

**STATE OF ILLINOIS**

**THE ALUMNI ASSOCIATION OF SOUTHERN  
ILLINOIS UNIVERSITY EDWARDSVILLE**

**FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT AUDITORS**

June 30, 2007

*(With comparative totals for 2006)*

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

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
FINANCIAL STATEMENTS  
June 30, 2007

CONTENTS

AGENCY OFFICIALS.....	1
SUMMARY.....	2
REPORT OF INDEPENDENT AUDITORS.....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS.....	9
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS.....	10
STATEMENTS OF CASH FLOWS.....	11
NOTES TO FINANCIAL STATEMENTS.....	12
REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	19
SCHEDULE OF FINDINGS AND RECOMMENDATIONS.....	21

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

AGENCY OFFICIALS  
June 30, 2007

The Alumni Association Board of Directors

Mr. Larry R. Lexow, President  
Ms. Elzora P. Douglas, Immediate Past President  
Mr. Ajay K. Kansal, President Elect  
Ms. Marcia Wickenhauser, Vice President  
Mr. Christopher Slusser, Vice President Finance  
Mrs. Rita Adkins  
Mr. SJ Morrison  
Ms. Debra O'Neill  
Mr. John Simmons  
Ms. Janet Sprehe  
Mr. Michael Stewart

Southern Illinois University personnel who provide significant administrative support to the Alumni Association include:

Director of Alumni Affairs	Steve Jankowski
Assistant Director of Alumni Affairs	Anna Pugh-Dunham
Administrative Assistant	Melissa Ocepek

Alumni Association offices are located at:

Southern Illinois University Edwardsville  
B. Barnard Birger Hall  
#30 Circle Drive  
Edwardsville, Illinois 62026

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

June 30, 2007

FINANCIAL STATEMENT REPORT  
SUMMARY

The audit of the accompanying basic financial statements of The Alumni Association of Southern Illinois University Edwardsville (The Association) was performed by Crowe Chizek and Company LLC.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 21-23 of this report, as finding 07-1, (Fraud Prevention and Detection Program), finding 07-2, (Bank Reconciliations Not Completed Timely) and finding 07-3, (Improper Controls Over the Journal Entry Process).

EXIT CONFERENCE

The Alumni Association waived an exit conference. Written responses were provided by Rich Hampton, Director of Financial Affairs on January 11, 2008.



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Member Horwath International

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Chicago, Illinois 60607-4903  
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Fax 312.899.5300  
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## REPORT OF INDEPENDENT AUDITORS

Honorable William G. Holland  
Auditor General, State of Illinois  
and  
The Board of Directors  
The Alumni Association of  
Southern Illinois University Edwardsville

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of The Alumni Association of Southern Illinois University Edwardsville (the Association), a component unit of Southern Illinois University, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2006 financial statements and, in our report dated September 29, 2006, we expressed an unqualified opinion on those financial statements.

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 Alumni Association of Southern Illinois University Edwardsville as of June 30 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2008 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 5 through 8 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.

  
Crowe Chizek and Company LLC

Chicago, Illinois  
January 11, 2008

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2007

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*Introduction*

Following this discussion and analysis are the financial statements for the Alumni Association of Southern Illinois University Edwardsville (the Association).

This discussion and analysis will identify the financial statements and their relationship to each other, explain significant changes implemented this fiscal year, and outline any additional facts, decisions, or conditions that are expected to have a significant effect on the financial position of the Association.

*Financial Statement Highlights*

The three financial statements presented for fiscal years 2007 and 2006 are the Statements of Net Assets; the Statements of Changes in Revenue, Expenses, and Changes in Net Assets; and the Statements of Cash Flows. The format is intended to provide the financial statement user with a better indication of the resources available to the Association and the existing commitments against those resources.

The Statement of Net Assets for the Association identifies all assets (resources) in order of their liquidity, and lists all liabilities (commitments) in order of their term length. The Statement of Net Assets is presented in a manner that indicates the level of restriction, if any, placed on the net assets. The Association reports \$260,088 in net assets at June 30, 2007, all of which are classified as unrestricted.

Financial Highlights are presented over the next few paragraphs with a review of the condensed versions of the financial statements.

STATE OF ILLINOIS  
 THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
 MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
 June 30, 2007  
 Condensed

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**SIUE Alumni Association Net Assets**  
 (in thousands of dollars)

	<u>FY 2007</u>	<u>FY 2006</u>	<u>% Change</u>
Assets			
Current assets	\$ 223	\$ 212	5.2%
Noncurrent assets	<u>163</u>	<u>137</u>	<u>19.0</u>
Total assets	<u>386</u>	<u>349</u>	<u>10.6</u>
Total current liabilities	<u>126</u>	<u>88</u>	<u>43.2</u>
Total net assets	<u>\$ 260</u>	<u>\$ 261</u>	<u>-0.4%</u>

The net assets of the Association decreased by a modest 0.4% during FY 2007. The Association investment returns were strong during the fiscal year, as was the increase in dues collected from new and existing members. These increased revenues allowed the Alumni Association to be able to host and support numerous activities, and provide other visibility for the Association, resulting in only a modest decrease in net assets.

Current assets increased by approximately \$11,000 over fiscal year 2006 and noncurrent assets increased by approximately \$26,000. The Association realized an overall increase of about \$37,000 in total assets.

Current liabilities increased by 43%, or approximately \$38,000. As was the case last year, this increase can be attributed to a change in how the Association recognizes its income from life membership dues. According to current policy, which was implemented in FY 2007, life dues are recognized over a 40 year period to better match the period of time over which these members will receive their benefits. This policy has the effect of lowering the amount of revenue recorded and increasing the liabilities in comparison to the previous policy of recognizing life memberships over a 5 year period.

Other factors affecting the decrease in net assets, as well as further details on those areas mentioned above, are provided in the highlights of the Statement of Revenue, Expenses, and Changes in Net Assets in the next section.

STATE OF ILLINOIS  
 THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
 MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
 June 30, 2007  
 Condensed

**SIUE Alumni Association Revenue, Expenses and Changes in  
 Net Assets  
 (in thousands of dollars)**

	<u>FY 2007</u>	<u>FY 2006</u>	<u>%Change</u>
Total operating revenue	\$ 291	\$ 193	50.8%
Operating expenses:			
Activities	32	38	-15.8
Budget expended at SIUE	146	105	39.1
Postage and publications	94	11	754.5
Other operating expenses	55	37	48.6
Total operating expenses	<u>327</u>	<u>191</u>	<u>71.2</u>
Operating income (loss)	(36)	2	-1,900.0
Non-operating revenue	<u>35</u>	<u>17</u>	<u>105.9</u>
Increase (decrease) in net assets	<u>(1)</u>	<u>19</u>	<u>-105.3</u>
Net assets-July 1	<u>261</u>	<u>242</u>	<u>7.9</u>
Net assets-June 30	<u>\$ 260</u>	<u>\$ 261</u>	<u>-0.4%</u>

The Statement of Revenue, Expenses, and Changes in Net Assets details the activity for the fiscal year, including the change in net assets from last year due to this activity. Activity is segregated between operating activity and non-operating activity. The decrease in net assets of \$1,000, which is presented near the end of the statement, reflects the overall decrease in available financial resources experienced during FY 2007.

Operating revenue increased by approximately \$98,000. All of that increase can be attributed to an increase in support from two related organizations. SIUE provides the salaries and benefits of the employees assigned to the Alumni Association, and during FY 2007 the Director of Alumni Affairs position was filled. Consequently, the amount of salaries and benefits provided by SIUE increased significantly. Related to this support is a corresponding amount of expense included above under Operating Expenses in the Budget Expended at SIUE category.

The second organization providing increased support was the SIUE Foundation. The SIUE Foundation has traditionally provided funds to produce the Alumni Association publication that is sent periodically throughout the year. In FY06, the publication was being reviewed to determine how best to publish the information while achieving the maximum benefit for the Alumni Association and University. There were no issues produced in FY 2006, but two issues were produced in FY 2007. The increase in SIUE Foundation support increased by about \$70,000 from the previous year due primarily to the costs incurred from the publication of these two issues.

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
For the Year ended June 30, 2007

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Non-operating revenue more than doubled from \$17,000 in FY 2006, to \$35,000 in FY 2007. Investment income makes up a majority of the non-operating revenue. Investment returns were strong in FY 2007, particularly in the equity asset class, which made up approximately 40% of the Alumni Association portfolio at June 30, 2007. This level of investment income is not expected to continue in FY 2008, and more conservative returns have been budgeted for the coming year.

The final statement presented is the Statement of Cash Flows. The primary purpose of this statement is to categorize all cash transactions into operating, financing, and investing activities, and reconcile the cash flows used by operating activities to the operating revenue in excess of expenses as presented on the Statement of Revenue, Expenses and Changes in Net Assets. During the fiscal year, the Alumni Association experienced an increase in cash and cash equivalents of \$62,897 due primarily to \$60,000 in transfers from investment accounts to the cash account as outlined under cash flows from investing activities below.

Cash flows from operating activities were \$2,702, compared to \$26,920 last fiscal year. Life Memberships were up by \$7,200 in FY07, reflecting one of the Alumni Association's goals of increasing membership. General and Operating Payments increased substantially over last year. This was primarily the result of the Alumni Association publications printed and distributed during FY 2007 that was described earlier in this discussion. Similarly, the \$70,000 increase in Payments from the SIUE Foundation was the result of the Foundation support for these publications.

The cash flows from investing activities section consists of interest income on the Association's cash account, and investment transactions. The \$60,000 shown here is the net sale of investments during the fiscal year. In FY 2007, the Association approved an investment policy to guide the investment of the Association's approximately \$300,000 portfolio. The sale was completed to effect a reallocation of funds from money market accounts to the approved asset allocation model. The asset allocation model will be put in place through a systematic approach over several months and was still in progress at June 30, 2007.

#### **Facts, Decisions, or Conditions Significantly Affecting Net Assets**

There are no facts, decisions, or conditions significantly affecting net assets other than those items explained in the previous section of this discussion and analysis. However, please see the notes to the financial statements that include additional details and further explanations of data presented in the financial statements. The notes are an integral part of the financial statements and should be included as part of any review or analysis.

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STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
STATEMENTS OF NET ASSETS  
June 30, 2007  
(With comparative totals for 2006)

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	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 3)	\$ 219,126	\$ 207,140
Other receivables	3,356	3,781
Prepaid expenses	<u>925</u>	<u>1,025</u>
Total current assets	223,407	211,946
Noncurrent assets		
Investments (Note 3)	<u>162,492</u>	<u>136,762</u>
Total noncurrent assets	<u>162,492</u>	<u>136,762</u>
Total assets	<u>385,899</u>	<u>348,708</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable, SIUE	10,187	1,095
Accounts payable, SIUE Foundation (Note 7)	9,658	7,582
Accounts payable, other	283	5,081
Deposits held in custody	-	1,079
Deferred revenue	<u>105,683</u>	<u>73,327</u>
Total current liabilities	<u>125,811</u>	<u>88,164</u>
<b>NET ASSETS</b>		
Unrestricted	<u>260,088</u>	<u>260,544</u>
Total net assets	<u>\$ 260,088</u>	<u>\$ 260,544</u>

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See accompanying notes to financial statements.

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
Year ended June 30, 2007  
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
Operating revenue		
Activities	\$ 19,184	\$ 22,204
Annual dues	28,145	30,894
Budget allocations from SIUE (Note 7)	146,104	104,839
Life memberships	1,506	9,420
Miscellaneous	1,200	167
Merchandise	610	-
SIUE Foundation support (Note 7)	78,399	8,351
Commissions (Note 5)	<u>15,934</u>	<u>17,424</u>
Total operating revenue	291,082	193,299
Operating expenses		
Activities	31,714	38,497
Administrative	5,349	4,858
Audit fees	9,757	8,131
Award and scholarships	13,070	9,947
Budget expended at SIUE (Note 7)	146,104	104,839
Dues sharing program	4,770	9,144
Merchandise	18,698	-
Miscellaneous	-	56
Depreciation (Note 4)	-	906
Postage	16,215	10,077
Publications	77,628	1,383
Travel	<u>3,248</u>	<u>3,781</u>
Total operating expenses	<u>326,553</u>	<u>191,619</u>
Excess (deficiency) of revenue over expenses	(35,471)	1,680
Non-operating revenue		
Contributions	31	50
Investment income (Note 3)	11,383	8,160
Net change in fair value of investments (Note 3)	<u>23,601</u>	<u>8,918</u>
Total non-operating revenue	<u>35,015</u>	<u>17,128</u>
Increase (decrease) in net assets	(456)	18,808
Net assets		
Beginning of year	<u>260,544</u>	<u>241,736</u>
End of year	<u>\$ 260,088</u>	<u>\$ 260,544</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2007  
(With comparative totals for 2006)

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Payments received for annual dues	\$ 29,460	\$ 28,111
Payments received for life memberships	32,547	25,317
Commissions received	16,360	16,756
Payments received for activities	19,953	22,204
Miscellaneous cash receipts	121	150
Payments to the Foundation (Note 7)	(8,944)	(5,683)
Payments to SIUE (Note 7)	(18,672)	(28,358)
General and operating payments	(146,522)	(39,928)
Payments from SIUE Foundation	<u>78,399</u>	<u>8,351</u>
Net cash provided by operating activities	<u>2,702</u>	<u>26,920</u>
<b>Cash flows provided by noncapital financing activities</b>		
Contributions for other than capital purposes	<u>31</u>	<u>50</u>
<b>Cash flows from investing activities</b>		
Interest income	164	284
Sale (Purchase) of investments	<u>9,089</u>	<u>114,462</u>
Net cash provided by (used in) investing activities	<u>9,253</u>	<u>114,746</u>
Net change in cash	11,986	141,716
Cash at beginning of year	<u>207,140</u>	<u>65,424</u>
<b>Cash at end of year</b>	<u>\$ 219,126</u>	<u>\$ 207,140</u>
Reconciliation of operating revenue in excess of expenses to net cash provided by operating activities		
Operating revenue in excess of expenses	\$ (35,471)	\$ 1,680
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	-	906
Changes in assets and liabilities		
Receivables	(426)	3,802
Prepaid expenses	(100)	7,632
Accounts payable	6,343	(196)
Other liabilities	<u>32,356</u>	<u>13,096</u>
Net cash provided by operating activities	<u>\$ 2,702</u>	<u>\$ 26,920</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Reporting Entity: The Alumni Association of Southern Illinois University Edwardsville (the Association) exists for the primary purpose of aiding and assisting Southern Illinois University Edwardsville (SIUE or the University) in achieving its educational, research, and service goals and responsibilities.

Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB No. 39, *Determining Whether Certain Organizations are Component Units*, the Association is included as a component unit of the University for financial reporting purposes. The State of Illinois stated that the Association should be included as a component unit of the University for financial reporting purposes and report under GASB on a stand-alone basis. The financial activities included in these financial statements are reported in a separate column in the University's financial statements to emphasize that the Association is an Illinois not-for-profit organization legally separate from the University.

These financial statements include all financial activities over which the Association exercises direct responsibility.

Financial Statement Presentation: Effective July 1, 2001, the Association adopted GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statement Nos. 35, 37 and 38 provides a comprehensive perspective of the Association's assets, liabilities, net assets, revenue, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Effective July 1, 2004, the Association adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The objective of this statement is to update the custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing other common risks of deposits and investments.

Basis of Accounting: For financial reporting purposes, the Association is considered a special-purpose government engaged only in business-type activities. Accordingly, the Association's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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(Continued)

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Association has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Association has elected to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents: The Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include cash held by investment custodians and money market accounts stated at cost, which approximates fair value.

Investments: The 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*. Changes in the fair value of investments are reported in the non-operating section of the accompanying statements of revenue, expenses, and changes in net assets. Also, certain money market investments having a remaining maturity of one year or less at the time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

Capital Assets: Property and equipment purchased by the Association is recorded at cost. For equipment, the Alumni Association's capitalization policy includes all items with a unit cost of \$1,000 or more and an estimated useful life of greater than one year. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to seven years for equipment.

Deferred Revenue: During the year ended June 30, 2007, the Association changed to an accounting method of recognizing revenue on lifetime memberships ratably over a forty year period beginning with the first year after receipt. Previously life memberships were recognized over a five year period. Annual memberships are recognized over a twelve-month period beginning the month after receipt. Deferred revenue represents the unexpired portion of dues received.

Net Assets: The Association's net assets are classified as follows:

- *Unrestricted:* Unrestricted net assets represent resources used for transactions relating to the educational and general operations of the Association, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Association's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

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(Continued)

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Classification of Revenue and Expenses: The Association has classified its revenue and expenses as either operating or non-operating according to the following criteria:

- *Operating:* Operating revenue and expenses include activities that have the characteristics of exchange transactions, such as memberships, dues and commissions.
- *Non-Operating:* Non-operating revenue and expenses include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, investment income, and other revenue sources that are defined as non-operating revenue by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Non-exchange transactions, including contributions from donors, are recorded in accordance with the recognition requirements of GASB 33.

Reclassification: Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**NOTE 2 - TAX STATUS**

The Internal Revenue Service (IRS) has issued a determination letter, dated September 1973, indicating that the Association qualifies for federal income tax exemption under Section 501(c)(3) of the Internal Revenue Code except for income taxes associated with unrelated business income. The IRS has further determined that the Association is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section 509(a)(3). No provision has been made as management does not believe it has significant unrelated business income.

**NOTE 3 - CASH AND INVESTMENTS**

Investments: Investments are reported at fair value. The fair value is determined to be the amount, usually quoted market prices, at which financial instruments could be exchanged in a current transaction between willing parties. The calculation of realized gains and losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

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(Continued)

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

The net increase in the fair value of investments for the fiscal year 2007 was \$23,601. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the years. Investment income for the year ended June 30, 2007 of \$11,219, combined with operating account interest of \$164 is reported as investment income on the statement of revenue, expenses and changes in net assets.

Investment Policy: It is Alumni Association Policy to invest funds in a manner which will provide a source of income for the operation of the Association and its designated programs, while providing some growth to provide resources beyond the current needs of the Association. The Association's policy authorizes the investment in Mutual Funds, Stocks, Convertible Securities, Government and Agency Obligations, Corporate Obligations, and Exchange Traded Funds. Additional restrictions are outlined in the policy to ensure appropriate diversification of holdings, minimum quality ratings for certain investments, and federal insurance for financial institution holdings.

The Association's policy assigns responsibility for the periodic review and evaluation of the Association's investment holdings and of the Association Investment Policy to the Finance Committee of the Alumni Association. The Finance Committee also approves an Asset Allocation Model for the investment of the portfolio that more specifically guides the investment of the assets within the general restrictions of the Association Policy.

Cash and Investment Risk

Custodial Credit Risk: Deposits: The risk that, in the event of the failure of a depository financial institution, the Association will not be able to recover deposits that are in the possession of an outside party. The Association's informal policy is to maintain balances below the Federal Deposit Insurance Corporation's (FDIC) limit. The carrying amount of cash in bank at June 30, 2007 is \$105,575 and the bank balance was \$17,206, which is insured by the FDIC.

Investments: The risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments that are in the possession of an outside party. The carrying amount of the Association's investments held by the counterparties at June 30, 2007, is as follows:

Common stock	\$ 42,442
Mutual funds, equities	<u>120,050</u>
Total investments	<u>\$ 162,492</u>

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(Continued)

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

The investment custodian holds these investments in its name for the benefit of the Association. The Association does not maintain a policy regarding custodial credit risk.

Foreign Currency Risk: The risk that changes in exchange rates will adversely affect the investment. The Association had no foreign investments at June 30, 2007. The Association does not maintain a policy regarding foreign currency risk.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association has no corporate bond investments. The Association does not have any fixed income mutual funds in its portfolio.

Concentration of Credit Risk: The risk of loss attributable to the magnitude of investment in a single issuer. The Association does not maintain a policy regarding concentration of credit risk.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair value of an investment. The Association does not maintain a policy that limits investment maturities in regards to interest rate risk. However, the Board of Director's overall approach to risk management requires sound investment decisions and diversification.

As of June 30, 2007, the Association had the following cash and investment balances:

INTERNALLY MANAGED

	<u>Fair value</u>	<u>Maturities</u>	
		<u>Less than one year</u>	<u>More than one year</u>
Common stock	\$ 42,442	\$ -	\$ 42,442
Mutual funds, equities	120,050	-	120,050
Cash equivalents	<u>113,551</u>	<u>113,551</u>	<u>-</u>
Total internally managed	<u>\$ 276,043</u>	<u>\$ 113,551</u>	<u>\$ 162,492</u>

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(Continued)

STATE OF ILLINOIS  
 THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007

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**NOTE 4 - CAPITAL ASSETS**

As a result of the adoption of GASB Statement No. 35, the Association has recognized depreciation on its capital assets. Capital assets consist of the following:

	Balance July 1, 2006	<u>Additions</u>	Retire- ments	Balance June 30, 2007
Equipment	\$ 3,260	\$ -	\$ -	\$ 3,260
Less accumulated depreciation	<u>3,260</u>	<u>-</u>	<u>-</u>	<u>3,260</u>
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 5 - CREDIT CARD ARRANGEMENT**

The Association entered into an agreement with Bank of America, N.A. (the Bank) whereby the Association and the Bank will market the Bank's credit card services to University students, alumni, employees, and others using the Association's name and logo. In conjunction with this agreement, the Association will receive certain fees and royalties based upon each new account opened and amounts charged on these accounts. Fees or royalties earned were \$15,934 for 2007, which are included with commissions in the statements of revenue, expenses and changes in net assets for the year ended June 30, 2007.

**NOTE 6 - RETIREMENT PLAN**

All full-time Association personnel are University employees. Retirement benefits and postretirement benefits, other than pension, are available for eligible University employees under a contributory retirement plan (the Plan) administered by the State Universities Retirement System.

Participants of the Plan contribute 8% of their gross earnings, and the University annually contributes an amount determined by the State Legislature from State appropriations and amounts from other current funds, based on actuarially determined rates. Information pertaining to the Plan and plan benefits can be found in the University's financial statements. The Association does not own any of the Plan's assets and has no responsibility for the Plan's obligations.

During 2007, SIUE contributed \$8,097 to the Plan on behalf of Association personnel. These amounts are included in the amounts shown as budget allocations from SIUE and budget expended at SIUE in the accompanying statements of revenue, expenses, and changes in net assets.

(Continued)

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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**NOTE 7 - TRANSACTIONS WITH RELATED PARTIES**

The Association has entered into an agreement with the Board of Trustees of SIUE and the Southern Illinois University Edwardsville Foundation (the Foundation), which specifies the relationship between the organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997. Under the terms of the agreement, the Foundation provides coordination of alumni services on behalf of SIUE and provides various services to the Association without charge. The Foundation expended \$78,399 in 2007 as reimbursement to SIUE on the Association's behalf. These amounts are reflected as SIUE Foundation support in the accompanying statements of revenue, expenses, and changes in net assets.

The Association also uses various services of SIUE and directly reimburses SIUE at a cost equal to that charged by SIUE to other users. The Association expended \$18,672 in 2007. The Association also expended \$8,944 in 2007 to the Foundation for support of Foundation activities. These amounts are reflected as payments to SIUE and payments to the Foundation, respectively, in the statements of cash flows.

The Association maintains a dues-sharing program whereby the Association shares 10% of the dues collected with the school or college from which the alum graduated. The dues are paid to the school or college upon request and at June 30, 2007, the amount owed was \$9,658.

The funds are distributed to an SIUE Foundation fund controlled by the school or college and therefore this amount is reflected as a payable to the SIUE Foundation in the statements of net assets.

Pursuant to governmental accounting standards, the Association is required to recognize as revenue and expense those on-behalf payments for salaries and fringe benefits made by the University for personnel of the Association. The amount reflected as budget allocations from SIUE and budget expended at SIUE in the accompanying statements of revenue, expenses, and changes in net assets totaled \$146,104 for the year ended June 30, 2007.

**NOTE 8 - SUMMARIZED FINANCIAL INFORMATION**

The financial statements include prior-year summarized comparative information. 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 Association's financial statements for the year ended June 30, 2006, from where the summarized information was derived.



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

Honorable William G. Holland  
Auditor General  
State of Illinois  
And  
The Board of Directors  
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Alumni Association of Southern Illinois University Edwardsville (the Association), as of and for the year ended June 30, 2007, and have issued our report thereon dated January 11, 2008. 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 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, but not for the purpose of expressing an opinion on the effectiveness of Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 07-1, 07-2 and 07-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

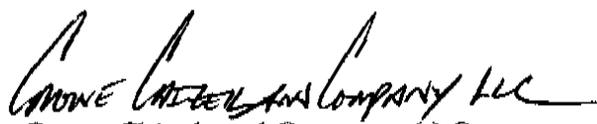
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We have conducted a State compliance examination of the Association as required by the Illinois State Auditing Act. The results of the examination will be reported to management under separate cover. We also noted certain other matters which we have reported to management of the Association in a separate letter dated January 11, 2008.

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Association's responses and, accordingly, we express no opinion on them.

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

  
Crowe Chizek and Company LLC

Chicago, Illinois  
January 11, 2008

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STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
SCHEDULE OF FINDINGS  
June 30, 2007

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**07-1            Fraud Prevention and Detection Program**

The Association does not have a fraud risk assessment program in place. According to Association management, the Association has established internal controls in order to prevent and detect fraud as well as errors that may occur, however, these controls and associated risks are not monitored on an on-going basis.

The Association relies on current internal controls that have been put in place to prevent and detect fraud. Additionally, Association management has relied on the external audits for identification of control weaknesses.

Accounting industry trends have increased organizations' awareness of the prevalence of fraud. Many organizations rely in part on their auditors to uncover any internal fraud, but audits, even those of the highest quality, are not a substitute for management establishing good internal control.

The Association is responsible for the development of internal controls and the monitoring of their operating effectiveness. Additionally, it is management's responsibility to prevent and detect fraud at the organization. Therefore, the Association should implement a formal policy regarding evaluation of fraud risk and a system of controls to help prevent and detect fraudulent activity within its organization. Preparing a written policy will serve to document the Association's awareness and responsibility for fraud prevention and detection.

The Association does not have a Fraud Prevention and Detection program which could result in fraud risks facing the Association not to be recognized and addressed by Association management. (Finding Code No. 07-1)

Recommendation

We recommend that management establish a continuous fraud prevention, deterrence and detection program. This program should include evaluating whether appropriate internal controls have been implemented in any areas identified as posing a higher risk of fraudulent activity, as well as controls over financial reporting process. In addition, the Board of Directors should evaluate management's identification of fraud risks, implementation of anti-fraud measures.

Management Response

The Association relies on a strong set of internal controls to assist in preventing and detecting fraud. Management also evaluates internal controls on a regular basis. However, the Association agrees that a formal, documented policy has not been adopted and that this recommendation is beneficial to the operation of the organization. Management will identify the steps necessary to move forward in creating and implementing a continuous fraud prevention, deterrence and detection program, as well as determine a process for the Board of Directors' involvement in the prevention and detection of fraud.

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STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
SCHEDULE OF FINDINGS  
June 30, 2007

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**07-2            Bank Reconciliations Not Completed Timely**

The Association did not ensure that its cash reconciliations were performed on a timely basis. Specifically, nine out of the 12 (75%) monthly bank reconciliations were completed more than 30 days after the statement date.

Strong internal controls require that bank reconciliations be completed within 30 days of the statement date to ensure accuracy and timeliness. Untimely preparation of the reconciliations delays correction of errors and detection of possible misappropriations.

Association management indicated that there is no written policy that requires bank reconciliations to be completed in a timely manner (i.e. within 30 days of the statement date).

Bank reconciliations:

- may uncover differences that may need further investigating;
- help to safeguard cash by detecting errors on the part of the bank and/or the organization when recording activities in accounts;
- identify recording errors and other problems;
- help to create stronger internal control, whereby accountability over cash assets is greatly enhanced; and
- help ensure that account balances are accurate, and that they reflect the true financial position of the organization, so governing bodies can make more informed decisions.

Although no errors were noted as a result of the untimely completion of the reconciliations, completing bank reconciliations in a timely fashion helps ensure that items such as these are discovered in a manner that would limit the adverse operational effects to the Association. (Finding Code No. 07-2)

Recommendation

We recommend that the Association implement procedures to ensure that bank reconciliations be completed no later than 30 days after the end of the statement period.

Management Response

The Association maintains a policy of completing the bank reconciliations in a timely fashion. As noted, a number of the reconciliations were not finalized within this policy. Management will immediately implement procedures to ensure compliance with the existing policy. As a point of clarification, some of the reconciliations were initiated and reconciled to within an immaterial amount in a timely fashion, then finalized and dated at a later date. This was not the case with several of the noted exceptions however and management will work to resolve this issue going forward.

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STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
SCHEDULE OF FINDINGS  
June 30, 2007

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**07-03            Management Override of Controls for Journal Entries**

The Association has designed and implemented a system of controls over the journal entry process that allows for management override. Specifically, the journal entry process in place at the Association does not restrict the Director of Financial Affairs from having the Authorization to approve a journal entry and the ability to post a journal entry into the general ledger. This demonstrates a weakness in the design of the control system. However, during our testing, no journal entries were noted that were posted by the Director of Financial Affairs.

Strong internal controls require that in order for an entity to have effective control over a process, the control structure should be properly designed and control activities should be implemented. Thus, if the control structure over a process is not properly designed to restrict management from being able to override the control activities in place for that process, the entity would not have adequate control over preventing or detecting inappropriate actions made by management during that process.

Association management indicated that since the Director of Financial Affairs does not make journal entries into the system, and due to the limited size of Association staff, restricting access would leave only one person available to process the entries.

This weakness in the design of the control system over the journal entry process could result in management override of controls and thus result in an inappropriate journal entry being made by management that is not prevented or detected by the entity. (Finding Code No. 07-3)

Recommendation

The Association should implement a system of controls to ensure that management does not have the ability to override the controls currently in place. Specifically, the Association should implement procedures to ensure that the Director of Financial Affairs does not have the ability to authorize and post journal entries to the general ledger system.

Management Response

We concur with the finding. Association management agrees that ideally the Director of Financial Affairs would be restricted from the ability to post journal entries to the general ledger system. However, there is only one staff member assigned to post general ledger entries, and therefore the Director of Financial Affairs serves as the backup for these duties. Regular financial reporting to the Director of Alumni Affairs and to the Association Finance Committee serve to mitigate the risks of this identified weakness.