

GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

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

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
FINANCIAL AUDIT**

FOR THE YEAR ENDED JUNE 30, 2006

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**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
FOR THE YEAR ENDED JUNE 30, 2006**

AGENCY OFFICIALS

President

Mr. Gerald McIlvain

Chief Executive Officer,
Associate Vice President for Institutional
Advancement & Alumni Relations

Ms. Rosemary D. Hulett

Fiscal Officer (7/1/05 until 4/7/06)

Ms. Tammy Rust

Fiscal Officer (4/10/06 until present)

Ms. Karen Kissel

Agency offices are located at:

Governors State University
University Park, IL 60466

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
FINANCIAL STATEMENT REPORT**

SUMMARY

The audit of the accompanying financial statements of Governors State University Alumni Association was performed by Nykiel, Carlin & Co., Ltd.

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

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 business-type activities of Governors State University Alumni Association, a component unit of Governors State University and the State of Illinois as of and for the year ended June 30, 2006, which collectively comprise the Governors State University Alumni Association's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Governors State University Alumni Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Governors State University Alumni Association's basic financial statements as of and for the year ended June 30, 2005, on which we expressed an unqualified opinion on the basic financial statements in our report dated October 25, 2005.

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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Governors State University Alumni Association, as of June 30, 2006 and the respective changes in net assets and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 8 through 11 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.

In accordance with *Government Auditing Standards* we have also issued a report on our consideration of the Governors State University Alumni Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

Nykiel, Carlin + Co., Ltd.

NYKIEL, CARLIN & CO., LTD.
Kankakee, Illinois

October 27, 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

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Governors State University Alumni Association as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 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 Governors State University Alumni Association'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Governors State University Alumni Association's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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*.

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 Alumni Association 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

October 27, 2006

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

PURPOSE

This analysis is an integral part of the financial statements whose purpose is to provide an objective and easy-to-read analysis of the Alumni Association's financial activities based on currently known facts, decisions, and/or conditions.

The following discussion and analysis provides an overview of the Alumni Association's financial activities.

The annual report consists of three basic financial statements and notes to the financial statements that provide information on the Alumni Association as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. Each of these statements is discussed below.

STATEMENT OF NET ASSETS

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets represent the Alumni Association's equity and are a way to measure the financial health of an entity.

Modified Statement of Net Assets

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Assets			
Cash and cash equivalents	\$ 175,850	\$ 169,891	4%
Certificates of deposit	-	67,843	-100%
Accounts receivable	3,777	-	
Total assets	<u>179,627</u>	<u>237,734</u>	<u>-24%</u>
Liabilities			
Accounts payable	<u>7,329</u>	<u>86,494</u>	<u>-92%</u>
Net assets			
Restricted for:			
Nonexpendable	77,152	77,077	0%
Expendable	8,974	7,806	15%
Unrestricted	<u>86,172</u>	<u>66,357</u>	<u>30%</u>
Total net assets	<u>\$ 172,298</u>	<u>\$ 151,240</u>	<u>14%</u>

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

STATEMENT OF NET ASSETS (continued)

Assets

The Alumni Association remains extremely liquid as 100% of total assets consist of cash and cash equivalents. Discussions are in progress to explore an appropriate investment strategy.

Liabilities

The accounts payable balance consists of payables to vendors for Alumni Association expenses. In 2005, most of the liabilities consisted of amounts due to the University for expenditure advances. There is no long-term debt.

Net Assets

Nonexpendable restricted net assets are the equity in the three endowment funds set up to provide scholarship money to qualified students and had minimal movement during the year. Expendable restricted net assets are monies restricted by donors to specific forms of University support or scholarship awards. Unrestricted net assets may be used by the Alumni Association consistent with the bylaws for expenses (e.g. operating expenses, insurance, additional University support, alumni activities, etc.)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) display the fiscal activity for the period and its effect on net assets. The statement is divided into two basic sections:

- Operating revenue and expense and
- Non-operating revenues and expense (includes contributions, investment income/losses, additions to permanent endowments, contributions of capital assets and other non-operating income and expense)

Operating revenues are the result of "exchange" transactions where both parties to the transaction each receive a material benefit. Non-operating revenue occurs when only one party benefits, as in the case of contributions or where the revenue is passive in nature as with earnings from investments. Operating expenses include all expenses incurred to provide services. Non-operating expenses include all other expenses.

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(continued)

The changes in net assets for fiscal years 2006 and 2005 are summarized below:

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Operations			
Revenues			
Budget allocation from GSU	\$ 4,214	\$ 5,101	-17%
Alumni membership & events	52,488	46,914	12%
Total operating revenues	<u>56,702</u>	<u>52,015</u>	<u>9%</u>
Expenses			
Scholarships	3,833	12,747	-70%
General expenses	9,117	30,298	-70%
Alumni events	26,628	5,132	419%
Budget allocation from GSU	4,214	5,101	-17%
University support	4,369	46,022	-91%
Total operating expenses	<u>48,161</u>	<u>99,300</u>	<u>-51%</u>
Net operating income (loss)	<u>8,541</u>	<u>(47,285)</u>	<u>118%</u>
Non-operating revenues and expenses			
Contributions	3,275	9,595	-66%
Investment income	9,167	6,535	40%
Additions to permanent endowments	75	250	-70%
Total non-operating activity	<u>12,517</u>	<u>16,380</u>	<u>-24%</u>
Change in net assets	21,058	(30,905)	168%
Net assets - beginning of year	151,240	182,145	-17%
Net assets - end of year	<u>\$ 172,298</u>	<u>\$ 151,240</u>	<u>14%</u>

Operating Revenues and Expenses

During 2005, the Governors State University Foundation took over all fundraising and development activities and most scholarship activities for the University. The Alumni Association still accepts donations for its existing scholarships, but the Alumni Association does not have an active campaign to solicit gifts. Operating revenues increased in 2006 as more Alumni began attending a variety of Alumni events and other sponsored outings. Expenses related to those events and other sponsored outings increased by 419% to support the new focus on building stronger Alumni relations as well as total membership into the Alumni Association. The Alumni Association scholarships decreased accordingly by 70%. General expenses, which previously included office salaries and fundraising decreased, as they were absorbed by the Foundation. While University support decreased by 91% as the Alumni Association shifted its focus from fundraising to programs and membership, the Alumni Association still accepts contributions in support of University activities.

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(continued)

Non-operating Revenues and Expenses

Contribution revenue decreased as the role of the Alumni Association continued its focus on Alumni events and membership.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the cash receipt and cash payment activity during the year. This statement also helps users assess the Alumni Association's ability to generate net cash flows and to meet its obligations as they come due, as well as its need for external financing.

Modified Statement of Cash Flows

	<u>2006</u>	<u>2005</u>
Net cash used by operating activities	\$ (74,401)	\$ (10,195)
Net cash provided by noncapital financing activities	3,350	9,845
Net cash provided by investing activities	<u>77,010</u>	<u>1,070</u>
Net cash increase(decrease)	<u>\$ 5,959</u>	<u>\$ 720</u>

In its role as liaison between GSU alumni and the University, the purpose of the Alumni Association's is to perpetuate relationships between the University and its alumni. The Alumni Association plans to continue to foster these relationships by the establishment and expansion of alumni clubs and with increased and expanded alumni program offerings and services. Projected incremental revenue to the Alumni Association will come from increased membership initiatives and income from increased alumni programs and workshops.

GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
Statement of Net Assets
as of June 30, 2006
With Comparative Totals for June 30, 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 1 & 2)	\$ 175,850	\$ 169,891
Certificates of deposit (Note 1)	-	67,843
Accounts receivable (Note 4)	3,777	-
Total Current Assets	179,627	237,734
Total Assets	179,627	237,734
LIABILITIES		
Current Liabilities		
Accounts payable	7,329	86,494
Total Current Liabilities	7,329	86,494
Total Liabilities	7,329	86,494
NET ASSETS		
Restricted for:		
Nonexpendable (Note 1)	77,152	77,077
Expendable (Note 1)		
Scholarships, University support and other	8,974	7,806
Unrestricted (Note 1)	86,172	66,357
Total Net Assets	\$ 172,298	\$ 151,240

The accompanying notes are an integral part of the financial statements.

GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006
With Comparative Totals For June 30, 2005

OPERATIONS	<u>2006</u>	<u>2005</u>
Revenues		
Alumni membership and events	\$ 52,488	\$ 46,914
Budget allocation from GSU (Note 4)	4,214	5,101
Total operating revenues	<u>56,702</u>	<u>52,015</u>
Expenses		
Scholarships	3,833	12,747
General expenses	9,117	30,298
Alumni events	26,628	5,132
Budget allocation from GSU (Note 4)	4,214	5,101
University support	4,369	46,022
Total operating expenses	<u>48,161</u>	<u>99,300</u>
Operating income (loss)	<u>8,541</u>	<u>(47,285)</u>
NON-OPERATING REVENUES (EXPENSES)		
Contributions	3,275	9,595
Investment income	9,167	6,535
Net non-operating revenues	<u>12,442</u>	<u>16,130</u>
Gain (loss) before other revenues, expenses, gains and losses	<u>20,983</u>	<u>(31,155)</u>
Additions to permanent endowments	<u>75</u>	<u>250</u>
Total other revenues	<u>75</u>	<u>250</u>
Change in net assets	21,058	(30,905)
Total net assets, beginning of year	<u>151,240</u>	<u>182,145</u>
Total net assets, end of year	<u>\$ 172,298</u>	<u>\$ 151,240</u>

The accompanying notes are an integral part of the financial statements.

GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
Statement of Cash Flows
For the Year Ended June 30, 2006
With Comparative Totals for June 30, 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Other operating revenues	\$ 52,488	\$ 46,914
General and operating expenses	(123,056)	(44,362)
Payments of scholarships	(3,833)	(12,747)
Net cash used by operating activities	(74,401)	(10,195)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	3,275	9,595
Contributions for permanent endowments	75	250
Net cash provided by noncapital financing activities	3,350	9,845
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	68,000	65,842
Interest and dividend income	9,010	3,828
Purchase of investment securities	-	(68,000)
Investment fees	-	(600)
Net cash provided (used) by investing activities	77,010	1,070
 Cash increase	 5,959	 720
Cash and cash equivalents - beginning of year	169,891	169,171
Cash and cash equivalents - end of year	\$ 175,850	\$ 169,891
 RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 8,541	\$ (47,285)
Adjustments used to reconcile operating income (loss) to net cash used by operating activities:		
Changes in net assets		
Accounts receivable	(3,777)	
Accounts payable	(79,165)	37,090
Net cash used by operating activities	\$ (74,401)	\$ (10,195)

The accompanying notes are an integral part of the financial statements.

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Governors State University Alumni Association (the "Alumni Association") was incorporated as a not-for-profit organization on January 30, 1987. The Alumni Association provides support services to Governors State University (the "University"). Prior to incorporation, the Alumni Association existed as a University department with fund raising activities coordinated by an Alumni Advisory Board and the Governors State University Foundation.

The Alumni Association follows Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations Are Component Units. This GASB statement provided criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government. The Alumni Association is reported as a component unit of Governors State University, and is discretely presented on the University's financial statements. The Alumni Association is also a component unit of the State of Illinois and is included in the State of Illinois Comprehensive Annual Financial Report.

Basis of Accounting

For financial statement purposes, the Alumni Association is considered a special purpose government engaged only in business-type activities. Accordingly, the Alumni Association's financial statements have been presented using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. When both restricted and unrestricted resources are available for use, it is the Alumni Association's policy to use restricted resources first, then unrestricted resources as needed.

Basis of Presentation

In accordance with GASB Statement No. 20, the Alumni Association is required to follow all applicable GASB pronouncements. In addition, the Alumni Association applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Alumni Association elected not to apply FASB pronouncements issued after November 30, 1989.

Cash Equivalents

In accordance with GASB Statement No. 9, cash equivalents are defined as short-term, highly liquid investments that are both:

- 1) Readily convertible to known amounts of cash
- 2) So near to their maturity that they present insignificant risk of changes in value because of changes in interest rates

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Equivalents (continued)

Although generally investments with original maturities of less than three months may be defined as cash equivalents, the Alumni Association displays certificates of deposits, if any, as a discrete item and classifies it as investments. There were no certificates of deposit as of June 30, 2006.

Investments

The Alumni Association accounts for its investments at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for external Investment Pools. Investments purchased or received by gift are carried at market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets. Investment earnings include dividends, interest, and capital appreciation (both realized and unrealized). Investment fees are netted against investment income. As of June 30, 2006, investments consist of a money market mutual fund totaling \$71,301 which was classified as cash and cash equivalents.

Income Taxes

Governors State University Alumni Association is a non-profit organization, which has been granted tax-exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. The Governors State University Alumni Association is required to pay federal and state income taxes only on its net unrelated business income.

Net Assets

The Alumni Association's net assets are classified as follows:

Restricted Net Assets – Expendable

Restricted expendable net assets include resources in which the Alumni Association is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted Net Assets – Nonexpendable

Nonexpendable restricted net assets consist of endowment funds. The endowment funds include those funds where donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income.

Unrestricted Net Assets

Unrestricted net assets represent the assets available for current operating expenses of the Alumni Association. There are no restrictions by outside sources on the use of these assets.

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Revenues

The Alumni Association has classified its revenues as either operating or non-operating according to the following criteria:

Operating Revenues

Operating revenues include activities that have characteristics of exchange transactions.

Non-operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions such as gifts, contributions, and investment income.

Use of Estimates in Preparing Financial Statements

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

Comparative Totals

Comparative totals have been presented in the accompanying basic financial statements in order to provide an understanding of changes in the Alumni Association's financial position and operations. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Alumni Association's financial statements for the year ended June 30, 2005, from which the summarized comparative totals were derived.

2. DEPOSITS AND INVESTMENTS

GASB Statement No. 40 *Deposit and Investment Risk Disclosures*, requires general disclosures by investment type with disclosures of the specific risks those investments are exposed to.

Deposits consist of the following at June 30, 2006:

Deposits:	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in Bank	\$ 794	\$ 794
Illinois Funds	103,755	103,755
	<u>\$ 104,549</u>	<u>\$ 104,549</u>

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

2. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation fully insured the cash in the bank, leaving no uninsured deposits as of June 30, 2006. Illinois funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract. Depositories and brokers are chosen based on stability and longevity, and due to insurance and collateralization, the Alumni Association currently has no custodial credit risk.

Investments consist of the following at June 30, 2006:

Investments:	<u>Carrying Amount</u>	<u>Fair Value</u>
Money Market Funds	<u>\$ 71,301</u>	<u>\$ 71,301</u>

Custodial Credit Risk – Investments: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2006, investments consisted solely of money market funds. The money market account was fully insured by the Securities Investor Protection Corporation (SIPC). The Alumni Association currently has no custodial credit risk.

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Alumni Association has maintained its funds in highly liquid investments, but has not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Alumni Association currently holds no investments with substantial credit risk.

As of June 30, 2006 the Alumni Association had all of the Money Market Funds invested in the Morgan Stanley Liquid Asset Fund. The Alumni Association had no exposure to interest rate risk and credit risk. At June 30, 2006, all funds were unrated and did not contain any withdrawal restrictions.

3. LOCALLY HELD FUNDS

The Alumni Association does not receive any appropriated funds from the University. All funds received are initially deposited with the Heritage Bank, Chicago Heights, Illinois.

**GOVERNORS STATE UNIVERSITY ALUMNI ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

4. TRANSACTIONS WITH GOVERNORS STATE UNIVERSITY

The Alumni Association has an ongoing contract with the University which includes provisions requiring the Alumni Association to comply with Section VI of the "University Guidelines 1982 (as amended 1997)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires that the University provide the Alumni Association with accounting and other clerical services at no cost. University officials estimate the value of these services for the year ending June 30, 2006 at \$4,214 including all direct payroll expenses and fringe benefits and are shown as budget allocations from Governors State University on the Statement of Revenues, Expenses, and Changes in Net Assets. The Alumni Association provided the University with support in the amount of \$8,202 for the year ended June 30, 2006.

As of June 30, 2006, the \$3,777 accounts receivable was due entirely from the University.