

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
(In Accordance with the Single Audit Act and OMB Circular A-133)

For The Year Ended June 30, 2006

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

Kyle E. McGinnis
Certified Public Accountant
200 East Pine
Springfield, Illinois 62704

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

(In Accordance with the Single Audit Act and OMB Circular A-133)

For The Year Ended June 30, 2006

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(A Component Unit of the State of Illinois)

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

(In Accordance with the Single Audit Act
and OMB Circular A-133)

For The Year Ended June 30, 2006

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FOUNDATION OFFICIALS

ILLINOIS CONSERVATION FOUNDATION

Board of Directors:

Brunsvold, Joel – Appointment designated by statute - Chairman (through 12/31/05)

Flood, Sam – Appointment designated by statute - Chairman (Current)

Ducey, Barbara – Appointed by Senator Jones - Secretary

Russell, Robert Dr. – Appointed by Senator Philip - Treasurer

Swope, Larry – Appointed by Representative Madigan

Clark, Mark - Appointed by Governor Blagojevich

Keck, Fred - Appointed by Senator Philip

Kidd, John Jr. - Appointed by Senator Jones

Newton, Larry - Appointed by Representative Cross

Lyons, Arthur - Appointed by Representative Daniels

Presbrey, Kim - Appointed by Governor Blagojevich

Rodeen, Gerald - Appointed by Governor Blagojevich

Wren, Richard T. Jr. - Appointed by Governor Blagojevich

Each director shall hold office until a successor has been appointed.

Committees were as follows:

Executive Committee

Brunsvold, Joel – Chairman of the Board (through 12/31/05)
Flood, Sam – Chairman of the Board (Current)
Ducey, Barbara
Russell, Robert Dr.
Wren, Richard T. Jr.

Development Committee

Vacant - Chairman
Kidd, John Jr.
Lyons, Arthur
Rodeen, Gerald

Finance & Endowment Committee

Russell, Robert Dr. – Chairman
Keck, Fred
Lyons, Arthur

Special Events Committee

Presbrey, Kim - Chairman
Keck, Fred
Clark, Mark
Kidd, John Jr.

Strategic Planning Committee

Rodeen, Gerald – Chairman

Planned Giving Committee

Lyons, Arthur
Russell, Robert Dr.

Liaisons to Natural Resources Advisory Board

Wren, Richard T. Jr.

Endowment Committee

Rodeen, Gerald – Chairman
Lyons, Art
Presbrey, Kim

Address:

The Foundation operates in office space maintained by the Illinois Department of Natural Resources as follows:

Operating Office

Illinois Conservation Foundation
1 Natural Resources Way
Springfield, IL 62702-1271

Foundation Executive Director:

Jess Hansen (through 05/01/06)

Presently vacant

Chief Fiscal Officer:

Chief Fiscal Officer services provided on contract by the public accounting firm of Zumbahlen, Eyth, Surratt, Foote & Flynn, Ltd. (through 12/01/05)

John Bandy (12/01/05 through present)



December 5, 2006

Kyle E. McGinnis, CPA
200 East Pine
Springfield, Illinois 62704

CONSERVATION
FOUNDATION

Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Foundation. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Foundation's compliance with the following assertions during the year ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the Foundation has materially complied with the assertions below.

- A. The Foundation has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Foundation has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Foundation has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Foundation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Foundation on behalf of the State or held in trust by the Foundation have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

ILLINOIS CONSERVATION FOUNDATION


John Bandy, Chief Financial Officer


Sam Flood, Chairman

*For a brief moment in time, the earth is ours - not to waste or own, but to share with creatures, great and small.
The role of the Illinois Conservation Foundation and its partners is to preserve and enhance our precious natural resources by supporting and fostering ecological, educational, and recreational programs for the benefit of all people now and for generations to come.*

One Natural Resources Way, Springfield, IL 62702 • Contact Kathy Wheeler at 217.785.2003 • Fax 217.785.8405

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORT

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	6	10
Repeated findings	5	2
Prior recommendations implemented or not repeated	5	-

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)		
06-1	17	Financial budget not prepared timely
06-2	18	Weakness in the accounting records
FINDINGS (STATE COMPLIANCE)		
06-3	19-20	Noncompliance with statutory mandates
06-4	21	Statutorily mandated personnel requirements not followed
06-5	22-23	Automobile lease did not contain all required disclosures and payment information
06-6	24	Disbursement Processing Weakness
PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)		
06-7	25	Non-collateralized bank deposits
PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)		
06-8	26	Purchasing Procedures not followed
06-9	26	Minutes of committee meetings not being maintained
06-10	27	Credit card purchases not following established procedures
06-11	27	Equipment purchase not recorded on State property records

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Foundation personnel at an exit conference on January 29, 2007. Attending were as follows:

- Paul Usherwood, Audit Manager, Office of the Auditor General
- Jessica Olive, Audit Manager, Office of the Auditor General
- Kyle E. McGinnis, Principal, Kyle E. McGinnis, CPA
- Shelley A. Bussen, Audit Manager, Kyle E. McGinnis, CPA
- John M. Bandy, Chief Financial Officer, Illinois Conservation Foundation,
- Ellen King-Peitzak, Chief Financial Officer, Illinois Department of Natural Resources,
- Sam Flood, Chairman of the Board of Directors, Illinois Department of Natural Resources,
- Debbie Stone, Deputy Director, Illinois Department of Natural Resources,
- Bill Richardson, General Counsel, Illinois Department of Natural Resources.

Responses to the recommendations were provided by Sam Flood, Chairman of the Board of Directors, in a letter dated February 5, 2007.

KYLE E. McGINNIS

Certified Public Accountant

MEMBER OF:

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

ILLINOIS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

200 EAST PINE * SPRINGFIELD, ILLINOIS 62704

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**INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Conservation Foundation's (A Component Unit of the State of Illinois) (Foundation) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2006. The management of the Foundation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Foundation's compliance based on our examination.

- A. The Foundation has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Foundation has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Foundation has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Foundation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Foundation on behalf of the State or held in trust by the Foundation have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and accordingly, included examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Foundation's compliance with specified requirements.

In our opinion, the Foundation complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as findings 06-2, 06-3, 06-4 and 06-5. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

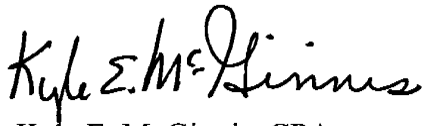
Internal Control

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Foundation's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as findings 06-1, 06-2, and 06-6. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Foundation as of and for the year ended June 30, 2006, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 27, 2006. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Foundation. The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006, taken as a whole. The Foundation's financial statements for the year ended June 30, 2005, which are not presented with the accompanying financial statements were audited by other auditors whose report thereon dated November 1, 2005, expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In their opinion, the 2005 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2005, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Foundation management, and is not intended to be and should not be used by anyone other than these specified parties.



Kyle E. McGinnis, CPA
Springfield, Illinois
December 5, 2006

KYLE E. McGINNIS

Certified Public Accountant

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Illinois Conservation Foundation (A Component Unit of the State of Illinois) (Foundation) as of and for the year ended June 30, 2006, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated December 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Foundation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are a material weakness. In addition, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance

findings in the schedule of findings and questioned costs. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Foundation in a separate letter dated December 5, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted instances of noncompliance which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings and questioned costs. We also noted certain other matters which we have reported to management of the Foundation in a separate letter dated December 5, 2006.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Foundation Management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Kyle E. McGinnis, CPA
Springfield, Illinois
December 5, 2006

KYLE E. McGINNIS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have audited the compliance of the Illinois Conservation Foundation (A Component Unit of the State of Illinois) (Foundation) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The Foundation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

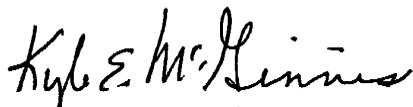
The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Foundation as of and for the year ended June 30, 2006, and have issued our report thereon dated December 5, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Foundation Management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Kyle E. McGinnis, CPA
Springfield, Illinois
December 5, 2006

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Reportable conditions identified that are not considered to be material weaknesses? yes none reported

Non compliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Reportable conditions identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major program:

CFDA Number

15.608

Name of Federal Program or Cluster

Fish and Wildlife Enhancement

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS

06-1. Finding Financial Budget For Fiscal Year 2006 Was Not Timely Prepared

The Illinois Conservation Foundation (Foundation) presented their financial budget for the Foundation's fiscal year 2006 projected revenues and expenses to the Board on May 3, 2006, this was approximately 10 months after the fiscal year begins.

The Foundation received \$4,048,773 from contributors, grantors and other sources during fiscal year 2006 and spent \$4,470,442 during fiscal year 2006 on various projects, grants and general administration of the Foundation.

The Foundation's Operating Budget procedures dated October 1995, require the Foundation to prepare an annual budget. Per the procedures the Chief Fiscal Officer is to make projections of operating expenses, and the Executive Director will provide information so that projections can be made for program expenditures and capital expenditures. The budget should then be presented to the Foundation's Board of Directors for discussion, amendment and approval. The budget should be presented to the Board of Directors at such a time as it can be approved prior to the start of the fiscal year for which is applies. In addition, generally accepted accounting principles set forth that governmental units should prepare a comprehensive annual budget covering all funds for each fiscal year.

Failure to timely prepare an annual budget is non-compliance with the Foundation's procedures and is contrary to generally accepted accounting principles.

Budgeting is considered an essential element of an entity's financial planning, control and evaluation process. By not preparing and following a budget, the Foundation runs the risk of incurring unnecessary expenditures, and of not using their resources in the most efficient manner. (Finding Code No. 06-1, 05-2)

Recommendation

We recommend the Foundation management prepare an annual budget and submit it to the Board of Directors on a timely basis for approval.

Foundation Response

The Foundation agrees. For FY 2006 the Foundation operated for most of the year under a budget that was not formally adopted by the ICF Board of Directors ("Board"). The budget for FY 2006 was formally adopted on May 3, 2006 by the Board. The Board also formally adopted the budget for FY 2007 beginning July 1, 2006 at the same quarterly meeting held on May 3, 2006.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

06-2. Finding Weaknesses In The Foundation's Accounting Records And Preparation Of The Year End Financial Statements

During our audit of the Illinois Conservation Foundation's (Foundation) June 30, 2006 financial statements, we recommended extensive adjustments and corrections. As a result of audit procedures performed, we recommended twenty three audit adjustments to various accounts within the Foundation's financial records for a total amount of \$458,377. Most of the adjustments were caused by coding and misclassification errors made during the year.

The Foundation is required to prepare annual financial statements of its financial activity to comply with reporting requirements regarding federal grants and the State of Illinois. The Foundation, under its enabling legislation, 20 ILCS 880/15, is also required to have a financial audit in compliance with the Illinois State Auditing Act. It is the responsibility of the Foundation to maintain their accounting records and prepare their financial statements in accordance with generally accepted accounting principles, (GAAP), and that the accounting records and financial statements be materially free of errors and omissions.

In addition, the Fiscal Control and Internal Auditing Act, (FCIAA) (30 ILCS 10/3001), requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of amounts and reliable financial reports. FCIAA (30 ILCS 10/1003(b)) refers to the Illinois State Auditing Act for the definition of a State Agency. Per the Illinois State Auditing Act (30 ILCS 5/1-7), the definition of a State Agency includes, "corporate outgrowths of the State government which are created by or pursuant to statute." Per our interpretation of the FCIAA, the definition of a State Agency as noted in the Illinois State Auditing Act and how the Foundation was created, we determined the Foundation should be following the FCIAA requirements.

Foundation management indicated the errors and omissions in the accounting records and financial statements are a result of the Foundation's oversight.

Errors and omissions in the maintenance of the Foundation's accounting records leads to the use of additional resources in completing the annual audit. The Foundation also leaves itself at risk of presenting information that is not materially correct. (Finding Code No. 06-2, 05-3)

Recommendation

We recommend the Foundation devote sufficient resources to its financial accounting function such that the financial information is properly recorded and accounted for to permit the preparation of reliable and timely financial statements.

Foundation Response

The Foundation agrees. The Foundation did not have a fiscal officer during FY 2005 that ended on June 30, 2005. The Foundation hired the current fiscal officer in December of 2005. Most of the coding and misclassification errors occurred prior to the hire date of the current fiscal officer. The current fiscal officer has made the adjusting entries and reviewed the financial accounting information of the Foundation and has been providing the Board with reliable and timely financial statements.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT FINDINGS - STATE COMPLIANCE

06-3. FINDING Noncompliance With Statutory Mandates

As part of our engagement we tested the Illinois Conservation Foundation's (Foundation) compliance with statutory mandates. We identified three instances, in which through our interpretation of the statutory mandates, the Foundation should be complying.

First, we noted the Foundation did not file its annual certification of their systems of internal control with the Office of the Auditor General by May 1, 2006 as required by the Fiscal Control and Internal Auditing Act (FCIAA). The Foundation filed the annual certification on June 15, 2006. The FCIAA (30 ILCS 10/3003) notes that all State Agencies shall file the required certification by May 1, 2006. Foundation management indicated they filed the certification late due to oversight.

Second, we noted the Foundation was not filing documentation of the establishment of their locally held funds/accounts or quarterly reports on locally held fund activity with the Office of the State Comptroller. The Foundation has two locally held funds/accounts which are held outside the State Treasury. The Office of the State Comptroller's Statewide Accounting Management System Procedure Manual (SAMS Manual) section 09.10.40 notes that Agencies establishing a locally held fund must notify the Office of the Comptroller of the establishment of such a fund. In addition, (15 ILCS 405/16) of the State Comptroller Act prescribes the form and requires the filing of quarterly fiscal reports by each State Agency for locally held funds.

The State Comptroller Act (15 ILCS 405/7) defines State Agencies for purposes of the State accounting system. The definition includes "public corporations." A "public corporation" is defined in Black's Law Dictionary as "a corporation that is created by the state as an agency in the administration of civil government" and as "a government-owned corporation that engages in activities that benefit the general public, usually while remaining financially independent." Our interpretation is that the Foundation meets the definition of a public corporation and therefore should comply with the locally held fund requirements. Management at the Office of the State Comptroller indicated that based on their interpretation the Foundation should be following the statutes and SAMS Manual procedures relating to locally held funds.

Foundation management noted they do not believe the locally held fund requirements apply to them as the Foundation was created as a not-for-profit corporation under the General Not for Profit Corporation Act of 1986. Foundation management indicated that defining the Foundation as a "public corporation" for purposes of the State Comptroller Act would contradict the clear intent of the legislature to provide for the creation of a not-for-profit corporation under the General Not for Profit Corporation Act of 1986.

Third, we noted the Foundation was not filing copies of their grants in excess of \$10,000 with the Office of the Comptroller as required by the Illinois Procurement Code (30 ILCS 500/1-10(b) (2) and 30 ILCS 500/20-80(b)).

The Illinois Conservation Foundation Act (Act), (20 ILCS 880/15), as amended by Public Act 92-797, effective August 15, 2002 notes, "Foundation procurement is exempt from the Illinois Procurement Code when only private funds are used for procurement expenditures."

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT FINDINGS - STATE COMPLIANCE

06-3. FINDING Noncompliance With Statutory Mandates - continued

During fiscal year 2006 the Foundation received approximately \$1.075 million of federal grant funds. The majority of the grant funds were received from the U.S. Department of Agriculture and the U.S. Department of Interior and were passed through to sub-grantees. Federal funds from these governmental entities maintain their public fund identity until they are expended for goods or services; therefore, we believe the portion of the Illinois Procurement Code relating to the filing of grants in excess of \$10,000 would be applicable to these federally-funded grants. The Foundation awarded 23 grants in excess of \$10,000 during fiscal year 2006 to sub-grantees.

Foundation management indicated the language to exempt the Foundation from the Illinois Procurement Code when private funds are used for procurement expenditures was added to clarify that the Foundation is exempt from the Illinois Procurement Code.

Failure to comply with the Fiscal Control and Internal Auditing Act, State Comptroller Act and the Illinois Procurement Code are violations of statutorily mandated responsibilities (Finding Code No. 06-3, 05-4, 04-2, 03-2).

Recommendation

We recommend the Foundation either comply with the applicable requirements of the Fiscal Control and Internal Auditing Act, State Comptroller Act and the Illinois Procurement Code, or seek a formal written interpretation from the State of Illinois Office of the Attorney General regarding the applicability of the above statutes to the Foundation.

Foundation Response

As stated in the Foundation's response to Finding 05-4 last year, an interpretation was sought from the State of Illinois Office of the Attorney General on May 25, 2004 regarding the Foundation's status as a State agency. The Attorney General's Office acknowledged receipt of the interpretation request by letter dated June 8, 2004. This determination would assist the Foundation and the Auditor General in determining whether statutory mandates are applicable. Neither the Foundation nor the Department of Natural Resources has received a response from the Attorney General regarding the Foundation's status as a State agency. Therefore, the applicability of the statutory mandates remains an open issue.

In 2003, the Foundation agreed to file its annual certification of systems of internal control as required by FCIAA while clarification was sought from the Attorney General. Although late, the Foundation did file the annual certification on June 13, 2006 after the Foundation's current fiscal officer had sufficient time to make a complete review of the Foundation's systems of internal control in order to make the necessary attestations required by the annual FCIAA certification. The Foundation intends to timely file the annual certification this year.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT FINDINGS - STATE COMPLIANCE

06-4. FINDING Statutorily Mandated Personnel Requirements Not Followed

The Illinois Conservation Foundation (Foundation) had one employee, the Executive Director. In our testing of personnel related expenditures we noted the Foundation did not comply with a statutorily mandated requirement.

We noted the Foundation's Executive Director did not file an economic interest statement during fiscal year 2006 as required by the Illinois Governmental Ethics Act (5 ILCS 420/4A-101).

The Illinois Governmental Ethics Act requires any person who is employed by any branch, agency, authority or board of the government of this State and functions as the head of a department, commission, board, division, bureau, authority or other administrative unit or has direct supervisory authority over, or direct responsibility for the formulation, negotiations, issuance or execution of contracts entered into by the State in the amount of \$5,000 or more to file a verified written statement of economic interest.

Foundation management indicated the Foundation is currently implementing measures to ensure compliance with the Illinois Governmental Ethics Act.

Failure to comply with the Illinois Governmental Ethics Act is a violation of a statutorily mandated responsibility. (Finding Code No. 06-4, 05-6)

Recommendation

We recommend the Foundation either comply with the requirements of the Illinois Governmental Ethics Act or seek a formal written interpretation from the State of Illinois Office of the Attorney General regarding the applicability of the above statute to the Foundation.

Foundation Response

The Foundation agrees to amend the Foundation's personnel policies to provide that the Executive Director shall file a verified written statement of economic interest as provided by the Illinois Governmental Ethics Act. This finding was first reported as Finding 05-6 in the audit report for year ended June 30, 2005 delivered to the Foundation on May 15, 2006. The Foundation's former Executive Director had resigned effective May 1, 2006. The Foundation has operated without an Executive Director since that date and is currently in the search process to fill the Executive Director position.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT FINDINGS - STATE COMPLIANCE

06-5. Finding Leases For Automobiles Did Not Contain All Payment Information And Required Disclosures

The Illinois Conservation Foundation (Foundation) entered into three lease agreements to provide for the use of three separate automobiles for the Foundation's Executive Director. A lease agreement was entered into during fiscal year 2005 with an execution date of December 20, 2004 for a period of 12 months. On August 10, 2005 the Foundation entered into a "Substitute Lease Agreement" with the same automobile dealer for a period of 12 months. On December 20, 2005 the Foundation entered into a lease agreement with another automobile dealer for a period of 12 months. All agreements required the Foundation to pay \$1 for use of the automobile during the lease term as long as the automobile was not driven over 15,000 miles. The automobile was returned to the dealer and the lease was cancelled on May 4, 2006.

In reviewing the documentation for the lease agreements, it was noted that the dealerships were allowed to attend certain Foundation sponsored functions without having to pay. This included a fishing trip, hunting trip, golf outing and a complimentary corporate table at the Illinois Outdoor Hall of Fame Banquet. None of this was documented as a part of any of the lease agreements.

In addition, we noted the lease agreements did not contain the following required disclosures as required by The Comptroller's Statewide Accounting Management System (SAMS Manual) Procedure 15.20.55:

- Bribery Clause certification (30 ILCS 500/50-5a)
- Right to Audit Records clause (30 ILCS 500/20-65)
- Contractor's Federal Taxpayer Identification Number and Legal Status Disclosure certification (74 Ill. Admin. Code 290.1203(h), Requirements for all Contracts)
- Maximum or estimated amount to be paid (74 Ill. Admin. Code 290.1203(g), Requirements for all Contracts)
- Felony Conviction Under Sarbanes-Oxley Act (30 ILCS 500/50-10.5)

A lease agreement should include all amounts to be provided to the lessor for consideration of the item leased. This should include actual cash payments and any items to be provided in lieu of cash payments. In addition, the State Comptroller Act (15 ILCS 405/7) defines State Agencies for purposes of the State accounting system. The definition includes "public corporations." A "public corporation" is defined in Black's Law Dictionary as "a corporation that is created by the state as an agency in the administration of civil government" and as "a government-owned corporation that engages in activities that benefit the general public, usually while remaining financially independent." Our interpretation is that the Foundation meets the definition of a public corporation and therefore should comply with the contracting requirements set forth in the SAMS manual.

Foundation management indicated they did not include all the required lease disclosures and all the items to be provided to the lessors in the agreements because they do not believe that they are a State agency.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT FINDINGS – STATE COMPLIANCE

06-5. Finding Leases For Automobiles Did Not Contain All Payment Information And Required Disclosures - continued

If all the items to be provided for consideration for the leased automobiles are not included in the lease, there can be confusion between both parties on what is to be provided. In addition, oversight entities do not have a clear perspective of what is being provided for consideration if all items are not included in the lease. By not including all the required disclosures, the Foundation cannot ensure the lessor is complying with required State statutes. (Finding Code No. 06-5, 05-10)

Recommendation

We recommend the Foundation include all forms of consideration in future lease agreements and that the lease agreements include all the disclosures required by the SAMS Manual.

Foundation Response

As noted in this finding, the automobile lease in question was terminated and cancelled effective May 4, 2006 and the automobile was returned to the dealer. A new form disclosure certification page has been prepared by the Foundation to be included as an identified attachment to lease agreements and independent contractor agreements entered by the Foundation subsequent to Finding 05-10 in the audit report for year ended June 30, 2005 delivered to the Foundation on May 15, 2006. The disclosures required by the SAMS Manual have been incorporated and included in any lease agreements entered by the Foundation since May 15, 2006.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT FINDINGS – STATE COMPLIANCE

06-6. Finding Disbursement processing weakness

The Illinois Conservation Foundation (Foundation) did not follow its procedures and policy regarding disbursement processing. During our testing of cash disbursements, we discovered the Foundation was not properly obtaining two signatures on all checks written for more than \$5,000.

In fiscal year 2006 we tested 50 disbursements. During our examination of corresponding cancelled checks we found 23 checks (46%), each equal to or more than \$5,000 and totaling \$2,602,856, contained only one signature.

Foundation procedures adopted in October 1995 and updated March 11, 2005 require two signatures for checks of \$5,000 and over unless such payment is made from funds received from a specific grant agreement and the disbursement furthers the specific purpose of the grant.

Failure to obtain the 2 required signatures increases the risk that errors or irregularities could occur and not be detected by the Foundation's internal control process.

Foundation personnel stated the exceptions were due to time constraints and the inability to get two signatures in a timely fashion. (Finding Code No. 06-6)

Recommendation

We recommend the Foundation strengthen controls over disbursement processing by following its policy and procedures to ensure checks over \$5,000 are properly signed by 2 authorized signers.

Foundation Response

The Foundation agrees and has already taken steps to strengthen controls over processing of checks over \$5,000. This situation was discovered by the Foundation's current fiscal officer as he made his review of the Foundation's systems of internal controls in order to prepare the annual FCIAA certification described in the Foundation's response to Finding 06-3.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR FINDINGS NOT REPEATED – GOVERNMENT AUDITING STANDARDS

**06-7. Finding Bank Balances In Excess Of The FDIC Insurance Limit Were Not Protected
By Collateral Pledged By The Banks**

In fiscal year 2005 tests performed on the cash balances provided that the Foundation did not take timely action to collateralize (protect) bank balances in excess of the FDIC insurance limit of \$100,000. (Finding Code No. 05-1, 04-1, 03-1).

Disposition: Not Repeated.

During the current fiscal year the Foundation established a separate sweep account to protect their cash balances in excess of the FDIC insurance limit of \$100,000.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR FINDINGS NOT REPEATED - STATE COMPLIANCE

06-8. FINDING Purchasing Procedures Not Followed For Accounting Related Service

In Fiscal Year 2005 accounting related services were performed initially without a signed formal agreement or contract; once an agreement was entered into the final amount paid exceeded the contracted maximum amount. In addition, the accounting related services were performed beyond the contract term without a new contract or an extension of the original contract being obtained. (Finding Code No. 05-5).

Disposition: Not Repeated

The Foundation is following its Purchasing procedures and obtaining contracts prior to the start date of the contracted services. The Foundation is also documenting any necessary changes to contracts with formal contract amendments to ensure all parties are aware of the services, terms and cost of services so there are no misunderstandings by either party.

06-9. FINDING Minutes Of Committee Meeting Not Being Maintained.

During Fiscal Year 2005 minutes were not being kept of the Illinois Conservation Foundation's (Foundation) Finance & Endowment Committee meetings.

The General Not For Profit Corporation Act of 1986 (805 ILCS 105/107.75) states, "Each corporation ... shall also keep minutes of the proceedings of its members, boards of directors and committees having any of the authority of the board of directors". In addition, good internal controls dictate that adequate minutes should be kept of all committee meetings. Formal written minutes provide a record of all management decisions made during meetings and should be maintained for future reference to document those decisions. (Finding Code No. 05-7)

Disposition: Not Repeated.

The Foundation has adopted the recommendation of the Auditor General and has provided that minutes of the Finance Committee's meetings will be maintained as a matter of sound business practice.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR FINDINGS NOT REPEATED - STATE COMPLIANCE

06-10. FINDING Credit Card Purchases Made Did Not Follow Established Procedures

In the previous fiscal year testing of the Illinois Conservation Foundation (Foundation) cash disbursements disclosed the following instances of purchases on the Foundation credit card issued to the Executive Director that did not follow the Foundation's established policies and procedures:

- \$190.91 was charged for the purchase of cigars. It was indicated the cigars were to give to donors and potential donors at meetings.
- \$469.10 was charged for hunting related items and clothing. It was indicated the items were purchased to be resold during quail and deer hunt auctions. The Foundation was unable to provide support that the items were sold at the auction(s).
- \$72.00 was charged for golf fees for the Executive Director, a person identified as a friend of the Executive Director who supplied contacts for donated supplies and material, an individual the Foundation contracts with to perform grant oversight, and a relative of the Executive Director. Neither the purpose of the outing or the people in attendance was initially documented on the charge.
- \$107.74 was charged for the purchase of a pair of boots for the Executive Director. It was indicated the Finance and Endowment Committee approved the charge, but no minutes of the Finance and Endowment Committee meetings are maintained to support the approval.
- \$126.90 was charged for a membership to a hunting organization. The membership is in the Executive Director's name and notes the Executive Director's home address as the contact address. The organization confirmed there was no corporate or organization affiliation noted with the membership. (Finding Code No. 05-8)

Disposition: Not Repeated.

The Foundation is following their policies and procedures when making purchases.

06-11. Finding Equipment Purchased With Grant Proceeds Not Recorded on Property Records

In testing grant compliance, in fiscal year 2005 a sub-grantee used grant proceeds provided by the Illinois Conservation Foundation (Foundation) to purchase a mower for \$10,500. Foundation staff could not provide documentation that the mower had been included in any listing of State property. In addition, Foundation staff could not provide documentation that any identification tags had been issued to the sub-grantee to affix to the mower to indicate it belongs to the State (Finding Code 05-9).

Disposition: Not Repeated.

The mower in question was tagged and inventoried with Illinois Department of Natural Resources on December 29, 2005. The Foundation agrees to follow the recommendations of the Auditor General.

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the Illinois Conservation Foundation (A Component Unit of the State of Illinois) (Foundation) was performed by Kyle E. McGinnis, CPA.

Based on their audit, the auditors expressed an unqualified opinion on the Foundation's basic financial statements.

KYLE E. McGINNIS

Certified Public Accountant

MEMBER OF:

**AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
ILLINOIS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Illinois Conservation Foundation (Foundation), a component unit of the State of Illinois, as of and for the year ended June 30, 2006, which collectively comprise the Foundation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Foundation as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2006 on our consideration of the Illinois Conservation Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 31 through 32 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Foundation has not presented budgetary comparison information that the accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.


Kyle E. McGinnis, CPA
Springfield, Illinois
December 5, 2006

Illinois Conservation Foundation
(A Component Unit of the State of Illinois)
Management's Discussion and Analysis (MD&A)

Introduction

The following Management's Discussion and Analysis (MD&A) provides an introduction and overview of the Illinois Conservation Foundation's (Foundation) financial activities for the fiscal year ended June 30, 2006. The Foundation is a not-for-profit corporation created to provide additional funding for the Illinois Department of Natural Resources' (IDNR) conservation programs that either are not receiving adequate funding or else cannot be implemented because state funding is not available. The specific purposes of the corporation are to solicit and generate private funding and donations that assist in enhancing and preserving Illinois' natural habitats, historic sites, river and stream corridors, state parks, forests and fish and wildlife areas. The Foundation also accepts grants for acquisition, construction and development of IDNR properties, and supports recreational programs of the IDNR.

The Foundation has agreed to become the federal assistance cooperator in an ongoing urban and community forestry program in the Chicago metropolitan region. The project, known as the "Chicago Wilderness Project Coalition", is designed to educate the public to preserve, restore and care for the biodiversity of this unique region. Implementation of this project is being accomplished through the use of project partners who are first approved by the Chicago Wilderness Steering Committee. Partners are area organizations, such as the Nature Conservancy and the Field Museum, who are best equipped to carry out this project. Grants and contracts are awarded by the Foundation to approved partners to accomplish specific parts of the project's overall goals.

Financial Highlights

The net assets of the Foundation totaled \$3,462,422 at fiscal year ended June 30, 2006, compared to \$3,884,312 at fiscal year ended June 30, 2005. The Foundation had total revenue of \$4,048,773 and expenditures of \$4,470,663 for the fiscal year ending June 30, 2006 for a decrease in net assets of \$421,890. The Foundation's Natural Resources Endowment Trust Fund was reported at \$1,384,272 as of June 30, 2006.

Overview of the Financial Statements

The Foundation's financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board and are comprised of the Statement of Net Assets, the Statement of Activities and notes to the financial statements.

The Statement of Net Assets presents information on the Foundation's assets and liabilities and the resulting net assets. This statement also reflects the Foundation's investments, at fair value, along with the restricted and unrestricted net assets.

Overview of the Financial Statements Continued

Condensed Comparative Summary of Net Assets as of June 30

	<u>2006</u>	<u>2005</u>	<u>2006/2005 Change</u>
Cash and Cash Equivalents	\$ 767,500	\$ 983,822	\$(216,322)
Accounts Receivable	135,099	65,044	70,055
Accrued Investment Income	12,765	6,944	5,821
Inventory	12,208	21,134	(8,926)
Prepaid Expenses	7,577	7,818	(241)
Investments	<u>2,701,789</u>	<u>2,890,313</u>	<u>(188,524)</u>
Total Assets	\$3,636,938	\$3,975,075	\$ (338,137)
Liabilities	<u>174,516</u>	<u>90,763</u>	<u>83,753</u>
Total Net Assets	<u>\$3,462,422</u>	<u>\$3,884,312</u>	<u>\$ (421,890)</u>

The Statement of Activities presents information regarding changes during the fiscal year ended June 30, 2006. The statement reflects additions which include the sources of revenue. Also reflected in the statement are deductions which include program and operating expenses of the Foundation.

Condensed Comparative Statement of Activities for the Year Ending June 30

	<u>2006</u>	<u>2005</u>	<u>2006/2005 Change</u>
Additions:			
Governmental Activities	\$ 3,840,093	\$2,212,185	\$ 1,627,908
General	<u>208,680</u>	<u>236,868</u>	<u>(28,188)</u>
Total	<u>\$ 4,048,773</u>	<u>\$2,449,053</u>	<u>\$ 1,599,720</u>
Deduction:			
Governmental Activities	<u>\$ 4,470,663</u>	<u>\$3,483,036</u>	<u>\$ 987,627</u>
Total	<u>\$ 4,470,663</u>	<u>\$3,483,036</u>	<u>\$ 987,627</u>
Change in net assets	<u>\$ (421,890)</u>	<u>\$1,033,983</u>	<u>\$ 612,093</u>

There was a significant increase in revenues for FY06 over the prior year due to a single one-time settlement of an environmental lawsuit. The Foundation received \$1,748,072 as a settlement from this lawsuit.

Overall, there is a decrease in net assets as reflected on the Statement of Activities of \$421,890 at June 30, 2006, compared to an increase of \$1,033,983 at June 30, 2005.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 767,500
Accounts receivable	135,099
Accrued investment income	12,765
Inventory	12,208
Prepaid expense	7,577
Total current assets	\$ 935,149
Noncurrent Assets:	
Investments	\$ 2,701,789
Total Assets	\$ 3,636,938
LIABILITIES:	
Current Liabilities:	
Accounts payable	\$ 121,389
Accrued expenses	263
Deferred revenue	52,864
Total Liabilities	\$ 174,516
NET ASSETS:	
Restricted for:	
Natural Resources and Recreation	\$ 1,906,870
Endowment-Nonexpendable	70,836
Unrestricted	1,484,716
Total Net Assets	\$ 3,462,422

The accompanying notes are an integral part of these statements.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUE</u>			<u>NET</u>
<u>ENVIRONMENT AND</u>	<u>CHARGES</u>	<u>OPERATING</u>	<u>CAPITAL</u>	<u>(EXPENSE)</u>
<u>BUSINESS REGULATION:</u>	<u>FOR GOODS</u>	<u>GRANTS AND</u>	<u>GRANTS AND</u>	<u>REVENUE</u>
	<u>EXPENSES</u>	<u>CONTRIBUTIONS</u>	<u>CONTRIBUTIONS</u>	<u></u>
General Administrative	\$ 357,196	\$ 187,599	\$ -	\$ (169,597)
Natural Resources and Recreation	4,113,467	1,395,834	2,161,470	(460,973)
Total governmental activities	\$ 4,470,663	\$ 1,583,433	\$ 2,161,470	\$ (630,570)

General revenue:

Unrestricted Realized Gain	91,065
Unrestricted Investment -Unrealized Loss	(9,392)
Unrestricted investment earnings	127,007

Change in net assets

\$ (421,890)

Net assets-beginning

3,884,312

Net assets-ending

\$ 3,462,422

The accompanying notes are an integral part of these statements.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUND	PERMANENT FUND	TOTAL
ASSETS:			
Cash and cash equivalents	\$ 749,054	\$ 18,446	\$ 767,500
Accounts receivable	135,099	-	135,099
Accrued investment income	12,765	-	12,765
Investments	2,630,953	70,836	2,701,789
Inventory	12,208	-	12,208
 Total Assets	 \$ 3,540,079	 \$ 89,282	 \$ 3,629,361
 LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable	\$ 121,389	\$ -	\$ 121,389
Accrued expenses	263	-	263
Deferred revenue	52,864	-	52,864
Total Liabilities	\$ 174,516	\$ -	\$ 174,516
 Fund Balances:			
Reserved for:			
Natural Resources and Recreation	\$ 1,888,424	\$ -	\$ 1,888,424
Endowment-Nonexpendable	-	70,836	70,836
Education	-	18,446	18,446
Unreserved	1,477,139	-	1,477,139
 Total Fund Balances	 \$ 3,365,563	 \$ 89,282	 \$ 3,454,845
 Total Liabilities and Fund Balances	 \$ 3,540,079	 \$ 89,282	 \$ 3,629,361

The accompanying notes are an integral part of these statements.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

Total fund balances - governmental funds \$ 3,454,845

Amounts reported for governmental activities in the
statement of net assets are different because:

Prepaid assets used in governmental activities are not
financial resources and, therefore, are not reported
in the funds.

7,577

Net assets of governmental activities

\$ 3,462,422

The accompanying notes are an integral part of these statements.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUND	PERMANENT FUND	TOTAL
REVENUES			
Donations-Restricted	\$ 2,476,768	\$ -	\$ 2,476,768
Grants and Receipts from Governments	1,075,803	-	1,075,803
Investment Income-Restricted	-	4,733	4,733
Investment Income-Unrestricted	127,007	-	127,007
Investment Income-Unrestricted Unrealized Loss	(9,392)	-	(9,392)
Investment Income-Unrestricted Realized Gain	91,065	-	91,065
Donations-Unrestricted	125,482	-	125,482
Merchandise Sales-Restricted	87,414	-	87,414
Publication Sales-Restricted	7,776	-	7,776
On-behalf payments	62,117	-	62,117
 Total revenues	 <u>\$ 4,044,040</u>	 <u>\$ 4,733</u>	 <u>\$ 4,048,773</u>
 EXPENDITURES			
Administrative	\$ 294,838	\$ -	\$ 294,838
Natural Resources and Recreation	4,113,467	-	4,113,467
On-behalf payments	62,117	-	62,117
 Total expenditures	 <u>\$ 4,470,422</u>	 <u>\$ -</u>	 <u>\$ 4,470,422</u>
 Net change in fund balances	 \$ (426,382)	 \$ 4,733	 \$ (421,649)
 Fund balance-beginning	 3,791,946	 84,548	 3,876,494
 Fund balance-ending	 <u>\$ 3,365,564</u>	 <u>\$ 89,281</u>	 <u>\$ 3,454,845</u>

The accompanying notes are an integral part of these statements.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ (421,649)
Amounts reported for governmental activities in the statement of activities are different because:	
Changes in Prepaid expense:	
Prepaid expense uses current financial resources and is recorded as an expense in the governmental funds.	(241)
Change in net assets of governmental activities	<u>\$ (421,890)</u>

The accompanying notes are an integral part of these statements.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Illinois Conservation Foundation (Foundation) was authorized to be created by Public Act 88-591 for the purpose of promoting, supporting, assisting, sustaining, and encouraging the charitable, educational, scientific, and recreational programs, projects, and policies of the Illinois Department of Natural Resources. The Foundation's activities are managed by a board of directors, whose members are appointed by the Governor of the State of Illinois and by the leadership of the Illinois General Assembly.

B. Financial Reporting Entity

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Foundation has no component units. However, the Foundation is a component unit of the State of Illinois. Therefore, the financial statements of the Foundation are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois 62704-1871.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

C. Basis of Presentation

The financial activities of the Foundation, which consist only of governmental activities, are reported as a component unit in the State of Illinois' Comprehensive Annual Report. For its reporting purposes, the Foundation has separate fund and government-wide financial statements and reconciles individual line items of fund financial data to government-wide data. A brief description of the Foundation's government-wide and fund financial statements is as follows:

Government-wide Statements: The government-wide statement of net assets and statement of activities report the overall financial activity of the Foundation. The financial activities of the Foundation consist only of governmental activities, which are primarily supported by donations and grants.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e. general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Foundation's funds. Separate statements for each fund category are presented. The emphasis on fund financial statements is on a major governmental fund, each displayed in a separate column.

The Foundation administers the following major governmental funds:

Special Revenue – This is the Foundation's primary operating fund. It accounts for all financial resources of the Foundation, except those required to be accounted for in another fund. The services which are administered by the Foundation and accounted for in the special revenue fund include, among others, promoting, supporting, assisting, sustaining and encouraging the charitable, educational, scientific and recreational programs, projects and policies of the Illinois Department of Natural Resources. Certain resources obtained from federal grants and used to support Foundation activities are accounted for in the Special Revenue Fund consistent with applicable legal requirements.

Permanent – This fund accounts for resources held to provide funds for schools and other youth organizations to engage in conservation projects that are both useful to the environment and educational to those involved.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Foundation gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. On an accrual basis, revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Foundation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

Significant revenue sources which are susceptible to accrual include merchandise sales and investment income. All other revenue sources including grants and donations are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

E. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly liquid investment (including restricted assets) readily convertible to cash with an original maturity of three months or less. Cash and cash equivalents includes cash in banks and money market accounts held outside the State Treasury.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

F. Inventories

Inventories, consisting of general fund raising merchandise items, are stated at cost and are recorded as expenditures when consumed rather than when purchased.

G. Investments

Investments are stated at fair value. The Foundation holds investments in marketable equity securities and debt securities.

H. Capital Assets

Purchased capital assets are not capitalized within the fund. Instead, capital asset purchases are reflected as program expenditures. All capital assets purchased are considered to be property of the State of Illinois, Department of Natural Resources.

I. Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for specific purpose.

J. Net Assets

In the government-wide financial statements, equity is displayed in two components as follows:

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Foundation’s policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of “restricted.”

K. Use of Estimates

The preparation of financial statements in conformity with GAAP 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 and expenses during the reporting period. Actual results could differ from those estimates.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 2: DEPOSITS AND INVESTMENTS

A. Deposits

Cash and Cash Equivalents consist of checking and money market accounts at June 30, 2006.

The Foundation cash and cash equivalents had a bank balance of \$832,728 and a carrying balance of \$767,500 at June 30, 2006. The cash and cash equivalents are either deposited in financial institutions in which the balance is covered by Federal Depository Insurance Coverage, or are invested in a federal obligation money market mutual fund, that is allowed to invest only in U.S. Government Securities.

B. Investments

The Foundation's Investment Policy notes their objective is to preserve capital, invest only in high quality securities and earn reasonable returns. Approximately 25% of donor funds are required to be invested in order to be available on demand. No single issue shall constitute more than 5% of the total portfolio, with the exception of government obligations. The portfolios are to be constructed across different U.S. asset classes (stocks, bonds and cash).

Investment Summary Schedule

As of June 30, 2006 the Foundation had the following investments and maturities.

Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Treasury Notes	\$ 75,326	\$ 25,010	\$ 19,073	\$ 31,243	\$
Treasury Bonds	4,743				4,743
U.S. Agency Obligations	125,451	7,979	82,538	29,526	5,408
Asset Backed Securities	54,495				54,495
Corporate Debt Securities	706,310	20,052	676,376	9,882	
International Debt Securities	120,074		120,074		
Total Debt Securities	<u>\$ 1,086,399</u>	<u>\$ 53,041</u>	<u>\$ 898,061</u>	<u>\$ 70,651</u>	<u>\$ 64,646</u>
Corporate Equity Securities	1,460,455				
International Equity Securities	154,935				
Total Investments	<u>\$ 2,701,789</u>				

Interest Rate Risk

The Foundation does not have a formal investment policy that limits investment maturities as a means of managing the exposure to fair value losses arising from increasing interest rates.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 2: DEPOSITS AND INVESTMENTS - continued

Concentration of Credit Risk and Credit Risk for Investments

The Foundation does not have a formal investment policy that limits investment choices. The Foundation investment policy sets forth no single issue shall constitute more than 5% of the total portfolio, with the exception of government obligations. The following table presents the quality ratings of debt securities held by the Foundation as of June 30, 2006.

<u>Investment Type</u>	<u>Moody's Quality Rating</u>	<u>Fair Value</u>
Corporate Obligations	A1	\$ 167,547
	A2	82,376
	Aa1	72,330
	AA1	4,778
	AA2	4,999
	Aa2	71,260
	AA3	5,070
	Aa3	143,474
	AA3	5,128
	Aa3	71,249
	Aaa	73,239
	AAA	<u>4,860</u>
Total Corporate Obligations		<u>\$ 706,310</u>
International Debt Securities	A3	\$ 72,771
	Aa2	<u>47,303</u>
Total International Debt Securities		<u>\$ 120,074</u>
Asset Backed Securities	AAA	<u>\$ 54,495</u>
Agency Obligations	Aaa	\$ 72,003
	AAA	<u>53,448</u>
Total Agency Obligations		<u>\$ 125,451</u>
U.S. Treasury Notes		<u>\$ 75,326</u>
U.S. Treasury Bonds		<u>\$ 4,743</u>
Total Debt Securities		<u>\$1,086,399</u>

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 3: RESERVED FUND BALANCE

Gifts and donations made to the Foundation that are subject to expenditure for a particular named project are considered to be restricted donations. That portion of the fund balance that is the result of restricted donations is reserved for Natural Resources and Recreation purposes.

On October 28, 1996, a private donation of 3,500 (5,504 shares adjusted for a 3 for 2 stock split in December, 2002 and reinvesting a special capital gain in fiscal year 2003) shares of Adams Express Stock was made to the Foundation for the purpose of establishing a permanent endowment. The value of the stock as of the date of donation was \$70,219. Earnings, in the form of dividends, from these securities are to be used to provide funds for schools and other youth organizations to engage in conservation projects which are both useful in the environment and educational to those involved. That portion of the fund balance that is the result of the endowment donation is reserved for Endowment-Nonexpendable. That portion of the fund balance that is the result of unspent earnings from endowment investments is reserved for Education.

NOTE 4: INCOME TAXES

The Foundation is a non-profit corporation exempt from income taxes under Section 501(c)(3) of the United States Revenue Code. As such, donations made to the Foundation are deductible by the donor.

NOTE 5: RELATED PARTY TRANSACTIONS

The Assistant to the Executive Director was paid by the Illinois Department of Natural Resources (Department). The Department also provides office space, equipment and some administrative expenses for the Foundation, which are immaterial and are not reported in the financial statements.

The amount of financial assistance from the Department being included in the Foundation's financial statements for the year ended June 30, 2006 is as follows:

Salaries	\$ 53,346
Benefits	<u>8,771</u>
Total	<u>\$ 62,117</u>

The total of \$62,117 is included in the Statement of Activities as a General Administrative revenue and expense; it is included on the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds as on-behalf revenues and expense.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6: COMMITMENTS

The Foundation has entered into an agreement with Commonwealth Edison (Company) and IDNR whereby the Company will contribute \$.90 per seedling at a targeted rate of 200,000 seedlings per year for five years. The Company agrees to allow an inflation increase of 3% per year for planting years two through five. Pursuant to the agreement, the Company contributed \$101,592 in July, 2004.

The Foundation has agreed to become the federal assistance cooperater in an ongoing urban and community forestry program in the Chicago metropolitan region. The project, known as the "Chicago Wilderness Project Coalition", is designed to educate the public to preserve, restore and care for the biodiversity of this unique region. Implementation of this project is being accomplished through the use of project partners who are first approved by the Chicago Wilderness Steering Committee. Partners are area organizations, such as the Nature Conservancy and the Field Museum, who are best equipped to carry out this project. Grants and contracts are awarded by the Foundation to approved partners to accomplish specific parts of the project's overall goals.

Over the past six years the Foundation has been awarded six grants from the Forest Service of the U.S. Department of Agriculture and six grants from the Fish and Wildlife Service of the U.S. Department of the Interior to partially fund this project. The amounts awarded on these grants total \$5,505,000. In fiscal year 2006 the Foundation paid a total of \$871,511 to Chicago Wilderness Members. Over the past six years the Foundation has paid \$3,979,421 to the Chicago Wilderness partners. The Foundation has negotiated a 5% - 10% indirect cost rate agreement with the federal funding agencies to cover administrative and other costs of the project. One of the grants from the U.S. Department of Agriculture and two of the grants from the Department of Interior have been closed.

The most recent Department of Agriculture award extends through September 30, 2009 and the latest award from the Department of Interior extends through September 30, 2011.

NOTE 7: NATURAL RESOURCE AND RECREATION EXPENDITURE DETAIL

The Natural Resource and Recreation expenditures are detailed as follows:

ADM Consent Decree	\$ 200,500
Aquatic Ecology Education	591
Pheasant Habitat	30,000
Bicyclists of Illinois	68
Creating Habitat: Home for Wildlife Book Sale	253
Educational Services: Becoming an Outdoor Woman	13,417
Chicago Fishing Rodeo	399
Chicago Land Golf	4,135
Clinton Lake Handicapped Shotgun Deer Hunt	1,407
Cowboy Shoot	997
Conservation Police	4,729

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 7: NATURAL RESOURCE AND RECREATION EXPENDITURE DETAIL -
continued

Special Events: Celebrity Quail Hunt	53,444
Crappie Tour	290
Chronic Wasting Disease	2,993
DNR Diversity Employee Committee	607
Disabled Outdoor Opportunities Program	3,729
Dynegy Midwest Generation Settlement	1,573,077
ENTICE	35,884
Federal - Sub-grantee Awards	961,089
Special Events: Fort Massac Encampment	160
Governor's Cup Sporting Clays Event	14,002
Special Events: Golf Outing	811
Hennepin Canal-Chris Harris Memorial	3,000
Hall of Fame Dinner	30,755
John Husar Memorial	2,118
ICF Grants	27,316
Clinton Lake State Recreation Area	75
Educational Services: Kids for Conservation	1,761
Land Acquisition Fund	280
LaSalle Station Improvements	256,398
Legislative Caucus	9,072
Law Enforcement	11,658
Lake Michigan Fishing Tournament	11,483
Merchandise	613
Memorial Robert Lan	975
Memorials Other	59
Mobile Science Unit - Education	136,300
Special Events: Muskie Tournament	1,228
Moraine View State Park	3,025
NASP Youth	8,972
National Heritage	865
National Hunting & Fishing Days	3,836
National Wild Turkey Foundation	25,000
OREP Conference Fees	100
Palatine	2,993
State Parks	1,454
Pere Marquette State Park	2,037
Promotion of IDNR	5,044
Springfield Rail Golf Outing	12,847
Rock Cut State Park	350
Safety Education Program	3,180
Sportsmen Against Hunger	35,420

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 7: NATURAL RESOURCE AND RECREATION EXPENDITURE DETAIL -
continued

South Dakota Hunting Trip	16,500
FOID	846
State Fair Program	4,262
Shell Oil Wetland Preserve Water Quality	207,000
Director's Shoot	63
Educational Services: Under Ill Skies	6,755
Shelby Wildlife Management	2,225
ATA Sparta	1,450
Make a Splash	3,490
Schoolyard Habitat Grant	5,479
Forestry: Tree Planting	155,668
Entice Tube Corporation	16,885
Wild Game Feast	4,650
Whitetails book	144
Willmington Shrub Prairie	27,499
Wingsshoot Clinic	21,403
Work Shooting Recreational Complex Guns	79,421
Special Events: Youth Programs	55,520
Youth Waterfowl	2,511
Hardwood Forest Foundation	<u>900</u>
 SUBTOTAL	 <u>\$4,113,467</u>

NOTE 8: DEFERRED REVENUE

At June 30, 2006, the Foundation has deferred revenue of \$52,864. This amount represents advance payment on two grants from the Conservation Fund's Northeastern Illinois Wetlands Conservation Account Grant Programs. The Wilmington Shrub Prairie Nature Preserve Wetland Enhancement project was advanced \$40,363 and \$27,499 was expended as of June 30, 2006, leaving deferred revenue of \$12,864. The Hitts Siding Nature Preserve Wetlands Enhancement project was advanced \$40,000 with no expenditures as of June 30, 2006.

NOTE 9: ACCOUNTS RECEIVABLE

At June 30, 2006, the Foundation has accounts receivable of \$135,099. This amount consists of \$122,621 in federal grants, \$5,100 in Affinity Credit Card royalties and \$7,378 in merchandise. The Foundation considers all the accounts receivable to be fully collectible.

NOTE 10: RISK MANAGEMENT

The Foundation had liability, automobile, and umbrella insurance coverage for the fiscal year, and there were no claims for the three years then ended.

Illinois Conservation Foundation
(A Component Unit of the State of Illinois)

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary information for state compliance purposes presented in this section of the report includes the following:

Financial Schedules and Analysis:

- Schedule of Expenditures of Federal Awards
- Notes to Schedule of Expenditures of Federal Awards
- Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis)
- Explanation of Significant Variations in Expenditures
- Explanation of Significant Variations in Revenues
- Analysis of Significant Balance Sheet Accounts
- Analysis of Accounts Receivable and Accrued Investment Income

Analysis of Operations:

- Agency Functions and Planning Program
- Average Number of Employees and Foundation Members
- Comparative Schedule of Administrative Expenditures
- Service Efforts and Accomplishments (Unaudited)
- Calculation of Federal vs. Nonfederal Expenditures

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Schedule of Expenditures of
Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/ Program	Federal CFDA Number	Other Identification Number	Award Period	Award Amount	Federal Expenditures	Sub-Grantee Awards
Major Programs:						
Direct Programs:						
<u>U.S. Department of the Interior:</u>						
Fish and Wildlife Enhancement	15.FFB	30181-1-G020	08/30/01-12/31/05	\$ 570,000	\$ 778	\$ 707
	15.FFB	30181-2-G028	08/30/01-12/31/05	600,000	22,631	20,573
	15.FFB	30181-3-G058	07/30/03-12/31/06	580,000	46,498	42,271
	15.608	30181-4-G046	05/24/04-09/30/09	600,000	410,156	373,466
	15.608	30181-5-G040	07/11/05-09/30/10	400,000	31,421	29,925
	15.608	30181-6-G050	06/26/06-09/30/11	420,000		
				<u>\$ 511,484</u>	<u>\$ 466,942</u>	
Non-Major Programs:						
Direct Programs:						
<u>U.S. Department of Agriculture</u>						
Cooperative Forestry Assistance	10.664	01-DG-11244225-010	04/01/01-09/30/05	\$ 700,000	\$ 15,236	\$ 14,452
	10.664	03-DG-11244225-181	01/01/03-12/31/07	700,000	228,909	208,099
	10.664	03-DG-11244225-207	08/25/03-09/30/06	350,000	77,536	70,487
	10.675	04-DG-11244225-119	08/02/04-09/30/08	200,000	32,093	29,176
	10.675	05-DG-11244225-361	07/15/08-09/30/09	335,000	90,590	82,355
	10.675	06-DG-11244225-093	04/01/06-09/30-09	50,000		
				<u>\$ 444,364</u>	<u>\$ 404,569</u>	
Illinois Grasslands Establishment Project	10.902	2002-0183-000	10/01/03-12/31/05	\$ 65,516	\$ 38,817	\$ 38,817
Forest Land Enhancement Program	10.664	03-DG-11244225-451	09/03/03-09/30/06	\$ 242,700	\$ 53,639	\$ 50,761
	10.664	05-DG-11244225-217	07/21/05-09/30/09	167,305		
	10.664	06-DG-11244225-157	05/17/06-09/30/09	55,294		
				<u>\$ 53,639</u>	<u>\$ 50,761</u>	
Total Federal Awards and Expenditures				<u>\$ 6,035,815</u>	<u>\$ 1,048,304</u>	<u>\$ 961,089</u>

See accompanying notes to the schedule of expenditures of federal awards.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Illinois Conservation Foundation and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in presentation of, the basic financial statements.

Note 2 - Amounts Provided to Subrecipients:

The Foundation provided \$871,511 to various members of the Chicago Wilderness Coalition during the fiscal year ended June 30, 2006.

Note 3 - Determination of Type A Programs:

Programs 10.664 and 15.FFB have been determined to be Type A programs.

Note 4 - Administrative Costs:

Federal expenditures include \$87,215 of administrative costs.

ILLINOIS CONSERVATION FOUNDATION
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Comparative Schedule of Receipts, Disbursements and Fund Balance (Cash Basis)
For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash and cash equivalents, beginning	\$ 983,822	\$ 2,083,333
Receipts:		
Donations	2,544,673	568,236
Grants and Receipts from Other Governments	1,088,305	1,288,792
Merchandise Sales	75,206	113,849
Publication Sales	16,432	46,303
Investment Income	125,919	121,862
Investment Income Realized Gain	91,065	2,708
Sale of Investments	436,004	243,607
Disbursements:		
General Administrative	(265,781)	(366,471)
Merchandise Purchased	(9,539)	(54,383)
Programs	(4,061,733)	(2,943,764)
Purchase of investments	(256,873)	(120,250)
Cash and cash equivalents, ending	\$ 767,500	\$ 983,822

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Explanation of Significant Variations in Expenditures
For the Years Ended June 30, 2006 and 2005

<u>Program</u>	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
(1) Federal - Sub-grantee Awards	\$ 961,089	\$ 1,189,621	\$ (228,532)
(2) ADM Consent Decree	200,500	720,000	(519,500)
(3) LaSalle Station Improvements	256,398	-	256,398
(4) Land Aquisition	280	72,366	(72,086)
(5) Shell Oil Wetland Preservation	207,000	124,000	83,000
(6) Tree Planting	155,668	226,900	(71,232)
(7) Dynegy Midwest	1,573,077	-	1,573,077
(8) Mobile Schience Unit	136,300	-	136,300
(9) World Shooting Recreational	79,421	-	79,421

(1) The decrease of \$228,532 in Federal - Sub- Grantee Awards expenditures is directly related to the decrease in grants awarded to project partners involved in the Chicago Wilderness Project Coalition.

(2) The ADM Consent Decree expenditures decreased \$519,500 in fiscal year 2006 due to the completion of the project.

(3) LaSalle Station improvements expenditures increased 100% in fiscal year 2006 because this project was started during this fiscal year.

(4) Land Acquisition expenditures decreased \$72,086 in fiscal year 2006 due to a lack of land purchases.

(5) Shell Oil Wetland Preservation expenditures increased \$83,000 in fiscal year 2006 due to an increase in activity during the current fiscal year.

(6) Tree Planting expenditures decreased \$71,232 during fiscal year 2006 due to a decline in the demand for tree nursery production costs.

(7) Dynegy Midwest expenditures increased \$1,573,077 during fiscal year 2006 because this project was started during this fiscal year.

(8) Mobile Science Unit expenditures increased \$136,300 during fiscal year 2006 because this project was started during this fiscal year.

(9) World Shooting Recreational expenditures increased \$79,421 during fiscal year 2006 because this project was started during this fiscal year.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Explanation of Significant Variations in Revenues
For the Years Ended June 30, 2006 and 2005

<u>Program</u>	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
(1) Donations - Restricted	\$ 2,476,768	\$ 573,140	\$ 1,903,628
(2) Grants & Receipts from Governments	1,075,803	1,269,244	(193,441)
(3) Publications Sales	7,776	46,303	(38,527)
(4) On-Behalf Payments	62,117	115,075	(52,958)

(1) Increase primarily due to receipt of \$1,748,072 from settlement of an environmental lawsuit filed by the State of Illinois in 2006, with no corresponding settlement in 2005 and \$145,000 donation received from Mobile Science Unit.

(2) Reduced level of federal grants were received in 2006, due to decrease in requests from sub-recipients for federal funds.

(3) Decline in publication sales because 2005 included the first issue of Illinois Whitetails book.

(4) Decline in on-behalf payments because the Executive Director position was paid by the State for 6 months in 2005 (07/01/04-12/31/04). The Foundation picked up the cost of the Executive Director position beginning January 1, 2005.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Analysis of Significant Balance Sheet Accounts
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
(1) Cash and Cash Equivalents \$	767,500	\$ 983,822	\$ (216,322)
(2) Accounts Receivable	135,099	65,044	70,055
(3) Investments	2,701,789	2,890,313	(188,524)

- (1) Decrease in cash and cash equivalents is the result of the expenditure of the \$256,298 for LaSalle Station from revenue received from prior years.
- (2) Accounts receivable increased in 2006 due to federal expenditures incurred late in the fiscal year and not being reimbursed by June 30.
- (3) The decrease in investments is the result of expenditures of \$200,500 from the ADM Consent Decree from revenues invested in the prior year.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Analysis of Accounts Receivable and Accrued Investment Income
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase</u>
(1) Accounts Receivable	\$ 135,099	\$ 65,044	\$ 70,055
(2) Accrued Investment Income	12,765	6,944	5,821

(1) Accounts Receivable consists of a) amounts due from the Illinois Department of Natural Resources to the Illinois Conservation Foundation for merchandise sold by the Department on behalf of the Foundation and b) amounts due from the Grantor Agency for federal expenditures incurred in fiscal year 2006 but not reimbursed until July, 2006 and c) amounts due from Affinity Credit Card royalties.

a) Under 60 days old-	\$ 7,378
b) Under 60 days old-	122,621
c) Under 60 days old-	5,100
	\$ 135,099

(2) Accrued investment income consists of interest earned on cash equivalents for the year ending June 30, 2006 but not remitted until July, 2006.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Agency Functions and Planning Program
June 30, 2006

Agency Function

The Illinois Conservation Foundation (Foundation) was authorized to be created by the Illinois Department of Conservation (a predecessor agency of the Illinois Department of Natural Resources) by Public Act 88-591 on August 20, 1994. The role of the Foundation is to provide additional funding for the Illinois Department of Natural Resources' conservation programs that are either not receiving adequate State funding or cannot be implemented because State funding is not available (20 ILCS 880/10).

The Foundation's Board of Directors are appointed as follows:

- 2 by the President of the Illinois Senate
- 2 by the Minority Leader of the Illinois Senate
- 2 by the Speaker of the Illinois House of Representatives
- 2 by the Minority Leader of the Illinois House of Representatives
- 4 by the Governor

The Director of the Illinois Department of Natural Resources serves as the Chairman of the Board of Directors.

Planning Program

The Foundation has adopted a Mission Statement. Guidelines have been established as stated in the Illinois Conservation Foundation Act and the Foundation's Operating Procedures Manual.

MISSION STATEMENT

For a brief moment in time, the earth is ours—not to waste or own—but to share with creatures, great and small.

The role of the Illinois Conservation Foundation and its partners is to preserve and enhance our natural resources by supporting and fostering ecological, educational, and recreational programs for the benefit of all people now and for generations to come.

GUIDELINES

The Foundation is a not-for-profit corporation incorporated on March 7, 1995 under the laws of the State of Illinois. Its purposes are charitable and educational.

The Foundation is organized exclusively for charitable and educational purposes within the meaning of Section 501 (c) (3) of the Internal Revenue Code of 1954. As delineated by the Illinois Conservation Foundation Act (20 ILCS 880), the specific purposes of the Foundation are:

- a) to promote, support, assist, sustain and encourage the charitable, educational, scientific, and recreational programs, projects, and policies of the Illinois Department of Natural Resources.
- b) to solicit and accept aid or contributions consistent with the stated intent of the donor and the goals of the Foundation;
- c) to accept grants for the acquisition, construction, improvement, and development of potential Foundation projects; and
- d) to solicit and generate private funding and donations that assist in enhancing and preserving Illinois' natural habitats, historic sites, river and stream corridors, state parks, forests and fish and wildlife areas.

Auditors' Evaluation

Based on our evaluation of the planning program, the Foundation's current planning program appears adequate.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

AVERAGE NUMBER OF EMPLOYEES AND FOUNDATION MEMBERS

The following table, prepared from Foundation records, presents the average number of Foundation employees and the average number of Foundation Members, for the fiscal year ended June 30,

Fiscal Year	Employees	Foundation Members
2004	2	13
2005	1	11
2006	1	11

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Comparative Schedule of Administrative Expenditures
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase</u>
Accounting	\$ 80,710	\$ 78,161	\$ 2,549
Director's Salary	94,402	47,496	46,906
General Administrative	<u>119,726</u>	<u>325,645</u>	<u>(205,919)</u>
Total Administrative Expenditures	<u>\$ 294,838</u>	<u>\$ 451,302</u>	<u>\$ (156,464)</u>
 TOTAL EXPENDITURES	 <u>\$ 4,470,422</u>	 <u>\$ 3,484,217</u>	
 % of Administrative Expenditures to Total Expenditures	 <u>6.60%</u>	 <u>13.00%</u>	

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Analysis of Operations
Service Efforts and Accomplishments
(Unaudited Disclosures by Agency Management)

- The Foundation administers the Chicago Wilderness Cooperative Forestry Assistance program and works with many natural resources organizations in the northeastern Illinois six county area. The program is funded by \$5,505,000 in grants from the U.S. Forest Service and the U.S. Fish and Wildlife Service.
- The Foundation administered distribution of \$2,236,975 for various Illinois Department of Natural Resources projects from Court ordered environmental decrees or settlements.
- The Foundation coordinated the fundraising for the various youth programs, scholarships, and special events.
- The Foundation provided \$155,668 to the Illinois Department of Natural Resources for tree nursery production.
- The Foundation funded 16 grants totaling \$27,980 of non-federal money to various entities for educational and environmental programs.

ILLINOIS CONSERVATION FOUNDATION
(A Component Unit of the State of Illinois)

Calculation of Federal vs. Nonfederal Expenditures
For the Years Ended June 30, 2006 and 2005

		2006	
		Amount	Percent
Federal		\$ 1,048,304	23.45%
Nonfederal		3,422,118	76.55%
Total		\$ 4,470,422	100.00%

		2005	
		Amount	Percent
Federal		\$ 1,305,562	37.47%
Nonfederal		2,178,655	62.53%
Total		\$ 3,484,217	100.00%