

Southern Illinois University Foundation

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016

Southern Illinois University Foundation
June 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Southern Illinois University Foundation
Carbondale, Illinois

We have audited the accompanying financial statements of Southern Illinois University Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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. Those standards require that we plan and perform the audit 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 Foundation'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 Foundation'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 opinion.

Board of Directors
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Illinois University Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

St. Louis, Missouri
October 5, 2017

Southern Illinois University Foundation
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash	\$ 774,442	\$ 307,741
Receivables		
Pledges receivable, net of allowance for doubtful accounts; 2017 - \$805,000, 2016 - \$762,000	5,550,431	4,948,800
Charitable trust receivable	54,435	54,435
Other receivables	111,801	455,986
Total receivables	5,716,667	5,459,221
Investments		
Investments	169,900,453	152,540,269
Assets held under split-interest agreements	4,739,431	4,946,731
Investment in real estate	384,246	441,650
Cash surrender value of life insurance	642,808	586,442
Total investments	175,666,938	158,515,092
Land and equipment, net	1,138,022	1,159,764
Other assets	321,045	305,941
Total assets	\$ 183,617,114	\$ 165,747,759
Liabilities and Net Assets		
Liabilities		
Accounts payable and other liabilities	\$ 245,808	\$ 323,007
Obligations under split-interest agreements	2,115,632	2,285,006
Agency funds payable	2,636,867	2,464,453
Deposits held for others	6,787	6,984
Total liabilities	5,005,094	5,079,450
Net Assets		
Unrestricted		
Unrestricted	12,064,986	10,964,325
Endowment fund deficits/board designated	2,798,067	2,438,024
Temporarily restricted	69,439,787	59,972,634
Permanently restricted	94,309,180	87,293,326
Total net assets	178,612,020	160,668,309
Total liabilities and net assets	\$ 183,617,114	\$ 165,747,759

Southern Illinois University Foundation
Statements of Activities
Years Ended June 30, 2017 and 2016

	Year Ended June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenue				
Contributions and grants, net of discount	\$ 383,524	\$ 9,075,163	\$ 3,735,681	\$ 13,194,368
Allowance for uncollectible receivables	(586)	310,193	(352,516)	(42,909)
Change in value of split-interest agreements	-	295,525	52,857	348,382
Net investment gain	2,517,363	13,255,712	107,406	15,880,481
Fundraising service income	71,649	-	-	71,649
Support service revenue	5,763,231	-	-	5,763,231
Other	9,061	242,722	(34,327)	217,456
	8,744,242	23,179,315	3,509,101	35,432,658
Net assets released from restrictions	9,864,578	(9,602,148)	(262,430)	-
Changes in donor restrictions	-	(3,769,183)	3,769,183	-
Total support and revenue	18,608,820	9,807,984	7,015,854	35,432,658
Expenses				
Program services				
Student assistance	3,413,651	-	-	3,413,651
University and community programs	1,800,754	-	-	1,800,754
Academic and research support	2,645,886	-	-	2,645,886
Total program services	7,860,291	-	-	7,860,291
Support services				
Management and general	4,676,286	332,374	-	5,008,660
Fundraising	4,611,539	8,457	-	4,619,996
Total support services	9,287,825	340,831	-	9,628,656
Total expenses	17,148,116	340,831	-	17,488,947
Change in Net Assets	1,460,704	9,467,153	7,015,854	17,943,711
Net Assets - Beginning of Year	13,402,349	59,972,634	87,293,326	160,668,309
Net Assets - End of Year	\$ 14,863,053	\$ 69,439,787	\$ 94,309,180	\$ 178,612,020

Southern Illinois University Foundation
Statements of Activities (Continued)
Years Ended June 30, 2017 and 2016

	Year Ended June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenue				
Contributions and grants, net of discount	\$ 228,322	\$ 5,146,749	\$ 1,919,879	\$ 7,294,950
Allowance for uncollectible receivables	-	371,375	(334)	371,041
Change in value of split-interest agreements	-	(156,265)	42,485	(113,780)
Net investment gain (loss)	267,097	(3,416,456)	(71,319)	(3,220,678)
Fundraising service income	70,011	-	-	70,011
Support service revenue	5,691,452	-	-	5,691,452
Other	556	289,643	15,558	305,757
	<u>6,257,438</u>	<u>2,235,046</u>	<u>1,906,269</u>	<u>10,398,753</u>
Net assets released from restrictions	10,506,622	(10,441,660)	(64,962)	-
Changes in donor restrictions	-	(966,010)	966,010	-
	<u>16,764,060</u>	<u>(9,172,624)</u>	<u>2,807,317</u>	<u>10,398,753</u>
Expenses				
Program services				
Student assistance	3,696,675	-	-	3,696,675
University and community programs	1,846,632	-	-	1,846,632
Academic and research support	3,307,289	-	-	3,307,289
	<u>8,850,596</u>	<u>-</u>	<u>-</u>	<u>8,850,596</u>
Support services				
Management and general	4,502,300	977,183	144,400	5,623,883
Fundraising	4,185,649	-	-	4,185,649
	<u>8,687,949</u>	<u>977,183</u>	<u>144,400</u>	<u>9,809,532</u>
Total expenses	<u>17,538,545</u>	<u>977,183</u>	<u>144,400</u>	<u>18,660,128</u>
Change in Net Assets	(774,485)	(10,149,807)	2,662,917	(8,261,375)
Net Assets - Beginning of Year	<u>14,176,834</u>	<u>70,122,441</u>	<u>84,630,409</u>	<u>168,929,684</u>
Net Assets - End of Year	<u>\$ 13,402,349</u>	<u>\$ 59,972,634</u>	<u>\$ 87,293,326</u>	<u>\$ 160,668,309</u>

Southern Illinois University Foundation
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 17,943,711	\$ (8,261,375)
Items not requiring (providing) operating activities cash flows		
Cash provided by operating activities		
Depreciation	146,575	46,950
Net realized and unrealized investment (gains) losses	(12,933,867)	6,265,630
Permanently restricted contributions	(3,735,681)	(1,919,879)
Cash surrender value of life insurance	(56,366)	(36,253)
Change in value of split-interest agreements	(348,382)	113,780
Net change in		
Pledges receivable	(601,631)	1,206,805
Other receivables	344,185	(38,658)
Other assets	(15,104)	30,491
Accounts payable and other liabilities	(77,396)	119,089
	666,044	(2,473,420)
Net cash provided by (used in) operating activities	666,044	(2,473,420)
Cash Flows from Investing Activities		
Proceeds from the sale/maturity of investments	2,828,114	5,604,993
Purchase of investments, including reinvested income	(6,292,035)	(4,325,945)
Purchase of equipment	(124,833)	(527,664)
	(3,588,754)	751,384
Net cash provided by (used in) investing activities	(3,588,754)	751,384
Cash Flows from Financing Activities		
Permanently restricted contributions	3,735,681	1,919,879
Payments to annuitants and recipients	(255,162)	(315,452)
Payments for agency funds to SIU	(91,108)	(91,096)
	3,389,411	1,513,331
Net cash provided by financing activities	3,389,411	1,513,331
Increase (Decrease) in Cash	466,701	(208,705)
Cash - Beginning of Year	307,741	516,446
Cash - End of Year	\$ 774,442	\$ 307,741

Southern Illinois University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

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 a 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 Section 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, 2017 and 2016

Cash

At June 30, 2017 and 2016, the carrying amount of the Foundation's deposits with financial institutions was \$772,442 and \$303,841, respectively, and the bank balances were \$900,852 and \$441,813, 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. At June 30, 2017, the Foundation's cash accounts exceeded federally insured limits and collateralized balance by approximately \$85,000.

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 recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Realized gains and losses on sales of investments are determined on the specific identification basis. Investment return includes dividend and interest income; realized and unrealized gains and losses on investments; and investment fees.

Investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Southern Illinois University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

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 10 years for equipment.

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 released to unrestricted net assets.

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.

Southern Illinois University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

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 ended before June 30, 2014, 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, 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 Auditor's Report, which is the date the financial statements were available to be issued.

Southern Illinois University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

Note 2: Pledges Receivable

Pledges receivable consisted of the following:

	2017	2016
Pledges receivable due in		
Less than one year	\$ 2,515,554	\$ 1,279,408
One to five years	2,250,821	2,743,624
More than five years	3,207,527	3,627,665
	<hr/>	<hr/>
Total pledges receivable	7,973,902	7,650,697
Allowance (2017 - 10%, 2016 - 10%)	(804,556)	(761,647)
Discount (2017 - 5%, 2016 - 5%)	(1,618,915)	(1,940,250)
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Total	<u>\$ 5,550,431</u>	<u>\$ 4,948,800</u>

Total prior pledges written off during the years ended June 30, 2017 and 2016, were \$332,374 and \$1,121,583, respectively, which has been included with management and general expense in the statements of activities.

Note 3: Irrevocable Intentions

During 2014, the Foundation became aware it is a beneficiary under charitable remainder trusts administered by other trustees. Under the terms of the trusts, the Foundation has the irrevocable right to receive a specified percentage of the remaining trust assets upon the death of the current beneficiaries. The interest in charitable remainder trusts of \$54,435 at both June 30, 2017 and 2016, represents the present value of the expected net cash proceeds ultimately payable to the Foundation. The Foundation used the Applicable Federal Rate to discount its interest at the time it became aware of the interest.

Southern Illinois University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

Note 4: Investments and Investment Return

Investments at June 30 consisted of the following:

	2017	2016
Money market funds	\$ 3,436,520	\$ 4,237,161
Domestic equities	35,725,582	29,363,878
International equities	19,999,259	17,783,264
Emerging market funds	13,946,462	11,440,264
Hedge funds	7,500,506	5,323,657
Leveraged loans	6,042,388	5,741,280
Private equity	5,764,663	5,244,672
Distressed debt	458,475	434,384
Real estate funds	7,137,761	6,424,784
Commodities	7,021,307	5,964,508
Alternative strategies	26,700,235	24,439,867
Fixed income securities	36,167,295	36,142,550
	\$ 169,900,453	\$ 152,540,269

Total investment return is comprised of the following:

	2017	2016
Interest and dividends	\$ 3,799,083	\$ 3,627,244
Investment fees	(852,469)	(582,292)
Realized investment gains	3,190,145	2,413,604
Unrealized investment gains (losses)	9,743,722	(8,679,234)
	\$ 15,880,481	\$ (3,220,678)

Note 5: 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.

Southern Illinois University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

Assets

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

	2017	2016
Charitable remainder trusts		
Equities	\$ 2,543,650	\$ 2,602,527
Real estate funds	126,638	125,392
Natural resources	204,663	196,109
Fixed income	932,565	919,660
Other	31,039	199,352
	<hr/>	<hr/>
	3,838,555	4,043,040
Charitable gift annuities		
Equities	430,750	409,985
Real estate funds	37,276	35,927
Commodities	40,967	40,863
Fixed income	88,931	106,191
Alternative investments	269,434	269,186
Other	33,518	41,539
	<hr/>	<hr/>
	900,876	903,691
	<hr/>	<hr/>
Total assets under split-interest agreements	\$ 4,739,431	\$ 4,946,731
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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 2.4 percent and applicable mortality tables.

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

	2017	2016
Charitable remainder trusts	\$ 1,598,398	\$ 1,705,091
Charitable gift annuities	517,234	579,915
	<hr/>	<hr/>
Total obligation under split-interest agreements	\$ 2,115,632	\$ 2,285,006
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Southern Illinois University Foundation
Notes to Financial Statements
June 30, 2017 and 2016

The following summarizes annuities payable transactions for the years ended June 30:

	2017	2016
	<hr/>	<hr/>
Beginning balance	\$ 2,285,006	\$ 2,687,924
Annuity funds		
Net investment income (loss)	108,199	(36,399)
Payments to annuitants	(66,028)	(57,218)
Adjustment of actuarial liability	(104,851)	79,928
Charitable remainder trusts		
Net investment gain (loss)	325,971	(164,847)
Payments to recipients	(189,134)	(258,234)
Adjustment of actuarial liability	(243,531)	33,852
	<hr/>	<hr/>
Ending balance	<u>\$ 2,115,632</u>	<u>\$ 2,285,006</u>

Note 6: 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:

	2017	2016
	<hr/>	<hr/>
Two parcels of land located in Goreville, Illinois, held for the benefit of two scholarship endowment funds	\$ 71,900	\$ 78,900
75% interest in farmland not held for operational use	252,346	302,750
50% remainder interest in a home to benefit the School of Law	60,000	60,000
	<hr/>	<hr/>
	<u>\$ 384,246</u>	<u>\$ 441,650</u>

Southern Illinois University Foundation

Notes to Financial Statements

June 30, 2017 and 2016

Note 7: Land and Equipment

Land and equipment at June 30 consists of:

	2017	2016
Land	\$ 307,216	\$ 307,216
Furniture, fixtures and equipment	1,858,128	1,117,212
Less: accumulated depreciation	(1,027,322)	(947,233)
Equipment, net	830,806	169,979
Construction in process	-	682,569
Land and equipment, net	\$ 1,138,022	\$ 1,159,764

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 years ended June 30:

	2017	2016
Beginning balance	\$ 2,464,453	\$ 2,678,679
Net investment income	263,522	(123,130)
Payments to SIU	(91,108)	(91,096)
Ending balance	\$ 2,636,867	\$ 2,464,453

Note 9: Net Assets

Temporarily Restricted Net Assets

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

	2017	2016
Student assistance	\$ 23,940,627	\$ 19,431,767
SIU and community programs	10,292,480	6,036,965
Academic and research support	35,206,680	34,503,902
Total	\$ 69,439,787	\$ 59,972,634

Southern Illinois University Foundation
Notes to Financial Statements
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Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2017	2016
Student assistance	\$ 45,800,609	\$ 42,685,843
SIU and community programs	6,377,279	6,509,201
Academic and research support	42,131,292	38,098,282
Total	<u>\$ 94,309,180</u>	<u>\$ 87,293,326</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.

	2017	2016
Time restriction elapsed or program satisfaction and termination of charitable remainder trust	\$ 7,697,988	\$ 8,636,609
Internal transfers - endowment fees and supplement fees	2,166,590	1,870,013
Total	<u>\$ 9,864,578</u>	<u>\$ 10,506,622</u>

Note 10: Endowment

The Foundation's endowment consists of approximately 1,000 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
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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, was:

June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted				
Endowment funds	\$ (15,759)	\$ 34,416,851	\$ 93,576,591	\$ 127,977,683
Board-designated				
Endowment funds	2,813,826	-	-	2,813,826
	<u>\$ 2,798,067</u>	<u>\$ 34,416,851</u>	<u>\$ 93,576,591</u>	<u>\$ 130,791,509</u>
June 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted				
Endowment funds	\$ (195,013)	\$ 26,541,544	\$ 86,613,594	\$ 112,960,125
Board-designated				
Endowment funds	2,633,037	-	-	2,633,037
	<u>\$ 2,438,024</u>	<u>\$ 26,541,544</u>	<u>\$ 86,613,594</u>	<u>\$ 115,593,162</u>

Southern Illinois University Foundation
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Changes in endowment net assets for the years ended June 30, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, July 1, 2016	\$ 2,438,024	\$ 26,541,544	\$ 86,613,594	\$ 115,593,162
Investment return				
Investment income	43,765	1,870,683	14,666	1,929,114
Net appreciation (realized and unrealized)	272,612	11,550,193	92,740	11,915,545
Reclassification of net assets for funds with deficiencies	179,254	(179,254)	-	-
Total investment return	495,631	13,241,622	107,406	13,844,659
Contributions	-	25,000	3,735,681	3,760,681
Allowance for uncollectible receivables	-	-	(352,516)	(352,516)
Other sources	-	-	(34,327)	(34,327)
Appropriations of endowment assets for expenditure	(135,638)	(5,386,316)	(262,430)	(5,784,384)
Other expenses	-	(4,999)	-	(4,999)
Change in donor restriction	50	-	3,769,183	3,769,233
Endowment investments, June 30, 2017	<u>\$ 2,798,067</u>	<u>\$ 34,416,851</u>	<u>\$ 93,576,591</u>	<u>\$ 130,791,509</u>

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, July 1, 2015	\$ 2,855,997	\$ 35,001,714	\$ 83,503,727	\$ 121,361,438
Investment return				
Investment income	44,766	1,824,076	21,138	1,889,980
Net depreciation (realized and unrealized)	(141,010)	(5,446,752)	(92,457)	(5,680,219)
Reclassification of net assets for funds with deficiencies	(195,013)	195,013	-	-
Total investment return	(291,257)	(3,427,663)	(71,319)	(3,790,239)
Contributions	-	-	1,919,879	1,919,879
Allowance for uncollectible receivables	-	-	(335)	(335)
Other sources	-	-	15,558	15,558
Appropriations of endowment assets for expenditure	(126,716)	(5,028,716)	(64,962)	(5,220,394)
Other expense	-	-	(144,400)	(144,400)
Change in donor restriction	-	(3,791)	1,455,446	1,451,655
Endowment investments, June 30, 2016	<u>\$ 2,438,024</u>	<u>\$ 26,541,544</u>	<u>\$ 86,613,594</u>	<u>\$ 115,593,162</u>

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

	2017	2016
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	<u>\$ 93,576,591</u>	<u>\$ 86,613,594</u>
Temporarily restricted net assets:		
Term endowment funds	\$ 2,929,695	\$ 2,734,433
Portion of perpetual endowment funds subject to a time restriction under UPMIFA		
With purpose restrictions	<u>31,487,156</u>	<u>23,807,111</u>
	<u>\$ 34,416,851</u>	<u>\$ 26,541,544</u>

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 \$15,759 and \$195,013 at June 30, 2017 and 2016, 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's Board of Directors. This year's positive investment performance decreased the number of deficient endowments to six as of June 30, 2017. There were 40 deficiencies of this nature as of June 30, 2016.

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 percent 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.

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The spending distribution calculation is the sum of a) the previous year's spending increased by the higher education inflation rate (HEPI) and weighted at 80 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 20 percent.

Note 11: Fees

Endowment Fee

The Foundation receives up to a 1.5 percent 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 \$1,455,091 (1.37 percent) and \$1,460,216 (1.27 percent) for the years ended June 30, 2017 and 2016, respectively.

Supplement Fee

Beginning July 1, 2004, SIU and Foundation assessed a 6 percent Supplement Fee on gifts of cash and securities. Five percent is retained by SIU or the Foundation for support of the strategic initiative to increase private support. The remaining 1 percent 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 \$683,790 and \$428,001 for the years ended June 30, 2017 and 2016, 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 last amended in 2014. 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, 2017 and 2016, 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 Statements 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.

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During the years ended June 30, 2017 and 2016, the Foundation paid \$109,939 and \$108,626, 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 \$68,138 and \$54,608 to various Foundation restricted accounts in 2017 and 2016, respectively.

The Foundation also received several grants from SIU totaling \$7,807 and \$7,183 for the years ended June 30, 2017 and 2016, 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 Statements of Activities and are not material for 2017 or 2016.

Note 13: Operating Lease

A noncancellable operating lease with SIU for the use of a suite in the Football Stadium expires in 2019. Rent expense related to this lease for 2017 and 2016 was \$17,154 and \$16,984, respectively.

Future minimum lease payments under this operating lease are:

Year Ending June 30,	Amount
2018	\$ 17,325
2019	17,498
Total	\$ 34,823

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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value.

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- 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.
- 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.

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Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

June 30, 2017	Level 1	Level 2	Level 3	NAV (A)	Total
Investments Measured at Fair Value					
Money Market Funds	\$ 3,436,520	\$ -	\$ -	\$ -	\$ 3,436,520
Domestic Equities	35,725,582	-	-	-	35,725,582
International Equities	19,999,259	-	-	-	19,999,259
Emerging Market Funds	13,946,462	-	-	-	13,946,462
Real Estate Funds	3,999,692	-	-	-	3,999,692
Commodities	3,490,126	-	-	-	3,490,126
Alternative Strategies	11,645,270	-	-	-	11,645,270
Fixed Income Securities	36,167,295	-	-	-	36,167,295
Investments Measured at NAV					
Hedge Funds				7,500,506	7,500,506
Leveraged Loans				6,042,388	6,042,388
Private Equity				5,764,663	5,764,663
Distressed Debt				458,475	458,475
Real Estate Funds				3,138,069	3,138,069
Commodities				3,531,181	3,531,181
Alternative Strategies				15,054,965	15,054,965
Total investments	\$ 128,410,206	\$ -	\$ -	\$ 41,490,247	\$ 169,900,453
Assets Held Under Split-interest Agreements					
Measured at Fair Value					
Equities	\$ 2,974,400	\$ -	\$ -	\$ -	\$ 2,974,400
Real Estate Funds	142,066	-	-	-	142,066
Natural Resources	204,663	-	-	-	204,663
Commodities	16,939	-	-	-	16,939
Fixed Income	1,021,496	-	-	-	1,021,496
Alternative Investments	54,940	-	-	-	54,940
Other	64,557	-	-	-	64,557
Measured at NAV					
Real Estate Funds				21,848	21,848
Commodities				24,028	24,028
Alternative Investments				214,494	214,494
Total	\$ 4,479,061	\$ -	\$ -	\$ 260,370	\$ 4,739,431
Liability Under Split-interest Agreements	\$ -	\$ -	\$ (2,115,632)	\$ -	\$ (2,115,632)

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June 30, 2016	Level 1	Level 2	Level 3	NAV (A)	Total
Investments Measured at Fair Value					
Money Market Funds	\$ 4,237,161	\$ -	\$ -	\$ -	\$ 4,237,161
Domestic Equities	29,363,878	-	-	-	29,363,878
International Equities	17,783,264	-	-	-	17,783,264
Emerging Market Funds	11,440,264	-	-	-	11,440,264
Real Estate Funds	4,036,015	-	-	-	4,036,015
Commodities	3,274,595	-	-	-	3,274,595
Alternative Strategies	10,900,714	-	-	-	10,900,714
Fixed Income Securities	36,142,550	-	-	-	36,142,550
Investments Measured at NAV					
Hedge Funds				5,323,657	5,323,657
Leveraged Loans				5,741,280	5,741,280
Private Equity				5,244,672	5,244,672
Distressed Debt				434,384	434,384
Real Estate Funds				2,388,769	2,388,769
Commodities				2,689,913	2,689,913
Alternative Strategies				13,539,153	13,539,153
Total investments	<u>\$ 117,178,441</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,361,828</u>	<u>\$ 152,540,269</u>
Assets Held Under Split-interest Agreements					
Measured at Fair Value					
Equities	\$ 3,012,512	\$ -	\$ -	\$ -	\$ 3,012,512
Real Estate Funds	142,700	-	-	-	142,700
Natural Resources	196,109	-	-	-	196,109
Commodities	20,380	-	-	-	20,380
Fixed Income	1,025,851	-	-	-	1,025,851
Alternative Investments	62,171	-	-	-	62,171
Other	240,891	-	-	-	240,891
Investments Measured at NAV					
Real Estate Funds				18,619	18,619
Commodities				20,483	20,483
Alternative Investments				207,015	207,015
	<u>\$ 4,700,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 246,117</u>	<u>\$ 4,946,731</u>
Liability Under Split-interest Agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,285,006)</u>	<u>\$ -</u>	<u>\$ (2,285,006)</u>

(A) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not be classified in the fair value hierarchy (Levels 1, 2 or 3). The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2017. For the liability classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. There were no investments classified as Level 2 or Level 3.

Liability Under Split-Interest

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 better align with the current distribution when calculating the present value of annuity. Such obligations are classified in Level 3 of the valuation hierarchy.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities are the responsibility of the Treasurer's office. The Treasurer's office contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The Treasurer's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

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Level 3 Reconciliation

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

	Liability Under Split- Interest
Balance as of June 30, 2015	\$ (2,687,924)
Realized gains (losses)	1,924
Dividends and interest income	(151,140)
Change in unrealized appreciation	350,462
Payments to beneficiaries	315,452
Change in valuation (see Note 5)	(113,780)
Balance as of June 30, 2016	(2,285,006)
Realized gains (losses)	(122,546)
Dividends and interest income	(110,673)
Change in unrealized appreciation	(200,952)
Payments to beneficiaries	255,162
Change in valuation (see Note 5)	348,383
Balance as of June 30, 2017	\$ (2,115,632)

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	Fair Value at June 30, 2017	Fair Value at June 30, 2016	Valuation Technique	Unobservable Inputs
Liability Under Split-interest	\$ (2,115,632)	\$ (2,285,006)	Discounted cash flow	Expected average life

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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. 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:

	<u>Fair Value</u>		<u>Unfunded Commitments at June 30, 2017</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Period</u>
	<u>2017</u>	<u>2016</u>			
Hedge Funds (A)	\$ 7,500,506	\$ 5,323,657	\$ -	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)	\$ 6,042,388	\$ 5,741,280	\$ -	Semi-monthly	15 days following of written notice
Private Equity (C)	\$ 5,764,663	\$ 5,244,672	\$ 3,363,300	Ranges between monthly and not available	Ranges between 15 days and not available
Distressed Debt (D)	\$ 458,475	\$ 434,384	\$ 2,118,750	Only with prior consent of the general partner	At the discretion of the general partner
Alternative Strategies (E)	\$ 15,054,965	\$ 13,539,153	\$ 1,069,812	Ranges between monthly and not available	Ranges between 2 years and not available
Real Estate Funds (F)	\$ 3,138,069	\$ 2,388,769	\$ 1,114,935	Not available	Not available
Commodities (G)	\$ 3,531,181	\$ 2,689,913	\$ 883,253	Ranges between monthly and annually	30 days following of written notice

- (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.

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- (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.
- (E) Alternative strategies invest in a combination of hedge funds, leveraged loans, private equity and distressed debt.
- (F) Real estate funds includes funds that invest primarily in U.S. commercial real estate, but also includes real estate funds focused on global listed real estate securities. The real estate exposure can include both publicly traded Real Estate Investment Trust funds and private partnerships. Publicly traded REIT funds have daily liquidity. The typical life of a partnership is 10 years but is subject to extensions.
- (G) Commodities include funds that invest in natural resources such as commodities and MLPs. MLPs are Master Limited Partnerships that are partnerships that derive most of its cash flows from real estate, natural resources and commodities.

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 40 percent and 61 percent of the 2017 and 2016 gross outstanding pledges receivable.