

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
COMPLIANCE EXAMINATION  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

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**PERFORMED AS SPECIAL ASSISTANT AUDITORS  
FOR THE AUDITOR GENERAL,  
STATE OF ILLINOIS**

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
COMPLIANCE EXAMINATION  
FOR THE TWO YEARS ENDED JUNE 30, 2006 AND 2005**

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The following report has been issued under separate cover:

Financial Audit of Illinois State University Foundation for the years ended June 30, 2006 and 2005

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION**

**FOUNDATION OFFICIALS**

Executive Director (Current)	Dr. Dianne Ashby
Executive Director (July 1, 2004 to June 30, 2005)	Dr. Susan Kern
Financial Coordinator (July 1, 2004 to August 14, 2006)	Ms. Ronda Queen
Financial Coordinator	Mr. Dana Jones
<u>Officers of the Board of Directors</u>	
Chairperson	Mr. Stanley R. Ommen
Vice Chairperson	Ms. Anne P. Baughan
Secretary	Justice James A. Knecht
Treasurer	Mr. Robert W. Rush, Jr.
Legal Counsel	Ms. Paula Goedert – Barnes & Thornburg

The Foundation offices are located at:

Illinois State University  
401 Hovey Hall  
Normal, IL 61790

150 N. Michigan Avenue  
Suite 1590  
Chicago, IL 60601-7524

Foundation Office



Hovey 401  
Campus Box 8000  
Normal, IL 61790-8000  
Telephone: (309) 438-2294

November 22, 2006

Nykiel, Carlin & Co., Ltd.  
200 E. Court St., Suite 608  
Kankakee, IL 60901

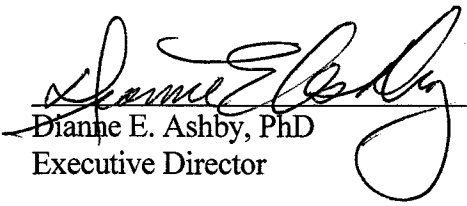
Ladies and Gentlemen:

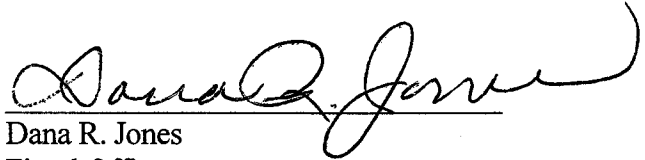
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of Illinois State University Foundation (Foundation). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Foundation's compliance with the following assertions during the two-year period ended June 30, 2006. Based on this evaluation, we assert that during the years ended June 30, 2006 and June 30, 2005, 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 very truly,

Illinois State University Foundation

  
Dianne E. Ashby, PhD  
Executive Director

  
Dana R. Jones  
Fiscal Officer

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
FOR THE TWO YEARS ENDED JUNE 30, 2006**

**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' REPORTS**

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	1	2
Repeated findings	1	1
Prior recommendations implemented or not repeated	1	2

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

**SUMMARY OF FINDINGS**

<u>Item No.</u>	<u>Page No.</u>	<u>Description</u>
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**FINDINGS (STATE COMPLIANCE)**

06-1	10	Lack of Controls Over Pre-Numbered Raffle Tickets
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**PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)**

06-2	11	Certification of Internal Controls not Submitted on Time
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**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
FOR THE TWO YEARS ENDED JUNE 30, 2006**

**COMPLIANCE REPORT**

**SUMMARY**

**EXIT CONFERENCE**

The findings and recommendation appearing in this report were discussed with Agency personnel at an exit conference on December 13, 2006. Attending were:

Representing Illinois State University Foundation

Executive Director

Financial Coordinator

Audit Committee Member

Dr. Dianne Ashby

Mr. Dana R. Jones

Mr. Eric Burwell

Representing Illinois State University

Senior Associate Athletics Director

Mr. Larry Lyons

Representing Nykiel, Carlin & Co., Ltd.

Principal

Mr. Paul A. Pelletier, CPA

Representing the Office of the Auditor General

Audit Manager

Ms. Candice M. Long, CPA

Responses to the recommendations were provided by Mr. Dana R. Jones in a letter dated December 20, 2006.

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 Illinois State University Foundation's 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 two years ended June 30, 2006. The management of Illinois State University Foundation is responsible for compliance with these requirements. Our responsibility is to express an opinion on Illinois State University Foundation's compliance based on our examination.

- A. Illinois State University 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. Illinois State University 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. Illinois State University 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 Illinois State University 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 Illinois State University Foundation on behalf of the State or held in trust by Illinois State University 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 Illinois State University 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 Illinois State University Foundation's compliance with specified requirements.

In our opinion, Illinois State University Foundation complied, in all material respects, with the aforementioned requirements during the two years 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 as finding 06-1. 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 Illinois State University 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 Illinois State University 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 as finding 06-1. There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

#### Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Illinois State University Foundation, a component unit of Illinois State University, as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated November 22, 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 Illinois State University Foundation. The 2006 and 2005 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 years ended June 30, 2006 and 2005, taken as a whole. The fiscal year 2004 comparative information has been derived from Illinois State University Foundation's basic financial statements as of and for the year ended June 30, 2004, which was audited by other auditors who expressed an unqualified opinion on the basic financial statements in their report dated September 14, 2004.

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

*Nykiel, Carlin & Co., Ltd.*

NYKIEL, CARLIN & CO., LTD.  
Kankakee, Illinois  
November 22, 2006



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

Board of Directors  
Illinois State University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Illinois State University Foundation as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated November 22, 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 Illinois State University Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Illinois State University 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the Illinois State University Foundation in a separate letter dated November 22, 2006.

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

*Nykiel, Carlin & Co., Ltd.*

NYKIEL, CARLIN & CO., LTD.  
Kankakee, Illinois  
November 22, 2006

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
FINDINGS AND RECOMMENDATIONS  
CURRENT FINDINGS - STATE  
FOR THE TWO YEARS ENDED JUNE 30, 2006**

**06-1     FINDING:     LACK OF CONTROLS OVER PRE-NUMBERED RAFFLE TICKETS**

The Foundation and University Athletic Department did not properly control pre-numbered raffle tickets. The proceeds of the raffle went to the Foundation.

During our testing we noted the Athletic Department held a raffle to benefit athletics during both fiscal years 2006 and 2005. Raffle tickets were sold for \$5 each or 6 for \$25. Books of tickets were distributed to coaches, students, and mailed to numerous individuals through the Redbird Club Fundraising Group. Approximately 20,100 and 17,600 tickets were distributed for sale for fiscal years 2006 and 2005, respectively. The individuals selling the tickets were asked to return unsold tickets. Tickets not accounted for approximated 4,300 and 5,400 for 2006 and 2005 respectively. The potential revenue from tickets not accounted for was estimated to be \$19,000 and \$25,000 for fiscal years 2006 and 2005, respectively. The events generated \$34,000 and \$38,200 of revenue for the Foundation in fiscal years 2006 and 2005, respectively. As recommended, the Athletic Department has begun to use a spreadsheet to track tickets distributed, tickets returned unsold, and proceeds remitted, but they have not reconciled the data or followed up on tickets not accounted for.

Good internal controls dictate the recording of the number of tickets given to each individual and accounting for all unsold tickets.

The Athletic Department has indicated that only a couple raffle ticket books are in the possession of Redbird Club members and student athletes at any particular time. All athletic team sales are designated for the benefit of that specific athletic program, so there is an incentive to turn in sold tickets. Based on the incentives to turn in sold tickets, the Athletic Department does not believe that further controls would be cost beneficial.

Failure to adequately control raffle tickets and receipts does not promote accountability. In addition, purchased tickets could be excluded from the raffle drawing. (Finding Code Nos. 06-1, 04-2, 02-3, 00-1, 98-1)

**Recommendation:**

We recommend the Foundation work with the Athletic Department to improve procedures to track and account for pre-numbered raffle tickets. We also recommend the Athletic Department account for all unsold tickets to ensure all funds raised have been properly turned over to the Foundation and included in the raffle drawing.

**Foundation Response:**

The Athletic Department raffle is not a function of the Foundation and the Foundation does not run or manage any part of the raffle. However, since the proceeds from the Athletic Department raffle are deposited with the Foundation, the Foundation will work with Athletics with the goal of Athletics adopting appropriate internal controls associated with the current raffle. Whether or not a raffle that results in funds deposited to the Foundation will continue beyond fiscal year 2007 will be determined once the current raffle has been completed and evaluated.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
FINDINGS AND RECOMMENDATIONS  
PRIOR FINDINGS NOT REPEATED - STATE  
FOR THE TWO YEARS ENDED JUNE 30, 2006**

**06-2    FINDING:    CERTIFICATION OF INTERNAL CONTROLS NOT SUBMITTED ON TIME**

During the prior period, the Foundation did not submit its annual fiscal Control and Internal Auditing Act Certification to the Auditor General by May 1. (Finding Code No. 04-1)

**Status:** Not repeated

The Foundation submitted its Fiscal Control and Internal Auditing Act Certifications during the audit period by the required dates.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

**SUMMARY**

Supplementary information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis

- Comparative Schedule of Cash Receipts

- Comparative Schedule of Cash and Temporary Cash Investments

- Comparative Schedule of Investments

- Analysis of Significant Variations Between Certain Revenue and Expense Accounts – Year Ended June 30, 2006

- Analysis of Significant Variations Between Certain Asset and Liability Accounts – June 30, 2006 and 2005

- Analysis of Significant Variations Between Certain Revenue and Expense Accounts – Year Ended June 30, 2005

- Analysis of Significant Variations Between Certain Asset and Liability Accounts – June 30, 2005 and 2004

- Schedule of Foundation Payments to the University

- Analysis of Operations

- Agency Functions and Planning Program

- Service Efforts and Accomplishments (Unaudited)

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.

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY FOUNDATION**  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
**For the Years Ended June 30, 2006, 2005 and 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Contracts and grants	\$ 260,000	\$ 260,000	\$ 260,000
Other operating receipts	60,836	47,090	68,808
Gifts and grants for other than capital purposes	10,689,599	8,846,164	5,821,073
Private gifts for endowment purposes	2,059,282	3,905,705	3,336,952
Other noncapital financing receipts	777,775	752,235	757,354
Interest on investments	<u>1,145,057</u>	<u>1,008,188</u>	<u>673,605</u>
<b>TOTAL</b>	<u>\$ 14,992,549</u>	<u>\$ 14,819,382</u>	<u>\$ 10,917,792</u>

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
COMPARATIVE SCHEDULE OF CASH AND  
TEMPORARY CASH INVESTMENTS  
June 30, 2006, 2005 and 2004**

<b>CASH AND CASH EQUIVALENTS</b>	<b><u>Interest Rate</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
National City	Various	\$ -	\$ -	\$ 57,320
Evergreen Securities	Various	3,053,874	501,974	68,212
JP Morgan Chase	Various	<u>3,129,461</u>	<u>2,866,378</u>	<u>8,700,632</u>
		<u>\$ 6,183,335</u>	<u>\$ 3,368,352</u>	<u>\$ 8,826,164</u>

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY FOUNDATION**  
**COMPARATIVE SCHEDULE OF INVESTMENTS**  
**June 30, 2006, 2005 and 2004**

	Maturity Date	Interest Rate	Fair Value		
			2006	2005	2004
<b>U.S. TREASURY AND AGENCY</b>	Various	Varies	\$ 11,958	\$ 13,562	\$ 165,638
<b>CORPORATE BONDS</b>	Various	Varies	\$ -	\$ -	\$ 245,367
<b>CERTIFICATES OF DEPOSIT</b>	Various	Varies	\$ 120,503	\$ 27,757	\$ 100,233
<b>CORPORATE EQUITY SECURITIES</b>			\$ 326,099	\$ 283,684	\$ 1,290,502
<b>VARIOUS EQUITY MUTUAL FUNDS</b>	N/A	Varies	\$ 482,182	\$ 10,802	\$ 622,501
<b>OTHER INVESTMENTS</b>					
Commonfund - The Short Term Fund (1)	N/A	Varies	\$ 4,971,242	\$ 4,497,248	\$ 4,275,690
Commonfund - Multi-Strategy Equity Fund (2)	N/A	Varies	46,583,096	40,449,974	31,200,755
Commonfund - Multi-Strategy Bond Fund (3)	N/A	Varies	8,696,097	8,256,072	8,301,393
Commonfund - Multi-Strategy Commodities Fund (4)	N/A	Varies	1,209,456	1,020,060	-
Commonfund - Absolute Return Investors Fund (2)	N/A	Varies	3,042,974	2,747,064	2,000,000
Commonfund - Limited Partnerships (5)	N/A	Varies	1,222,691	590,100	245,985
Other investments			-	-	30,000
<b>TOTAL OTHER INVESTMENTS</b>			\$ 65,725,556	\$ 57,560,518	\$ 46,053,823
<b>TOTAL INVESTMENTS</b>			\$ 66,666,298	\$ 57,896,323	\$ 48,478,064

Notes: The investments in Commonfund are considered to be alternative investments and have been presented separately on this schedule.

The following notes clarify how these investments have been reported in Note 3 of the financial statement.

- (1) This has been reported as a Bank Common Trust.
- (2) This has been reported as a Stock Mutual Fund.
- (3) This has been reported as a Bond Mutual Fund.
- (4) This has been reported as a Commodity Mutual Fund.
- (5) These have been reported as Limited Partnerships.



**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY FOUNDATION**  
**ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN**  
**CERTAIN REVENUE AND EXPENSE ACCOUNTS**  
**Year Ended June 30, 2006**

Amounts shown below are for general analytical purposes. Significant items impacting the Foundation's financial position and operations are discussed in the Management's Discussion and Analysis section of the financial statements.

	<u>Fiscal Year</u>		<u>Increase (Decrease)</u>	<u>Percent of Change</u>	<u>See Notes on Page 17</u>
	<u>2006</u>	<u>2005</u>			
<b>OPERATING REVENUES</b>					
Service contract with the University	\$ 260,000	\$ 260,000	\$ -	0.00%	
Other operating revenue	60,836	47,090	13,746	29.19%	
Total operating revenues	<u>320,836</u>	<u>307,090</u>	<u>13,746</u>	<u>4.48%</u>	
<b>OPERATING EXPENSES</b>					
Student aid, scholarships and awards	1,844,541	1,396,026	448,515	32.13%	1
Expenditures on behalf of ISU departments and programs	3,355,438	3,385,697	(30,259)	-0.89%	
Operations	637,511	644,722	(7,211)	-1.12%	
Depreciation	60,231	55,270	4,961	8.98%	
Other	227,974	162,447	65,527	40.34%	
Total operating expenses	<u>6,125,695</u>	<u>5,644,162</u>	<u>481,533</u>	<u>8.53%</u>	
Operating loss	<u>(5,804,859)</u>	<u>(5,337,072)</u>	<u>(467,787)</u>	<u>8.76%</u>	
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts and donations	11,169,963	5,717,834	5,452,129	95.35%	2
Investment income, net of investment expenses	5,464,006	4,301,005	1,163,001	27.04%	3
Interest on capital asset related debt	(17,509)	(39,970)	22,461	-56.19%	
Other nonoperating revenues	776,942	752,524	24,418	3.24%	
Expenditures for ISU capital projects	(3,636,069)	(7,296,582)	3,660,513	-50.17%	4
Total net nonoperating revenues	<u>13,757,333</u>	<u>3,434,811</u>	<u>10,322,522</u>	<u>300.53%</u>	
Income (loss) before additions to permanent endowments	7,952,474	(1,902,261)	9,854,735	-518.05%	
<b>ADDITIONS TO PERMANENT ENDOWMENTS</b>	<u>2,112,453</u>	<u>3,900,171</u>	<u>(1,787,718)</u>	<u>-45.84%</u>	5
<b>INCREASE IN NET ASSETS</b>	10,064,927	1,997,910	8,067,017	403.77%	
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>68,024,475</u>	<u>66,026,565</u>	<u>1,997,910</u>	<u>3.03%</u>	
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 78,089,402</u>	<u>\$ 68,024,475</u>	<u>\$10,064,927</u>	<u>14.80%</u>	

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY**  
**ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN**  
**CERTAIN REVENUE AND EXPENSE ACCOUNTS**  
**Year Ended June 30, 2006**

1. **Student aid, scholarships, and awards** - increase of \$448,000: Increase is mainly due to scholarship money being paid out of an account for the first time (several new endowed scholarships were established in recent years and had to accumulate earnings prior to awarding scholarships) or an account increasing scholarships as a result of the University's goal to increase scholarships available to students.
2. **Gifts and donations** - increase of \$5,452,000: Increase is mainly due to a large estate gift (\$3,700,000) and a gift of computer software (\$1,800,000) received in FY06. No comparable large gifts were received in FY05.
3. **Investment income** - increase of \$1,163,000: Increase in investment income due to a combination of a larger investment portfolio and the yield received on the investment portfolio increasing from 8.1% in FY05 to 8.8% in FY06.
4. **Expenditures for ISU capital projects** - decrease of \$3,661,000: Decrease is mainly due to expenditures for the COB Building decreasing approximately \$6,000,000 from FY05 to FY06. This decrease was partially offset by a distribution to ISU of \$1,800,000 of computer software and an increase in expenditures of \$675,000 from FY05 to FY06 for the Integrated Manufacturing Lab.
5. **Additions to permanent endowments** - decrease of \$1,788,000: Decrease is mainly due to two endowed gifts of around \$900,000 each received in FY05. No comparable large additions to the permanent endowment were received in FY06.

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY FOUNDATION**  
**ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN**  
**CERTAIN ASSET AND LIABILITY ACCOUNTS**  
**June 30, 2006 and 2005**

Amounts shown below are for general analytical purposes. Significant items impacting the Foundation's financial position and operations are discussed in the Management's Discussion and Analysis section of the financial statements.

	<u>June 30</u>		<u>Increase (Decrease)</u>	<u>Percent of Change</u>	<u>See Notes on Page 19</u>
	<u>2006</u>	<u>2005</u>			
<b>ASSETS</b>					
Current Assets					
Cash and cash equivalents	\$ 2,131,752	\$ 1,904,044	\$ 227,708	11.96%	1
Short-term investments	4,549,177	4,369,332	179,845	4.12%	
Accrued interest receivable	43,550	15,386	28,164	183.05%	
Pledges receivable, net	1,688,961	2,541,257	(852,296)	-33.54%	2
Accounts receivable	-	833	(833)	-100.00%	
Total current assets	<u>8,413,440</u>	<u>8,830,852</u>	<u>(417,412)</u>	<u>-4.73%</u>	
Noncurrent Assets					
Restricted cash and cash equivalents	4,051,583	1,464,308	2,587,275	176.69%	1
Long-term investments	14,476,588	12,501,730	1,974,858	15.80%	3
Endowment investments	47,640,533	41,025,261	6,615,272	16.12%	3
Pledges receivable, net	2,187,582	2,867,080	(679,498)	-23.70%	2
Capital assets, net	1,813,260	1,813,491	(231)	-0.01%	
Other noncurrent assets	794,686	722,086	72,600	10.05%	4
Total noncurrent assets	<u>70,964,232</u>	<u>60,393,956</u>	<u>10,570,276</u>	<u>17.50%</u>	
<b>TOTAL ASSETS</b>	<u>79,377,672</u>	<u>69,224,808</u>	<u>10,152,864</u>	<u>14.67%</u>	
<b>LIABILITIES</b>					
Current Liabilities					
Accounts payable and accrued liabilities	736,324	503,293	233,031	46.30%	5
Long-term liabilities, current portion	275,237	41,414	233,823	564.60%	6
Total current liabilities	<u>1,011,561</u>	<u>544,707</u>	<u>466,854</u>	<u>85.71%</u>	
Noncurrent Liabilities					
Long-term liabilities	<u>276,709</u>	<u>655,626</u>	<u>(378,917)</u>	<u>-57.79%</u>	7
<b>TOTAL LIABILITIES</b>	<u>1,288,270</u>	<u>1,200,333</u>	<u>87,937</u>	<u>7.33%</u>	
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	<u>1,573,260</u>	<u>1,513,491</u>	<u>59,769</u>	<u>3.95%</u>	
Restricted for:					
Nonexpendable:					
Scholarships and fellowships	25,580,590	22,526,597	3,053,993	13.56%	
College and academic department support	9,209,138	8,557,271	651,867	7.62%	
Faculty and staff compensation	6,131,471	5,787,717	343,754	5.94%	
Other	6,719,334	4,153,676	2,565,658	61.77%	
	<u>47,640,533</u>	<u>41,025,261</u>	<u>6,615,272</u>	<u>16.12%</u>	
Expendable:					
Scholarships and fellowships	8,057,340	7,238,687	818,653	11.31%	
Instructional departmental uses	12,021,843	10,749,824	1,272,019	11.83%	
University capital projects	5,653,917	4,522,812	1,131,105	25.01%	
Other restricted expendable	1,686,189	1,800,485	(114,296)	-6.35%	
	<u>27,419,289</u>	<u>24,311,808</u>	<u>3,107,481</u>	<u>12.78%</u>	
Unrestricted	<u>1,456,320</u>	<u>1,173,915</u>	<u>282,405</u>	<u>24.06%</u>	
<b>TOTAL NET ASSETS</b>	<u>\$ 78,089,402</u>	<u>\$ 68,024,475</u>	<u>\$ 10,064,927</u>	<u>14.80%</u>	

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY**  
**ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN**  
**CERTAIN ASSET AND LIABILITY ACCOUNTS**  
**June 30, 2006 and 2005**

1. **Cash and cash equivalents** - increase of \$228,000 and **Restricted cash and cash equivalents** - increase of \$2,587,000 totals \$2,815,000 increase in overall cash: The increase is mainly due to a large stock gift received near the end of the year that was liquidated pending investment decisions. Also see the Statement of Cash Flows in the financial audit for a breakdown by category for the explanation of the increase in overall cash.
2. **Pledges receivable, net (current and noncurrent)** - decrease of \$1,532,000: Decrease is due to payments of over \$3,000,000 received on previous pledges while new FY06 pledges totaled approximately \$1,400,000 resulting in a net decrease of pledges receivable.
3. **Endowment investments** - increase of \$6,615,000 and **Long-term investments** - increase of \$1,975,000 totals \$8,590,000 increase in investments: Increase is mainly due to an increase in the investment portfolio at Commonfund. Over \$5,100,000 of this was due to income earned on the Commonfund investments, with another \$3,100,000 of cash transferred to Commonfund for investment.
4. **Other noncurrent assets** - increase of \$72,000. Increase is due to the increase in cash surrender value on life insurance policies owned by the Foundation.
5. **Accounts payable and accrued liabilities** - increase of \$233,000: Increase is mainly due to an increase in payables relating to the Integrated Manufacturing Lab project in FY06 compared to FY05.
6. **Long-term liabilities, current portion** - increase of \$234,000. Increase is due to the \$300,000 note payable balance maturing in FY07 less the \$60,000 note payment made during FY06.
7. **Long-term liabilities** - decrease of \$379,000. Decrease is due to the \$300,000 note payable maturing in FY07 plus a reduction in the liability for deferred annuity payments and compensated absences.

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY FOUNDATION**  
**ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN**  
**CERTAIN REVENUE AND EXPENSE ACCOUNTS**  
**Year Ended June 30, 2005**

Amounts shown below are for general analytical purposes. Significant items impacting the Foundation's financial position and operations are discussed in the Management's Discussion and Analysis section of the financial statements.

	<u>Fiscal Year</u>		<u>Increase (Decrease)</u>	<u>Percent of Change</u>	<u>See Notes on Page 21</u>
	<u>2005</u>	<u>2004</u>			
<b>OPERATING REVENUES</b>					
Service contract with the University	\$ 260,000	\$ 260,000	\$ -	0.00%	
Other operating revenue	47,090	68,808	(21,718)	-31.56%	
Total operating revenues	<u>307,090</u>	<u>328,808</u>	<u>(21,718)</u>	<u>-6.61%</u>	
<b>OPERATING EXPENSES</b>					
Student aid, scholarships and awards	1,396,026	1,373,482	22,544	1.64%	
Expenditures on behalf of ISU departments and programs	3,385,697	2,753,526	632,171	22.96%	1
Operations	644,722	607,176	37,546	6.18%	
Depreciation	55,270	56,316	(1,046)	-1.86%	
Other	162,447	111,832	50,615	45.26%	
Total operating expenses	<u>5,644,162</u>	<u>4,902,332</u>	<u>741,830</u>	<u>15.13%</u>	
Operating loss	<u>(5,337,072)</u>	<u>(4,573,524)</u>	<u>(763,548)</u>	<u>16.69%</u>	
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts and donations	5,717,834	8,891,957	(3,174,123)	-35.70%	2
Investment income (loss), net of investment expenses	4,301,005	5,918,503	(1,617,498)	-27.33%	3
Interest on capital asset related debt	(39,970)	(43,208)	3,238	-7.49%	
Other nonoperating revenues	752,524	757,354	(4,830)	-0.64%	
Expenditures for ISU capital projects	(7,296,582)	(3,845,997)	(3,450,585)	89.72%	4
Total net nonoperating revenues	<u>3,434,811</u>	<u>11,678,609</u>	<u>(8,243,798)</u>	<u>-70.59%</u>	
Income (loss) before additions to permanent endowment	(1,902,261)	7,105,085	(9,007,346)	-126.77%	
<b>ADDITIONS TO PERMANENT ENDOWMENTS</b>	<u>3,900,171</u>	<u>4,856,118</u>	<u>(955,947)</u>	<u>-19.69%</u>	5
<b>INCREASE IN NET ASSETS</b>	1,997,910	11,961,203	(9,963,293)	-83.30%	
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>66,026,565</u>	<u>54,065,362</u>	<u>11,961,203</u>	<u>22.12%</u>	
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 68,024,475</u>	<u>\$ 66,026,565</u>	<u>\$ 1,997,910</u>	<u>3.03%</u>	

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY**  
**ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN**  
**CERTAIN REVENUE AND EXPENSE ACCOUNTS**  
**Year Ended June 30, 2005**

1. **Expenditures on behalf of ISU departments and programs** - increase of \$632,000: Increase is mainly due to several campus units increasing Foundation expenditures, mainly in the areas of salaries, travel and repairs.
2. **Gifts and donations** - decrease of \$3,174,000: Decrease is mainly due to several large campaign gift pledges recognized in FY04 (one over \$2,000,000 and one for \$1,000,000). No comparable large campaign gift pledges were received in FY05.
3. **Investment income** - decrease of \$1,617,000: Decrease in investment income is mainly due to lower yields received on the investment portfolio in FY05. In FY04, Foundation investments had a gain of 16.8%, while in FY05, the gain was only 8.1%.
4. **Expenditures for ISU capital projects** - increase of \$3,450,000: Increase is mainly due to expenditures for the College of Business Building project increasing from \$3,100,000 in FY04 to \$6,480,000 in FY05.
5. **Additions to permanent endowments** - decrease of \$956,000: Decrease is mainly due to a decrease in large endowed gifts (over \$100,000) received in FY05 compared to FY04. Large endowed gifts in FY04 totaled around \$4,000,000 while large endowed gifts in FY05 totaled around \$3,000,000.

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY FOUNDATION**  
**ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN**  
**CERTAIN ASSET AND LIABILITY ACCOUNTS**  
**June 30, 2005 and 2004**

Amounts shown below are for general analytical purposes. Significant items impacting the Foundation's financial position and operations are discussed in the Management's Discussion and Analysis section of the financial statements.

	<u>June 30</u>		<u>Increase (Decrease)</u>	<u>Percent of Change</u>	<u>See Notes on Page 23</u>
	<u>2005</u>	<u>2004</u>			
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 1,904,044	\$ 5,149,815	\$ (3,245,771)	-63.03%	1
Short-term investments	4,369,332	4,275,690	93,642	2.19%	
Accrued interest receivable	15,386	12,098	3,288	27.18%	
Pledges receivable, net	2,541,257	2,714,618	(173,361)	-6.39%	2
Accounts receivable	833	5,534	(4,701)	-84.95%	
Total current assets	<u>8,830,852</u>	<u>12,157,755</u>	<u>(3,326,903)</u>	<u>-27.36%</u>	
<b>Noncurrent Assets</b>					
Restricted cash and cash equivalents	1,464,308	3,676,349	(2,212,041)	-60.17%	1
Long-term investments	12,501,730	9,733,466	2,768,264	28.44%	3
Endowment investments	41,025,261	34,468,908	6,556,353	19.02%	3
Pledges receivable, net	2,867,080	5,823,160	(2,956,080)	-50.76%	2
Capital assets, net	1,813,491	1,868,761	(55,270)	-2.96%	
Other noncurrent assets	722,086	668,764	53,322	7.97%	
Total noncurrent assets	<u>60,393,956</u>	<u>56,239,408</u>	<u>4,154,548</u>	<u>7.39%</u>	
<b>TOTAL ASSETS</b>	<u>69,224,808</u>	<u>68,397,163</u>	<u>827,645</u>	<u>1.21%</u>	
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	503,293	1,182,857	(679,564)	-57.45%	4
Long-term liabilities, current portion	41,414	1,020,851	(979,437)	-95.94%	5
Total current liabilities	<u>544,707</u>	<u>2,203,708</u>	<u>(1,659,001)</u>	<u>-75.28%</u>	
<b>Noncurrent Liabilities</b>					
Long-term liabilities	<u>655,626</u>	<u>166,890</u>	<u>488,736</u>	<u>292.85%</u>	6
<b>TOTAL LIABILITIES</b>	<u>1,200,333</u>	<u>2,370,598</u>	<u>(1,170,265)</u>	<u>-49.37%</u>	
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	<u>1,513,491</u>	<u>868,761</u>	<u>644,730</u>	<u>74.21%</u>	
Restricted for:					
Nonexpendable:					
Scholarships and fellowships	22,526,597	20,465,634	2,060,963	10.07%	
College and academic department support	8,557,271	7,047,408	1,509,863	21.42%	
Faculty and staff compensation	5,787,717	4,428,187	1,359,530	30.70%	
Other	4,153,676	2,527,679	1,625,997	64.33%	
	<u>41,025,261</u>	<u>34,468,908</u>	<u>6,556,353</u>	<u>19.02%</u>	
Expendable:					
Scholarships and fellowships	7,238,687	6,070,016	1,168,671	19.25%	
Instructional departmental uses	10,749,824	11,769,401	(1,019,577)	-8.66%	
University capital projects	4,522,812	10,445,610	(5,922,798)	-56.70%	
Other restricted expendable	1,800,485	1,823,590	(23,105)	-1.27%	
	<u>24,311,808</u>	<u>30,108,617</u>	<u>(5,796,809)</u>	<u>-19.25%</u>	
Unrestricted	<u>1,173,915</u>	<u>580,279</u>	<u>593,636</u>	<u>102.30%</u>	
<b>TOTAL NET ASSETS</b>	<u>\$ 68,024,475</u>	<u>\$ 66,026,565</u>	<u>\$ 1,997,910</u>	<u>3.03%</u>	

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY**  
**ANALYSIS OF SIGNIFICANT VARIATIONS BETWEEN**  
**CERTAIN ASSET AND LIABILITY ACCOUNTS**  
**June 30, 2005 and 2004**

1. **Cash and cash equivalents** - decrease of \$3,246,000 and **Restricted cash and cash equivalents** - decrease of \$2,212,000 totals \$5,458,000 decrease in overall cash: See the Statement of Cash Flows in the financial audit for a breakdown by category for the explanation of the decrease in overall cash.
2. **Pledges receivable, net (current and noncurrent)** - decrease of \$3,129,000: Decrease is mainly due to payments received on several large corporate pledges and on other campaign pledges during FY05. No large pledges were recorded during FY05.
3. **Endowment investments** - increase of \$6,556,000 and **Long-term investments** - increase of \$2,768,000 totals \$9,324,000 increase in investments: Increase is mainly due to an increase in the investment portfolio at Commonfund. Over \$4,100,000 of this was due to income earned on the Commonfund investments, with another \$5,000,000 cash transferred to Commonfund for investment.
4. **Accounts payable and accrued liabilities** - decrease of \$680,000: Decrease is mainly due to a decrease in payables relating to College of Business Building project in FY05 compared to FY04.
5. **Long-term liabilities, current portion** - decrease of \$979,000. Decrease is mainly due to the \$1,000,000 note payable maturing during FY05.
6. **Long-term liabilities** - increase of \$488,000. Increase is mainly due to the \$1,000,000 note payable, which matured during FY05, being partially financed by a new \$300,000 line of credit which matures in FY07 plus an approximately \$200,000 increase in the liability for deferred annuity payments.



**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
SCHEDULE OF FOUNDATION PAYMENTS TO THE UNIVERSITY  
For the Years Ended June 30, 2006 and 2005**

During fiscal years 2006 and 2005, Illinois State University engaged the Foundation, under contract, to provide fund raising services. As provided in the contract agreement, the University advanced funds to the Foundation of \$260,000 in fiscal years 2006 and 2005. As required by contract, the Foundation fully repaid the University, using funds considered unrestricted for purposes of the University Guidelines computations. In addition, the Foundation gave the University nonqualifying restricted funds. Presented below is a summary of all funds that the Foundation gave to the University during fiscal years 2006 and 2005:

	<u>2006</u>	<u>2005</u>
<b>TOTALLY UNRESTRICTED FUNDS</b>	<u>\$ 59,237</u>	<u>\$ 58,651</u>
<b>FUNDS RESTRICTED</b> - Only as to campus, college, or department, and generally available for ongoing University operations:		
Given to a particular college	473,553	424,396
Given to a particular department	3,702,389	1,721,684
<b>FUNDS RESTRICTED</b>		
Given for scholarships	1,563,220	1,147,662
Given for certain programs	2,968,571	8,676,059
Other restricted funds	<u>69,078</u>	<u>49,853</u>
Total funds considered restricted	<u>8,776,811</u>	<u>12,019,654</u>
<b>TOTAL FUNDS PROVIDED TO THE UNIVERSITY BY THE FOUNDATION</b>	<u><u>\$ 8,836,048</u></u>	<u><u>\$ 12,078,305</u></u>

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
AGENCY FUNCTIONS AND PLANNING PROGRAM  
YEAR ENDED JUNE 30, 2006**

**Agency Functions**

Illinois State University Foundation is located at 401 Hovey Hall on the Campus of Illinois State University, Normal, Illinois. In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporation and Foundation networks. Dr. Dianne Ashby is the Executive Director of the Foundation. Since April 1997, Mr. Stan Ommen has been the Chairman of the Foundation.

Illinois State University Foundation (Foundation) was incorporated under the "General Not-for-Profit Corporation Act" of the State of Illinois on May 7, 1948. The primary objectives of the Foundation are to assist in developing and increasing the facilities of Illinois State University for broader educational opportunities for, and service to, its students, alumni, and citizens of the State of Illinois. This is accomplished by providing the fiscal means and management procedures to allow the University to carry on instructional services, and research activities not normally provided for by the State appropriation. This support is provided to the University through scholarships, loans, grants, and by receiving and holding gifts made for the benefit of the University.

**Planning Program**

Annually, the Executive Director of the Foundation prepares a plan through the budgeting process, which outlines the fundraising goals of each of its major sources of revenue. The responsibility for overseeing the formulation and implementation of the plan rests with the Executive Director.

The Executive Director evaluates and modifies the annual plan, if necessary, based on current year results and the changing environment and goals of the Foundation. Current activities are reviewed to determine that the long-range goals set forth in the long-range plan can be attained.

The Foundation's plan serves as an effective planning tool as it helps the Foundation anticipate and plan for the changes in its activities and goals. On January 1, 2000, the University launched the five-year Redefining "Normal": The Campaign for Illinois State University. The public phase of the campaign began in March 2002 and concluded December 2004.

**Auditor's Assessment of the Planning Program**

The Foundation's planning program appears to be adequate for both the financial and nonfinancial aspects of its operations. It also appears the Foundation has established adequate operating programs to meet its defined goals and objectives.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
SERVICE EFFORTS AND ACCOMPLISHMENTS**

(Unaudited)

The Illinois State University Foundation was formed "to assist in developing and increasing education opportunities and the facilities of Illinois State University...and to receive, hold, and administer gifts with the primary object of serving the educational purposes of the University."

The Governmental Accounting Standards Board has defined three categories to measure service efforts and accomplishments.

1. Output measures the quantity or quality of service provided. Distributions to the University are the output measurements of service provided by the Foundation.

	<u>2006</u>	<u>2005</u>
Distributions to the University	\$ <u>8,836,048</u>	\$ <u>12,078,305</u>

2. Outcome measures the results and progress toward established goals and objectives. Gifts and contributions revenue is the outcome measurement of the results achieved by the Foundation.

	<u>2006</u>	<u>2005</u>
Gifts and contribution revenue (included endowed gifts)	\$ <u>13,282,416</u>	\$ <u>9,618,005</u>

3. Efficiency measures relate resources used to the outputs. The contributions ratio or cost per dollar raised and the distribution ratio or cost per dollar distributed are the efficiency measurements of the Foundation.

	<u>2006</u>	<u>2005</u>
General operating expense*	\$ 637,511	\$ 644,722
Contributions	\$ 13,282,416	\$ 9,618,005
Contribution ratio	.048	.067
General and operating expense*	\$ 637,511	\$ 644,722
Distribution to the University	\$ 8,836,048	\$ 12,078,305
Distribution ratio	.072	.053

- \* These expenses include only Foundation funds. The Development Office also received general revenue funds to support the fundraising activities.