

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2006**

**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, 2006

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STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
FOR THE YEAR ENDED JUNE 30, 2006

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 Nykiel, Carlin & Co., Ltd.

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

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 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, 2006, 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, 2005, on which we expressed an unqualified opinion on the basic financial statements in our report dated October 20, 2005.

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 business-type activities of the Chicago State University Foundation, as of June 30, 2006 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 10 through 12 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.

In accordance with *Government Auditing Standards* we have also issued a report 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.

Nykiel, Carlin & Co., Ltd.

NYKIEL, CARLIN & CO., LTD.
Kankakee, Illinois

December 7, 2006

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 basic financial statements 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, 2006, and have issued our report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chicago State University Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Chicago State University Foundation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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 that are required to be reported under *Government Auditing Standards*.

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

Nykiel, Carlin & Co., Ltd.

NYKIEL, CARLIN & CO., LTD.
Kankakee, Illinois

December 7, 2006

**CHICAGO STATE UNIVERSITY FOUNDATION
SCHEDULE OF FINDINGS**

FOR THE YEAR ENDED JUNE 30, 2006

06-1 FINDING: INACCURATE STATEMENT OF CASH FLOWS

Chicago State University Foundation (Foundation) did not prepare an accurate Statement of Cash Flows.

During our review of the Statement of Cash Flows we noted certain inaccuracies in the preparation of the Statement. These inaccuracies were brought to the attention of Foundation personnel so they could be corrected. The Foundation was able to correct the Statement with our assistance.

Generally accepted accounting principles (GAAP) for governmental entities are promulgated by the Governmental Accounting Standards Board (GASB). GASB 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* requires the Foundation to present a Statement of Cash Flows using the direct method.

Foundation management did not actually analyze the changes in different accounts as a means of verifying the accuracy of the statement.

Failure to prepare an accurate Statement of Cash Flows prevents the Foundation from preparing financial statements in accordance with accounting principles generally accepted in the United States of America. (Finding Code No. 06-1)

RECOMMENDATION

We recommend the Foundation prepare an accurate Statement of Cash Flows in accordance with accounting principles generally accepted in the United States of America.

FOUNDATION RESPONSE

The Foundation concurs with the finding and will utilize the account change analysis as a means of verifying the accuracy of the Statement of Cash Flows activity,

**CHICAGO STATE UNIVERSITY FOUNDATION
SCHEDULE OF FINDINGS**

FOR THE YEAR ENDED JUNE 30, 2006

06-2 FINDING: UNCOLLATERALIZED DEPOSIT ACCOUNTS

Chicago State University Foundation (Foundation) maintained deposits in excess (\$951,829) of the Federal Deposit Insurance Coverage (FDIC).

The Foundation's deposits (bank balances) at various financial institutions totaled \$3,806,539 at June 30, 2006. These deposits exceeded the amount of FDIC coverage by \$951,829.

Prudent business practices require that the Foundation obtain appropriate collateral whenever funds deposited exceed the \$100,000 Federal Deposit Insurance Coverage.

The Foundation's investment policy is to require collateralization or a determination by the Foundation that the financial institution is in good financial status by review of the financial institution's "CALL" report.

Failure to obtain collateral puts Foundation funds at risk in the event that the financial institution incurs financial difficulties. (Finding Code Nos. 06-2, 05-1)

RECOMMENDATION

We recommend the Foundation amend its investment policy to include obtaining sufficient collateral to cover its uninsured deposits.

FOUNDATION RESPONSE

The Foundation management will recommend to its Board to amend its investment policy to require collateralization for deposits in excess of insurance coverages.

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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 \$386,930 as indicated on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Net Assets as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets	\$ 3,764,460	\$ 1,025,889
Non-Current Assets	<u>1,914,467</u>	<u>2,077,491</u>
Total Assets	<u>\$ 5,678,927</u>	<u>\$ 3,103,380</u>
Liabilities & Net Assets		
Current Liabilities	\$ 2,471,390	\$ 282,773
Non-Current Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	2,471,390	282,773
Net Assets	<u>3,207,537</u>	<u>2,820,607</u>
Total Liabilities & Net Assets	<u>\$ 5,678,927</u>	<u>\$ 3,103,380</u>

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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, 2006 and 2005:**

	<u>2006</u>	<u>2005</u>
Total Operating revenues	\$ 953,896	\$ 664,191
Total Operating expenses	<u>1,660,623</u>	<u>2,112,389</u>
Operating Loss	(706,727)	(1,448,198)
Total Non-operating revenues	<u>1,076,459</u>	<u>1,588,441</u>
Income before other revenues, expenses, gains, and losses	369,732	140,243
Other revenues, (expenses), gains and (losses)	<u>17,198</u>	<u>508,634</u>
Increase in Net Assets	386,930	648,877
Net Assets, Beginning of year	<u>2,820,607</u>	<u>2,171,730</u>
Net Assets, End of year	<u>\$ 3,207,537</u>	<u>\$ 2,820,607</u>

During fiscal year 2006, the Foundation experienced a \$226,480 or 30% increase in contributions compared to fiscal year 2005. This increase was due to an increase in restricted scholarship contributions. Dividend & interest income increased by \$18,003 (\$72,221 in fiscal year 2006 as compared to \$54,218 in fiscal year 2005) or 33% compared to fiscal year 2005. In addition, net unrealized/realized gains decreased by \$11,245 (\$28,752 in fiscal year 2006 as compared to \$39,997 in fiscal year 2005) or 28% compared to fiscal year 2005. The increase in endowment

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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

funds available for investment during fiscal year 2005, resulted in the increase of interest income. A decrease in the value of investment stocks held resulted in the decreased 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 \$858,812 (as compared to \$1,568,170 in fiscal year 2005) in scholarships and program support for fiscal year 2006. For fiscal year 2006, the Foundation's contribution and grant revenue was under its budget by \$4,146,937. This shortfall was mainly due to the changing of the grantee from the Foundation to Chicago State University for the CRCP grant. The CRCP grant revenue and expenses were reported in the financial statements of Chicago State University. In addition, the Annual Award Dinner revenue and restricted contributions were less than their budgeted revenue. Fiscal year 2006 expenses were reduced as a result of less revenue recognized by the Annual Award Dinner for general operating program support. Actual expenses were under budgeted expenses mainly due to the reduction in restricted fund account expenses, the Annual Award Dinner revenue, and the accounting of the CRCP program due to the grantee change.

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, 2006, the Foundation had an increase of cash and cash equivalents in the amount of \$2,534,585. The fiscal year 2006 \$3.5 million grant for the CRCP had been received in February of 2006 and had not been fully disbursed by June 30, 2006. The CRCP program was the primary reason for the \$2,534,585 increase in cash for the year ended June 30, 2006.

Facts, Decisions or Conditions Affecting the Future

In fiscal year 2006, the Foundation was not the grantee of the Department of Commerce and Economic Opportunity grant for the Chicagoland Regional College Program (CRCP). This program is a joint venture of Chicago State University, Moraine Valley Community College, Morton College, Prairie State, and United Parcel Service. The Chicago State University Foundation was only the fiscal agent of the grant. The Chicago State University Foundation is expected to continue its involvement with the Chicagoland Regional College Program as the fiscal agent. Solicitation by Chicago State University and approval of a grant from the Department of Commerce and Economic Opportunity is expected for fiscal year 2007.

It is estimated 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, 2006

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and cash equivalents	\$ 614,533	\$ 211,047
Cash and cash equivalents-restricted	2,771,389	640,290
Certificates of deposit	-	110,290
Other receivables	353,060	60,372
Pledges Receivable	24,333	-
Accrued interest	1,145	3,890
Total Current Assets	3,764,460	1,025,889
Non-Current Assets		
Certificates of deposit-restricted	139,698	334,607
Endowment investments	1,774,769	1,742,884
Total Non-Current Assets	1,914,467	2,077,491
TOTAL ASSETS	\$ 5,678,927	\$ 3,103,380
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and other liabilities	\$ 2,120,726	\$ 145,377
Due to Chicago State University	350,664	137,396
Total Current Liabilities	2,471,390	282,773
Total Liabilities	2,471,390	282,773
Net Assets		
Restricted for:		
Nonexpendable:		
Endowments	1,871,390	1,847,690
Expendable:		
Direct Programs and Scholarships	886,367	735,091
Unrestricted	449,780	237,826
Total Net Assets	3,207,537	2,820,607
TOTAL LIABILITIES AND NET ASSETS	\$ 5,678,927	\$ 3,103,380

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, 2006

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005

	2006	2005
Operating Revenues:		
CSU support	\$ 524,039	\$ 551,937
Other operating revenues (Note 6)	429,857	112,254
Total Operating Revenues	953,896	664,191
Operating Expenses:		
CRCP grant expenses	-	750,000
Program funds	306,627	204,948
General and administrative	292,383	117,307
Scholarships	264,017	337,515
Donations to CSU Departments & Colleges	126,661	-
CSU support	524,039	551,937
CSU grant funds	146,896	150,682
Total Operating Expenses	1,660,623	2,112,389
Operating Loss	(706,727)	(1,448,198)
Non-operating Revenues (Expenses):		
CRCP grant	-	750,000
Contributions	990,097	763,617
Investment income, including net unrealized/realized gain of \$28,752 for 2006 and \$39,997 for 2005, respectively)	100,973	94,215
In-kinds CSU	(14,611)	(19,391)
Total Non-operating Revenue	1,076,459	1,588,441
Income before other revenues, expenses, gains and losses	369,732	140,243
Other Revenues, Expenses, Gains and Losses:		
Endowment contributions	17,198	408,634
Debt write-off CSU	-	100,000
Total Other Revenues, Expenses, Gains and Losses	17,198	508,634
Increase in Net Assets	386,930	648,877
Net Assets, Beginning of Year	2,820,607	2,171,730
Net Assets, End of Year	\$ 3,207,537	\$ 2,820,607

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, 2006

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Ticket sales and other income	\$ 99,582	\$ 111,264
Payments to vendors, direct program expenses	(1,309,134)	(2,771,632)
Payments for scholarships	(264,017)	(337,515)
	<u>(1,473,569)</u>	<u>(2,997,883)</u>
Net cash used by operating activities		
Cash Flows from Noncapital Financing Activities:		
Grants and donations	972,762	1,909,041
Grants received as fiscal agent	3,500,000	-
Grants disbursed as fiscal agent	(1,180,698)	-
CRCP program cash advances	3,305,012	-
CRCP program cash reimbursements	(2,974,737)	-
Alumni membership dues	10,200	9,200
Pass thru scholarships	6,068	216,821
Pass thru scholarships payments	(7,485)	(219,685)
	<u>3,631,122</u>	<u>1,915,377</u>
Net cash provided by noncapital financing activities		
Cash Flows from Investing Activities:		
Interest and dividends on investments	74,966	51,346
Proceeds from sales and maturities of investments	2,045,846	991,227
Net decrease (increase) in certificates of deposit investments	305,199	(53,646)
Purchase of investments and other	(2,048,979)	(1,488,402)
	<u>377,032</u>	<u>(499,475)</u>
Net cash (used) provided by investing activities		
Net increase (decrease) in cash	<u>2,534,585</u>	<u>(1,581,981)</u>
Cash and cash equivalents - beginning of the year	<u>851,337</u>	<u>2,433,318</u>
Cash and cash equivalents - end of the year	<u>\$ 3,385,922</u>	<u>\$ 851,337</u>
Reconciliation of Net Operating Loss to		
Net Cash used by Operating Activities:		
Operating loss	\$ (706,727)	\$ (1,448,198)
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	(330,275)	-
Net change in assets and liabilities included in operating activities:		
Other receivables	(292,688)	(60,372)
Accounts payable & other liabilities	(151,666)	(1,519,758)
Deferred revenue	-	(990)
Due to CSU	7,787	31,435
	<u>7,787</u>	<u>31,435</u>
Net cash used by operating activities	<u>\$ (1,473,569)</u>	<u>\$ (2,997,883)</u>

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, 2006

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 8 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, 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, 2006

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.

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, 2006

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 governing Foundation 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 transaction, 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-kinds CSU on the Statement of Revenues, Expenses and Changes in Net Assets.

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JUNE 30, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain prior year amounts have been reclassified to agree to the current period presentation. This reclassification had no effect on the net assets as of June 30, 2005.

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, 2005, 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:

<u>Deposit type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in Bank (checking or savings)	\$ 2,910,980	\$ 3,191,719
Money Markets	369,285	369,285
Certificates of Deposit	245,355	245,355
Total deposit accounts	<u>\$ 3,525,620</u>	<u>\$ 3,806,359</u>
Less certificates of deposit classified as investments (maturity > 90 days)	<u>(139,698)</u>	
Total Cash and Cash Equivalents	<u>\$ 3,385,922</u>	

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, \$951,829 of the deposits exceed 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).

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

4. INVESTMENTS

The carrying value (and market value) of the investment portfolio of the Foundation at June 30, 2006 is as follows:

	<u>Fair Value</u>
Money Funds and Other	\$ 108,604
US Treasury and Agency Obligations	499,888
Common Stock	964,888
Corporate & Int'l Bonds	201,389
Total Endowment Investments	<u>1,774,769</u>
Certificates of Deposit (maturity > 90 days)	139,698
Total Investments	<u>\$1,914,467</u>

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, 2006 was as follows:

	<u>Maturity</u>			<u>Total</u>
	<u>Less than</u> <u>1 year</u>	<u>1 - 5</u> <u>years</u>	<u>6 - 10</u> <u>years</u>	
<u>Debt Security</u>				
US Treasury Obligations	\$ -	\$ 157,992	\$ 66,490	\$ 224,482
US Agency/Guaranteed Obligations	-	210,877	64,529	275,406
Total US Treasury/Agency	-	368,869	131,019	499,888
Corporate & Int'l Bonds	14,956	115,730	70,703	201,389
Total Debt Security Investments	<u>\$ 14,956</u>	<u>\$ 484,599</u>	<u>\$ 201,722</u>	<u>\$ 701,277</u>

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

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, 2006 is as follows:

Credit Rating	Total Debt Securities
US Treasury/Agency/Guaranteed Obligations - no rating	\$ 224,482
AAA/AAA	306,324
A1/A+	8,633
AA1/AA-	14,955
A2/A+	4,108
AA2/AA	30,938
AA2/AA-	16,112
AA3/A	4,189
AA3/A+	59,790
AA3/A-	3,989
AA3/AA	11,379
AA3/AA-	12,449
BAA2/BBB+	3,929
Total	<u>\$ 701,277</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, 2006:

Investment	Currency	Maturity	Fair Value
Ontario Province CDA Notes Rating: AA2/AA	Canadian dollar	2/15/2013	\$ 19,727
Total			<u>\$ 19,727</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

5. ENDOWMENT TRUST ACCOUNTS

The Foundation assumed responsibility on behalf of the University for private gifts for scholarships. As of June 30, 2006, endowment trust accounts invested with Smith Barney reported at market totaled \$1,774,769.

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, 2006, endowment dividends and interest transferred to the Expendable Restricted Funds totaled \$39,986.

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

6. 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 \$8,040. In addition, the Foundation received fiscal agent fees and indirect cost recoveries totaling \$330,275 related to the Chicagoland Regional College Program. Other operating revenues also include alumni association membership fees and revenue from the Annual Gala.

7. NON-CASH TRANSACTIONS

Non-cash transactions have been excluded on the Statement of Cash Flows. During the year ended June 30, 2006, the Foundation's investments experienced a net unrealized loss of \$12,771.

8. 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 \$524,039 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 \$858,812 for the

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JUNE 30, 2006

8. RELATED PARTY TRANSACTIONS (continued)

current fiscal year. Scholarships benefiting the University totaled \$264,017 for the fiscal year ended June 30, 2006.

The Due to CSU balance of \$350,664, consists primarily of a liability to the University for \$205,481 in Chicago Regional College Program (CRCP) project costs and payroll reimbursements.