



Crowe Chizek and Company LLC
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, 2006

(With comparative totals for 2005)

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, 2006

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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, 2006

Ms. Sheri Hunter	President
Mr. Randy Ragan, CPA	Treasurer
Mr. Edward Buerger	Executive Director
Mr. Tim Marlo	Assistant Director/Controller

Alumni Association offices are located at:

Coyler Hall
Mailcode 6805
Carbondale, Illinois 62901

Student Center
Carbondale, Illinois 62901

STATE OF ILLINOIS

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

FINANCIAL AUDIT

June 30, 2006

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 Chizek and Company LLC.

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



Crowe Chizek and Company LLC
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 Association, Incorporated (the Association), a component unit of Southern Illinois University, as of and for the year ended June 30, 2006, 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 summarized comparative information of The Association of Alumni, Former Students, and Friends of Southern Illinois University Association, Incorporated as of June 30, 2005, were audited by other auditors whose report dated September 15, 2005, expressed an unqualified opinion on those 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, 2006, 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 September 28, 2006, 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 the Governmental Accounting Standards Board. 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
September 28, 2006

STATE OF ILLINOIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2006

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, is grouped by those assets available for unrestricted use and those assets which are an investment in capital assets.

During the year ended June 30, 2006, the Association had an increase in net assets of \$629,310 as indicated on the statement of revenue, expenses, and changes in net assets.

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, 2006

CONDENSED
STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

	2006	2005	% Change
ASSETS			
Current assets	815,084	752,290	8.35%
Long-term investments	3,421,808	2,912,717	17.48%
Life member fund	1,331,195	1,186,035	12.24%
Capital assets, net of accumulated depreciation	<u>3,804</u>	<u>4,788</u>	<u>-20.55%</u>
TOTAL ASSETS	<u>5,571,891</u>	<u>4,855,830</u>	<u>14.75%</u>
LIABILITIES			
Current liabilities	709,566	794,506	-10.69%
Non-current deferred revenue	<u>1,340,220</u>	<u>1,168,529</u>	<u>14.69%</u>
TOTAL LIABILITIES	<u>2,049,786</u>	<u>1,963,035</u>	<u>4.42%</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,804	4,788	-20.55%
Unrestricted	<u>3,518,301</u>	<u>2,888,007</u>	<u>21.82%</u>
TOTAL NET ASSETS	<u>3,522,105</u>	<u>2,892,795</u>	<u>21.75%</u>

Statement of Revenue, Expenses, and Changes in Net Assets

The statement of revenue, 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 revenue includes 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 revenue (expenses) is listed after operating activities. Nonoperating revenue (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 revenue 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.

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, 2006

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 revenue and operating expenses, the statements of revenue, expenses, and changes in net assets provide a suitable presentation of the Association's core activities.

For the year ended June 30, 2006 operating and nonoperating activities provided an increase in net assets of \$246,178 and \$383,132, respectively, which total \$629,310. Operating revenue increased by \$165,670 and operating expenses increased by \$84,286 from FY 2005. Of the \$383,132 increase in net assets from nonoperating activities, \$232,613 came from the year's investment gain.

CONDENSED
STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
For the years ended June 30, 2006 and 2005

	2006	2005	% Change
REVENUE			
Budget allocation from SIU	809,353	793,314	2.02%
Other operating revenue	<u>1,160,629</u>	<u>1,010,998</u>	<u>14.80%</u>
TOTAL OPERATING REVENUE	<u>1,969,982</u>	<u>1,804,312</u>	<u>9.18%</u>
EXPENSES			
Budget expended at SIU	809,353	793,314	2.02%
Other operating expenses	<u>914,451</u>	<u>846,204</u>	<u>8.07%</u>
TOTAL OPERATING EXPENSES	<u>1,723,804</u>	<u>1,639,518</u>	<u>5.14%</u>
OPERATING REVENUE IN EXCESS OF EXPENSES	<u>246,178</u>	<u>164,794</u>	<u>49.39%</u>
NET NONOPERATING REVENUE	<u>383,132</u>	<u>313,855</u>	<u>22.07%</u>
INCREASE IN NET ASSETS	<u>629,310</u>	<u>478,649</u>	<u>31.48%</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, 2006

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, 2006, the Association had a decrease of cash in the amount of \$64,163 primarily due to investing activities. However, this amount is kept on deposit with SIU, so it is reflected as a change in deposits with SIU instead of a decrease in cash.

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. The 2005 amounts have been reclassified consistent with the 2006 presentation.

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, 2006

(With comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Deposits with SIU (Note 2)	\$ 147,475	\$ 211,638
Short-term investments (Note 2)	583,029	481,989
Accounts receivable	9,142	5,044
Accrued interest receivable	12,609	5,595
Prepaid expenses	<u>62,829</u>	<u>48,024</u>
Total current assets	815,084	752,290
Noncurrent assets		
Long-term investments (Note 2)	3,421,808	2,912,717
Life member fund (Note 2)	1,331,195	1,186,035
Capital assets, net of accumulated depreciation (Note 3)	<u>3,804</u>	<u>4,788</u>
Total noncurrent assets	<u>4,756,807</u>	<u>4,103,540</u>
Total assets	<u>5,571,891</u>	<u>4,855,830</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	71,939	46,781
Deposits held for others	27,127	39,197
Deferred revenue, current portion (Note 5)	<u>610,500</u>	<u>708,528</u>
Total current liabilities	709,566	794,506
Noncurrent liabilities		
Deferred revenue (Note 5)	<u>1,340,220</u>	<u>1,168,529</u>
Total liabilities	<u>2,049,786</u>	<u>1,963,035</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,804	4,788
Unrestricted	<u>3,518,301</u>	<u>2,888,007</u>
Total net assets	<u>\$ 3,522,105</u>	<u>\$ 2,892,795</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 REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
Year ended June 30, 2006
(With comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
REVENUE		
Operating revenue		
Payments from SIU Foundation (Note 7)	\$ 134,000	\$ 134,000
Budget allocation from SIU (Note 7)	809,353	793,314
Membership dues	233,991	204,752
Royalties and other income	690,178	580,198
Activities	<u>102,460</u>	<u>92,048</u>
Total operating revenue	1,969,982	1,804,312
EXPENSES		
Operating expenses		
Budget expended at SIU (Note 7)	809,353	793,314
Administrative	61,024	76,733
Alumni communications	284,653	289,908
Membership services	123,961	135,649
Alumni and public relations	59,393	45,234
Database management	15,523	4,950
Board of Directors	15,735	15,678
Chapter development and alumni programs	161,050	128,981
Homecoming and reunions	27,350	23,909
University master contract payment (Note 7)	41,318	41,200
Student relations	20,854	15,328
College societies	6,787	5,841
Awards and contributions	28,003	31,738
Other	67,816	29,432
Depreciation (Note 3)	<u>984</u>	<u>1,623</u>
Total operating expenses	<u>1,723,804</u>	<u>1,639,518</u>
Operating revenue in excess of expenses	246,178	164,794
NONOPERATING REVENUE		
Investment gain	232,613	183,577
Dividend and interest income	135,837	121,238
Contributions	<u>14,682</u>	<u>9,040</u>
Net nonoperating revenue	<u>383,132</u>	<u>313,855</u>
Increase in net assets	629,310	478,649
NET ASSETS		
Net assets at beginning of year	<u>2,892,795</u>	<u>2,414,146</u>
Net assets at end of year	<u>\$ 3,522,105</u>	<u>\$ 2,892,795</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, 2006

(With comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Payments from SIU	\$ 198,163	\$ 676,870
Membership dues	314,740	323,157
Activities and event revenue	113,232	104,670
Royalty revenue	672,321	851,128
Operating expenses	<u>(919,285)</u>	<u>(873,624)</u>
Net cash provided by operating activities	379,171	1,082,201
Cash flows provided by capital/ noncapital financing activities		
Contributions from other than capital purposes	14,682	9,040
Purchase of equipment	<u>-</u>	<u>(2,700)</u>
Net cash provided by capital/ noncapital financing activities	<u>14,682</u>	<u>6,340</u>
Cash flows from investing activities		
Proceeds from sale and maturities of investments	2,235,403	58,285
Interest and dividend income	361,436	304,114
Purchase of investments	<u>(2,990,692)</u>	<u>(1,450,940)</u>
Net cash used in investing activities	<u>(393,853)</u>	<u>(1,088,541)</u>
Net change in cash	-	-
Cash at beginning of year	<u>-</u>	<u>-</u>
Cash at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of operating revenue in excess of expenses to net cash provided by operating activities		
Operating revenue in excess of expenses	\$ 246,178	\$ 164,794
Adjustments to reconcile operating revenue in excess of expenses to net cash provided by operating activities		
Depreciation	984	1,623
Change in assets and liabilities		
Deposits with SIU	64,163	542,870
Accounts receivable	(4,098)	1,176
Other current assets	(14,806)	(17,029)
Accounts payable and accrued liabilities	25,157	(18,827)
Deposits held for others	(12,070)	5,637
Deferred revenue	<u>73,663</u>	<u>401,957</u>
Net cash provided by operating activities	<u>\$ 379,171</u>	<u>\$ 1,082,201</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, 2006

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 Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Association is included as a component unit of the University for financial reporting purposes and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The State of Illinois stated that the Foundation 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, 2006

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 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. 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.

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, 2006

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.

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.

2005 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, 2005 from which the summarized financial information was derived.

(Continued)

STATE OF ILLINOIS

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

Reclassification: During fiscal year 2006, the classification of mutual funds changed from being reported as short-term investments to being classified as long-term. For comparative purposes, fiscal year 2005 short-term and long-term investments have been adjusted to reflect this change.

In addition, certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits with SIU: The Association deposits its cash receipts in the University's pooled cash investment accounts. The University, acting as agent for the Association, makes all disbursements as directed. Pooled cash and cash equivalents consist principally of cash and money market funds. The Association's pooled cash and cash equivalents are not classified with investments since specific investment securities of the pooled fund maintained by the University are not purchased on behalf of, and/or separately allocated to the participants of the fund. At June 30, 2006, the Association's amount on deposit with the University totaled \$151,052 and the carrying amount was \$147,475.

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. The pooled cash and cash equivalents held by the University follow strict collateralization requirements that are consistent with the requirements of the State Treasurer's Collateral Agreement. Deposits with the University are Federal Deposit Insurance Corporation (FDIC) insured up to \$100,000 and deposits above \$100,000 are fully collateralized.

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.

(Continued)

STATE OF ILLINOIS

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

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 in the statements of revenue, expenses, and changes in net assets.

The interest rate risk and foreign currency risk profile for securities in the general fund as of June 30, 2006 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	\$ 433,777	\$ 433,777	\$ -	\$ -	\$ -	\$ -	United States Dollar (USD)
Certificates of Deposit	149,252	149,252	-	-	-	-	USD
Long-term investments							
Stocks	113,157	-	-	-	-	113,157	USD
US Equity Mutual Funds	2,159,456	-	-	-	-	2,159,456	USD
Non-US Equity Mutual Funds	504,711	-	-	-	-	504,711	Various
Certificates of Deposit	644,248	-	549,009	95,239	-	-	USD
US Fixed Income Securities	236	-	236	-	-	-	USD
Total short-term and long-term investments as of June 30, 2006	\$4,004,837	\$ 583,029	\$ 549,245	\$ 95,239	\$ -	\$ 2,777,324	

(Continued)

STATE OF ILLINOIS

THE ASSOCIATION OF ALUMNI, FORMER STUDENTS, AND FRIENDS
OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

The interest rate risk and foreign currency risk profile for securities in the life member fund as of June 30, 2006 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	\$ 134,306	\$ 134,306	\$ -	\$ -	\$ -	\$ -	USD
Certificates of Deposit	228,406	228,406	-	-	-	-	USD
Long-term investments							
Stocks	63,368	-	-	-	-	63,368	USD
US Equity Mutual Funds	225,499	-	-	-	-	225,499	USD
Non-US Equity Mutual Funds	124,442	-	-	-	-	124,442	Various
Certificates of Deposit	555,174	-	412,235	142,939	-	-	USD
Total short-term and long-term investments as of June 30, 2006	\$1,331,195	\$ 362,712	\$ 412,235	\$ 142,939	\$ -	\$ 413,309	

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, 2006

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.

The credit risk profile for securities in the general fund at June 30, 2006, per Morningstar, is as follows:

Investment Type		5	4	3	2	1	Not Rated	Total
Short-term investments								
	Money Market Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 433,777	\$ 433,777
	Certificates of Deposit	-	-	-	-	-	149,252	149,252
Long-term investments								
	Stocks	-	-	-	-	-	113,157	113,157
	US Equity Mutual Funds	-	943,418	-	1,216,038	-	-	2,159,456
	Non-US Equity Mutual Funds	504,711	-	-	-	-	-	504,711
	Certificates of Deposit	-	-	-	-	-	644,248	644,248
	US Fixed Income Securities	-	-	-	-	-	236	236
Total short-term and long-term investments as of June 30, 2006		\$ 504,711	\$ 943,418	\$ -	\$ 1,216,038	\$ -	\$ 1,340,670	\$ 4,004,837

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OF SOUTHERN ILLINOIS UNIVERSITY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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

The credit risk profile for securities in the life member fund at June 30, 2006, per Morningstar, is as follows:

Investment Type		5	4	3	2	1	Not Rated	Total
Short-term investments								
	Money Market Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 134,306	\$ 134,306
	Certificates of Deposit	-	-	-	-	-	228,406	228,406
Long-term investments								
	Stocks	-	-	-	-	-	63,368	63,368
	US Equity Mutual Funds	-	-	-	225,499	-	-	225,499
	Non-US Equity Mutual Funds	124,442	-	-	-	-	-	124,442
	Certificates of Deposit	-	-	-	-	-	555,174	555,174
Total short-term and long-term investments as of June 30, 2006		\$ 124,442	\$ -	\$ -	\$ 225,499	\$ -	\$ 981,254	\$1,331,195

Concentration of Credit Risk: The Association has no limit on the amount that can be invested with any one issuer. As of June 30, 2006, 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, 2006, the Association did not have any securities at risk.

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June 30, 2006

NOTE 3 - CAPITAL ASSETS

Following are the changes in capital assets for fiscal year 2006:

	Furniture, Fixtures, and Equipment	Less Accumulated Depreciation	Capital Assets, Net
Balance, June 30, 2005	\$ 138,872	\$ (134,084)	\$ 4,788
Additions	-	(984)	(984)
Retirements	<u>(126,815)</u>	<u>126,815</u>	<u>-</u>
Balance, June 30, 2006	<u>\$ 12,057</u>	<u>\$ (8,253)</u>	<u>\$ 3,804</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, 2006, 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.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 - NONCURRENT LIABILITIES

Noncurrent liabilities consist of deferred revenue. Activity for fiscal year 2006 was as follows:

	Balance June 30, <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2006</u>	Amounts Due Within <u>One Year</u>
Deferred Revenue					
Royalties	\$ 551,786	\$ 575,000	\$ 592,857	\$ 533,929	\$ 449,107
Dues	1,280,647	284,813	204,064	1,361,396	105,997
Activities and events	<u>44,624</u>	<u>55,396</u>	<u>44,625</u>	<u>55,395</u>	<u>55,396</u>
Total	<u>\$ 1,877,057</u>	<u>\$ 915,209</u>	<u>\$ 841,546</u>	<u>\$ 1,950,720</u>	<u>\$ 610,500</u>

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, 2006, the University contributed \$30,024 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

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June 30, 2006

NOTE 7 - TRANSACTIONS WITH RELATED PARTIES (Continued)

Department times a percentage (7.29% in 2006), 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 \$41,318 in 2006.

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, 2006, these amounts totaled \$809,353, (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 \$4,144 for rental space for housing the Association's staff for 2006. 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.

During the year ended June 30, 2006, the Association received \$164,584, from the Southern Illinois University Foundation at Carbondale, primarily for the cost of printed materials distributed by the Association. The 2006 amount included \$134,000 classified as revenue and \$30,584 for partial reimbursement of costs incurred for special events and activities held for the benefit of both parties. Also, the Association granted \$4,737 in 2006 to various SIU Foundation restricted accounts. These accounts benefit SIU by providing funding for department operations and scholarships.

NOTE 8 - 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.



Crowe Chizek and Company LLC
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 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, 2006, and have issued our report thereon dated September 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters

involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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 of Alumni, Former Students, and Friends of Southern Illinois University, Incorporated 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
September 28, 2006