

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2007

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

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
FINANCIAL AUDIT**

FOR THE YEAR ENDED JUNE 30, 2007

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**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
FOR THE YEAR ENDED JUNE 30, 2007**

FOUNDATION OFFICIALS

Executive Director

Mr. Marquis Miller

Controller

Mr. Johnnie Barker

Foundation offices are located at:
9501 South Martin Luther King Drive
Cook Administrative Building
Room 322
Chicago, Illinois 60628

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
FINANCIAL STATEMENT REPORT**

SUMMARY

The audit of the accompanying financial statements of Chicago State University Foundation was performed by De Raimo Hillger & Ripp.

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

SUMMARY OF FINDINGS

The auditors identified a matter involving the Foundation's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on page 22 of this report, as finding 07-1, Pledge Receivable Not Properly Reported.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Foundation personnel at an exit conference on December 12, 2007. Attending were:

Representing Chicago State University Foundation Board of Directors

Audit Committee Chair

Mr. H. Timothy Allwardt

Representing Chicago State University Foundation

Executive Director

Mr. Marquis Miller

Controller

Mr. Johnnie Barker

Representing De Raimo Hillger & Ripp

Partner

Ms. Ferne M. Hillger, CPA

Representing the Office of the Auditor General

Audit Manager

Mr. Thomas L. Kizziah, CPA

The responses to the recommendations were provided by Mr. Marquis Miller in a letter dated December 12, 2007.

DE RAIMO HILLGER & RIPP

Certified Public Accountants & Business Consultants

655 N. La Grange Road • Suite 102 • Frankfort, IL 60423-2912 • Telephone (815) 469-7500 • Facsimile: (815) 469-6970

JOHN J. DE RAIMO
FERNE M. HILLGER
ROBERT J. RIPP

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the Chicago State University Foundation, a component unit of Chicago State University and the State of Illinois, as of and for the year ended June 30, 2007, which collectively comprise the Chicago State University Foundation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chicago State University Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Chicago State University Foundation's basic financial statements as of and for the year ended June 30, 2006, which were audited by other auditors, whose report dated December 7, 2006, 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 the 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 respective financial position of the business-type activities of the Chicago State University Foundation as of June 30, 2007 and the respective changes in net assets and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2007 on our consideration of the Chicago State University Foundation'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 considered in assessing the results of our audit.

De Raino Hillger & Ripp

December 12, 2007

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

The purpose of this analysis is to provide an objective and easy-to-read analysis of the Foundation's financial activities based on currently known facts, decisions, and/or conditions. The attached Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to Financial Statements are required by GASB (Governmental Accounting Standards Board) Statement No. 35, *Basic Financial/ Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

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

In order to understand the changes in the statements, below is a brief description of each statement. Due to the major changes, it may help you understand them better if you review the statements as you read the descriptions.

Statement of Net Assets

The Statement of Net Assets indicates assets available for current use (current assets) and those assets to be held (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 uses, assets restricted by the donor (or outside entity) for a certain purpose which can be used for current expenditures (expendable), or are to be held (nonexpendable. i.e., endowments), and those assets which are an investment in capital assets. During this period, the Foundation had an increase in net assets of \$2,180,758 as indicated on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Net Assets as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets	\$ 2,925,678	\$ 3,764,460
Non-Current Assets	3,590,099	1,914,467
Total Assets	<u>\$ 6,515,777</u>	<u>\$ 5,678,927</u>
Liabilities & Net Assets		
Current Liabilities	\$ 1,118,240	\$ 2,471,390
Non-Current Liabilities	9,242	-
Total Liabilities	<u>1,127,482</u>	<u>2,471,390</u>
Net Assets	<u>5,388,295</u>	<u>3,207,537</u>
Total Liabilities & Net Assets	<u>\$ 6,515,777</u>	<u>\$ 5,678,927</u>

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets basically indicates the activity for the period and its net effect on 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 the Foundation receiving contract payments for services. Nonoperating revenues (expenses) are listed after operating activities. Nonoperating revenues 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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as investment revenues and capital expenditures. Other revenues, expenses, gains and losses are the last grouping of transactions. This grouping indicates contributions received for capital assets (such as equipment and buildings) and additions to permanent endowments as required by GASB Statement No. 34. Since the primary purpose of the Foundation is to raise contributions for the benefit of Chicago State University, and most of this activity is located after Operating Income (Loss), Net Increase (Decrease) In Net Assets may be a better indicator of the Foundation's core activity.

Condensed Statement of Revenues, Expenses and Changes in Net Assets
for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Total Operating revenues	\$ 754,485	\$ 953,896
Total Operating expenses	<u>1,770,981</u>	<u>1,660,623</u>
Operating Loss	(1,016,496)	(706,727)
Total Non-operating revenues	<u>3,192,936</u>	<u>1,076,459</u>
Income before other revenues, expenses, gains, and losses	2,176,440	369,732
Other revenues, (expenses), gains and (losses)	<u>4,318</u>	<u>17,198</u>
Increase in Net Assets	2,180,758	386,930
Net Assets, Beginning of year	<u>3,207,537</u>	<u>2,820,607</u>
Net Assets, End of year	<u>\$ 5,388,295</u>	<u>\$ 3,207,537</u>

During fiscal year 2007, the Foundation experienced a \$1,931,227 or 192% increase in contributions compared to fiscal year 2006. This increase was due to an increase in restricted scholarship contributions and pledges. Dividend & interest income increased by \$13,321 (\$85,542 in fiscal year 2007 as compared to \$72,221 in fiscal year 2006) or 18% compared to fiscal year 2006. In addition, net unrealized/realized gains increased by \$185,846 (\$214,598 in

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

Statement of Revenues, Expenses and Changes in Net Assets (continued)

fiscal year 2007 as compared to \$28,752 in fiscal year 2006) or 646% compared to fiscal year 2006.

The increase in endowment funds available for investment during fiscal year 2007 resulted in the increase of interest income. An increase in the value of investment stocks held and the purchase of additional endowment investment securities resulted in the increased net unrealized/realized gains. Dividend and interest income as well as net unrealized/realized gains are reported as components of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

The Foundation's support to the University was \$1,038,851 (as compared to \$858,812 in fiscal year 2006) in scholarships and program support for fiscal year 2007. For fiscal year 2007, the Foundation's contribution revenue was over its budget by \$47,618. This increase was mainly due to a \$1 million dollar pledge received and a \$500,000 anonymous gift during fiscal year 2007. Actual expenses were under budgeted expenses mainly due to the reduction in restricted fund account expenses and scholarships awarded.

The Statement of Cash Flows

The Statement of Cash Flows' primary purpose is to provide relevant information about the cash receipts and cash payments of the Foundation during the period. The Foundation 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. For the period ended June 30, 2007, the Foundation had a decrease of cash and cash equivalents in the amount of \$882,731. The acquisition of certificates of deposits and other investment securities was the primary reason for the \$882,731 decrease in cash for the year ended June 30, 2007.

Facts, Decisions or Conditions Affecting the Future

The Chicago State University Foundation is expected to continue its involvement with the Chicagoland Regional College Program as the fiscal agent. This program is a joint venture of Chicago State University, Moraine Valley Community College, Morton College, Prairie State College, Olive-Harvey College, and United Parcel Service. Solicitation by Chicago State University and approval of a grant from the Department of Commerce and Economic Opportunity is expected for fiscal year 2008.

It is anticipated that Chicago State University support to the Foundation will continue to decrease and that the Foundation's solicitation for contributions and donations to the University initiatives will be expected to increase.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

STATEMENT OF NET ASSETS

AS OF JUNE 30, 2007

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 681,740	\$ 614,533
Cash and cash equivalents-restricted	1,821,451	2,771,389
Certificates of deposit	177,689	-
Other receivables	-	353,060
Pledges receivable	237,767	24,333
Accrued interest	7,031	1,145
Total Current Assets	<u>2,925,678</u>	<u>3,764,460</u>
Non-Current Assets		
Pledges receivable	916,082	-
Certificates of deposit-restricted	696,969	139,698
Endowment investments	1,977,048	1,774,769
Total Non-Current Assets	<u>3,590,099</u>	<u>1,914,467</u>
TOTAL ASSETS	<u>\$ 6,515,777</u>	<u>\$ 5,678,927</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and other liabilities	\$ 588,821	\$ 2,120,726
Deferred revenue	5,000	-
Current portion of capital lease	6,058	-
Due to Chicago State University	518,361	350,664
Total Current Liabilities	<u>1,118,240</u>	<u>2,471,390</u>
Non-current Liabilities		
Capital lease	\$ 9,242	\$ -
Total Non-current Liabilities	<u>9,242</u>	<u>-</u>
Total Liabilities	<u>1,127,482</u>	<u>2,471,390</u>
Net Assets		
Restricted for:		
Nonexpendable:		
Endowments	2,117,156	1,871,390
Expendable:		
Direct Programs and Scholarships	2,825,653	886,367
Unrestricted	445,486	449,780
Total Net Assets	<u>5,388,295</u>	<u>3,207,537</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,515,777</u>	<u>\$ 5,678,927</u>

The accompanying notes are an integral part of the financial statements.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
CSU support	\$ 323,487	\$ 524,039
Other operating revenues	430,998	429,857
Total Operating Revenues	<u>754,485</u>	<u>953,896</u>
 Operating Expenses:		
Program funds	586,323	306,627
General and administrative	450,051	292,383
Scholarships	211,965	264,017
Donations to CSU Departments & Colleges	199,155	126,661
CSU grant funds	-	146,896
CSU support	323,487	524,039
Total Operating Expenses	<u>1,770,981</u>	<u>1,660,623</u>
Operating Loss	<u>(1,016,496)</u>	<u>(706,727)</u>
 Non-operating Revenues (Expenses):		
Contributions	2,934,204	990,097
Investment income, including net unrealized/realized gain of \$214,598 for 2007 and \$28,752 for 2006, respectively)	300,140	100,973
In-kind CSU	(41,408)	(14,611)
Total Non-operating Revenue	<u>3,192,936</u>	<u>1,076,459</u>
Income before other revenues, expenses, gains and losses	<u>2,176,440</u>	<u>369,732</u>
 Other Revenues, Expenses, Gains and Losses:		
Endowment contributions	4,318	17,198
Total Other Revenues, Expenses, Gains and Losses	<u>4,318</u>	<u>17,198</u>
Increase in Net Assets	2,180,758	386,930
 Net Assets, Beginning of Year	<u>3,207,537</u>	<u>2,820,607</u>
Net Assets, End of Year	<u>\$ 5,388,295</u>	<u>\$ 3,207,537</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006

	2007	2006
Cash Flows from Operating Activities:		
Ticket sales and other income	\$ 88,498	\$ 99,582
Payments to vendors, direct program expenses	(3,247,607)	(1,309,134)
Payments for scholarships	(211,965)	(264,017)
Net cash used by operating activities	(3,371,074)	(1,473,569)
Cash Flows from Noncapital Financing Activities:		
Grants and donations	1,799,416	972,762
Grants received as fiscal agent	3,500,000	3,500,000
Grants disbursed as fiscal agent	(2,507,105)	(1,180,698)
CRCP program cash advances	3,336,309	3,305,012
CRCP program cash disbursements	(2,993,809)	(2,974,737)
Alumni membership dues	9,590	10,200
Pass thru scholarships	-	6,068
Pass thru scholarships payments	-	(7,485)
Net cash provided by noncapital financing activities	3,144,401	3,631,122
Cash Flows from Capital Financing Activities:		
Equipment purchase - note payable payments	(5,008)	-
Net cash used by capital financing activities	(5,008)	-
Cash Flows from Investing Activities:		
Interest and dividends on investments	79,656	74,966
Proceeds from sales and maturities of investments	1,365,251	2,045,846
Net (increase) decrease in certificates of deposit investments	(734,960)	305,199
Purchase of investments and other	(1,360,997)	(2,048,979)
Net cash (used) provided by investing activities	(651,050)	377,032
Net (decrease) increase in cash	(882,731)	2,534,585
Cash and cash equivalents - beginning of the year	3,385,922	851,337
Cash and cash equivalents - end of the year	\$ 2,503,191	\$ 3,385,922
Reconciliation of Net Operating Loss to		
Net Cash used by Operating Activities:		
Operating loss	\$ (1,016,496)	\$ (706,727)
Capital lease payments	5,008	-
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Non-cash revenue included in operating loss:		
Other income transferred from fiscal agent account	(342,500)	(330,275)
Net change in assets and liabilities included in operating activities:		
Other receivables	353,060	(292,688)
Accounts payable & other liabilities	(2,292,003)	(151,666)
Deferred revenue	5,000	-
Due to CSU	(83,143)	7,787
Net cash used by operating activities	\$ (3,371,074)	\$ (1,473,569)

Supplemental disclosure:

Cash paid for interest was \$1,571 and \$0 in fiscal year 2007 and 2006 respectively.

The accompanying notes are an integral part of the financial statements.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

1. FINANCIAL REPORTING ENTITY

The CHICAGO STATE UNIVERSITY FOUNDATION (Foundation), State Entity 609, is an Illinois non-profit corporation created for the principal purpose of aiding Chicago State University (University), State Entity 608, in achieving its instruction, research, extension, and public service objectives. The Foundation is a "university related organization" under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982, as amended in 1997. Note 9 describes related party transactions between the Foundation and the University.

For financial reporting purposes, the Foundation is a component unit of the University, which is a component unit of the State of Illinois. The financial balances and activities included in these financial statements are also included in the University's financial statements and the State's Comprehensive Annual Financial Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

For financial reporting purposes, the Foundation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. When both restricted and unrestricted resources are available for use, it is the Foundation's policy to use restricted resources first, and then unrestricted resources as needed.

The Foundation prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*; GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statements Nos. 35, 37, and 38 provides a comprehensive perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required.

In accordance with GASB Statement No. 20, the Foundation is required to follow all applicable GASB pronouncements. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The Foundation elected not to apply FASB pronouncements issued after November 30, 1989.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 40 *Deposit and Investment Risk Disclosures* was implemented in fiscal year 2005. In summary, GASB Statement No. 40 requires general disclosures by investment type with disclosures of the specific risks those investments are exposed to. Investments exposed to credit risk, custodial credit risk, concentration of credit risk (5% of total net assets), interest rate risk, and foreign currency risk must be disclosed, and the government reporting unit is required to describe their deposit or investment policies (or the lack of a policy) that relate to the risks stated above, if they are subject to them.

Cash and Cash Equivalents

Cash and cash equivalents include bank accounts and all highly liquid investments with an original maturity of three months or less when purchased.

Investments

Investments are reported at fair market value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Purchased investments are initially recorded at cost, investments or other assets received as gifts are initially recorded at the fair market value at the date of donation. All gains and losses arising from the sale, collection or other disposition of investments are accounted for in the accounts that owned such assets.

The Foundation's statement of investment objectives and guidelines requires assets to be invested with the care, skill, prudence, and diligence which a prudent person acting in a like capacity and familiar with such matters would make under conditions prevailing at the time. In order to minimize the risk of large losses, equity positions should not exceed 65% of the total portfolio. Investments in short-term fixed income securities are primarily to be (1) securities issued or guaranteed by the U.S. Government or its agencies, (2) certificates of deposit, or (3) high quality money market funds or commingled short-term funds of banks.

Deferred Revenue

Deferred revenue represents fees collected in fiscal year 2007 for the Gala that will take place in September 2007.

Net Assets - Unrestricted

Net Assets - Unrestricted includes resources (unrestricted gifts and investment earnings) that are expendable for any purpose in operating the Foundation. The Foundation's Board has designated certain resources for specific expenditure purposes.

Net Assets - Restricted (Expendable)

Net Assets - Restricted (Expendable) is used to account for resources that are restricted by parties outside the University for expenditure for specific current operating purposes. The endowment funds' earned interest, which is available for scholarships, is reported in the Net Assets - Restricted (Expendable).

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets - Restricted (Nonexpendable)

Net Assets - Restricted (Nonexpendable) – represents endowments which contain assets that are subject to the restrictions of donors that require that the principal of such gifts be invested in perpetuity and that only the interest and dividends be utilized. The Board has established Quasi-Endowment funds for similar purposes as Endowments. The Quasi-Endowment funds were established from Net Assets –Unrestricted funds and the principal may be expended in the future in accordance with the purposes established by the Foundation's governing board.

Classification of Revenues

Revenues are classified as Operating Revenues if they have the characteristics of exchange transactions, such as contract revenue with the University. Typically, non-operating revenues include revenues that have the characteristics of non-exchange transactions as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and by GASB Statement No. 34 which would include grants classified as non-exchange transactions, contributions, and investment income.

Contributions

Contributions and grants received are recorded as unrestricted, restricted (expendable) or restricted (nonexpendable) revenue depending on the existence and/or nature of any donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax-Exempt Status

The Foundation, incorporated December 20, 1968, under the "General Not-for-Profit Corporation Act" of the State of Illinois, is an organization as described in Section 501 (c) (3) of the Internal Revenue Code and, accordingly, is exempt from Federal income tax. Contributions made to the Foundation are deductible by donors as provided in Section 170 of the Code.

Furniture, Fixtures, and Equipment

Furniture, fixtures, and equipment are recorded at cost at the date of acquisition or fair market value at the date of the donation. These purchases or donations are then transferred to the University at their fair market value and are included as In-kind CSU on the Statement of Revenues, Expenses and Changes in Net Assets.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Totals

Comparative totals have been presented in the accompanying basic financial statements in order to provide an understanding of changes in the Foundation's financial position and operations. 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 Foundation's financial statements for the year ended June 30, 2006, from which the summarized comparative totals were derived.

3. CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The Foundation is not required to and does not maintain a deposit account with the State Treasury. The Foundation maintains cash deposits and certificates of deposit at Chicago area financial institutions. The carrying amount and bank balances of the Foundation's deposits were:

Deposit type	Carrying Amount	Bank Balance
Cash in Bank (checking or savings)	\$2,487,089	\$2,629,413
Money Markets	4,173	4,173
Certificates of Deposit	886,587	886,587
Total deposit accounts	\$3,377,849	\$3,520,173
Less certificates of deposit (maturity > 90 days) classified as investments	(874,658)	(874,658)
Total Cash & Cash Equivalents	\$2,503,191	\$2,645,515

Custodial Credit Risk

For deposit accounts, custodial credit risk is the risk that in the event of the failure of the bank, the Foundation will not be able to recover the value of its deposits. Of the Foundation's deposit accounts, \$1,262 of the deposits exceeds FDIC coverage and are not collateralized with securities in the name of the Foundation. The Foundation's policy limits direct deposits in any one bank to not exceed FDIC insurance coverage limits unless the deposits are collateralized or the financial institutions illustrates that they are in good financial status based on the Foundation's review of the financial institution's "CALL" report (Report of Conditions & Income).

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

4. INVESTMENTS

The carrying value (and market value) of the investment portfolio of the Foundation at June 30, 2007 is as follows:

	Fair Value
Money Funds and Other	\$ 101,266
US Treasury and Agency Obligations	549,566
Common Stock	1,162,719
Corporate & Int'l Bonds	163,497
Total Endowment Investments	1,977,048
Certificates of Deposit (maturity > 90 days)	874,658
Total Investments	\$2,851,706

All investments are insured or registered and held by the Foundation or its agent in the Foundation's name. The Foundation does not have a policy limiting its exposure to concentrations of credit risk.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2007 was as follows:

<u>Debt Security</u>	Maturity			Total
	Less than 1 year	1 - 5 years	6 - 10 years	
US Treasury Obligations	\$ -	\$ 77,367	\$ 113,324	\$ 190,691
US Agency/Guaranteed Obligations	24,805	222,076	111,994	358,875
Total US Treasury/Agency	24,805	299,443	225,318	549,566
Corporate & Int'l Bonds	21,671	108,257	33,569	163,497
Total Debt Security Investments	\$ 46,476	\$ 407,700	\$ 258,887	\$ 713,063

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

4. INVESTMENTS (Continued)

The Standard & Poor's and Moody's Investors Service credit rating of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2007 is as follows:

Credit Rating	Total Debt Securities
US Treasury/Agency/Guaranteed Obligations - no rating	\$ 549,566
AAA/AAA	16,949
A1/A+	9,063
A1/A-	4,124
AA1/AA	15,920
AA1/AA+	16,708
A2/A-	5,165
AA2/AA	11,364
AA2/AA-	15,321
A3/A	4,216
AA3/A+	15,447
AA3/AA-	34,769
BAA1/BBB	5,255
BAA2/BBB+	9,196
Total	<u>\$ 713,063</u>

The Foundation's statement of investment objectives and guidelines states that investments in non-convertible fixed-income securities other than short-term securities will be restricted to issues with a maximum fixed or expected average maturity of ten years and will be made primarily in (1) securities issued or guaranteed by the U.S. government or its agencies, (2) marketable issues of non-nuclear utility companies rated at the time of purchase within the three highest grades assigned by Moody's Investor Services, Inc. (Aaa, Aa or A) or by Standard & Poors (AAA, AA or A) and (3) bond mutual funds which invest primarily in bonds with rating of A and higher.

The Foundation's exposure to foreign currency risk (valued in U.S. dollars) is as follows at June 30, 2007:

Investment	Currency	Maturity	Fair Value
United Mexican States -USD Rating: BAA1/BBB	U.S. Dollars	3/03/2015	\$ 5,255
Total			<u>\$ 5,255</u>

The Foundation does not have a policy limiting its exposure to foreign currency risk.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

5. ENDOWMENT TRUST ACCOUNTS

The Foundation assumed responsibility on behalf of the University for private gifts for scholarships. As of June 30, 2007, endowment trust accounts invested with Smith Barney reported at market totaled \$1,977,048.

The Foundation Board resolved that endowments' dividend and interest income be used for scholarships and that a reasonable amount of dividends and interest be added back to the endowment principal. The portion of dividends and interest available for scholarships is transferred to the Expendable Restricted Funds. As of June 30, 2007, endowment dividends and interest transferred to the Expendable Restricted Funds totaled \$43,004.

Gains or losses on sales of investments are retained or absorbed by the endowment fund principal.

6. PLEDGES RECEIVABLE

The Foundation has unconditional pledges receivable of \$1,153,849 and \$24,333 as of June 30, 2007 and 2006 respectively. The Foundation believes that all the pledges as of June 30, 2007 are collectible. The maturities of the pledges receivable as of June 30, 2007 are as follows:

Receivable in less than one year	\$ 237,767
Receivable in one to five years	<u>916,082</u>
Total unconditional pledges receivable	<u>\$1,153,849</u>

7. ADMINISTRATIVE FEES AND OTHER OPERATING REVENUE

The Foundation generally transfers from the Expendable Restricted Funds to the Unrestricted Fund a 4% to 8% administrative fee on the Expendable Restricted Fund monetary gifts as they are received. Such fees transferred during the fiscal year amounted to \$73,305. In addition, the Foundation received fiscal agent fees and indirect cost recoveries totaling \$342,500 related to the Chicagoland Regional College Program. Other operating revenues also include alumni association membership fees and revenue from the Annual Gala.

8. NON-CASH TRANSACTIONS

Non-cash transactions have been excluded on the Statement of Cash Flows. During the year ended June 30, 2007, the Foundation's investments experienced a net unrealized gain of \$99,608. The Foundation financed a purchase with a note payable of \$18,968 during the period ended 6/30/07, see footnote # 10.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

9. RELATED PARTY TRANSACTIONS

The University and Foundation agreed to a master contract, effective June 30, 1983 and revised February 1, 1989, which specifies the relationship between the two organizations as required by the University Guidelines adopted on November 30, 1982, as amended in 1997, by the Legislative Audit Commission. Under the terms of the contract, the Foundation is provided administrative support services by the University, such as maintenance, telephone, personnel, and property control. The Foundation does not directly pay the University for these services, which were valued at \$323,487 for the current fiscal year. The Foundation reciprocates by providing fundraising and other services to the University. These services resulted in Foundation expenditures benefiting the University in the amount of \$1,038,851 for the current fiscal year. Scholarships benefiting the University totaled \$211,955 for the fiscal year ended June 30, 2007.

The Due to CSU balance of \$518,361, consists primarily of a liability to the University for \$456,322 in Chicago Regional College Program (CRCP) project costs and payroll reimbursements.

10. CAPITAL LEASE

The Chicago State University Foundation entered into a capital lease agreement with Steelcase Financial Services Inc. to acquire office equipment for \$18,968. The equipment purchased by this capital lease agreement has been donated to Chicago State University, and is recorded and depreciated on the University's financial statements. The following is a schedule by years of future minimum payments required under the lease as of June 30, 2007:

Year Ending June 30:	
2008	\$ 6,058
2009	6,797
2010	<u>2,445</u>
Total lease payments	\$15,300
Less amount representing interest	<u>2,230</u>
Minimum lease payments	<u>\$13,070</u>

Annual interest rate was 11.56%.

STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007

11. OPERATING LEASE

On November 13, 2006, the Chicago State University Foundation entered into an operating lease agreement with Citicorp Vendor Finance, Inc. to use Net Solutions computer software. The lease is for 36 months (3 yrs.) with a monthly payment of \$1,316.13. Rental expense for this lease was \$ 10,529 for the year ended June 30, 2007.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2007, are:

Years ending June 30:

2008	\$ 15,794
2009	15,793
2010	<u>5,265</u>
	<u>\$ 36,852</u>

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JOHN J. DE RAIMO
FERNE M. HILLGER
ROBERT J. RIPP

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Chicago State University Foundation, a component unit of Chicago State University and the State of Illinois, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 12, 2007. 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 Chicago State University Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Chicago State University Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Chicago State University Foundation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the 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 accompanying schedule of findings, finding 07-1, 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chicago State University 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*. We noted certain matters that we have reported to management of the Chicago State University Foundation in a separate letter dated December 12, 2007.

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 Foundation's Board of Directors, and Foundation management and is not intended to be and should not be used by anyone other than these specified parties.

De Raimo Hillger & Ripp

December 12, 2007

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
SCHEDULE OF FINDINGS**

FOR THE YEAR ENDED JUNE 30, 2007

07-1 FINDING: PLEDGE RECEIVABLE NOT PROPERLY REPORTED

The Chicago State University Foundation (Foundation) did not properly report pledges receivable at June 30, 2007 in accordance with Government Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

During our review of the Foundation's financial statements it was noted that the non-current portion of pledges receivable, \$916,082, were not presented in the non-current asset section of the statement of net assets. The total amount of pledges receivable, all reported as current, for the year ended June 30, 2007 was \$1,153,849. The amount of current and non-current pledges receivable was disclosed in the footnotes to the financial statements.

Generally accepted accounting principles (GAAP) for governmental entities is promulgated by GASB. GASB Statement No. 34 paragraph 31 states that governments are encouraged to present assets and liabilities in order of their relative liquidity. Use of a classified statement of net assets, which distinguishes between all current and long-term assets and liabilities, is also acceptable.

Foundation management stated that the current and non-current portions of the pledges receivable were disclosed in the footnotes.

Failure to record and maintain accounting records in accordance with GAAP, could result in a material error on the financial statements. (Finding Code No. 07-1).

RECOMMENDATION

We recommend the Foundation review its policies and procedures to ensure the recording of all transaction in accordance with GAAP.

FOUNDATION RESPONSE

We concur; the Foundation's draft of the financial statements did not include a breakdown of the non-current portion of a pledge receivable. The allocation between current and non-current receivables is the proper disclosure for a classified statement of net assets.

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION**

PRIOR FINDINGS NOT REPEATED

FOR THE YEAR ENDED JUNE 30, 2007

07-2. During the prior financial statement audit, the Foundation did not prepare an accurate Statement of Cash Flows.

During the current period, the Foundation prepared an accurate Statement of Cash Flows.

07-3. During the prior financial statement audit, the Foundation maintained deposits in excess of Federal Deposit Insurance Corporation covered and pledged collateral.

During the current period, the Foundation secured collateral and at June 30, 2007, only a small amount of cash and cash equivalents remained uninsured. Therefore, this exception was reflected in the immaterial letter for the period ended June 30, 2007.