

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
COMPLIANCE EXAMINATION**

For the Two Years Ended June 30, 2006

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

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2006**

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* Issued Under Separate Cover

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
AGENCY OFFICIALS
For the Two Years Ended June 30, 2006**

President	Dr. Sidney Micek
Treasurer	Mr. Stephen Rugg
Secretary	Mr. Bradley Hatfield
Assistant Secretary	Ms. Nancy Testory
Assistant Secretary	Ms. Bernice Freeman
Assistant Treasurer	Ms. Mary Millage
Assistant Treasurer	Mr. Douglas Beckmann
Assistant Treasurer	Ms. Laura Vossman (10/1/2005 - present)
Assistant Treasurer	Dean Hagan (10/1/2005 - present)
Legal Counsel	Mr. Thomas Bearrows
Internal Auditor	University of Illinois

Agency offices are located at:

Harker Hall
Urbana, IL 61801



August 3, 2006

Clifton Gunderson LLP
301 SW Adams St., Suite 900
P.O. Box 1835
Peoria, IL 61656

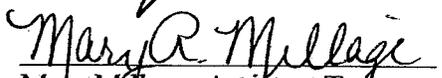
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the University of Illinois Foundation (Foundation). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Foundation's compliance with the following assertions during the two-year period ended June 30, 2006. Based on this evaluation, we assert that during the years ended June 30, 2006 and June 30, 2005, the Foundation has materially complied with the assertions below.

- A. The Foundation has obligated, expended, received and used its funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Foundation has obligated, expended, received and used its funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Foundation has complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.
- D. The revenues and receipts collected by the Foundation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Foundation or held in trust by the Foundation have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

University of Illinois Foundation


Sidney Migock, President


Mary Millage, Assistant Treasurer


Thomas Bearrows, Legal Counsel

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
COMPLIANCE REPORT SUMMARY
For the Two Years Ended June 30, 2006**

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITOR'S REPORTS

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant nonstandard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	1	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

Details of findings are presented in a separately tabbed report section.

<u>Item No.</u>	<u>Page</u>	<u>Current Findings - State</u>
06-1	9	Time Sheets Not Required

EXIT CONFERENCE

A formal exit conference was not deemed necessary.

**Independent Accountant's Report on State Compliance, on
Internal Control Over Compliance, and on Supplementary
Information for State Compliance Purposes**

Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Directors
University of Illinois Foundation

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the University of Illinois Foundation's (Foundation) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the years ended June 30, 2006 and 2005. The management of the Foundation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Foundation's compliance based on our examination.

- A. The Foundation has obligated, expended, received, and used its funds, in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Foundation has obligated, expended, received, and used its funds, in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Foundation has complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.
- D. The revenues and receipts collected by the Foundation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Foundation or held in trust by the Foundation have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Foundation's compliance with specified requirements.

In our opinion, the Foundation complied, in all material respects, with the aforementioned requirements during the years ended June 30, 2006 and 2005. However, the results of our procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General, and which is described in the accompanying Schedule of State Findings as finding 06-1. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Foundation's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined 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 internal control over compliance that we consider to be material weaknesses. There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Foundation as of and for the years ended June 30, 2006 and 2005, and have issued our reports thereon dated August 3, 2006 and August 4, 2005. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Foundation. The 2006 and 2005 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2006 and June 30, 2005 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Foundation's basic financial statements for the year ended June 30, 2004. In our report dated August 6, 2004, we expressed an unqualified opinion on the basic financial statements. In our opinion, the 2004 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2004 taken as a whole.

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

Clifton Henderson LLP

Peoria, Illinois
August 3, 2006

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Directors
University of Illinois Foundation

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the University of Illinois Foundation (Foundation), as of and for the years ended June 30, 2006 and 2005, and have issued our reports thereon dated August 3, 2006 and August 4, 2005, respectively. We conducted our audits 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 audits, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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*. However, we noted certain matters which are reported as state compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the Foundation in a separate letter dated August 3, 2006.

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

Clifton Henderson LLP

Peoria, Illinois
August 3, 2006

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
CURRENT FINDINGS - STATE
For the Two Years Ended June 30, 2006**

06-1 Finding: Time Sheets Not Required

The Foundation did not require all employees to submit time sheets as required by the State Officials and Employees Ethics Act (Act).

The Act required the Illinois Board of Higher Education (IBHE), with respect to State employees of public universities, to adopt and implement personnel policies. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour; contractual State employees may satisfy the time sheets requirement by complying with the terms of their contract, which shall provide for a means of compliance with this requirement." The IBHE adopted personnel policies for public universities on February 3, 2004 in accordance with the Act. The Foundation has not incorporated these policies into the Foundation's policies.

We noted that Foundation employees are not submitting time sheets in compliance with the Act. Employees generally track their time using a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. No time sheets documenting the time spent each day on official State business to the nearest quarter hour are maintained.

According to Foundation management, daily timesheets for Foundation professional staff are not required by Foundation or University policy.

By not requiring appropriate time sheets from its employees, the Foundation is not in compliance with the Act. (Finding Code No. 06-1)

Recommendation:

We recommend the Foundation amend its policies to require all employees to submit time sheets in compliance with the Act.

Foundation Response:

The Foundation is reviewing the finding and the recommendation is under consideration.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
FINANCIAL STATEMENT REPORT SUMMARY
For the Two Years Ended June 30, 2006**

The audit of the financial statements of the University of Illinois Foundation was performed by Clifton Gunderson LLP.

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

The financial statements are issued under separate cover, in a report titled "University of Illinois Foundation Financial Audit, for the year ended June 30, 2006."

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
SUPPLEMENTARY INFORMATION FOR
STATE COMPLIANCE PURPOSES
SUMMARY
For the Two Years Ended June 30, 2006**

Supplementary information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Changes in Farms, Land, Buildings, and Equipment
 - Comparative Schedule of Cash Receipts
 - Comparative Schedule of Cash and Cash Equivalents
 - Comparative Schedule of Investments
 - Comparative Schedule of Accounts Receivable
 - Explanation of Significant Variations in Revenues and Expenses

- Analysis of Operations:
 - Agency Functions and Planning Program
 - Average Number of Employees (Unaudited)
 - Service Efforts and Accomplishments (Unaudited)

The auditor's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the financial statements and, in the auditor's opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
SCHEDULE OF CHANGES IN FARMS, LAND,
BUILDINGS, AND EQUIPMENT
For the Year Ended June 30, 2006**

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance at June 30, 2006</u>
Farmland	\$ 14,556,152	\$ 1,444,422	\$ -	\$ 16,000,574
Land	3,369,316	-	(393,947)	2,975,369
Buildings	15,220,212	2,380,000	(3,093,918)	14,506,294
Equipment	701,138	460,899	(38,951)	1,123,086
Accumulated depreciation	<u>(333,695)</u>	<u>(105,723)</u>	<u>38,951</u>	<u>(400,467)</u>
	<u>\$ 33,513,123</u>	<u>\$ 4,179,598</u>	<u>\$ (3,487,865)</u>	<u>\$ 34,204,856</u>

Farm additions consisted of the following:

Ross	\$ 262,548
Borik	131,274
Dewolf Life Estate	703,000
Illinois Farm Managers	347,600

Land disposals consisted of the following:

Ross	262,548
Borik	131,274
Visually impaired	125

Building additions consisted of the following:

Tafel Life Estate	2,380,000
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Building disposals consisted of the following:

Hinderliter	10,456
1515 W. 15th	1,920,069
1543 W. 15th	1,163,393

Equipment additions consisted of the following:

Office equipment	167,566
Software	293,333

Equipment disposals consisted of the following:

Office equipment	38,951
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**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
SCHEDULE OF CHANGES IN FARMS, LAND,
BUILDINGS, AND EQUIPMENT
For the Year Ended June 30, 2005**

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance at June 30, 2005</u>
Farmland	\$ 16,372,958	\$ -	\$ (1,816,806)	\$ 14,556,152
Land	3,544,316	325,000	(500,000)	3,369,316
Buildings	12,730,660	3,929,552	(1,440,000)	15,220,212
Equipment	489,990	233,303	(22,155)	701,138
Accumulated depreciation	<u>(315,120)</u>	<u>(40,730)</u>	<u>22,155</u>	<u>(333,695)</u>
	<u>\$ 32,822,804</u>	<u>\$ 4,447,125</u>	<u>\$ (3,756,806)</u>	<u>\$ 33,513,123</u>

Farm disposals consisted of the following:

Stout	\$ 5,226
Hinderliter	449,700
Dallenbach	109,880
Brunner	325,000
Velde	927,000

Land addition consisted of the following:

Brunner	325,000
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Land disposal consisted of the following:

Lauber	500,000
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Building additions consisted of the following:

Burnett	560,000
Bagby CRUT	110,000
Johnson Life Estate	260,000
1543 W. 15th	1,163,393
161 E. Chicago	1,607,091
One Main Champaign	229,068

Building disposals consisted of the following:

Burnett	560,000
Bagby CRUT	110,000
Hobson	770,000

Equipment additions consisted of the following:

Office equipment	49,581
Petry-Kuhne Co.	127,055
Software	56,667

Equipment disposals consisted of the following:

Office equipment	22,155
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**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
COMPARATIVE SCHEDULE OF CASH RECEIPTS
For the Years Ended June 30, 2006, 2005, and 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Contributions and gifts	\$ 128,213,236	\$ 100,313,470	\$ 122,994,826
Investment income	9,400,482	4,577,172	6,065,205
Proceeds on sale of investments	1,003,153,893	879,463,551	1,069,521,713
Proceeds on sale of capital assets to the University of Illinois	3,083,461	-	-
Proceeds from note payable	-	2,582,200	24,000
Service fee revenue	9,942,922	8,936,870	7,201,079
Allocation from the University of Illinois	8,225,744	5,842,134	5,168,204
Endowment property operations	589,579	652,139	600,171
Annual funds income	439,742	500,927	452,671
Other	<u>6,361,143</u>	<u>4,674,381</u>	<u>4,924,089</u>
TOTAL	<u>\$ 1,169,410,202</u>	<u>\$ 1,007,542,844</u>	<u>\$ 1,216,951,958</u>

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
COMPARATIVE SCHEDULE OF CASH AND CASH EQUIVALENTS
As of June 30, 2006 and 2005**

	<u>Interest Rate</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents:			
Apartment managers - various	Varies	\$ 2,412	\$ 6,239
BankIllinois - ECRU Corporation	1.50 - 1.10%	6,060	5,165
JP Morgan Chase - checking account	None	489,214	353,146
Busey Bank:			
General checking account	None	474,507	1,084,653
Annuity and life income	None	74,133	101,152
Credit card account	None	111,123	99,134
Investment	Varies	1,550,295	1,530,182
Delta ticket	None	-	1,414
Cozad Asset Managers - investment accounts	Varies	43,200	43,749
Lee Realty	Varies	-	38
US Bank	None	17,232	18,742
Petty cash	None	75	75
University of Illinois - farm account	Varies	29,091	39,434
Securities to be sold - various	N/A	<u>106,221</u>	<u>23,362</u>
		<u>\$ 2,903,563</u>	<u>\$ 3,306,485</u>

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
COMPARATIVE SCHEDULE OF INVESTMENTS
As of June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
INVESTMENTS		
U.S. and international government securities	\$ 65,352,507	\$ 54,227,681
Corporate bonds and notes	61,026,030	54,214,140
Preferred stock	6,120	214,170
International preferred stock	421,898	1,266,254
Common stock	286,381,201	244,796,174
International common stock	173,963,396	131,555,824
Real estate trusts and partnerships	101,521,125	88,793,851
Mutual funds - bonds	127,823,171	138,367,636
Mutual funds - stocks	202,793,838	181,006,642
Mutual funds - blended	975,554	-
Mutual funds - money market	27,967,394	31,741,435
Other	<u>3,697,452</u>	<u>3,469,226</u>
TOTAL	<u>\$1,051,929,686</u>	<u>\$929,653,033</u>

**COMPARATIVE SCHEDULE OF ACCOUNTS RECEIVABLE
As of June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Accounts receivable - University of Illinois	\$ 326,107	\$ 786,914
Accounts receivable - other	7,000	75,161
Accounts receivable - security sales	<u>14,755,388</u>	<u>17,050,013</u>
TOTAL	<u>\$ 15,088,495</u>	<u>\$ 17,912,088</u>

All accounts receivable are deemed collectible; therefore, no allowance is necessary.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
EXPLANATION OF SIGNIFICANT VARIANCES IN REVENUES AND EXPENSES
For the Years Ended June 30, 2006 and 2005**

Scope: Changes greater than \$637,000 and 20 percent

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent of Change</u>	<u>See Note Below</u>
REVENUES					
Contributions and gifts	\$ 146,351,569	\$ 123,023,989	\$ 23,327,580	19%	
Investment income	7,294,464	3,175,040	4,119,424	130	1
Service fees	9,942,922	8,936,870	1,006,052	11	
Allocation from the University of Illinois	8,641,937	7,325,077	1,316,860	18	
Endowment property operations	589,579	652,139	(62,560)	(10)	
Annual funds	439,742	500,927	(61,185)	(12)	
Other	6,361,142	4,674,381	1,686,761	36	2
Net increase in fair value of investments	<u>84,816,689</u>	<u>65,699,969</u>	<u>19,116,720</u>	29	3
Total revenues	<u>264,438,044</u>	<u>213,988,392</u>	<u>50,449,652</u>		
EXPENSES					
Salaries and benefits	13,153,622	11,132,089	2,021,533	18	
Meetings, conferences, and special events	945,047	757,054	187,993	25	
Equipment	373,243	491,177	(117,934)	(24)	
Marketing and communications	742,181	758,460	(16,279)	(2)	
Supplies and other	2,124,375	1,637,835	486,540	30	
Depreciation	105,723	40,730	64,993	160	
Travel	939,387	749,994	189,393	25	
Actuarial adjustments	2,721,079	3,055,166	(334,087)	(11)	
Distributions to the University of Illinois	127,278,550	122,520,730	4,757,820	4	
Interest on indebtedness	<u>395,962</u>	<u>228,395</u>	<u>167,567</u>	73	
Total expenses	<u>148,779,169</u>	<u>141,371,630</u>	<u>7,407,539</u>		
CHANGE IN NET ASSETS	115,658,875	72,616,762	43,042,113		
NET ASSETS, BEGINNING OF PERIOD	<u>934,872,572</u>	<u>862,255,810</u>	<u>72,616,762</u>		
NET ASSETS, END OF PERIOD	<u>\$ 1,050,531,447</u>	<u>\$ 934,872,572</u>	<u>\$ 115,658,875</u>		

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
EXPLANATION OF SIGNIFICANT VARIANCES IN REVENUES AND EXPENSES
For the Years Ended June 30, 2006 and 2005**

Explanation of Significant Variations in Revenues and Expenses

1. The increase is due to the significant increase in the investment balance during the year. Also, there was an increase in interest rates during the year.
2. The increase is the result of more endowment income transferred from the University to the Foundation for investment.
3. Change in unrealized gains are due to market value fluctuations; the market value of investments increased in 2006.

Responses were provided by Foundation personnel.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
EXPLANATION OF SIGNIFICANT VARIANCES IN REVENUES AND EXPENSES
For the Years Ended June 30, 2005 and 2004**

Scope: Changes greater than \$637,000 and 20 percent

	<u>2005</u>	<u>2004</u>	<u>Dollar Change</u>	<u>Percent of Change</u>	<u>See Note Below</u>
REVENUES					
Contributions and gifts	\$ 123,023,989	\$ 122,677,170	\$ 346,819	0.3%	
Investment income	3,175,040	4,875,829	(1,700,789)	(35)	1
Service fees	8,936,870	7,201,079	1,735,791	24	2
Allocation from the University of Illinois	7,325,077	5,808,204	1,516,873	26	3
Endowment property operations	652,139	600,171	51,968	9	
Annual funds	500,927	452,671	48,256	11	
Other	4,674,381	4,924,089	(249,708)	(5)	
Net increase in fair value of investments	<u>65,699,969</u>	<u>98,120,804</u>	<u>(32,420,835)</u>	(33)	4
Total revenues	<u>213,988,392</u>	<u>244,660,017</u>	<u>(30,671,625)</u>		
EXPENSES					
Salaries and benefits	11,132,089	9,333,039	1,799,050	19	
Meetings, conferences, and special events	757,054	606,312	150,742	25	
Equipment	491,177	265,428	225,749	85	
Marketing and communications	758,460	679,992	78,468	12	
Supplies and other	1,637,835	1,260,251	377,584	30	
Depreciation	40,730	38,544	2,186	6	
Travel	749,994	663,004	86,990	13	
Actuarial adjustments	3,055,166	4,272,474	(1,217,308)	(28)	5
Distributions to the University of Illinois	122,520,730	122,599,566	(78,836)	(.06)	
Interest on indebtedness	<u>228,395</u>	<u>128,635</u>	<u>99,760</u>	78	
Total expenses	<u>141,371,630</u>	<u>139,847,245</u>	<u>1,524,385</u>		
CHANGE IN NET ASSETS	72,616,762	104,812,772	(32,196,010)		
NET ASSETS, BEGINNING OF PERIOD	<u>862,255,810</u>	<u>757,443,038</u>	<u>104,812,772</u>		
NET ASSETS, END OF PERIOD	<u>\$ 934,872,572</u>	<u>\$ 862,255,810</u>	<u>\$ 72,616,762</u>		

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
EXPLANATION OF SIGNIFICANT VARIANCES IN REVENUES AND EXPENSES
For the Years Ended June 30, 2005 and 2004**

Explanation of Significant Variations in Revenues and Expenses

1. Decrease resulted from a higher fee charged by the investment managers since the investment balance was higher in 2005.
2. Revenue increased due to the administrative fee that the Foundation charges the University based on the market value of the Foundation's endowment pool investments increased by 0.20 percent from 2004 to 2005. Also, the market value of investments significantly increased.
3. Balance increased because the Foundation implemented a new campaign for leadership in which the University reimbursed the Foundation for half of the expenses incurred.
4. Change in unrealized gains are due to market value fluctuations.
5. Balance will fluctuate from year to year due to the fluctuation in the stock market and the change in the donors' ages.

Responses were provided by Foundation personnel.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
AGENCY FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended June 30, 2006**

The University of Illinois Foundation (Foundation) is located in Harker Hall on the campus of the University of Illinois, Urbana, Illinois. Dr. Sidney Micek is the President of the Foundation and Steven L. Miller is the Chairman of the Board of Directors.

The Foundation was incorporated under the “General Not-For-Profit Corporation Act” of the State of Illinois on August 27, 1935. The primary objectives of the Foundation are to assist in developing and increasing the facilities of the University of Illinois for broader educational opportunities for, and service to, its students, alumni, and citizens of the State of Illinois. These objectives are accomplished by providing the fiscal means and management procedures to allow the University to carry on instructional services and research activities not normally provided for by State appropriation. Also, the Foundation is to perform other acts that in the judgment of its Board of Directors promote the interest and welfare of the University of Illinois.

Annually, the Foundation prepares a plan through the budgeting process. Based on fundraising goals, it outlines programmatic expenses and major sources of revenue. The responsibility for overseeing the formulation and implementation of the plan rests with the Board of Directors. The Board consists of not fewer than 18 and not more than 24 persons. Members of the Foundation elect the Directors. Six to nine directors are elected annually for a three-year term, and no director elected by the members of the Foundation may serve more than two consecutive three-year terms as an elected regular director. The President of the Foundation is elected by the Board of Directors. The President acts under the guidance of the Board of Directors. Both the establishment and monitoring of goals and activities appear to be adequate.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
AVERAGE NUMBER OF EMPLOYEES (UNAUDITED)
For the Years Ended June 30, 2006, 2005, and 2004**

The Foundation had 139 full time employees in 2006, 128 full time employees in 2005, and 120 full time employees in 2004.

<u>Fiscal Year</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual Giving	14	11	11
Associates Chancellors	4	4	3
Communications	5	5	5
President and Staff	7	7	8
Special Events	3	3	3
Financial Affairs and Human Services:			
Financial	10	9	9
Human Resources	4	4	4
Records Maintenance	4	4	4
Gift Administration:			
Development Information Systems	9	8	7
Gift Acknowledgement	8	8	7
Gift Administration	4	3	3
Information Systems	10	11	8
Cash Receipts	3	3	3
Stewardship Services	6	5	4
Gift Development:			
Gift Development	18	19	17
Research	12	10	9
President's Council	3	3	3
Principal Gifts	5	2	-
Trust Relations	<u>10</u>	<u>9</u>	<u>12</u>
TOTAL	<u>139</u>	<u>128</u>	<u>120</u>

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)**

The University of Illinois Foundation (Foundation) was formed for the purpose of providing fundraising services to the University of Illinois (University) in order to attract private gifts. These gifts are used to support the University's instructional research and public service activities.

The Governmental Accounting Standards Board has defined three categories to measure service efforts and accomplishments.

1. Output measures of the quantity or quality of service provided. Distributions to the University is the output measurement of service provided by the Foundation.

	Distributions to the University				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Unrestricted	\$ 465,673	\$ 422,035	\$ 340,959	\$ 308,055	\$ 715,136
Restricted	<u>126,812,877</u>	<u>122,098,695</u>	<u>122,258,607</u>	<u>123,284,693</u>	<u>126,865,344</u>
Total	<u>\$127,278,550</u>	<u>\$122,520,730</u>	<u>\$122,599,566</u>	<u>\$123,592,748</u>	<u>\$127,580,480</u>

2. Outcome measures of the results and progress toward established goals and objectives. Gifts and contributions revenue is the outcome measurement of the results achieved by the Foundation.

	Contributions to the Foundation				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ 132,883
Restricted	109,856,065	96,003,809	77,628,592	89,967,340	122,493,220
Endowment	31,397,057	24,444,654	40,518,980	21,524,744	40,598,622
Annuity and life income	<u>5,098,447</u>	<u>2,575,526</u>	<u>4,529,598</u>	<u>2,566,603</u>	<u>4,148,509</u>
Total	<u>\$146,351,569</u>	<u>\$123,023,989</u>	<u>\$122,677,170</u>	<u>\$114,058,687</u>	<u>\$167,373,234</u>

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS FOUNDATION
SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)**

(Continued)

3. Efficiency measures relate resources used to the outputs. The contributions ratio or cost per dollar raised and the distribution ratio or cost per dollar distributed are the efficiency measures of the Foundation.

	Contributions to the Foundation				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General and operating expense	\$ 18,277,855	\$ 15,526,609	\$ 12,808,024	\$ 11,821,713	\$ 11,906,035
Contributions	146,351,569	123,023,989	122,677,170	114,058,687	167,373,234
Contribution ratio	0.125	0.126	0.104	0.104	0.071
General and operating expense	18,277,855	15,526,609	12,808,024	11,821,713	11,906,035
Distribution to the University	127,278,550	122,520,730	122,599,566	123,592,748	127,580,480
Distribution ratio	0.144	0.127	0.105	0.096	0.093