

GOVERNORS STATE UNIVERSITY FOUNDATION
COMPLIANCE EXAMINATION
FOR THE TWO YEARS ENDED JUNE 30, 2007

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

**GOVERNORS STATE UNIVERSITY FOUNDATION
COMPLIANCE EXAMINATION**

FOR THE TWO YEARS ENDED JUNE 30, 2007

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The Foundation's financial statement report for the year ended June 30, 2007 which includes the independent auditor's report, management's discussion and analysis, basic financial statements, and the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with <i>Government Auditing Standards</i> has been issued separately.	
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**GOVERNORS STATE UNIVERSITY FOUNDATION
FOR THE TWO YEARS ENDED JUNE 30, 2007**

AGENCY OFFICIALS

President	Mr. William Sanders
Interim CEO (7/16/07 until present),	Dr. William Nowlin
Chief Executive Officer (7/01/05 until 7/16/07),	Dr. James Britt
Fiscal Officer (4/10/06 until present),	Ms. Karen Kissel
Fiscal Officer (7/01/05 until 4/07/06),	Ms. Tammy Rust

Agency offices are located at:

Governors State University
University Park, IL 60466

GOVERNORS STATE UNIVERSITY FOUNDATION

One University Parkway, University Park, IL 60466-0975

708-534-4105 FAX 708-534-8959

Board of Directors

President

William L. Sanders
Flossmoor, Illinois

First Vice President

Lois Anthonisen
Anthonisen Financial Corporation

Second Vice President

Patrick J. Ormsby
Bimba Manufacturing Co.

Treasurer

Carney A. Barr
Rich Township

Secretary

Melody O'Neal
Flossmoor, Illinois

Board Members

Jennifer Artis

St. James Hospital & Health Centers

David R. Barr

Attorney-at-Law

James P. Bartley

Klein, Thorpe & Jenkins, Ltd.

Ronald Bean

Attorney-at-Law

Sterling M. Burke

Olympia Fields, Illinois

Frank M. Clark

ComEd

Charles H. Connolly

Governors State University

Gebe Ejiogu

Governors State University

Michael Fisher

Country Insurance
& Financial Services

John Frega

Frega Associates

Randolph Frieser

Accelerated Rehabilitation Centers

Beverly Goldberg

Homewood, Illinois

Joanne C. Krop

Frankfort, Illinois

William McCarthy

Ranger Electric, Inc.

William Nowlin

Governors State University

Kathleen Field Orr

GSU Trustee

Billie J. Paige

Shea, Paige & Rogal

Donovan Pepper

Walgreens Co.

Barbara Peterson

Will County Planning Commission

Patrick E. Rea

U.S. Small Business Administration

Patrick Roe

Heritage Bank

Gilbert J. Rynberk, Jr.

First National Bank of Illinois

Vivian T. Tarver, J.D., R.N., B.A.

Attorney-at-Law

Beatrice Mensah Tayui

Diamond International, Inc.

J. Jeffrey Thrall

Thrall Enterprises, Inc.

December 12, 2007

Clifton Gunderson LLP
Certified Public Accountants
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 grant agreements that could have a material effect on the operations of Governors State University 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 Governors State University Foundation's compliance with the following assertions during the two years ended June 30, 2007. Based on this evaluation, we assert that during the two years ended June 30, 2007, Governors State University Foundation has materially complied with the assertions below.

A. Governors State University Foundation has obligated, expended, received and used funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. Governors State University Foundation has obligated, expended, received and used funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. Governors 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 revenues and receipts collected by Governors 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 Governors State University Foundation or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Interim Chief Executive Officer
William Nowlin

GSU President
Elaine P. Maimon

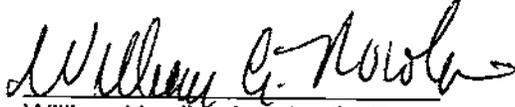
Faculty Senate President
Paul Blobaum

GSU Alumni President
Gerald McIlvain

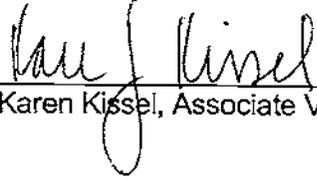
Assoc VP for Financial Services
and Comptroller
Karen Kissel

Yours very truly,

Governors State University Foundation



William Nowlin, Interim CEO



Karen Kissel, Associate VP of Financial Services and Comptroller

**GOVERNORS STATE UNIVERSITY FOUNDATION
FOR THE TWO YEARS ENDED JUNE 30, 2007**

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.

ACCOUNTANTS' 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>Compliance</u>	<u>Financial</u>	<u>Prior</u>
Findings	<u>Report</u>	<u>Report</u>	<u>Compliance</u>
Findings	0	0	1
Repeated findings	0	0	1
Prior recommendations implemented or not repeated	1	1	1

Details of *State Compliance* findings are presented in a separately tabbed report section of this report. Details of *Government Auditing Standards* findings are issues related to significant deficiencies and material weaknesses in internal control over financial reporting. Findings related to *Government Auditing Standards* have been issued separately with the Foundation's Financial Statement Audit.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page No.</u>	<u>Description</u>
<u>PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)</u>		
07-1	22	Generally Accepted Accounting Principles (GAAP) not properly applied
<u>PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)</u>		
07-2	10	Inadequate Controls over Cash

**GOVERNORS STATE UNIVERSITY FOUNDATION
FOR THE TWO YEARS ENDED JUNE 30, 2007**

COMPLIANCE REPORT

SUMMARY

EXIT CONFERENCE

The Foundation waived having an exit conference in a memo dated December 4, 2007, from the Governors State University Associate Vice President of Financial Services and Comptroller.

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 Governors 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, 2007. The management of Governors State University Foundation is responsible for compliance with these requirements. Our responsibility is to express an opinion on Governors State University Foundation's compliance based on our examination.

- A. Governors State University Foundation has obligated, expended, received and used funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. Governors State University Foundation has obligated, expended, received and used funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. Governors 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 revenues and receipts collected by Governors 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 Governors State University Foundation or held in trust by Governors State University Foundation have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination 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 Governors 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 opinion. Our examination does not provide a legal determination on Governors State University Foundation's compliance with specified requirements.

In our opinion, Governors State University Foundation complied, in all material respects, with the aforementioned requirements during the two years ended June 30, 2007. 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 Governors State University Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered Governors State University Foundation's internal control over compliance with the requirements listed in the first paragraph of this report 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, but not for the purpose of expressing an opinion on the effectiveness of the Governors State University Foundation's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Governors State University Foundation's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Governors State University Foundation, a component unit of Governors State

University and the State of Illinois, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 12, 2007. 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 Governors State University Foundation. The 2007 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, 2007, taken as a whole. The fiscal years 2006 and 2005 comparative information has been derived from Governors State University Foundation's basic financial statements as of and for the years ended June 30, 2006 and June 30, 2005, which were audited by other auditors who expressed unqualified opinions on the basic financial statements in their reports dated November 16, 2006 and October 25, 2005.

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

Clifton Gunderson LLP

CLIFTON GUNDERSON LLP
Kankakee, Illinois

December 12, 2007

**GOVERNORS STATE UNIVERSITY FOUNDATION
PRIOR FINDINGS NOT REPEATED
FOR THE TWO YEARS ENDED JUNE 30, 2007**

07-2 FINDING: INADEQUATE CONTROLS OVER CASH

Governors State University Foundation (Foundation) did not have adequate controls over its cash deposits. (Finding Code No. 05-1, 03-1)

Status – not repeated

Our sample testing identified 5 of 50 receipts tested were not deposited timely. Each of these were early in fiscal year 2006. No untimely deposits were identified in our 2007 sample testing. This finding has been moved to the immaterial findings letter.

**GOVERNORS 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

- Analysis of Significant Variations in Revenues and Expenses
 - Analysis of Significant Account Balances

- Analysis of Operations

- Agency Functions and Planning Program
 - Average Number of Employees (unaudited)
 - Schedule of Services Provided by the University to the Foundation

The accountants' 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 accountants' opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**GOVERNORS STATE UNIVERSITY FOUNDATION
FISCAL SCHEDULES AND ANALYSIS
FOR THE TWO YEARS ENDED JUNE 30, 2007**

EXPLANATIONS OF SIGNIFICANT VARIATIONS IN REVENUES AND EXPENSES

A comparative analysis of revenues and expenditures is provided below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating:			
Revenues			
Grants and contracts	\$ 19,030	\$ 18,370	\$ 40,000
Budget allocation from GSU (note 5)	80,743	83,861	75,333
Other operating revenues	5,000	600	815
Total operating revenues	<u>\$ 104,773</u>	<u>\$ 102,831</u>	<u>\$ 116,148</u>
Expenses:			
Scholarships	\$ 26,559	\$ 23,867	\$ 60,455
General and fundraising expenses	76,767	45,020	16,628
University support	65,892	174,890	94,061
Budget allocation from GSU (note 5)	80,743	83,861	75,333
Performing arts expense	91,552	18,970	43,112
Other	2,488	3,374	16,192
	<u>\$ 344,001</u>	<u>\$ 349,982</u>	<u>\$ 305,781</u>
Nonoperating:			
Revenues			
Contributions	\$ 209,313	\$ 170,377	\$ 207,749
Investment income	109,275	40,883	24,553
	<u>\$ 318,588</u>	<u>\$ 211,260</u>	<u>\$ 232,302</u>
Other:			
Additions to permanent endowments	\$ 35,564	\$ 27,100	\$ 26,993
Refunds from permanent endowments	-	-	(1,000)
	<u>\$ 35,564</u>	<u>\$ 27,100</u>	<u>\$ 25,993</u>

Explanations of significant variations are as follows:

Grant and contract revenues decreased from FY05 to FY06 due to the public services grant ending in FY05.

In FY06, scholarship and awards given to students were decreased to more closely coincide with reduced revenues available for scholarships. This decrease was due to the decline in the investment market, and the interim period while the Foundation updated its investment policies and established spending policies.

In FY07, general and fundraising expenses increased to reflect the increase in development efforts as well as the main annual fundraising event *Jazz in the Park*.

**GOVERNORS STATE UNIVERSITY FOUNDATION
FISCAL SCHEDULES AND ANALYSIS
FOR THE TWO YEARS ENDED JUNE 30, 2007**

EXPLANATIONS OF SIGNIFICANT VARIATIONS IN REVENUES AND EXPENSES (continued)

In FY06, University support increased due to a \$93,143 public service scholarship provided to the University in FY06. This scholarship ended in FY06.

In FY07, the Foundation released \$72,000, plus interest, to the Center of Performing Arts (CPA) for money that was held by the Foundation for the CPA from the initial construction fund raising.

Contributions decreased in FY06 due to the interim period while the Foundation was updating and establishing fund raising policies. In FY07, contributions increased as development efforts increased which included an employee payroll deduction plan.

Investment income increased by \$68,000 due to the retention of a new money manager, implementation of a new investment strategy, and improved market performance.

**GOVERNORS STATE UNIVERSITY FOUNDATION
FINANCIAL RELATED SCHEDULES
FOR THE TWO YEARS ENDED JUNE 30, 2007**

ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES

Schedule of Cash and Investments

The Foundation's cash and investments consist of the following as of June 30, 2007 and 2006:

<u>Account type</u>	<u>2007</u>	<u>2006</u>
Deposit / Investment type:		
Cash	\$ 243,755	\$ 68,951
Money market	32,660	786,550
Mutual funds	766,295	-
Illinois funds	-	97,403
	<u>\$ 1,042,710</u>	<u>\$ 952,904</u>
Depositories used:		
Heritage Bank	\$ 243,755	\$ 68,951
Morgan Stanley	32,660	786,550
Edward Jones	766,295	-
Illinois Funds	-	97,403
	<u>\$ 1,042,710</u>	<u>\$ 952,904</u>

**GOVERNORS STATE UNIVERSITY FOUNDATION
ANALYSIS OF OPERATIONS
FOR THE TWO YEARS ENDED JUNE 30, 2007**

AGENCY FUNCTION AND PLANNING PROGRAM.

The Foundation was incorporated as a not-for-profit corporation on June of 1969, to aid in development of the University by encouraging and administering gifts, grants, loans, etc. for the benefit of the University through scholarships, endowments and the performing arts and technology center. The University is a State university located in University Park, IL 60466.

The Board of Directors of the Foundation is comprised of not less than 11 or more than 35 members. A member must be a permanent resident within the area served by the University. The Foundation's Chief Executive Officer was Dr. James Britt (thru 7/16/07). Dr. William Nowlin is the current Interim Chief Executive Officer. The Chief Executive Officer is given the responsibility of day-to-day operations by the Board and is required to bring to the attention of the Foundation's Board President all significant or unusual transactions.

Planning

The Foundation has formal, written long-term and short-term goals to achieve its above mentioned purpose. Various development activities such as: individual deferred giving plans like charitable remainder trusts, direct contact and solicitation by Board members with current and potential supporters and the "LEAP" (Learning Excellence Award for Persistence) scholarship program have been designed as a means to reach these goals.

**GOVERNORS STATE UNIVERSITY FOUNDATION
ANALYSIS OF OPERATIONS
FOR THE TWO YEARS ENDED JUNE 30, 2007**

AVERAGE NUMBER OF EMPLOYEES (unaudited)

The Foundation had no employees during the audit period. University employees have been assigned a portion of their time to spend on Foundation activities.

SCHEDULE OF SERVICES PROVIDED BY THE UNIVERSITY TO THE FOUNDATION

	<u>2007</u>	<u>2006</u>
Personal Services	\$ 72,270	\$ 75,871
Contractual	6,060	7,350
Commodities	1,137	632
Equipment	-	-
Other	<u>1,276</u>	<u>8</u>
	<u>\$ 80,743</u>	<u>\$ 83,861</u>

Governors State University provided the Foundation with accounting and other clerical services at no cost. The value of these services for the year ended June 30, 2007 and 2006 are shown in the schedule above and include all direct payroll expense.