

**STATE OF ILLINOIS**

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

**FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT AUDITORS**

June 30, 2008

(With comparative totals for 2007)

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

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

FINANCIAL STATEMENTS  
June 30, 2008

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THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

AGENCY OFFICIALS

June 30, 2008

The Alumni Association of Southern Illinois University Edwardsville (the Association) Board of Directors

Mr. Larry R. Lexow, President  
Ms. Elzora P. Douglas, Immediate Past President  
Mr. Ajay K. Kansal, President Elect  
Ms. Marcia Wickenhauser, Vice President  
Mr. Christopher Slusser, Vice President Finance  
Mrs. Rita Adkins  
Mr. SJ Morrison  
Ms. Debra O'Neill  
Mr. John Simmons  
Ms. Janet Sprehe  
Mr. Michael Stewart  
Ms. Veronica Felton Armouti  
Dr. Barry Delassus  
Ms. Bev George  
Mr. William Graebe, Jr.  
Ms. Kay Guse  
Dr. Karen Kelly  
Mr. Tom McRae  
Mr. Chuck Rathert  
Dr. Scott Wolter

Southern Illinois University Edwardsville (SIUE) personnel who provide significant administrative support to the Association include:

Director of Alumni Affairs	Steve Jankowski
Assistant Director of Alumni Affairs	Katie Bennett
Office Support Associate	Roxana Jones
Exec. Dir., Financial Affairs & Info Systems	Rich Hampton

The Association offices are located at:

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

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

June 30, 2008

FINANCIAL STATEMENT REPORT  
SUMMARY

The audit of the accompanying basic financial statements of the Alumni Association of Southern Illinois University Edwardsville (the Association) was performed by Crowe Horwath LLP.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Association's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 23-24 of this report, as finding 08-1, (Fraud Prevention and Detection Program), and finding 08-2, (Segregation of Duties over Journal Entries).

EXIT CONFERENCE

The Association waived an exit conference. Written responses were provided by Rich Hampton, Director of Financial Affairs on November 20, 2008.



Crowe Horwath LLP  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the Alumni Association of Southern Illinois University Edwardsville (the Association), a component unit of Southern Illinois University, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's 2007 financial statements and, in our report dated January 11, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alumni Association of Southern Illinois University Edwardsville as of June 30 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2008, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
Crowe Horwath LLP

Chicago, Illinois  
November 24, 2008

STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008

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*Introduction*

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

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

*Financial Statement Highlights*

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

The Statements of Net Assets for the Association identifies all assets (resources) in order of their liquidity, and lists all liabilities (commitments) in order of their term length. The Statement of Net Assets is presented in a manner that indicates the level of restriction, if any, placed on the net assets. The Association reported \$150,460 in net assets at June 30, 2008, all of which are classified as unrestricted.

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

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 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2008

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*Condensed*  
**Statements of Net Assets**  
 (in thousands of dollars)

	June 30, <u>2008</u>	June 30, <u>2007</u>	% <u>Change</u>
Assets			
Current assets	\$ 34	\$ 223	-84.8%
Noncurrent assets	<u>277</u>	<u>163</u>	<u>69.9</u>
Total assets	<u>311</u>	<u>386</u>	<u>-19.4</u>
Total current liabilities	<u>161</u>	<u>126</u>	<u>27.8</u>
Total net assets	<u>\$ 150</u>	<u>\$ 260</u>	<u>-42.3%</u>

The net assets of the Association decreased by approximately \$110,000 during FY 2008. The Association's investments experienced negative returns in the fiscal year and operating expenditures were significantly higher than last year in the areas of Association activities and administrative expenses. The decrease in net assets can be attributed primarily to these two factors. Details of each of these are presented in the discussion of the Statements of Revenue, Expenses and Changes in Net Assets section.

Current assets decreased by approximately \$189,000 from FY 2007 and noncurrent assets increased by approximately \$114,000. In June, 2007, the Association adopted an investment policy that included a target allocation for all investment classes. During FY 2008, this target allocation was achieved in three phases over the course of 11 months. Implementing this policy resulted in the investment of approximately \$140,000 in assets previously considered current assets. These transactions in combination with higher expenses during FY 2008 previously mentioned, accounted for a majority of the 84.8% decrease in current assets.

Current liabilities increased by 27.8%, or approximately \$35,000. As was the case in previous years, this increase can be attributed to the method the Association uses to recognize its income from life membership dues. According to current policy, which was implemented in FY 2007, life membership dues are recognized over a 40 year period to better match the period of time over which these members will receive their benefits. This policy has the effect of lowering the amount of revenue recorded and increasing the liabilities in comparison to the previous policy of recognizing life memberships over a 5 year period. It also will continue to add significantly to liabilities since a large majority of life dues collected are deferred each year.

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

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 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2008

*Condensed*  
**Statements of Revenue, Expenses and Changes in Net Assets**  
 (in thousands of dollars)

	<u>FY 2008</u>	<u>FY 2007</u>	<u>% Change</u>
Total operating revenue	\$ 327	\$ 291	12.4%
Operating expenses:			
Activities	73	32	128.1
Budget expended at SIUE	194	146	32.9
Postage and publications	85	94	-9.6
Other operating expenses	<u>62</u>	<u>55</u>	<u>12.7</u>
Total operating expenses	414	327	26.6
Operating income (loss)	(87)	(36)	-141.7
Non-operating revenue	<u>(23)</u>	<u>35</u>	<u>-165.7</u>
Increase (decrease) in net assets	<u>(110)</u>	<u>(1)</u>	<u>10,900.0</u>
Net assets-July 1	<u>260</u>	<u>261</u>	<u>-0.4</u>
Net assets-June 30	<u>\$ 150</u>	<u>\$ 260</u>	<u>-42.3%</u>

The Statements of Revenue, Expenses, and Changes in Net Assets identifies the financial activity for the fiscal year, including the change in net assets from last year due to this activity. Activity is segregated between operating activity and non-operating activity. The decrease in net assets of \$110,000 reflects the overall decrease in available financial resources experienced during FY 2008.

Operating revenue increased by \$36,000, or 12.4%. There was a \$48,000 increase in support from SIUE which provides the salaries and benefits of the employees assigned to the Association. During FY 2008, the Assistant Director of Alumni Affairs position was filled. The increase in the amount of salaries and benefits provided by SIUE occurred as a result of this new position and to a lesser extent, annual salary increases provided to existing positions.

Other increases in operating revenue were in activities revenue and merchandise sales. Each of these increases, totaling approximately \$16,000 more than FY 2007, was due to additional events held by the Association during FY 2008. Expenses related to these events increased as well and will be discussed later in this analysis. A decrease in operating revenue of \$28,000 can be attributed to a decrease in financial support from the Southern Illinois University Edwardsville Foundation (SIUE Foundation). The SIUE Foundation has traditionally provided funds to produce the Association publication that is normally sent twice each fiscal year. In FY 2007, two issues were produced and distributed to the Association. In FY 2008, a decision was made to distribute one issue to all alumni and the second issue to only Association members.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008

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The decrease in the cost of sending one issue to only members is the reason support from the SIUE Foundation is reflecting a decrease.

Operating expenses increased substantially from FY 2007. Approximately \$31,000 of the \$87,000 total increase was due to additional activities and sponsorships provided by the Alumni Association. These included a Flashback to the Mississippi River Festival concert and the sponsorship of two performances offered through the SIUE Arts & Issues series. None of these are expected to be repeated in the near future.

An additional \$17,000 increase in operating expenses was incurred from increased administrative costs. The Association entered into a contract for a web-based social networking service for the first time in FY 2008 at a cost of \$5,000. Additionally, over \$6,000 in expenses were incurred to restock the Association with items such as letterhead, envelopes, and membership cards.

Another factor affecting operating expenses is the increase in the Budget Expended at SIUE category. This increase corresponds to the increase in support from SIUE as explained in the operating revenue section above. Salaries and Benefits provided by SIUE are included as both revenue and expense in the Association's financial statements. Since the amounts are identical, there is no impact on net assets.

Non-operating activities totaled (negative) \$23,238, in comparison to non-operating revenue of \$35,015 in FY 2007. The \$58,000 decrease can be attributed to the decrease in the value of investments during FY 2008. The Association phased in the new investment policy target allocations which resulted in increased investments over previous years during a year when the returns for equity markets in general were down strongly. The Finance Committee continues to believe the portfolio is positioned to take advantage of a recovery in the markets going forward and has not made any significant adjustments to the allocation targets as of the date of this analysis.

The final statement presented is the Statements of Cash Flows. The primary purpose of these statements are to categorize all cash transactions into operating, financing, and investing activities, and reconcile the cash flows used by operating activities to the operating revenue in excess of expenses as presented on the Statements of Revenue, Expenses and Changes in Net Assets. During the fiscal year, the Association experienced a decrease in cash and cash equivalents of \$201,506 due primarily to \$140,000 in new investments made during the year. This difference is shown under the Cash Flows from Investing Activities section of the Statements of Cash Flows.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008

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Net cash used by operating activities was \$61,584, compared to net cash provided of \$2,702 in FY 2007. An excess of cash outflows over cash inflows was experienced from the higher than normal expenditures explained earlier in this discussion related to additional activities, administrative supplies and materials. Much of the cash outflows related to activities are itemized under Payments to SIUE and Payments to SIUE Foundation. Services provided by SIUE for events include food and other concessions provided by University Food Service, and postage and printing which are processed through the SIUE Post Office and SIUE Marketing and Communications department, respectively. Payments for the two Arts & Issues performances that were sponsored are shown under Payments to the SIUE Foundation because the SIUE Foundation administers the Arts & Issues development fund where the proceeds are deposited.

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

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

STATE OF ILLINOIS  
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 STATEMENTS OF NET ASSETS  
 June 30, 2008  
 (With comparative totals for 2007)

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	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 3)	\$ 17,620	\$ 219,126
Other receivables	11,652	3,356
Prepaid expenses	<u>5,091</u>	<u>925</u>
Total current assets	34,363	223,407
Noncurrent assets		
Investments (Note 3)	<u>277,456</u>	<u>162,492</u>
Total noncurrent assets	<u>277,456</u>	<u>162,492</u>
Total assets	<u>311,819</u>	<u>385,899</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable, SIUE	17,378	10,187
Accounts payable, SIUE Foundation (Note 7)	14,114	9,658
Accounts payable, other	1,371	283
Deferred revenue	<u>128,496</u>	<u>105,683</u>
Total current liabilities	<u>161,359</u>	<u>125,811</u>
<b>NET ASSETS</b>		
Unrestricted	<u>150,460</u>	<u>260,088</u>
Total net assets	<u>\$ 150,460</u>	<u>\$ 260,088</u>

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See accompanying notes to financial statements.

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

	<u>2008</u>	<u>2007</u>
Operating revenue		
Activities	\$ 28,237	\$ 19,184
Annual dues	27,986	28,145
Budget allocations from SIUE (Note 7)	194,330	146,104
Life memberships	2,419	1,506
Miscellaneous	-	1,200
Merchandise	7,735	610
SIUE Foundation support (Note 7)	50,495	78,399
Commissions (Note 5)	<u>16,267</u>	<u>15,934</u>
Total operating revenue	327,469	291,082
Operating expenses		
Activities	72,618	31,714
Administrative	22,081	5,349
Audit fees	11,744	9,757
Award and scholarships	15,548	13,070
Budget expended at SIUE (Note 7)	194,330	146,104
Dues sharing program	4,260	4,770
Merchandise	6,010	18,698
Postage	19,784	16,215
Publications	64,844	77,628
Travel	<u>2,640</u>	<u>3,248</u>
Total operating expenses	<u>413,859</u>	<u>326,553</u>
<b>Deficiency of operating revenue over expenses</b>	(86,390)	(35,471)
Non-operating revenue		
Contributions	190	31
Investment income (Note 3)	7,913	11,383
Net change in fair value of investments (Note 3)	<u>(31,341)</u>	<u>23,601</u>
Total non-operating revenue	<u>(23,238)</u>	<u>35,015</u>
<b>Decrease in net assets</b>	(109,628)	(456)
Net assets		
Beginning of year	<u>260,088</u>	<u>260,544</u>
End of year	<u>\$ 150,460</u>	<u>\$ 260,088</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS  
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STATEMENTS OF CASH FLOWS  
Years ended June 30, 2008  
(With comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Payments received for annual dues	\$ 25,791	\$ 29,460
Payments received for life memberships	25,147	32,547
Commissions received	16,236	16,360
Payments received for activities	31,569	19,953
Miscellaneous cash receipts	50	121
Payments to the SIUE Foundation (Note 7)	(23,567)	(8,944)
Payments to SIUE (Note 7)	(56,921)	(18,672)
General and operating payments	(130,384)	(146,522)
Payments from SIUE Foundation	<u>50,495</u>	<u>78,399</u>
Net cash provided(used) by operating activities	<u>(61,584)</u>	<u>2,702</u>
 <b>Cash flows provided by noncapital financing activities</b>		
Contributions for other than capital purposes	<u>185</u>	<u>31</u>
 <b>Cash flows from investing activities</b>		
Interest income	3,180	164
Purchase of investments	(229,041)	-
Sale of investments	<u>85,754</u>	<u>9,089</u>
Net cash provided by (used in) investing activities	<u>(140,107)</u>	<u>9,253</u>
 Net change in cash	(201,506)	11,986
 Cash at beginning of year	<u>219,126</u>	<u>207,140</u>
 <b>Cash at end of year</b>	<u>\$ 17,620</u>	<u>\$ 219,126</u>
 Reconciliation of operating revenue in excess of expenses to net cash provided by operating activities		
Operating revenue in excess of expenses	\$ (86,390)	\$ (35,471)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	-	-
Increase (decrease) in assets and liabilities		
Receivables	(6,577)	(426)
Prepaid expenses	(4,166)	(100)
Accounts payable	12,736	6,343
Other liabilities	<u>22,813</u>	<u>32,356</u>
Net cash provided by operating activities	<u>\$ (61,584)</u>	<u>\$ 2,702</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Investments: The Association accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the fair value of investments are reported in the non-operating section of the accompanying statements of revenue, expenses, and changes in net assets. Also, certain money market investments having a remaining maturity of one year or less at the time of purchase and nonnegotiable certificates of deposit with redemption terms that do not consider market rates are carried at amortized cost.

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

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

Deferred Revenue: The Association recognizes revenue on lifetime memberships ratably over a forty year period beginning with the first year after receipt. Annual memberships are recognized over a twelve-month period beginning the month after receipt. Deferred revenue represents the unexpired portion of dues received.

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

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

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

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(Continued)



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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Reclassification: Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. The reclassification had no effect on net assets or the change in net assets.

**NOTE 2 - TAX STATUS**

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

**NOTE 3 - CASH AND INVESTMENTS**

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

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

The net decrease in the fair value of investments for the fiscal year 2008 was \$31,341. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year. Investment income for the year ended June 30, 2008 of \$7,778, combined with operating account interest of \$135 is reported as investment income on the Statements of Revenue, Expenses and Changes in Net Assets.

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

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

Cash and Investment Risk

Custodial Credit Risk: Deposits: The risk that, in the event of the failure of a depository financial institution, the Association will not be able to recover deposits that are in the possession of an outside party. The Association's informal policy is to maintain balances below the Federal Deposit Insurance Corporation's (FDIC) limit. The carrying amount of cash in bank at June 30, 2008 is \$831 and the bank balance was \$6,147, which is insured by the FDIC.

Investments: The risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments that are in the possession of an outside party. The carrying amount of the Association's investments held by the counterparties at June 30, 2008, is as follows:

Common stock	\$ 23,164
Mutual funds, equities	178,590
Mutual funds, fixed	<u>75,702</u>
Total investments	<u>\$ 277,456</u>

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(Continued)

STATE OF ILLINOIS  
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 NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

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

Foreign Currency Risk: The risk that changes in exchange rates will adversely affect the investment. The Association had no foreign investments at June 30, 2008. The Association does not maintain a policy regarding foreign currency risk.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association has no corporate bond investments. The Association limits its exposure to credit risk, by primarily investing in obligations guaranteed by the United States Government or securities issued by agencies of the United States Government that are explicitly guaranteed by the United States Government. However, the Association's investment policy does not specifically limit the Association to these types of investments.

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

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

As of June 30, 2008, the Association had the following cash and investment balances:

INTERNALLY MANAGED

	<u>Fair value</u>	<u>Maturities</u>	
		<u>Less than one year</u>	<u>More than one year</u>
Subject to interest rate risk:			
Mutual funds, fixed	\$ <u>75,702</u>	\$ -	\$ <u>75,702</u>
Total segmented investments	<u>75,702</u>	<u>-</u>	<u>75,702</u>
Not subject to interest rate risk:			
Common stock	23,164		
Mutual funds, equities	178,590		
Cash equivalents	<u>17,620</u>		
Total internally managed	<u>\$ 295,076</u>		

(Continued)

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**NOTE 4 - CAPITAL ASSETS**

As a result of the adoption of GASB Statement No. 35, the Association will recognize depreciation on its capital assets during the useful life of the assets. Capital assets currently consist of the following fully depreciated assets:

	Balance July 1, <u>2007</u>	<u>Additions</u>	Retire- <u>ments</u>	Balance June 30, <u>2008</u>
Equipment	\$ 3,260	\$ -	\$ -	\$ 3,260
Less accumulated depreciation	<u>3,260</u>	<u>-</u>	<u>-</u>	<u>3,260</u>
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 5 - CREDIT CARD ARRANGEMENT**

The Association entered into an agreement with Bank of America, N.A. (the Bank) whereby the Association and the Bank will market the Bank's credit card services to University students, alumni, employees, and others using the Association's name and logo. In conjunction with this agreement, the Association will receive certain fees and royalties based upon each new account opened and amounts charged on these accounts. Fees or royalties earned were \$16,267 for 2008, which are included with commissions in the Statements of Revenue, Expenses and Changes in Net Assets for the year ended June 30, 2008.

**NOTE 6 - RETIREMENT PLAN**

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

Participants of the Plan contribute 8% of their gross earnings, and the University annually contributes an amount determined by the State Legislature from State appropriations and amounts from other current funds, based on actuarially determined rates. Information pertaining to the Plan and plan benefits can be found in the University's financial statements.

The Association does not own any of the Plan's assets and has no responsibility for the Plan's obligations.

During 2008, SIUE contributed \$14,350 to the Plan on behalf of Association personnel. These amounts are included in the amounts shown as budget allocations from SIUE and budget expended at SIUE in the accompanying Statements of Revenue, Expenses, and Changes in Net Assets

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STATE OF ILLINOIS  
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June 30, 2008

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**NOTE 7 - TRANSACTIONS WITH RELATED PARTIES**

The Association has entered into an agreement with the Board of Trustees of SIUE and the Southern Illinois University Edwardsville Foundation (SIUE Foundation), which specifies the relationship between the organizations in accordance with the Legislative Audit Commission's University Guidelines, 1997. Under the terms of the agreement, the SIUE Foundation provides coordination of alumni services on behalf of SIUE and provides various services to the Association without charge. The SIUE Foundation expended \$50,495 in 2008 as reimbursement to SIUE on the Association's behalf. These amounts are reflected as SIUE Foundation support in the accompanying Statements of Revenue, Expenses, and Changes in Net Assets.

The Association also uses various services of SIUE and directly reimburses SIUE at a cost equal to that charged by SIUE to other users. The Association expended \$56,921 in 2008. The Association also expended \$23,567 in 2008 to the SIUE Foundation for support of SIUE Foundation activities. These amounts are reflected as payments to SIUE and payments to the SIUE Foundation, respectively, in the Statements of Cash Flows.

The Association maintains a dues-sharing program whereby the Association shares 10% of the dues collected with the school or college from which the alum graduated. The dues are paid to the school or college upon request and at June 30, 2008, the amount owed was \$13,918.

The funds are distributed to a SIUE Foundation fund controlled by the school or college and therefore this amount is reflected as a payable to the SIUE Foundation in the Statements of Net Assets.

Pursuant to governmental accounting standards, the Association is required to recognize as revenue and expense those on-behalf payments for salaries and fringe benefits made by the University for personnel of the Association. The amount reflected as budget allocations from SIUE and budget expended at SIUE in the accompanying Statements of Revenue, Expenses, and Changes in Net Assets totaled \$194,330 for the year ended June 30, 2008.

**NOTE 8 - SUMMARIZED FINANCIAL INFORMATION**

The financial statements include prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2007, from where the summarized information was derived.

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**NOTE 9 – SUBSEQUENT DECLINE IN INVESTMENTS**

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

Subsequent to June 30, 2008, and through October 31, 2008, the fair value of the Association's investments declined in value from \$277,456 to \$228,642. The composition of these declines was primarily due to unrealized losses partially off-set by investment gains and reinvested dividends.

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



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

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

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Alumni Association of Southern Illinois University Edwardsville (the Association), as of and for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 08-1 and 08-2 to be significant deficiencies in internal control over financial reporting.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We also noted certain matters which we have reported to management of the Association in a separate letter dated November 24, 2008.

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

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

  
Crowe Horwath LLP

Chicago, Illinois  
November 24, 2008



STATE OF ILLINOIS  
THE ALUMNI ASSOCIATION OF SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
June 30, 2008

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**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS**

**08-1            Fraud Prevention and Detection Program – Significant Deficiency**

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

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

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

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

The Association does not have a Fraud Prevention and Detection program which could result in fraud risks facing the Association not to be recognized and addressed by Association management. (Finding Code No. 08-1, 07-1)

Recommendation

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

Management Response

Management agrees that establishing a formal assessment program would provide a framework for a regular, on-going review of internal controls. Management will evaluate the development of this program during the current fiscal year in coordination with the Alumni Association Board or the appropriate Alumni Association committee.

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**08-2            Segregation of Duties over Journal Entries – Significant Deficiency**

The design of controls over the journal entry process in place at the Association does not restrict the Director of Financial Affairs from having the authorization to approve a journal entry and the ability to post a journal entry into the general ledger.

During our testing, no journal entries were noted that were posted by the Director of Financial Affairs.

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

Association management indicated that due to the small size of the staff, the Director of Financial Affairs is considered the backup for some accounting processes, therefore access is considered necessary.

This weakness in the design of the control system over the journal entry process could result in management override of controls and thus result in an inappropriate journal entry being made by management that is not prevented or detected by the entity. (Finding Code No. 08-2, 07-3)

Recommendation

The Association should implement a system of control to ensure that management does not have the ability to override the controls currently in place. Specifically, the Association should implement procedures to ensure that the Director of Financial Affairs does not have the ability to both authorize and post journal entries to the general ledger system. If, due to the small size of the entity, access is deemed necessary in certain situations this access should be granted by an information systems employee that is independent of the financial reporting process and this access should only be granted for a specified period of time. Documentation should be maintained by the Association when access is granted to the Director of Financial Affairs and of the time period that access was granted.

Management Response

Management agrees that the risks of management override of controls should be minimized through appropriate segregation of duties. Due to the small staff size however, the Executive Director has intentional access to the duties described. Management will continue to evaluate how to improve the control over recording Journal Entries going forward by mitigating the risks inherent in this process.

STATE OF ILLINOIS  
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**PRIOR FINDINGS NOT REPEATED**

**A. Bank Reconciliations Not Completed Timely**

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

In the current year, bank reconciliations were all performed within 30 days of the end of the month. (Finding Code No. 07-2)