Statements

June 30, 2012 and 2011

financial instruments are a reasonable estimate of fair value. Realized gains and losses on sales of investments are determined on the specific identification basis. Investment return is included in the statement of activities as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. Because the hedge funds and limited partnerships are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market existed.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Life insurance policies are carried at net cash surrender value. Changes in value (realized and unrealized) are recorded in the statement of activities.

### ***Split-interest Agreements***

Split-interest agreements are valued at fair value at the time of donation with a corresponding liability recorded for the present value of the expected payments due to the donors or third-party beneficiary with the difference recorded as contributions in the net asset type based on the donor's restriction. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. Adjustments to reflect the present value of the estimated annuity payments and changes in actuarial assumptions are included in the statement of activities.

### ***Equipment***

Equipment is stated at cost at the date of acquisition or fair value at the date of the donation less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset, generally six to ten years for equipment.

### ***Intangible Assets***

Amortization expense is computed using the straight-line method.

### ***Contributions and Net Assets***

Contributions are recognized at fair value in the period in which the pledges are made. Contributions received are distinguished between those that increase permanently restricted, temporarily restricted and unrestricted net assets. Temporarily restricted net assets result from donor restrictions that the contributions are to be used for restricted purposes. When the restriction has been met, the temporarily restricted net assets are reclassified to unrestricted net assets.

# **Southern Illinois University Foundation**

## **Notes to Financial Statements**

### **June 30, 2012 and 2011**

Temporarily restricted contributions received in the same year in which the restriction is met are recorded as temporarily restricted contributions.

Permanently restricted net assets result from donor-imposed restrictions that the corpus be invested in perpetuity (endowment assets) and that earnings in excess of the corpus are temporarily restricted.

#### ***Contributed Assets and Services***

Real estate and other objectively measurable assets that are available for financial support are recorded at their fair value at the date of contribution. Non-monetary assets, art objects, equipment and various services contributed directly to SIU through the Foundation for direct benefit of a University department are not included in the financial statements, although donors receive recognition for such contributions.

The value of contributed services of a number of volunteers is not reflected in the financial statements since the services are not specialized services that would otherwise be purchased.

#### ***Income Taxes***

The Internal Revenue Service has recognized the Foundation as exempt from income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. The Foundation follows the accounting guidance for accounting for uncertainty in income taxes. The Foundation is subject to federal and state income taxes to the extent it has unrelated business income. In accordance with the guidance for uncertainty in income taxes, management has evaluated their material tax positions and determined that there are no income tax effects with respect to its financial statements. The Foundation is no longer subject to examination by federal or state authorities for years ending before June 30, 2009, nor has the Foundation been notified of any impending examination and no examinations are currently in process.

#### ***Fair Value of Financial Instruments***

The carrying amounts of cash and cash equivalents, accounts payable and other liabilities, agency funds payable and deposits held for others approximate fair value due to the short maturity of these financial instruments. Receivables are initially recorded at fair value using an appropriate discount rate and approximate fair value at year-end. Investments, assets held under split-interest agreements and obligations under split interest agreement are carried at fair value.

#### ***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

# Southern Illinois University Foundation

## Notes to Financial Statements

June 30, 2012 and 2011

### Note 2: Pledges Receivable

Pledges receivable consisted of the following:

|                              | <u>2012</u>              | <u>2011</u>              |
|------------------------------|--------------------------|--------------------------|
| Pledges receivable due in    |                          |                          |
| Less than one year           | \$ 11,883,432            | \$ 5,150,681             |
| One to five years            | 2,264,640                | 10,032,067               |
| More than five years         | <u>250,000</u>           | <u>299,584</u>           |
| <br>Total pledges receivable | <br>14,398,072           | <br>15,482,332           |
| <br>Allowance (5%, 5%)       | <br>(719,904)            | <br>(774,116)            |
| Discount (5%, 5%)            | <u>(291,306)</u>         | <u>(712,747)</u>         |
| <br>Total                    | <br><u>\$ 13,386,862</u> | <br><u>\$ 13,995,469</u> |

### Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

|                         | <u>2012</u>          | <u>2011</u>          |
|-------------------------|----------------------|----------------------|
| Money market funds      | \$ 2,695,944         | \$ 2,262,164         |
| Domestic equities       | 56,244,187           | 57,463,743           |
| International equities  | 13,576,369           | 15,959,712           |
| Emerging market funds   | 2,693,592            | 3,476,880            |
| Hedge funds             | 5,265,063            | 5,376,138            |
| Leveraged loans         | 3,098,889            | 2,955,791            |
| Private equity          | 5,018,995            | 4,245,784            |
| Distressed debt         | 1,190,415            | 709,633              |
| Fixed income securities | <u>34,245,730</u>    | <u>32,404,354</u>    |
|                         | <u>\$124,029,184</u> | <u>\$124,854,199</u> |

# Southern Illinois University Foundation

## Notes to Financial Statements

June 30, 2012 and 2011

Total investment return is comprised of the following:

|                                      | <b>2012</b>  | <b>2011</b>   |
|--------------------------------------|--------------|---------------|
| Interest and dividends               | \$ 2,898,734 | \$ 3,142,447  |
| Realized investment gains            | 1,652,846    | 8,080,712     |
| Unrealized investment gains (losses) | (4,770,385)  | 12,627,870    |
| Net investment gain (loss)           | \$ (218,805) | \$ 23,851,029 |

### Note 4: Assets Held and Obligations Under Split-interest Agreements

Split-interest Agreements are agreements donors enter into whether a trust or other arrangement under which the Foundation is a beneficiary. Charitable remainder trusts are trusts in which the donor or a third party beneficiary receives distributions and upon the trusts' termination, the Foundation receives the remaining assets. Charitable Gift Annuities are agreements which the Foundation accepts a contribution and agrees to an obligation to make periodic stipulated payments to donors or third-party beneficiaries for a specified time.

#### Assets

Assets held under split-interest agreements consist of the following at June 30:

|  | <b>2012</b>  | <b>2011</b>  |
|--|--------------|--------------|
| Charitable remainder trusts                  |              |              |
| Equities                                     | \$ 2,136,627 | \$ 2,450,535 |
| Fixed income                                 | 1,819,630    | 1,689,231    |
| Exchange traded funds                        | 1,998,707    | 2,536,794    |
| Other  | 236,671      | 237,658      |
|  | 6,191,635    | 6,914,218    |
| Charitable gift annuities                    |              |              |
| Equities                                     | 543,716      | 733,449      |
| Fixed income                                 | 135,527      | 184,417      |
| Alternative investments                      | 97,964       | 111,139      |
| Other  | 21,364       | 13,550       |
|  | 798,571      | 1,042,555    |
| Total assets under split-interest agreements | \$ 6,990,206 | \$ 7,956,773 |

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Obligations

On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. Adjustments to reflect the present value of the estimated annuity payments and changes in actuarial assumptions are included in the statement of activities. The present value of the estimated future payments is calculated using a discount rate of 1.2% and applicable mortality tables.

Obligations under split-interest agreements at June 30 consist of:

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| Charitable remainder trusts                      | \$ 2,573,994        | \$ 2,962,083        |
| Charitable gift annuities                        | <u>731,128</u>      | <u>716,906</u>      |
| Total obligation under split-interest agreements | <u>\$ 3,305,122</u> | <u>\$ 3,678,989</u> |

The following summarizes annuities payable transactions for the years ended June 30, 2012 and 2011:

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| Beginning balance  | \$ 3,678,989        | \$ 3,837,706        |
| Annuity funds  |                     |                     |
| Net investment income (loss)                                   | (23,309)            | 429,677             |
| Payments to annuitants   | (61,734)            | (116,990)           |
| Adjustment of actuarial liability                              | 99,265              | (696,970)           |
| Liability portion of funds established during the current year | -                   | 17,201              |
| Charitable remainder trusts                                    |                     |                     |
| Net investment income (loss)                                   | (8,643)             | 1,126,534           |
| Payments to recipients   | (389,192)           | (407,419)           |
| Adjustment of actuarial liability                              | 9,952               | (551,564)           |
| Other miscellaneous annuity expenses                           | (206)               | (2,035)             |
| Liability portion of funds established during the current year | <u>-</u>            | <u>42,849</u>       |
| Ending balance   | <u>\$ 3,305,122</u> | <u>\$ 3,678,989</u> |

# Southern Illinois University Foundation

## Notes to Financial Statements

June 30, 2012 and 2011

### Note 5: Investment in Real Estate

Gifts of real property received by the Foundation are valued and recorded based on the current fair value on the date received. Values are determined from publications, appraisals and other sources that assist in establishing a fair value.

Investments in real estate consist of the following at June 30, 2012 and 2011:

|   |                   |
|---|-------------------|
| Two parcels of land located in Goreville, Illinois, held for the benefit of two scholarship endowment funds | \$ 130,000        |
| 50% remainder interest in a home to benefit the School of Law   | 60,000            |
|   | <u>\$ 190,000</u> |

### Note 6: Land and Equipment

Land and equipment at June 30 consists of:

|                                   | <u>2012</u>       | <u>2011</u>       |
|-----------------------------------|-------------------|-------------------|
| Land                              | \$ 412,172        | \$ 315,672        |
| Furniture, fixtures and equipment | 1,004,394         | 1,015,014         |
| Less: accumulated depreciation    | (681,750)         | (577,275)         |
| Equipment, net                    | <u>322,644</u>    | <u>437,739</u>    |
| Land and equipment, net           | <u>\$ 734,816</u> | <u>\$ 753,411</u> |

### Note 7: Intangible Assets

Intangible assets consisted of the following as of June 30, 2012 and 2011:

|                          | <u>2012</u>         | <u>2011</u>         |
|--------------------------|---------------------|---------------------|
| Patent rights            | \$ 4,970,000        | \$ 4,970,000        |
| Accumulated amortization | (3,050,449)         | (2,693,323)         |
| Net intangible asset     | <u>\$ 1,919,551</u> | <u>\$ 2,276,677</u> |

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Amortization for both years ended June 30, 2012 and 2011, was \$357,126.

Future estimated amortization expense is as follows:

| Year Ending June 30, | Amount       |
|----------------------|--------------|
| 2013                 | \$ 357,126   |
| 2014                 | 357,126      |
| 2015                 | 357,126      |
| 2016                 | 357,126      |
| 2017                 | 357,126      |
| 2018                 | 133,921      |
| Total                | \$ 1,919,551 |

**Note 8: Agency Funds Payable**

The Foundation entered into an agreement with SIU to administer as agency funds any endowment funds received by SIU. The following summarizes agency funds payable transactions for the period ending June 30, 2012 and 2011:

|                              | 2012         | 2011         |
|------------------------------|--------------|--------------|
| Beginning balance            | \$ 2,077,383 | \$ 1,727,526 |
| Net investment income (loss) | (76,378)     | 424,804      |
| Payments to the SIU          | (74,288)     | (74,947)     |
| Ending balance               | \$ 1,926,717 | \$ 2,077,383 |

**Note 9: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

|                               | 2012          | 2011          |
|-------------------------------|---------------|---------------|
| Student assistance            | \$ 15,576,243 | \$ 15,680,581 |
| SIU and community programs    | 8,962,085     | 8,508,691     |
| Academic and research support | 34,012,714    | 36,590,401    |
| Total                         | \$ 58,551,042 | \$ 60,779,673 |



# Southern Illinois University Foundation

## Notes to Financial Statements

June 30, 2012 and 2011

### **Permanently Restricted Net Assets**

Permanently restricted net assets at June 30 are restricted to:

|                               | <b>2012</b>          | <b>2011</b>          |
|-------------------------------|----------------------|----------------------|
| Student assistance            | \$ 34,536,343        | \$ 35,341,658        |
| SIU and community programs    | 7,024,214            | 7,141,545            |
| Academic and research support | 35,036,845           | 34,287,498           |
| Total                         | <u>\$ 76,597,402</u> | <u>\$ 76,770,701</u> |

### **Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

|   | <b>2012</b>         | <b>2011</b>          |
|---|---------------------|----------------------|
| Time restriction elapsed or program satisfaction<br>and termination of charitable remainder trust | \$ 8,060,154        | \$ 9,075,048         |
| Reclass of net assets for endowment deficiencies  | (393,568)           | 2,009,503            |
| Internal transfers  | 1,441,274           | 1,711,783            |
| Total   | <u>\$ 9,107,860</u> | <u>\$ 12,796,334</u> |

### **Note 10: Endowment**

The Foundation's endowment consists of approximately 873 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the institution
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2012 and 2011, was:

| <b>June 30, 2012</b> | <b>Unrestricted</b> | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>         |
|----------------------|---------------------|-------------------------------|-------------------------------|----------------------|
| Donor-restricted     |                     |                               |                               |                      |
| Endowment funds      | \$ (552,549)        | \$ 18,183,602                 | \$ 74,757,674                 | \$ 92,388,727        |
| Board-designated     |                     |                               |                               |                      |
| Endowment funds      | 481,356             | -                             | -                             | 481,356              |
|                      | <u>\$ (71,193)</u>  | <u>\$ 18,183,602</u>          | <u>\$ 74,757,674</u>          | <u>\$ 92,870,083</u> |
|                      |                     |                               |                               |                      |
| <b>June 30, 2011</b> | <b>Unrestricted</b> | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>         |
| Donor-restricted     |                     |                               |                               |                      |
| Endowment funds      | \$ (104,430)        | \$ 21,076,389                 | \$ 74,636,512                 | \$ 95,608,471        |
| Board-designated     |                     |                               |                               |                      |
| Endowment funds      | 512,273             | -                             | -                             | 512,273              |
|                      | <u>\$ 407,843</u>   | <u>\$ 21,076,389</u>          | <u>\$ 74,636,512</u>          | <u>\$ 96,120,744</u> |

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Changes in endowment net assets for the years ended June 30 were:

|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
|---|--------------|---------------------------|---------------------------|---------------|
| Endowment investments, July 1, 2011                           | \$ 407,843   | \$ 21,076,389             | \$ 74,636,512             | \$ 96,120,744 |
| Investment return   |              |                           |                           |               |
| Investment income   | 9,314        | 1,731,739                 | 2,833                     | 1,743,886     |
| Net depreciation (realized and unrealized)                    | (15,179)     | (2,788,972)               | 2,942                     | (2,801,209)   |
| Reclassification of net assets for<br>funds with deficiencies | (393,568)    | 393,568                   | -                         | -             |
| Total investment return                                       | (399,433)    | (663,665)                 | 5,775                     | (1,057,323)   |
| Contributions   | -            | 87,082                    | 1,427,616                 | 1,514,698     |
| Allowance for uncollectible receivables                       | -            | (164,465)                 | 162,360                   | (2,105)       |
| Other sources   | -            | -                         | 7,482                     | 7,482         |
| Appropriations of endowment<br>assets for expenditure         | (79,603)     | (4,599,360)               | 200,426                   | (4,478,537)   |
| Other expenses  | -            | -                         | (128,951)                 | (128,951)     |
| Change in donor restriction                                   | -            | 2,447,621                 | (1,553,546)               | 894,075       |
| Endowment investments, June 30, 2012                          | \$ (71,193)  | \$ 18,183,602             | \$ 74,757,674             | \$ 92,870,083 |

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

|   | Unrestricted   | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
|---|----------------|---------------------------|---------------------------|---------------|
| Endowment investments, July 1, 2010                           | \$ (2,318,671) | \$ 8,713,384              | \$ 69,779,538             | \$ 76,174,251 |
| Investment return   |                |                           |                           |               |
| Investment income   | 18,947         | 1,939,893                 | 378                       | 1,959,218     |
| Net appreciation (realized and unrealized)                    | 141,215        | 16,544,957                | (314)                     | 16,685,858    |
| Reclassification of net assets for<br>funds with deficiencies | 1,995,500      | (1,995,500)               | -                         | -             |
| Total investment return                                       | 2,155,662      | 16,489,350                | 64                        | 18,645,076    |
| Contributions   | -              | -                         | 900,625                   | 900,625       |
| Allowance for uncollectible receivables                       | -              | 77,383                    | 441                       | 77,824        |
| Other sources   | -              | -                         | 3,056                     | 3,056         |
| Appropriations of endowment<br>assets for expenditure         | 570,352        | (4,904,349)               | 83,576                    | (4,250,421)   |
| Other expense   | -              | -                         | (37,999)                  | (37,999)      |
| Change in donor restriction                                   | 500            | 700,621                   | 3,907,211                 | 4,608,332     |
| Endowment investments, June 30, 2011                          | \$ 407,843     | \$ 21,076,389             | \$ 74,636,512             | \$ 96,120,744 |

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30 consisted of:

|  | <b>2012</b>   | <b>2011</b>   |
|--|---------------|---------------|
| Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA | \$ 74,757,674 | \$ 74,636,512 |
| Temporarily restricted net assets:   |               |               |
| Term endowment funds   | \$ 2,509,559  | \$ 412,215    |
| Portion of perpetual endowment funds subject to a time restriction under UPMIFA  |               |               |
| With purpose restrictions  | 15,674,043    | 20,664,174    |
|  | \$ 18,183,602 | \$ 21,076,389 |

# Southern Illinois University Foundation

## Notes to Financial Statements

### June 30, 2012 and 2011

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$552,549 and \$104,430 at June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the Foundation Board of Directors. The negative performance produced 74 and 25 underwater endowments as of June 30, 2012 and 2011, respectively.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that to seek an average total annual return of spending net of inflation and administrative cost. The Foundation expects its endowment funds to provide an average rate of return of approximately 7.19% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's Board of Directors has adopted a hybrid approach spending policy to determine the spending distribution. This approach takes into consideration the duration and preservation of the endowments, purpose of the endowment funds, general economic conditions, the possible effect of inflation or deflation, expected total return from income and the investment policy.

The spending distribution calculation is the sum of a) the previous year's spending increase by the higher education inflation rate (HEPI) and weighted at eighty percent added to b) a three-year average of the endowment pool's ending balance as of December 31 multiplied by a fixed spending rate which considers the long-term investment performance estimate of the pool less HEPI and weighted at twenty percent.

#### **Note 11: Fees**

##### ***Endowment Fee***

The Foundation receives a 1.5% fee on endowment funds which is distributed annually on July 1, by using the fair value of the pool as of the prior December 31. The fee was \$1,106,346 and \$1,163,248 for the years ended June 30, 2012 and 2011, respectively.

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

***Supplement Fee***

Beginning July 1, 2004, SIU and Foundation assessed a 6% Supplement Fee on gifts of cash and securities. 5% is retained by SIU or the Foundation for support of the strategic initiative to increase private support. The remaining 1% is provided to the college/department for which the contribution was restricted to support their advancement efforts. The Foundation's portion of the supplement fee was \$431,846 and \$524,314 for the years ended June 30, 2012 and 2011, respectively.

**Note 12: Related Party Transactions**

The Foundation has entered into a master contract with the Board of Trustees of SIU which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1982 and amended in 1997. Among the provisions of the contract is a requirement that the Foundation and SIU will provide services to each other to be reimbursed on an actual cost basis up to approved budgetary limits. During the years ended June 30, 2012 and 2011, the Foundation provided fundraising services for the benefit of SIU with a portion of the Foundation's fundraising costs being reimbursed by SIU through in-kind payment. These amounts are reflected as Support Services Revenue and the expenses have been allocated among the support services benefit in the accompanying Statement of Activities.

In accordance with its corporate purposes, the Foundation solicits and accepts contributions for the benefit of SIU. Contributions are recorded as revenue and held in a restricted net asset class until the funds are used in the form of scholarships, cash grants or expenditures for the benefit of SIU. The Foundation also receives contributions of certain non-cash assets which are recorded as revenue and then, at the Foundation's discretion, transferred to SIU.

During the year ended June 30, 2012 and 2011, the Foundation paid \$139,357 and \$141,560, respectively, to the Association of Alumni, Former Students and Friends of Southern Illinois University (Carbondale) (the "Association") to assist the Association in its support for SIU, relating primarily to the cost of printed materials distributed by the Association. The Association also granted \$63,689 and \$66,074 to various Foundation restricted accounts in 2012 and 2011, respectively.

The Foundation also received several grants from SIU totaling \$38,733 and \$14,676 for the years ended June 30, 2012 and 2011, respectively.

Current and former members of the Foundation's Board of Directors (or their family members or related entities) occasionally may sell goods or provide services to the Foundation. Any such goods or services are furnished at standard rates, properly recorded in the Statement of Activities, and are not material for 2012 or 2011.

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Note 13: Operating Lease**

A noncancellable operating lease with SIU for the use of a suite in the Football Stadium expires in 2019.

Future minimum lease payments under this operating lease are:

|            | <b>Year Ending June 30,</b> | <b>Amount</b> |
|------------|-----------------------------|---------------|
| 2013       |                             | \$ 16,484     |
| 2014       |                             | 16,649        |
| 2015       |                             | 16,816        |
| 2016       |                             | 16,984        |
| 2017       |                             | 17,154        |
| Thereafter |                             | 34,823        |
| Total      |                             | \$ 118,910    |

**Note 14: Disclosures About Fair Value of Assets and Liabilities**

The Foundation measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Foundation may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

The fair value measurement categorizes the inputs used to measure fair value into the following three categories:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access as of the measurement date.

Level 2 – Valuations based on quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Level 3 – Valuations based on inputs that are unobservable. Unobservable inputs reflect the Foundation’s own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

The Foundation has elected to measure any existing obligation under split-interest agreements at fair value. To better match the estimated cash flows of the obligation under split-interest agreements, the Foundation changes the present value of annuity rate to match the current amount distribution when calculating the present value of annuity.

The table that follows sets forth information about the level within the fair value hierarchy at which the Foundation’s investments are measured at June 30, 2012 and 2011:

| <b>June 30, 2012</b>                               | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--|----------------|----------------|----------------|--------------|
| <b>Investments</b>                                 |                |                |                |              |
| Money Market Funds                                 | \$ 2,695,944   | \$ -           | \$ -           | \$ 2,695,944 |
| Domestic Equities                                  | 56,244,187     | -              | -              | 56,244,187   |
| International Equities                             | 13,576,369     | -              | -              | 13,576,369   |
| Emerging Market Funds                              | 2,693,592      | -              | -              | 2,693,592    |
| Hedge Funds  | -              | -              | 5,265,063      | 5,265,063    |
| Leveraged Loans                                    | -              | 3,098,889      | -              | 3,098,889    |
| Private Equity                                     | -              | -              | 5,018,995      | 5,018,995    |
| Distressed Debt                                    | -              | -              | 1,190,415      | 1,190,415    |
| Fixed Income Securities                            | 34,245,730     | -              | -              | 34,245,730   |
| Total investments                                  | 109,455,822    | 3,098,889      | 11,474,473     | 124,029,184  |
| <b>Assets Held Under Split-interest Agreements</b> |                |                |                |              |
| Equities   | 2,680,343      | -              | -              | 2,680,343    |
| Fixed Income                                       | 1,955,157      | -              | -              | 1,955,157    |
| Exchange Traded Funds                              | 1,998,707      | -              | -              | 1,998,707    |
| Alternative Investments                            | -              | -              | 97,964         | 97,964       |
| Other  | 258,035        | -              | -              | 258,035      |
| Total assets held under split-interest agreements  | 6,892,242      | -              | 97,964         | 6,990,206    |
| Liability Under Split-interest Agreements          | -              | -              | (3,305,122)    | (3,305,122)  |



**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

| June 30, 2011                                      | Level 1      | Level 2   | Level 3     | Total        |
|--|--------------|-----------|-------------|--------------|
| <b>Investments</b>                                 |              |           |             |              |
| Money Market Funds                                 | \$ 2,262,164 | \$ -      | \$ -        | \$ 2,262,164 |
| Domestic Equities                                  | 57,463,743   | -         | -           | 57,463,743   |
| International Equities                             | 15,959,712   | -         | -           | 15,959,712   |
| Emerging Market Funds                              | 3,476,880    | -         | -           | 3,476,880    |
| Hedge Funds  | -            | -         | 5,376,138   | 5,376,138    |
| Leveraged Loans                                    | -            | 2,955,791 | -           | 2,955,791    |
| Private Equity                                     | -            | -         | 4,245,784   | 4,245,784    |
| Distressed Debt                                    | -            | -         | 709,633     | 709,633      |
| Fixed Income Securities                            | 32,404,354   | -         | -           | 32,404,354   |
|  | <hr/>        | <hr/>     | <hr/>       | <hr/>        |
| Total investments                                  | 111,566,853  | 2,955,791 | 10,331,555  | 124,854,199  |
| <b>Assets Held Under Split-interest Agreements</b> |              |           |             |              |
| Equities   | 3,183,984    | -         | -           | 3,183,984    |
| Fixed Income                                       | 1,873,648    | -         | -           | 1,873,648    |
| Exchange Traded Funds                              | 2,536,794    | -         | -           | 2,536,794    |
| Alternative Investments                            | -            | -         | 111,139     | 111,139      |
| Other  | 251,208      | -         | -           | 251,208      |
|  | <hr/>        | <hr/>     | <hr/>       | <hr/>        |
| Total assets held under split-interest agreements  | 7,845,634    | -         | 111,139     | 7,956,773    |
| <b>Liability Under Split-Interest Agreements</b>   | -            | -         | (3,678,989) | (3,678,989)  |

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

|   | <b>Investments</b>     |                           |                            | <b>Assets Held</b>               | <b>Liability</b>                 |
|---|------------------------|---------------------------|----------------------------|----------------------------------|----------------------------------|
|   | <b>Hedge<br/>Funds</b> | <b>Private<br/>Equity</b> | <b>Distressed<br/>Debt</b> | <b>Under Split-<br/>interest</b> | <b>Under Split-<br/>interest</b> |
| Balance as of June 30, 2010                         | \$ 5,051,014           | \$ 2,851,143              | \$ -                       | \$ 177,979                       | \$ (3,837,706)                   |
| Realized gains (losses)                             | -                      | (36,185)                  | (4,780)                    | 1,137                            | -                                |
| Dividends and interest income                       | -                      | 25,142                    | 20,292                     | (1,261)                          | -                                |
| Purchase of investments                             | -                      | 767,003                   | 796,157                    | (43,371)                         | -                                |
| Change in unrealized<br>appreciation (depreciation) | 325,124                | 638,681                   | (102,036)                  | (23,345)                         | -                                |
| Contributions                                       | -                      | -                         | -                          | -                                | (60,050)                         |
| Payments to beneficiaries                           | -                      | -                         | -                          | -                                | 524,409                          |
| Change in valuation (see Note 4)                    | -                      | -                         | -                          | -                                | (305,642)                        |
| Balance as of June 30, 2011                         | 5,376,138              | 4,245,784                 | 709,633                    | 111,139                          | (3,678,989)                      |
| Realized gains (losses)                             | -                      | 190,860                   | (13,026)                   | (2,050)                          | 23,688                           |
| Dividends and interest income                       | -                      | 18,320                    | 102,647                    | (1,394)                          | (189,830)                        |
| Purchase of investments                             | -                      | 604,208                   | 364,410                    | (11,166)                         | -                                |
| Change in unrealized<br>appreciation (depreciation) | (111,075)              | (40,177)                  | 26,751                     | 1,435                            | 198,092                          |
| Payments to beneficiaries                           | -                      | -                         | -                          | -                                | 450,926                          |
| Change in valuation (see Note 14)                   | -                      | -                         | -                          | -                                | (109,009)                        |
| Balance as of June 30, 2012                         | <u>\$ 5,265,063</u>    | <u>\$ 5,018,995</u>       | <u>\$ 1,190,415</u>        | <u>\$ 97,964</u>                 | <u>\$ (3,305,122)</u>            |

***Alternative Investments***

The fair value of the investment funds is based on available information and does not necessarily represent amounts that might ultimately be realized, which depends on circumstances and cannot be reasonably determined until the investment is actually liquidated. The fair value may differ significantly from the values which would have been used had a ready market for the funds existed.

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

|                     | <b>Net Asset Value</b> |              | <b>Unfunded<br/>Commitments<br/>at June 30, 2012</b> | <b>Redemption<br/>Frequency (If<br/>Currently Eligible)</b>                                | <b>Redemption<br/>Period</b>   |
|---------------------|------------------------|--------------|--|--|--|
|                     | <b>2012</b>            | <b>2011</b>  |  |  |  |
| Hedge Funds (A)     | \$ 5,265,063           | \$ 5,376,138 | \$ -   | Ranges between not available to a redemption date at the discretion of the general partner | Ranges between not available to a redemption date at the discretion of the general partner |
| Leveraged Loans (B) | \$ 3,098,889           | \$ 2,955,791 | \$ -   | Semi-monthly   | 15 days following of written notice  |
| Private Equity (C)  | \$ 5,018,995           | \$ 4,245,784 | \$ 1,504,000   | Ranges between monthly and not available   | Ranges between 15 days and not available   |
| Distressed Debt (D) | \$ 1,190,415           | \$ 709,633   | \$ 1,136,250   | Only with prior consent of the general partner   | At the discretion of the general partner   |

- (A) Hedge funds invest in diversified portfolios designed to provide a less correlated source of return than fixed income and equity strategies. The strategy is implemented with a wide array of financial instruments, both domestic and global, including equities, fixed income and derivatives. Managers may leverage portfolios, sell financial instruments short and/or invest selectively in illiquid investments.
- (B) Leverage loans invest in senior loans. Senior loans are loans made to corporations, partnerships and other entities that typically hold the most senior positions in the borrower's capital structure.
- (C) Private equities invest in equity securities of operating companies that are not publicly traded on a stock exchange. The strategy is to assemble a portfolio of funds managed by tenured distressed managers, representing a full spectrum of distressed investment approaches, including short-term and medium-term trading securities, taking an influencing role in the reorganization process, investing for control in the class of securities to affect the reorganization process or to acquire the issuer.
- (D) Distressed debts invest in Mezzanine capital. Mezzanine capital refers to a subordinated debt or preferred equity instrument that represents a claim on a company's assets. The strategy is to make investments in middle market companies that have demonstrated an ability to generate stable and measurable cash flows.

**Southern Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Note 15: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Pledge Receivable***

A single donor makes up approximately 42% and 41% of the 2012 and 2011 outstanding pledges.

***Litigation***

The Foundation is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Foundation.

***Current Economic Conditions***

The current economic conditions continue to present foundations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in contributions and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Foundation.

Current economic conditions have made it difficult for many donors to continue to contribute to foundations. A significant decline in contribution revenue could have an adverse impact on the Foundation's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, allowances for contributions receivable and the valuation of intangibles that could negatively impact the Foundation's ability to maintain sufficient liquidity.