



Crowe Horwath LLP
Member Horwath International

STATE OF ILLINOIS

**THE ASSOCIATION OF ALUMNI,
FORMER STUDENTS, AND FRIENDS OF
SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED**

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT AUDITORS**

June 30, 2008

(With comparative totals for 2007)

Performed as special assistant auditors for the
Auditor General, State of Illinois

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI,
FORMER STUDENTS, AND FRIENDS OF
SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED

FINANCIAL STATEMENTS
June 30, 2008

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STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI,
FORMER STUDENTS, AND FRIENDS OF
SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED

ALUMNI ASSOCIATION OFFICIALS

June 30, 2008

Mr. Randy Ragan	President
Mr. Michael Kasser	Treasurer
Mr. Edward Buerger	Executive Director (through December 31, 2007)
Ms. Michelle Suarez	Interim Executive Director (effective October 22, 2007) Executive Director (effective January 1, 2008)
Mr. Tim Marlo	Director of Business and Financial Services/ Controller

Alumni Association offices are located at:

Coyler Hall
Mailcode 6805
Carbondale, Illinois 62901

Student Center
Carbondale, Illinois 62901

SIU - Alumni Association
Oak Brook, Illinois 60523

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI,
FORMER STUDENTS, AND FRIENDS OF
SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED

FINANCIAL AUDIT
June 30, 2008

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of The Association of Alumni, Former Students, and Friends of Southern Illinois University, Incorporated (the Association), was performed by Crowe Horwath LLP.

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

SUMMARY OF FINDINGS

The auditors identified a matter involving the Association's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompany Schedule of Findings on page 27 of this report, as finding 08-1 (Internal Controls over General Ledger Journal Entries).

EXIT CONFERENCE

The Association waived an exit conference.

The response to the finding 08-1 was provided by Tim Marlo in a document dated December 4, 2008.



Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Honorable William G. Holland
Auditor General, State of Illinois
and
The Board of Directors
The Association of Alumni, Former Students,
and Friends of Southern Illinois University,
Incorporated

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of The Association of Alumni, Former Students, and Friends of Southern Illinois University, Incorporated (the Association), a component unit of Southern Illinois University, as of and for the year ended June 30, 2008, 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 2007 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 Association of Alumni, Former Students, and Friends of Southern Illinois University, Incorporated as of June 30, 2008, and the changes in its net assets 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 December 5, 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 9 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 Horwath LLP

Chicago, Illinois
December 5, 2008

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2008

The purpose of the Management's Discussion and Analysis is to provide an objective and easy-to-read summary of the Association's financial activities based on currently known facts, decisions, and/or conditions.

Financial Statements

These statements are presented in a "business-type activities" format, which is a change from a "funds-group" format. The business-type activities format was developed to provide the reader with statements, which could better indicate the available economic resources of the entity.

Statement of Net Assets

The statements of net assets, indicate assets available for current use (current assets) and those assets to be held for use in future periods and are not available for current use (noncurrent assets). This statement also indicates which liabilities are due within one year (current liabilities) and those due in a year or more (noncurrent liabilities). Net assets, located at the bottom of the statement, are grouped by those assets available for unrestricted use, those assets which are an investment in capital assets, and those assets with a designated use determined by the Association's Board of Directors.

During the year ended June 30, 2008, the Association had a decrease in net assets of \$224,585 as indicated on the statement of revenue, expenses, and changes in net assets. The increase in capital assets is the result of payments made toward new software implementation.

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

June 30, 2008

CONDENSED
STATEMENT OF NET ASSETS
June 30, 2008

	2008	2007	% Change
ASSETS			
Current assets	\$736,816	\$ 918,656	-19.79%
Long-term investments	4,048,376	4,234,491	-4.40%
Life Member Fund	1,469,823	1,472,564	-0.19%
Capital assets, net of accumulated depreciation	<u>253,866</u>	<u>4,511</u>	<u>5,527.71%</u>
TOTAL ASSETS	<u>6,508,881</u>	<u>6,630,222</u>	<u>-1.83%</u>
LIABILITIES			
Current liabilities	754,545	729,052	3.50%
Non-current deferred revenue	<u>1,493,982</u>	<u>1,416,231</u>	<u>5.49%</u>
TOTAL LIABILITIES	<u>2,248,527</u>	<u>2,145,283</u>	<u>4.81%</u>
NET ASSETS			
Invested in capital assets, net of related debt	253,866	4,511	5,527.71%
Unrestricted (including Board designed net assets of \$2,000,000)	<u>4,006,488</u>	<u>4,480,428</u>	<u>-10.58%</u>
TOTAL NET ASSETS	<u>\$4,260,354</u>	<u>\$ 4,484,939</u>	<u>-5.01%</u>

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

June 30, 2008

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets indicate the financial activity for the period and its net effect to net assets. The activity from operations is shown first. As stated in the Notes to the Financial Statements, Operating Revenues include activities that have the characteristics of exchange transactions. In an exchange transaction both parties receive a material benefit from the transaction such as membership dues and income from royalty agreements. Nonoperating Revenues (Expenses) are listed after operating activities. Nonoperating Revenues (Expenses) include activities that have the characteristics of nonexchange transactions. Contributions are considered a nonoperating activity because the donor does not receive a material financial benefit from the transaction. Other nonoperating revenues are defined in GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, such as investment income. Since the primary purpose of the Association is to cultivate relationships for the benefit of Southern Illinois University, and most of this activity is located within Operating Revenues and Operating Expenses, the Statement of Revenues, Expenses, and Changes in Net Assets provides a suitable presentation of the Association's core activities.

For the year ended June 30, 2008 operating and nonoperating activities provided an increase (decrease) in net assets of \$157,376 and (\$381,961), respectively, which total \$(224,585). Operating revenues increased by \$29,736 and operating expenses increased by \$38,238 from FY 2007. Of the \$224,585 decrease in net assets, \$599,894 came from the year's investment loss.

STATE OF ILLINOIS
 THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
 OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

June 30, 2008

CONDENSED
 STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET ASSETS
 For the years ended June 30

	2008	2007	% Change
REVENUES			
Budgeted allocation from SIU	\$818,872	\$ 820,877	-0.24%
Other operating revenues	<u>1,213,862</u>	<u>1,182,121</u>	<u>2.69%</u>
TOTAL OPERATING REVENUES	<u>2,032,734</u>	<u>2,002,998</u>	<u>1.48%</u>
EXPENSES			
Budget expended at SIU	818,872	820,877	-0.24%
Other operating expenses	<u>1,056,486</u>	<u>1,016,243</u>	<u>3.96%</u>
TOTAL OPERATING EXPENSES	<u>1,875,358</u>	<u>1,837,120</u>	<u>2.08%</u>
OPERATING INCOME	<u>157,376</u>	<u>165,878</u>	<u>-5.12%</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>(381,961)</u>	<u>796,956</u>	<u>-147.93%</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$(224,585)</u>	<u>\$ 962,834</u>	<u>-123.33%</u>

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (UNAUDITED)

For the Year ended June 30, 2008

Statements of Cash Flows

The primary purpose of the statements of cash flows is to provide relevant information about the cash receipts and payments of the Association during the period. The Association is required to use the direct method presentation for this statement which indicates the cash effects categorized by operations, noncapital financing transactions, capital and related financing transactions, and investing transactions. During the year ended June 30, 2008, the Association had a increase of cash in the amount of \$51,134 primarily due to investing activities. However, because cash was previously deposited with the University in fiscal year 2007, it was not reported as Cash but as Deposits with SIU. This created the appearance that Cash increased \$141,553 in fiscal year 2008.

Facts, Decisions or Conditions Affecting Net Assets

Life Member Fund

In FY 2005, the Association established a separate investment portfolio to fund the unearned portion of life membership dues that are reported as noncurrent deferred revenue on the Association's statements of net assets. In FY 2006, the classification for these funds changed from being reported as both short-term and long-term investments to being classified as entirely long term. This change occurred to better reflect the Association's intention to match the long-term liability.

There are no facts, decisions, or conditions significantly affecting net assets, other than those items explained elsewhere in this discussion and analysis. However, please see the notes to the financial statements that include additional details and further explanation 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.

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
STATEMENTS OF NET ASSETS
June 30, 2008
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash	\$ 141,553	\$ -
Deposits with SIU (Note 2)	-	90,419
Short-term investments (Note 2)	533,497	731,508
Accounts receivable	1,828	2,826
Accrued interest receivable	16,486	16,306
Prepaid expenses	<u>43,452</u>	<u>77,597</u>
Total current assets	736,816	918,656
Noncurrent assets		
Long-term investments (Note 2)	4,048,376	4,234,491
Life member fund (Note 2)	1,469,823	1,472,564
Capital assets, net of accumulated depreciation (Note 3)	<u>253,866</u>	<u>4,511</u>
Total noncurrent assets	<u>5,772,065</u>	<u>5,711,566</u>
Total assets	<u>6,508,881</u>	<u>6,630,222</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	101,902	67,722
Deposits held for others	56,628	43,933
Deferred revenue, current portion (Note 5)	<u>596,015</u>	<u>617,397</u>
Total current liabilities	754,545	729,052
Noncurrent liabilities		
Deferred revenue (Note 5)	<u>1,493,982</u>	<u>1,416,231</u>
Total liabilities	<u>2,248,527</u>	<u>2,145,283</u>
NET ASSETS		
Invested in capital assets, net of related debt	253,866	4,511
Unrestricted (Note 1)	<u>4,006,488</u>	<u>4,480,428</u>
Total net assets	<u>\$ 4,260,354</u>	<u>\$ 4,484,939</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2008
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
REVENUES		
Operating revenues		
Payments from SIU Foundation (Note 7)	\$ 134,000	\$ 134,000
Budget allocation from SIU (Note 7)	818,872	820,877
Membership dues	247,990	239,302
Royalties and other income	664,972	676,799
Activities	<u>166,900</u>	<u>132,020</u>
Total operating revenues	2,032,734	2,002,998
EXPENSES		
Operating expenses		
Budget expended at SIU (Note 7)	818,872	820,877
Administrative	73,899	79,157
Alumni communications	289,278	299,736
Membership services	153,568	143,672
Alumni and public relations	57,918	68,302
Database management	15,415	12,096
Board of Directors	19,686	17,457
Chapter development and alumni programs	251,017	223,386
Homecoming and reunions	34,229	27,357
University master contract payment (Note 7)	42,602	42,682
Student relations	19,989	19,749
College societies	9,895	11,024
Awards and contributions	52,476	32,251
Other	35,869	38,532
Depreciation (Note 3)	<u>645</u>	<u>842</u>
Total operating expenses	<u>1,875,358</u>	<u>1,837,120</u>
Operating revenue in excess of expense	157,376	165,878
NONOPERATING REVENUES		
Investment gain (loss)	(599,894)	612,730
Dividend and interest income	194,237	174,484
Contributions	<u>23,696</u>	<u>9,742</u>
Net nonoperating revenues	<u>(381,961)</u>	<u>796,956</u>
Increase (decrease) in net assets	(224,585)	962,834
NET ASSETS		
Net assets at beginning of year	<u>4,484,939</u>	<u>3,522,105</u>
Net assets at end of year	<u>\$ 4,260,354</u>	<u>\$ 4,484,939</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
STATEMENTS OF CASH FLOWS
Year ended June 30, 2008
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Payments from SIU	\$ 224,419	\$ 191,056
Membership dues	339,906	342,988
Activities and event revenue	149,211	129,098
Royalty revenue	646,934	658,942
Operating expenses	<u>(973,823)</u>	<u>(1,011,261)</u>
Net cash provided by operating activities	386,647	310,823
Cash flows provided by noncapital financing activities		
Contributions	<u>23,696</u>	<u>9,742</u>
Net cash provided by noncapital financing activities	23,696	9,742
Cash flows provided by capital financing activities		
Purchases of equipment	<u>(250,000)</u>	<u>(1,549)</u>
Net cash provided by capital financing activities	(250,000)	(1,549)
Cash flows from investing activities		
Proceeds from sale and maturities of investments	1,464,495	380,032
Interest and dividend income	194,237	783,517
Purchase of investments	<u>(1,677,522)</u>	<u>(1,482,565)</u>
Net cash used in investing activities	<u>(18,790)</u>	<u>(319,016)</u>
Net change in cash	141,553	-
Cash at beginning of year	-	-
Cash at end of year	<u>\$ 141,553</u>	<u>\$ -</u>
Reconciliation of operating revenue in excess of expenses to net cash provided by operating activities		
Operating revenue in excess of expenses	\$ 157,376	\$ 165,878
Adjustments to reconcile operating revenue in excess of expenses to net cash provided by operating activities		
Depreciation	645	842
Change in assets and liabilities		
Deposits with SIU	90,419	57,056
Accounts receivable	998	6,316
Other current assets	33,965	(14,768)
Accounts payable and accrued liabilities	34,180	(4,215)
Deposits held for others	12,695	16,806
Deferred revenue	<u>56,369</u>	<u>82,908</u>
Net cash provided by operating activities	<u>\$ 386,647</u>	<u>\$ 310,823</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

Financial Reporting Entity: The Association of Alumni, Former Students, and Friends of Southern Illinois University, Incorporated (the Association) located in Carbondale, Illinois exists for the primary purpose of aiding and assisting Southern Illinois University (SIU 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 Statement 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 the Association's 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: The Association follows 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*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets*. The financial statement presentation required by GASB Statements 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. This presentation replaces the fund-group perspective previously required. The Association was also required to adopt depreciation on capital assets.

(Continued)

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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.

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 Equivalents: For purposes of the statements of cash flows, the Association considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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 unrealized gain (loss) on the carrying value of investments are reported as a component of investment gain (loss) in the statements of revenue, expenses, and changes in net assets.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. For equipment and software, the Association's capitalization policy includes all items with a unit cost of \$1,000 or more. 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 6 to 10 years for equipment and software.

Deferred Revenue: Revenue on annual and life memberships is recognized ratably over the membership period. Fees, including activities fees, are recognized when earned and credit card royalties are recognized over the length of the contract. Deferred revenue represents the unexpired portion of memberships, unearned fees, and royalties with a remaining contract life.

(Continued)

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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

- **Invested in capital assets, net of related debt:** This represents the Association's total investments in capital assets, net of accumulated depreciation and reduced by outstanding debt obligations, if any, related to those capital assets.
- **Unrestricted net assets:** Unrestricted net assets represent resources available 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 purposes.

Honorary life memberships are given to those individuals who have received honorary degrees from the University. An amount is transferred from undesignated funds to designated honorary life memberships at the current rate applicable to life members at the time of the honorary membership.

- **Board designated assets:** This represents the Association's Board of Director's decision to dedicate funds for scholarships and to construct an Alumni Center totaling \$2,000,000.

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

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

(Continued)

STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

2007 Financial Information: The financial statements include certain prior-year 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, 2007 from which the summarized financial information was derived.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and less than 90 day deposit balances with banks. The first \$100,000 of deposits per financial institution is insured by a government agency. All certificates of deposit are reported separately from cash and investments.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it.

Investments: The Board of Directors of the Association is responsible for the management of the Association's investments. The Board, through the bylaws, has given authority to the Investment Committee to formulate an investment policy for funds and assets held by the Association. The Committee shall submit that policy to the Board for approval, periodically recommend changes in policy as appropriate, interpret that policy to any of the Association's investment managers, and oversee implementation of that policy. Investment performance is reviewed quarterly and investments are reported at fair value in the statements of net assets.

The Association determines the fair value of investments to be the amount at which financial instruments could be exchanged in a current transaction between willing parties, usually quoted market prices. Also, certain money market investments having a remaining maturity of one year or less, at time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost. Realized gains and losses and the unrealized appreciation (depreciation) of investments are included in the investment gain (loss) in the statements of revenue, expenses, and changes in net assets.

(Continued)

STATE OF ILLINOIS
 THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
 OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The interest rate risk and foreign currency risk profile for securities in the general fund as of June 30, 2008, using the segmented time distribution method, is as follows:

Investment Type	Total Fair Value	Maturity					Currency
		Less than 1 year	1-5 years	6-10 years	More than 10 years	No Maturity	
Short-term Investments							
Money Market Funds	\$ 258,211	\$ 258,211	\$ -	\$ -	\$ -	\$ -	United States Dollar (USD)
Certificates of Deposit	275,286	275,286	-	-	-	-	USD
Long-term investments							
Stocks	94,300	-	-	-	-	94,300	USD
US Equity Mutual Funds	2,412,380	-	-	-	-	2,412,380	USD
Non-US Equity Mutual Funds	808,184	-	-	-	-	808,184	Various
Certificates of Deposit	733,512	-	733,512	-	-	-	USD
Total short-term and long-term investments as of June 30, 2008	\$4,581,873	\$533,497	\$733,512	\$ -	\$ -	\$3,314,864	

(Continued)

STATE OF ILLINOIS
 THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
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 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

On the Statement of Net Assets, all Life member investments are classified as noncurrent. This policy was adopted to better match the long-term liability associated with the Life Member Fund. The interest rate risk and foreign currency risk profile for securities in the life member fund as of June 30, 2008, using the segmented time distribution method, is as follows:

Investment Type	Total Fair Value	Maturity					Currency
		Less than 1 year	1-5 years	6-10 years	More than 10 years	No Maturity	
Short-term investments							
Money Market Funds	\$ 311,119	\$ 311,119	\$ -	\$ -	\$ -	\$ -	USD
Certificates of Deposit	50,060	50,060	-	-	-	-	USD
Long-term investments							
Stocks	56,806	-	-	-	-	56,806	USD
US Equity Mutual Funds	231,049	-	-	-	-	231,049	USD
Non-US Equity Mutual Funds	151,100	-	-	-	-	151,100	Various
Certificates of Deposit	669,689	-	473,577	196,112	-	-	USD
Total short-term and long-term investments as of June 30, 2008	\$1,469,823	\$361,179	\$ 473,577	\$ 196,112	\$ -	\$438,955	

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In order to capture the highest yield and due to the fact that a majority of the Association's investments have a long-time horizon, the Association has not set limits on investment maturities.

(Continued)

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June 30, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Association has investments in one mutual fund (American Funds Capital World Growth and Income) that invests in securities of various countries. The Association has not adopted a policy with respect to foreign currency risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association's general investment policy is to produce the maximum total return consistent with acceptable risk levels. Moderately aggressive investment strategies are utilized to achieve investment goals, as growth of assets, rather than the production of income, is the primary portfolio objective.

Mutual funds held by the Association do not have a nationally recognized rating. However, the credit risk profile for securities in the general fund at June 30, 2008, per Morningstar, is as follows:

Investment Type		5	4	3	2	1	Not Rated	Total
Short-term investments								
	Money Market Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$258,211	\$258,211
	Certificates of Deposit	-	-	-	-	-	275,286	\$275,286
Long-term investments								
	Stocks	-	-	-	-	-	94,300	\$ 94,300
	US Equity Mutual Funds	-	-	-	2,412,380	-	-	\$2,412,380
	Non-US Equity Mutual Funds	808,184	-	-	-	-	-	\$808,184
	Certificates of Deposit	-	-	-	-	-	733,512	\$733,512
Total short-term and long-term investments as of June 30, 2008		\$808,184	\$ -	\$ -	\$2,412,380	\$ -	\$1,361,309	\$4,581,873

(Continued)

STATE OF ILLINOIS
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 June 30, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The credit risk profile for securities in the life member fund at June 30, 2008, per Morningstar, is as follows:

Mutual funds held by the Association do not have a nationally recognized rating.

Investment Type		5	4	3	2	1	Not Rated	Total
Short-term investments								
	Money Market Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$311,119	\$311,119
	Certificates of Deposit	-	-	-	-	-	50,060	\$ 50,060
Long-term investments								
	Stocks	-	-	-	-	-	56,806	\$ 56,806
	US Equity Mutual Funds	-	-	-	231,049	-	-	\$231,049
	Non-US Equity Mutual Funds	151,100	-	-	-	-	-	\$151,100
	Certificates of Deposit	-	-	-	-	-	669,689	\$669,689
Total short-term and long-term investments as of June 30, 2008		\$ 151,100	\$ -	\$ -	\$231,049	\$ -	\$1,087,674	\$1,469,823

Concentration of Credit Risk: The Association has no limit on the amount that can be invested with any one issuer. As of June 30, 2008, the Association did not have more than 5% of the Association's investments with any issuer.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of failure of the counter party, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2008, the Association did not have any securities at risk.

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STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 - CAPITAL ASSETS

Following are the changes in capital assets for fiscal year 2008:

	<u>Furniture, Fixtures, and Equipment</u>	<u>Less Accumulated Depreciation</u>	<u>Capital Assets, Net</u>
Balance, June 30, 2007	\$ 13,606	\$ (9,095)	\$ 4,511
Additions	250,000	(645)	249,355
Retirements	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2008	<u>\$ 263,606</u>	<u>\$ (9,740)</u>	<u>\$ 253,866</u>

NOTE 4 - CREDIT CARD AGREEMENT

The Association entered into an agreement with Chase Card Services, formerly Bank One and First USA (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.

As fees and royalties are earned, they are applied against these advances and recognized as revenue. For the year ended June 30, 2008, the Association earned \$592,857, under this agreement, which is included in royalties in the accompanying statements of revenue, expenses, and changes in net assets.

NOTE 5 - NONCURRENT LIABILITIES

Noncurrent liabilities consist of deferred revenue. Activity for fiscal year 2008 was as follows:

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
Deferred Revenue					
Royalties	\$ 516,072	\$ 575,000	\$ 592,857	\$ 498,215	\$ 449,107
Dues	1,465,083	306,717	214,802	1,556,998	112,124
Activities and events	<u>52,473</u>	<u>34,785</u>	<u>52,474</u>	<u>34,784</u>	<u>34,784</u>
Total	<u>\$ 2,033,628</u>	<u>\$ 916,502</u>	<u>\$ 860,133</u>	<u>\$ 2,089,997</u>	<u>\$ 596,015</u>

(Continued)

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June 30, 2008

NOTE 6 - RETIREMENT PLAN

All full-time Association personnel are University employees. Retirement benefits and post-retirement benefits other than pension are available for eligible SIU 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 financial statements. The Association does not own any of the Plan's assets and has no responsibility for the Plan's obligations.

During the year ended June 30, 2008, the University contributed \$55,936 to the Plan on behalf of Association personnel. These amounts are included in the amounts shown as budget allocation from SIU and budget expended at SIU in the accompanying statements of revenue, expenses, and changes in net assets.

NOTE 7 - TRANSACTIONS WITH RELATED PARTIES

The Association has entered into a master contract with the Board of Trustees of SIU that specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997, as amended. Among the provisions of the contract is a requirement that the Association, in return for staff and use of the facilities, agrees to annually reimburse the University for the proportionate share of costs involved. This reimbursement is computed as the annual salary cost of the University's Alumni Services Department times a percentage (7.34% in 2008), based on the total number of addressable alumni members divided by the total number of addressable alumni on file. Both the Association and the University agree to the percentage on an annual basis. The reimbursement amounted to \$42,602 in 2008.

Pursuant to governmental accounting standards, the Association is required to recognize as revenue and expense those on-behalf payments for salaries made by the University for personnel of the Association. For the year ended June 30, 2008, these amounts totaled \$818,872, (including retirement payments described in Note 6) and are included in budget allocation from SIU and budget expended at SIU in the accompanying statements of revenue, expenses, and changes in net assets.

The Association paid the University \$11,094 for rental space for housing the Association's staff for 2008. Additionally, the Association uses various services of the University and directly reimburses the University at a cost equal to that charged by the University to other users.

(Continued)

STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 - TRANSACTIONS WITH RELATED PARTIES (Continued)

During the year ended June 30, 2008, the Association received \$138,038, from the Southern Illinois University Foundation at Carbondale, primarily for the cost of printed materials distributed by the Association. The 2008 amount included \$134,000 classified as revenue and \$4,038 for partial reimbursement of costs incurred for special events and activities held for the benefit of both parties. Also, during the year, the Association paid \$250,000 to the Foundation for alumni database services. The Association also granted \$6,005 to various SIU Foundation restricted accounts. These accounts benefit SIU by providing funding for department operations and scholarships.

NOTE 8 - OPERATING LEASES

In 2006, the Association entered into an agreement to lease two copy machines. In addition, in 2007, the Association entered into an agreement to lease an automobile. The schedule of future lease payments is below:

	<u>Copier</u>	<u>Automobile</u>	<u>Total</u>
2009	\$ 3,099	\$ 4,734	\$ 7,833
2010	3,099	-	3,099
2011	<u>2,324</u>	<u>-</u>	<u>2,324</u>
Total	\$ 8,522	\$ 4,734	\$ 13,256

NOTE 9 - TAX STATUS

The Internal Revenue Service (IRS) has issued a determination letter, dated August 20, 1990, 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. No provision has been made as management does not believe it has significant unrelated business income.

NOTE 10 - SUBSEQUENT DECLINE IN INVESTMENTS

During 2008, investment markets experienced significant volatility and a general decline in values. As reported in the accompanying financial statements, the value of the Association's investment portfolio also declined.

(Continued)

STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - SUBSEQUENT DECLINE IN INVESTMENTS (Continued)

Subsequent to June 30, 2008, and through October 31, 2008, the fair value of the Association's long-term investments declined in value from \$4,048,376 to \$3,816,282. The fair value of the Association's life member investments declined in value from \$1,469,823 to \$1,360,063. The composition of these declines was primarily due to unrealized losses partially off-set by investment gains and reinvested dividends.

Since the values of the Association's investments fluctuate with market conditions, the amount of investment gains or losses that will be recognized in future financial statements, if any, cannot be predicted.



Crowe Horwath LLP
Member Horwath International

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 GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland
Auditor General, State of Illinois
and
The Board of Directors
The Association of Alumni, Former Students,
and Friends of Southern Illinois University,
Incorporated

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of The Association of Alumni, Former Students, and Friends of Southern Illinois University, Incorporated (the Association) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 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 the 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompany schedule of findings as item 08-1 to be a significant deficiency 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 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 internal control that might be significant deficiencies or material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

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*.

The Association's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the response and, accordingly, we express no opinion on it.

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


Crowe Horwath LLP

Chicago, Illinois
December 5, 2008

STATE OF ILLINOIS
THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
SCHEDULE OF FINDINGS
June 30, 2008

FINDING 08-1 - Internal Controls over General Ledger Journal Entries

The Association has adopted internal control procedures which require all general ledger journal entries to be entered by an accounting staff member, and reviewed and approved by the Controller. However, the Controller also has the ability to post general journal entries into the general ledger. While our audit testing of a sample of current year journal entries did not note any instances where the Controller had posted journal entries, access to do so exists within the accounting software system. This access presents a risk that unauthorized journal entries could be recorded.

The Association is responsible for the development of internal controls and the monitoring of their operating effectiveness. The Association relies on other internal control procedures to mitigate this significant deficiency in internal controls. However, the other internal control procedures in place are not designed to detect the posting of unauthorized journal entries by the Controller.

The Association did not have proper segregation of duties in place over the general ledger system, given the current internal control structure over journal entry posting and review.

Statement of Auditing Standards No. 112 indicates that an internal control weakness related to the area described below is to be considered at least a significant deficiency in internal controls:

Controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

The Association does not have thorough segregation of duties and responsibilities in relation to the posting of general ledger journal entries. (Finding Code No. 08-1)

Recommendation

We recommend that the general ledger accounting system access rights be commensurate with the employee's responsibilities. The Controller should not have access to post journal entries into the general ledger, or a formalized review process should be established for journal entries initiated or posted by the Controller.

Association Response

Accepted. Due to a small staff size, the Controller must have access rights to enter, authorize, record, and process general ledger entries. However, to prevent unauthorized journal entries, the Association will enhance its review process for all journal entries posted, by having the Executive Director review and approve all journal entries made each month. In addition, the Association will continue enforcing its current mitigating controls, including having all journal entries approved by an individual separate of the person responsible for creating and/or entering the journal entry.

STATE OF ILLINOIS
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PRIOR YEAR FINDINGS NOT REPEATED
June 30, 2008

A. Fraud Prevention and Detection Program (RESOLVED)

In the prior year, the Association did not have a formal fraud risk assessment program in place.
(Finding Code No. 07-1)

In the current year, the Association has adopted a formal Fraud Prevention and Detection Program.