

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
FINANCIAL AUDIT  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

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

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
FINANCIAL AUDIT  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**TABLE OF CONTENTS**

	<u>Page</u>
Table of Contents	1
Foundation Officials	2
Financial Statement Report	
Summary	3
Independent Auditor's Report	4
Management's Discussion and Analysis	5
Basic Financial Statements	
Statements of Net Assets	9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	13
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION**

**FOUNDATION OFFICIALS**

Executive Director	Dr. Dianne Ashby
Director, Foundation Business Affairs (Starting May 1, 2007)	Mr. William F. Fanning, Jr., CPA
Financial Coordinator (thru August 14, 2006)	Ms. Ronda Queen
Financial Coordinator	Mr. Dana Jones
<u>Officers of the Board of Directors</u>	
Chairperson	Mr. Stanley R. Ommen
Vice Chairperson	Ms. Anne P. Baughan
Secretary	Justice James A. Knecht
Treasurer	Mr. Robert W. Rush, Jr.
Legal Counsel	Ms. Paula Goedert Barnes & Thornburg

The Foundation offices are located at:

Illinois State University  
401 Hovey Hall  
Normal, IL 61790

150 N. Michigan Avenue  
Suite 1590  
Chicago, IL 60601-7524

**ILLINOIS STATE UNIVERSITY FOUNDATION  
FINANCIAL STATEMENT REPORT**

**SUMMARY**

The 2007 audit of the accompanying financial statements of Illinois State University Foundation was performed by Clifton Gunderson, LLP. Based on their audit, the auditors expressed an unqualified opinion on the Foundation's basic financial statements.

The Foundation's 2006 financial statements were audited by Nykiel, Carlin & Co., Ltd., which practice was acquired by Clifton Gunderson, LLP by merger on November 1, 2006. Based on their audit, the auditors expressed an unqualified opinion on the Foundation's basic financial statements.



## INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

Board of Directors  
Illinois State University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Illinois State University Foundation, a component unit of Illinois State University as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Illinois State University Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Illinois State University Foundation as of and for the year ended June 30, 2006, were audited by Nykiel, Carlin & Co., Ltd., which practice was acquired by Clifton Gunderson, LLP by merger on November 1, 2006. Nykiel, Carlin & Co., Ltd.'s report dated November 22, 2006, 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 Illinois State University Foundation, as of June 30, 2007 and the respective changes in net assets and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 16, Illinois State University Foundation has changed its method of accounting for non-cash resources provided by the University.

In accordance with *Government Auditing Standards* we have also issued a report on our consideration of the Illinois 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.

The *Management's Discussion and Analysis* on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by 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.

*Clifton Gunderson LLP*

Kankakee, Illinois  
November 29, 2007

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007 AND 2006**

*Overview of the Financial Statements and Financial Analysis*

The following Management's Discussion and Analysis provides an overview of the financial position and activities for the current and prior fiscal years, and should be read in conjunction with the Foundation's financial statements and footnotes. Three financial statements are presented for each fiscal year: the "Statement of Net Assets;" the "Statement of Revenues, Expenses, and Changes in Net Assets;" and, the "Statement of Cash Flows."

*Statement of Net Assets*

The Statement of Net Assets presents to the readers of the financial statements a fiscal snapshot of Illinois State University Foundation as of June 30, the last day of each fiscal year. The Statement of Net Assets shows current and non-current assets, current and non-current liabilities, and net assets (assets minus liabilities) of the Foundation. Differences between current and non-current assets are discussed in the footnotes to the financial statements.

Net assets are divided into three major categories. The first category, "Invested in capital assets, net of related debt," displays the Foundation's equity in property, plant and equipment net of related debt and depreciation. The second and third net asset categories represent "Restricted" net assets, divided into two sub-categories, "nonexpendable" and "expendable." The corpus of "Restricted-nonexpendable" net assets is available only for investment purposes. "Restricted-expendable" net assets are to be spent by the Foundation as per restrictions imposed by the donors of those assets. The final net asset category is "Unrestricted;" these assets are available to support the University's highest priorities.

**STATEMENTS OF NET ASSETS AT JUNE 30,**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>ASSETS:</b>			
Current Assets	\$ 9,729,383	\$ 8,413,440	\$ 8,830,852
Capital Assets	3,420,129	1,813,260	1,813,491
Other Noncurrent Assets	<u>77,611,164</u>	<u>69,150,972</u>	<u>58,580,465</u>
<b>TOTAL ASSETS</b>	<u><b>90,760,676</b></u>	<u><b>79,377,672</b></u>	<u><b>69,224,808</b></u>
 <b>LIABILITIES:</b>			
Current Liabilities	1,395,235	1,011,561	544,707
Noncurrent Liabilities	<u>271,368</u>	<u>276,709</u>	<u>655,626</u>
<b>TOTAL LIABILITIES</b>	<u><b>1,666,603</b></u>	<u><b>1,288,270</b></u>	<u><b>1,200,333</b></u>
 <b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	3,320,129	1,573,260	1,513,491
Restricted - nonexpendable	56,807,661	47,640,533	41,025,261
Restricted - expendable	26,252,999	27,419,289	24,311,808
Unrestricted	<u>2,713,284</u>	<u>1,456,320</u>	<u>1,173,915</u>
<b>TOTAL NET ASSETS</b>	<u><b>\$ 89,094,073</b></u>	<u><b>\$ 78,089,402</b></u>	<u><b>\$ 68,024,475</b></u>

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007 AND 2006**

The total assets of the Foundation were \$90,760,676, \$79,377,672, and \$69,224,808 for fiscal years 2007, 2006, and 2005, respectively. In FY 2007, capital assets increased \$1.6 million with the commencement of the Green Gardens project. Non-current assets grew by over \$8.4 million as the result of increases in long-term investments and endowment investments from donations and investment income.

The liabilities for the three respective fiscal years totaled \$1,666,603, \$1,288,270, and \$1,200,333. The 2007 increase of almost \$400,000 was mainly the result of accounts payable at the year's end for the Green Gardens Project.

*Statements of Revenues, Expenses and Changes in Net Assets*

Changes in the total net assets presented in the Statements of Net Assets are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Assets (SRECNA). The purpose of the statement is to present the revenues received by the Foundation, both operating and non-operating, and the expenses paid by the Foundation, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the Foundation.

Operating revenues are received for providing goods and services to customers of the Foundation. A majority of the income for the Foundation, gifts and donations, is considered non-operating revenue as no goods or services are provided; however, as those funds are paid out, the expenses are categorized as operating expenses. The result of this categorization is a large operating loss offset by a large non-operating gain. Overall, in FY 2007, the Illinois State University Foundation generated an increase of \$11,004,671 in net assets compared to an increase of \$10,064,927 in FY 2006 and \$1,997,910 in FY 2005.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

The 2006 operating revenues and operating expenses were restated to reflect the Foundation's change in accounting for non-cash resources provided by the University. Comparable information for 2005 was not available.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 1,625,931	\$ 1,544,586	\$ 307,090
Operating Expenses	<u>8,673,235</u>	<u>7,349,445</u>	<u>5,644,162</u>
Operating Loss	(7,047,304)	(5,804,859)	(5,337,072)
Nonoperating Revenues and Expenses	<u>16,702,997</u>	<u>13,757,333</u>	<u>3,434,811</u>
Income (Loss) before Additions to Permanent Endowments	9,655,693	7,952,474	(1,902,261)
Additions to Permanent Endowments	<u>1,348,978</u>	<u>2,112,453</u>	<u>3,900,171</u>
Increase in Net Assets	11,004,671	10,064,927	1,997,910
Net Assets, Beginning of Year	<u>78,089,402</u>	<u>68,024,475</u>	<u>66,026,565</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 89,094,073</u></b>	<b><u>\$ 78,089,402</u></b>	<b><u>\$ 68,024,475</u></b>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive trend with net assets increasing during each of the last three fiscal years. Some highlights of the information presented are as follows:

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007 AND 2006**

- Operating revenues have been stable for the past three years. Operating expenses, however, increased by almost \$500,000 from FY 2005 to FY 2006, and more than \$1.3 million from FY 2006 to FY 2007, due to larger amount of funding made available to the University through gifts and income from investments.
- The almost \$3 million increase in non-operating revenues and expenditures from FY 2006 to FY 2007 was the result of several factors. Gifts and donations included in this category during FY 2007 actually fell from the previous year's total by more than \$6.7 million; much of that difference was due to the "final winding down" of the "Redefining Normal" campaign. On the other hand, strong market gains in the Foundation's investment portfolio during FY 2007 resulted in a \$6.6 million boost in investment income, compared to the previous fiscal year. Finally, with the completion of the Integrated Manufacturing Laboratory, expenditures for ISU capital projects declined from \$3,636,069 in FY 2006 to \$569,946 in FY 2007.
- Additions to the permanent endowment fell from \$2,112,453 in FY 2006 to \$1,348,978 in FY 2007, because several larger endowed gifts were received in FY 2006, as compared to FY 2007.
- Returns on endowed investments were 18.3% in FY 2007, 8.8% in FY 2006, and 8.1% in FY 2005.

*Statements of Cash Flows*

The final statement presented by the Illinois State University Foundation is the Statements of Cash Flows. This statement presents detailed information about the cash activity of the Foundation during the year. The statement is divided into five sections. The first section shows the net cash flows from operating activities. The second section reflects cash flows from non-capital financing activities; cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section exhibits the cash flows from capital related financing activities. The fourth section reflects the cash flows from investing activities and indicates the purchases, proceeds, and interest received from investing activities. The fifth and final section reconciles the net cash used and the operating income or loss reflected on the SRECNA.

**CASH FLOWS FOR THE YEARS ENDED JUNE 30,**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Cash provided (used) by:</b>			
Operating activities	\$ (6,849,850)	\$ (5,811,898)	\$ (5,255,268)
Noncapital financing activities	6,580,401	11,985,261	5,660,074
Capital and related financing activities	(1,209,751)	(77,418)	(742,643)
Investing activities	<u>(2,007,565)</u>	<u>(3,280,962)</u>	<u>(5,119,975)</u>
Net Change in Cash	(3,486,765)	2,814,983	(5,457,812)
Cash, beginning of year	<u>6,183,335</u>	<u>3,368,352</u>	<u>8,826,164</u>
<b>Cash, end of year</b>	<b><u>\$ 2,696,570</u></b>	<b><u>\$ 6,183,335</u></b>	<b><u>\$ 3,368,352</u></b>



**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007 AND 2006**

*Capital Asset and Debt Administration*

During FY 2007 Illinois State University Foundation completed much of the construction of the Genevieve Green Gardens on the Foundation's Ewing Cultural Center grounds. When completed in FY 2008, this will be an approximately \$2.5 million enhancement of the historic landscape at Ewing made possible through an estate gift.

Information concerning the payment on capital debt can be found in the financial statement footnote #7. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Foundation.

*Economic Outlook*

One of the Foundation's limited liability companies, Launching Futures LLC, expects to acquire the former Eagle Foods building at 1101 N. Main Street in Normal that is currently being leased by the University from an outside party. The seller has undertaken a conversion of the 43,000 square foot building for office and meeting room space, which is planned to be leased to the University by the LLC. The completion of the remodeling and occupation of the building is planned for early FY 2009.

Private dollars raised by Illinois State University Foundation continue to play a significant part in support of the University's mission and goals as state appropriated dollars fail to provide adequate funding. FY 2007 ended with the investment portfolio producing positive returns for the third consecutive year outperforming its benchmarks.

The Foundation is not aware of any additional factors that could have a significant effect on the financial position during this time or future fiscal years.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
STATEMENTS OF NET ASSETS  
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,431,731	\$ 2,131,752
Short-term investments	6,330,801	4,549,177
Accrued interest receivable	42,091	43,550
Pledges receivable, net	1,911,986	1,688,961
Accounts receivable and prepaid expenses	<u>12,774</u>	<u>-</u>
Total current assets	<u>9,729,383</u>	<u>8,413,440</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	1,264,839	4,051,583
Long-term investments	17,005,355	14,476,588
Endowment investments	56,807,661	47,640,533
Real estate investment	600,631	-
Pledges receivable, net	1,040,100	2,187,582
Capital assets, net	3,420,129	1,813,260
Cash surrender value of life insurance	<u>892,578</u>	<u>794,686</u>
Total noncurrent assets	<u>81,031,293</u>	<u>70,964,232</u>
<b>TOTAL ASSETS</b>	<u>90,760,676</u>	<u>79,377,672</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	1,260,710	736,324
Long-term liabilities, current portion	<u>134,525</u>	<u>275,237</u>
Total current liabilities	<u>1,395,235</u>	<u>1,011,561</u>
<b>Noncurrent Liabilities</b>		
Long-term liabilities	<u>271,368</u>	<u>276,709</u>
<b>TOTAL LIABILITIES</b>	<u>1,666,603</u>	<u>1,288,270</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	<u>3,320,129</u>	<u>1,573,260</u>
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	30,657,351	25,580,590
College and academic department support	10,606,994	9,209,138
Faculty and staff compensation	7,251,214	6,131,471
Other	<u>8,292,102</u>	<u>6,719,334</u>
	<u>56,807,661</u>	<u>47,640,533</u>
Expendable:		
Scholarships and fellowships	9,265,843	8,057,340
Instructional departmental uses	11,007,981	12,021,843
University capital projects	3,852,459	5,653,917
Other restricted expendable	<u>2,126,716</u>	<u>1,686,189</u>
	<u>26,252,999</u>	<u>27,419,289</u>
Unrestricted	<u>2,713,284</u>	<u>1,456,320</u>
<b>TOTAL NET ASSETS</b>	<u>\$89,094,073</u>	<u>\$78,089,402</u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to the financial statements.

**STATE OF ILLINOIS**  
**ILLINOIS STATE UNIVERSITY FOUNDATION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For The Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Service contract with the University	\$ 1,571,536	\$ 1,483,750
Other operating revenue	54,395	60,836
Total operating revenues	<u>1,625,931</u>	<u>1,544,586</u>
<b>OPERATING EXPENSES</b>		
Student aid, scholarships and awards	2,137,974	1,844,541
Expenditures on behalf of ISU departments and programs	4,413,656	3,355,438
Operations	1,987,594	1,861,261
Depreciation	63,237	60,231
Other	70,774	227,974
Total operating expenses	<u>8,673,235</u>	<u>7,349,445</u>
Operating loss	<u>(7,047,304)</u>	<u>(5,804,859)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts and donations	4,406,188	11,169,963
Investment income, net of investment expenses	12,068,401	5,464,006
Interest on capital asset related debt	(13,005)	(17,509)
Other nonoperating revenues	811,359	776,942
Expenditures for ISU capital projects	(569,946)	(3,636,069)
Total net nonoperating revenues	<u>16,702,997</u>	<u>13,757,333</u>
Income before additions to permanent endowments	9,655,693	7,952,474
<b>ADDITIONS TO PERMANENT ENDOWMENTS</b>	<u>1,348,978</u>	<u>2,112,453</u>
<b>INCREASE IN NET ASSETS</b>	11,004,671	10,064,927
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>78,089,402</u>	<u>68,024,475</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 89,094,073</u>	<u>\$ 78,089,402</u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to the financial statements.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
STATEMENTS OF CASH FLOWS  
For The Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contracts and grants	\$ 260,000	\$ 260,000
Payments on behalf of ISU departments and programs	(4,254,012)	(3,340,556)
Payments for operating expenses	(663,087)	(659,321)
Payments for scholarships and fellowships	(2,032,374)	(1,842,741)
Other receipts	69,601	60,836
Other expenditures	<u>(229,978)</u>	<u>(290,116)</u>
Net cash used in operating activities	<u>(6,849,850)</u>	<u>(5,811,898)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and grants for other than capital purposes	5,279,895	10,689,599
Private gifts for endowment purposes	1,348,978	2,059,282
Other receipts	800,785	777,775
Payments for ISU capital projects	<u>(849,257)</u>	<u>(1,541,395)</u>
Net cash provided by noncapital financing activities	<u>6,580,401</u>	<u>11,985,261</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchase of capital assets	(1,056,409)	-
Principal paid on capital asset related debt	(140,000)	(60,000)
Interest paid on capital asset related debt	<u>(13,342)</u>	<u>(17,418)</u>
Net cash used in capital financing activities	<u>(1,209,751)</u>	<u>(77,418)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	7,223,579	6,325,257
Interest and dividends on investments	1,743,311	1,145,057
Purchase of investments	<u>(10,974,455)</u>	<u>(10,751,276)</u>
Net cash used in investing activities	<u>(2,007,565)</u>	<u>(3,280,962)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(3,486,765)</b>	<b>2,814,983</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u><b>6,183,335</b></u>	<u><b>3,368,352</b></u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u><b>\$ 2,696,570</b></u></u>	<u><u><b>\$ 6,183,335</b></u></u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to the financial statements.

STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
STATEMENTS OF CASH FLOWS - CONTINUED  
For The Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET</b>		
<b>CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (7,047,304)	\$ (5,804,859)
Increase in cash surrender value of life insurance	(97,892)	(72,600)
Increase in operating accounts payable	225,156	90,424
Decrease in accrued compensated absences	-	(23,652)
Decrease in beneficiary payments payable	(6,053)	(61,442)
Increase in prepaid expenses	(2,200)	-
Increase in deferred income	15,206	-
Depreciation	<u>63,237</u>	<u>60,231</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u><u>\$ (6,849,850)</u></u>	<u><u>\$ (5,811,898)</u></u>

**SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS**

The Foundation received donated property with an estimated value of \$50,750 and \$2,083,929 at the date of donation in fiscal years 2007 and 2006, respectively.

The Foundation received non-cash compensation from the University for fundraising services of \$1,311,536 and \$1,223,750 in fiscal years 2007 and 2006, respectively.

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to the financial statements.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

The Illinois State University Foundation (Foundation) was incorporated in May 1948 under the *General Not-for-Profit Corporation Act* for the principal purpose of providing fund raising and other assistance to Illinois State University (University) in order to attract private gifts to support the University's instructional, research and public service activities. The Foundation is an organization as described in Section 501 (c) (3) of Internal Revenue Code and, accordingly, exempt from federal income tax.

The Foundation is a component unit of the University and the Foundation's financial statements are also included as part of the University's financial statements and the State of Illinois Comprehensive Annual Financial Report.

The Foundation has formed two limited liability companies (LLC) to assist in carrying out the Foundation's mission to assist the University. The Foundation is the sole member of each of these LLCs. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consist of the executive officers of the Foundation. LLC activity is included as part of the Foundation's financial statements.

**Financial Statement Presentation**

The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and provides an overall perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

**Basis of Accounting**

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities (BTA). Due to the Foundation's close relationship with the University, the Foundation follows the same financial reporting guidelines as the University. Accordingly, the Foundation's financial statements have been presented using the BTA reporting requirements 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. All significant inter-account receivables and payables have been eliminated.

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

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and Cash Equivalents**

In accordance with GASB Statement No. 9, cash equivalents are defined as short-term, highly liquid investments that are both:

- 1) Readily convertible to known amounts of cash.
- 2) So near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less meet this definition. While the Foundation's investment in Mutual Funds and Bank Common Trusts could be readily converted to cash, the Foundation considers these instruments to be investments and has chosen to classify them as such in the financial statements.

On the statement of net assets, cash and cash equivalents that can be used to pay current liabilities are classified as current assets; restricted cash and cash equivalents that cannot be used to pay current liabilities are classified as non-current assets.

**Investments**

Investments, except for real estate investments, are recorded at fair market value as determined by quoted market prices and management's estimates. Real estate investments are carried at cost. Most long-term and endowment investments are pooled for the purposes of allocating realized gains and losses, unrealized gains and losses and ordinary income, net of investment fees, to Foundation accounts on the basis of percentage of share in the pool.

Management's valuation of the investment in Limited Partnerships is primarily based on valuations by the General Partner. Although the General Partner uses its best judgment in estimating the fair value of the Limited Partnership investments, there are inherent limitations. Therefore, the values presented are not necessarily indicative of the amount that the Partnerships could currently realize. Future events could affect the estimates of fair value and could also affect the amount realized upon liquidation of the Limited Partnership investments.

Foundation policy states that assets are to be invested in a diversified portfolio of equity, fixed income and alternative strategies. No investment is to be made that will cause the total investment in equities or fixed income securities issued or guaranteed by any one person, firm, or corporation to exceed five percent of the then fair market value of the Foundation; provided, this restriction is not to apply to either well diversified mutual funds, pooled funds, unit trust, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies. Equity investments have an asset allocation range from 70% to 85% of the portfolio with a target weight of 78% with fixed income investments ranging from 17% to 27% with a target weight of 22%.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Pledges Receivable**

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Foundation recognizes unrestricted and restricted contribution pledges when all eligibility requirements outlined in GASB Statement No. 33 are met, provided that the pledge is verifiable and the resources are measurable and probable of collection. Contributions, which do not meet these eligibility requirements, including endowed contributions, are recognized upon receipt. According to GASB Statement No. 33, endowment contributions are recognized upon receipt since the Foundation can only comply with the requirement to maintain the principal intact once the contribution is received.

Pledges receivable expected to be received within the next year are classified as a current asset in the statement of net assets. Pledges receivable with expected receipt dates of greater than one year are classified as noncurrent assets and are discounted for the time value of money.

**Allowance for Doubtful Accounts**

The Foundation provides an allowance for doubtful pledges receivable based on management's best estimate of uncollectible pledges considering type, age, history and any other factors considered appropriate.

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition. For financial statement reporting, the Foundation uses the following capitalization thresholds and estimated useful lives:

<u>Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Lives</u>
Land	\$ 100,000	-
Buildings	\$ 100,000	40-60 years
Building Improvements	\$ 25,000	30 years
Leasehold Improvements	\$ 25,000	remaining term of lease
Equipment	\$ 7,000	7 years

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

**Cash Surrender Value of Life Insurance**

Cash surrender value of life insurance represents the surrender value of insurance policies where donors have transferred ownership of the policy to the Foundation and the Foundation is named beneficiary.

**Long-term Liabilities**

Long-term liabilities include (1) principal amount of notes payable with a contractual maturity greater than one year; and (2) estimated discounted value of future payments to beneficiaries of charitable remainder trusts, gift annuitants and a charitable lead trust that will not be paid within the next fiscal year.



STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Assets**

The Foundation's net assets are classified as follows:

*Invested in capital assets, net of related debt:* Represents the investment in capital assets after depreciation, net of outstanding debt related to the capital assets.

*Restricted for Nonexpendable:* Represents endowed funds where the donors have stipulated, as a condition of the gift instrument, that the principal be maintained in perpetuity and invested for the purpose of producing income, which may either be expended or added to principal.

*Restricted for Expendable:* Represents funds where the donors have stipulated a specific or general purpose restriction regarding the expenditure of the gift.

*Unrestricted:* Represents funds where the donors have not stipulated any restriction on the utilization of the gift. These resources may be used to meet current expenditures for any purpose.

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

**Classification of Revenues**

The Foundation has classified its revenues as either operating or nonoperating revenues according to the following criteria:

*Operating revenues:* Operating revenues include activities that have the characteristics of exchange transactions such as contracts and receipts generated by Foundation owned property.

*Nonoperating Revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as contributions, special event fundraising receipts and investment income.

**Use of Estimates in Preparing Financial Statements**

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

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents consist of the following at June 30:

	<u>2007</u>		<u>2006</u>	
	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and Cash Equivalents	<u>\$ 3,040,808</u>	<u>\$ 2,696,570</u>	<u>\$ 6,589,196</u>	<u>\$ 6,183,335</u>

*Custodial Credit Risk – Deposits:* Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation, Security Investor Protection Corporation or private insurance insured bank or account balances of \$53,013 and \$3,078,912 at June 30, 2007 and 2006, respectively. The remaining bank balances of \$2,987,795 at June 30, 2007 and \$3,510,284 at June 30, 2006 were invested in a U.S. Treasury Money Market Fund. The Fund invests exclusively in U.S. Treasury bills, notes and other obligations issued or guaranteed by the U.S. Treasury, and repurchase agreements collateralized by such obligations. The Foundation does not have a formal deposit policy for custodial credit risk.

**NOTE 3 – INVESTMENTS**

The carrying value of the investment portfolio of the Foundation at June 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
U.S. Government Securities	\$ 996,680	\$ 11,958
Certificates of Deposit	-	120,503
Common Stock	373,543	326,099
Mutual Funds – investing in:		
Stocks	58,506,404	50,108,252
Bonds	11,632,658	8,696,097
Commodities	1,352,156	1,209,456
Bank Common Trusts	5,040,646	4,971,242
Limited Partnerships	2,241,730	1,222,691
Real Estate Investment	<u>600,631</u>	<u>-</u>
<b>Total investments</b>	<u>\$80,744,448</u>	<u>\$66,666,298</u>

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 3 – INVESTMENTS (continued)**

*Interest Rate Risk:* Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation's investment policy requires the average duration of the fixed income portfolio to be within 20% of the duration of the index to which the portfolio is benchmarked.

At June 30, 2007 and 2006, the Foundation has the following investments exposed to interest rate risk:

<u>Investment</u>	<u>2007</u>		<u>2006</u>	
	Fair Market Value		Fair Market Value	
Bond Mutual Funds	\$11,632,658	4.4 years effective duration	\$ 8,696,097	4.4 years effective duration
Bank Common Trusts	5,040,646	3.3 months effective duration	4,971,242	2.9 months effective duration
U.S. Government Securities	996,680	7/2007 and 8/2007 maturities	11,958	2/2023 maturity
Certificates of Deposit	-		120,503	1/2007 maturity

Duration is a measure of a fixed income's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt. The interest rate risk information for U.S. Government Securities and Certificates of Deposits is disclosed by specific identification since these investments have a distinct investment objective and are maintained separately.

*Credit Risk:* Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy states that no more than 25% of the fixed income portfolio may be rated below investment grade.

As of June 30, 2007 and 2006, the Foundation has the following investments exposed to credit risk:

<u>Investment</u>	<u>2007</u>		<u>2006</u>	
	Fair Market Value	Average Quality	Fair Market Value	Average Quality
Bond Mutual Funds	\$11,632,658	AA	\$ 8,696,097	AA
Bank Common Trusts	5,040,646	AAA	4,971,242	AAA

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 4 – PLEDGES RECEIVABLE**

Pledges receivable balances at June 30, 2007 and 2006, consist of the following:

	<u>2007</u>	
	<u>Current</u>	<u>Noncurrent</u>
Pledges Receivable:		
Due within 1 year	\$ 1,977,704	\$ -
Due within 1 to 5 years	<u>-</u>	<u>1,190,678</u>
	1,977,704	1,190,678
Less:		
Discount for time-value of money	-	(111,012)
Allowance for Doubtful Accounts	<u>(65,718)</u>	<u>(39,566)</u>
<b>Pledges Receivable as of June 30, 2007</b>	<b><u>\$ 1,911,986</u></b>	<b><u>\$ 1,040,100</u></b>

	<u>2006</u>	
	<u>Current</u>	<u>Noncurrent</u>
Pledges Receivable:		
Due within 1 year	\$ 1,747,228	\$ -
Due within 1 to 5 years	<u>-</u>	<u>2,458,357</u>
	1,747,228	2,458,357
Less:		
Discount for time-value of money	-	(188,792)
Allowance for Doubtful Accounts	<u>(58,267)</u>	<u>(81,983)</u>
<b>Pledges Receivable as of June 30, 2006</b>	<b><u>\$ 1,688,961</u></b>	<b><u>\$ 2,187,582</u></b>

Management believes the allowance for uncollectible pledges is adequate based on information currently known. However, events impacting donors could occur in the future which would materially increase the allowance for uncollectible pledges.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 5 – CAPITAL ASSETS**

Capital assets at June 30, 2007 and 2006, consist of the following:

	<u>2007</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Buildings	\$ 2,139,303	\$ -	\$ -	\$ 2,139,303
Building Improvements	42,312	-	-	42,312
Construction in Progress	-	1,612,663	-	1,612,663
Leasehold Improvements	-	39,260	-	39,260
Furniture and Equipment	<u>77,600</u>	<u>18,183</u>	-	<u>95,783</u>
Subtotal	<u>2,259,215</u>	<u>1,670,106</u>	-	<u>3,929,321</u>

Less Accumulated Depreciation for:

Buildings	385,258	52,392	-	437,650
Building Improvements	36,668	1,410	-	38,078
Leasehold Improvements	-	431	-	431
Furniture and Equipment	<u>24,029</u>	<u>9,004</u>	-	<u>33,033</u>
Total Accumulated Depreciation	<u>445,955</u>	<u>63,237</u>	-	<u>509,192</u>
<b>Capital assets, net as of June 30, 2007</b>	<b><u>\$ 1,813,260</u></b>	<b><u>\$1,606,869</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,420,129</u></b>

	<u>2006</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Buildings	\$ 2,139,303	\$ -	\$ -	\$ 2,139,303
Building Improvements	42,312	-	-	42,312
Furniture and Equipment	<u>17,600</u>	<u>60,000</u>	-	<u>77,600</u>
Subtotal	<u>2,199,215</u>	<u>60,000</u>	-	<u>2,259,215</u>

Less Accumulated Depreciation for:

Buildings	332,866	52,392	-	385,258
Building Improvements	35,258	1,410	-	36,668
Furniture and Equipment	<u>17,600</u>	<u>6,429</u>	-	<u>24,029</u>
Total Accumulated Depreciation	<u>385,724</u>	<u>60,231</u>	-	<u>445,955</u>
<b>Capital assets, net as of June 30, 2006</b>	<b><u>\$ 1,813,491</u></b>	<b><u>\$ (231)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,813,260</u></b>

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 6 – PROPERTY HELD AS TRUSTEE**

In accordance with the term of the court order regarding a trust created by the will of Hazel Buck Ewing, the Foundation serves as trustee of the land and building and those contents of the building that were originally transferred to the trust by the executor. The terms of the court order permit the trustee to use the property exclusively for educational purposes as a museum to contain objects of art and of civic and cultural interest. If the Foundation should for any reason cease to qualify as trustee, the executor of the estate has full power to appoint a successor trustee.

The trustee has full power and authority to sell, mortgage, pledge, and otherwise dispose of said premises if deemed advisable. The proceeds of any such action would be required to be reinvested with the income to be used exclusively for religious, charitable, scientific, literary, or educational purpose within the State of Illinois.

Also, in accordance with the terms of the will, a second trust, in which the Foundation was not named as trustee, was created. The income from this trust is paid to the Foundation for the maintenance of the museum. During the years ended June 30, 2007 and 2006, the proceeds from this maintenance trust amounted to \$17,766 and \$14,880 respectively.

**NOTE 7 – LONG-TERM LIABILITIES**

Long-term liabilities at June 30, 2007 and 2006, consist of the following:

	<u>2007</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Beneficiary/annuity payments	\$ 311,946	\$ -	\$ 6,053	\$ 305,893
Notes payable	<u>240,000</u>	<u>-</u>	<u>140,000</u>	<u>100,000</u>
<b>Total</b>	<b>\$ 551,946</b>	<b>\$ -</b>	<b>\$ 146,053</b>	<b>\$ 405,893</b>
	 <u>2006</u>  			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Beneficiary/annuity payments	\$ 373,388	\$ -	\$ 61,442	\$ 311,946
Compensated absences	23,652	-	23,652	-
Notes payable	<u>300,000</u>	<u>-</u>	<u>60,000</u>	<u>240,000</u>
<b>Total</b>	<b>\$ 697,040</b>	<b>\$ -</b>	<b>\$ 145,094</b>	<b>\$ 551,946</b>

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 7 – LONG-TERM LIABILITIES (continued)**

Long-term liabilities are classified as follows:

	2007			2006		
	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion	Total
Beneficiary/annuity payments	\$ 34,525	\$ 271,368	\$ 305,893	\$ 35,237	\$ 276,709	\$ 311,946
Notes Payable	100,000	-	100,000	240,000	-	240,000
<b>Total</b>	<u>\$ 134,525</u>	<u>\$ 271,368</u>	<u>\$ 405,893</u>	<u>\$ 275,237</u>	<u>\$ 276,709</u>	<u>\$ 551,946</u>

Notes Payable as of June 30, 2007 consists of a \$100,000 promissory note secured by all inventory, chattel paper, accounts and general intangibles; requiring monthly interest payments at a fixed rate interest rate of 6.95% and having a principal maturity date of April 10, 2008. The original loan proceeds were used to construct the theatre at Ewing, owned by the Foundation.

Notes Payable as of June 30, 2006 consisted of a \$1,000,000 line of credit (\$240,000 outstanding as of June 30, 2006) secured by all accounts on deposit with the lender, its subsidiaries, or affiliates; requiring monthly interest payments at 1.25% under the lender's prime rate; and having a principal maturity date of April 15, 2007. The original loan proceeds were used to construct the theatre at Ewing, owned by the Foundation. The Foundation's interest rate was 7% at June 30, 2006.

**NOTE 8 – OPERATING LEASE COMMITMENTS**

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporation and Foundation networks. Lease payments for the Chicago office were \$56,914 in 2007 and \$64,244 in 2006. The current lease expires on December 31, 2014. In addition, the Foundation leases a vehicle for the Executive Director of the Foundation and thirteen vehicles for University Athletic Department employees for a total cost of \$74,529 in 2007 and \$46,201 in 2006. The lease for the Executive Director expires in the fiscal year ending June 30, 2009. The leases for the Athletic Department vehicles expire in the fiscal year ending June 30, 2011.

Future minimum lease payments as of June 30, 2007, are as follows:

Year ending June 30,	Building	Vehicles
2008	\$ 70,412	\$ 63,170
2009	71,819	61,082
2010	73,227	56,907
2011	74,635	23,848
2012	76,042	-
2013 - 2015	<u>196,085</u>	<u>-</u>
<b>Total</b>	<u>\$ 562,220</u>	<u>\$ 205,007</u>

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 9 – COMMITMENT TO UNIVERSITY PROJECT**

During 2003, the University began construction of the College of Business building. This project is jointly funded by the State of Illinois Capital Development Board, the University and private gifts received by the Foundation. The total estimated project cost is approximately \$30,000,000. Gifts and gift commitments, through the Foundation, to fund a portion of the project approximate \$10,840,000, of which approximately \$116,000 was still held by the Foundation as of June 30, 2007.

**NOTE 10 – FUNDS HELD BY OTHERS**

The Foundation is an income beneficiary of several trusts, the assets of which are held and administered by others, thus, the principal is not recorded in the accompanying financial statements. Income received from these assets was \$90,854 in 2007 and \$45,936 in 2006.

**NOTE 11 – TRANSACTIONS WITH RELATED ORGANIZATIONS**

The Foundation enters into annual contracts with the University Board of Trustees (acting for and on behalf of the University) that require the Foundation to provide fund raising and other assistance in order to attract private gifts for the use and benefit of the University. For the years ended June 30, 2007 and 2006, the University compensated the Foundation \$260,000 each year for these services. In additional consideration for these services, the University provided office space and clerical, accounting and computer support estimated to be \$1,311,536 in 2007 and \$1,223,750 in 2006. These services are included in the Statement of Revenues, Expenses, and Changes in Net Assets as components of *Service contract with the University* revenue and *Operations* expense.

As of June 30, 2007 and 2006, the Foundation had payables to ISU of \$382,020 and \$214,685, respectively. In addition, at June 30, 2007, the Foundation had receivables from ISU of \$10,573.

**NOTE 12 – DONOR RESTRICTED ENDOWMENTS**

If a donor has not provided specific instructions, state law permits the Foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. The Foundation Investment Committee adopted a spending policy for fiscal years 2007 and 2006 of 4.5% and 4.0%, respectively, of the average market value of endowment investments for the preceding 12 months.

At June 30, 2007, net appreciation of approximately \$14,342,000 remains available for future authorization for expenditure by the Investment Committee for donor-restricted endowment funds. This amount is included in the Net Assets section of the Statement of Net Assets as Restricted for Nonexpendable.



**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 13 – COMMITMENT TO INVEST IN LIMITED PARTNERSHIPS**

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest \$10,096,457. As of June 30, 2007, the Foundation has invested \$2,166,981. The balance of the Foundation's investment commitments at June 30, 2007 is \$7,929,476.

**NOTE 14 – GREEN GARDENS COMMITMENT**

The Foundation has entered an approximately \$2.5 million contract for the Genevieve Green Gardens landscaping project on the Foundation's Ewing Cultural Center grounds. At June 30, 2007, construction in progress on the project totaled just over \$1.5 million leaving a commitment by the Foundation of approximately \$1 million for the completion of the project. The project is expected to be completed in late 2007.

**NOTE 15 – LIMITED LIABILITY COMPANIES**

On June 27, 2007, Launching Futures II LLC invested in real estate for \$600,631 for use by the University as a remote parking lot. Concurrently, Launching Futures II LLC signed a lease agreement with the University for the real estate providing for annual rental payments of \$49,992 from the University to Launching Futures II LLC. The lease has a five year term, with the University having the option to extend the lease term for an additional five year period. During the year ended June 30, 2007, Launching Futures II LLC received \$548 in lease payments from the University.

Subsequent to June 30, 2007, Launching Futures LLC signed a contract to acquire real estate for \$3.3 million that is currently being leased by the University from an outside party. The University will continue to lease the property from the seller until the initial closing. During the period until the closing, the seller will make improvements not to exceed \$2.95 million resulting in a total closing price of approximately \$6.3 million. In addition to the cost of improvements, Launching Futures LLC has committed to pay for up to \$400,000 in architect fees. The construction is expected to take eight to ten months to complete. Once the construction is completed, the initial closing will take place. Launching Futures LLC will then take possession of the property, lease the property to the University and begin monthly contract-for-deed payments of \$22,500 to the seller. After 119 months of payments to the seller, Launching Futures LLC will pay the seller the balance of the sales contract. From the initial closing date until the purchase price is paid in full, the interest rate on the outstanding balance will be 6.5%.

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**NOTE 16 – CHANGE IN ACCOUNTING METHOD**

The Foundation has changed its method for accounting for non-cash resources resulting from the fundraising contract between the Foundation and the University. The University is required to provide personnel, office space, clerical, accounting and computer support to the Foundation. Existing accounting standards do not provide specific guidance to account for these types of transactions. Previously, the Foundation had not recorded nonfinancial resources provided by the University. Management believes that recording these resources will provide comprehensive information necessary to represent the underlying events and conditions in the financial statements. Comparative financial statements of the prior year have been adjusted to apply the new principle retrospectively.

The Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2007 and 2006 has been adjusted to reflect the estimated value of non-cash compensation of \$1,311,536 and \$1,223,750, respectively provided by the University for personnel, office space, clerical, accounting and computer support to the Foundation. This resulted in an increase of \$1,311,536 and \$1,223,750 in *Service contract with the University* revenue and an increase of the same amount in *Operations* expense for the years ended June 30, 2007 and 2006, respectively. There was no effect on net assets.

This information is an integral part of the accompanying financial statements.

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

Board of Directors  
Illinois State University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Illinois State University Foundation, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's 2006 financial statements were audited by Nykiel, Carlin & Co., Ltd., which practice was acquired by Clifton Gunderson, LLP by merger on November 1, 2006. Nykiel, Carlin & Co., Ltd.'s report dated November 22, 2006, expressed an unqualified opinion on those financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Illinois State University Foundation's internal control over financial reporting as a basis for designing 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 Illinois State University Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois State University Foundation's internal control over financial reporting.

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.

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 internal control over financial reporting that might be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

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

We noted certain matters which we have reported to management of the Illinois State University Foundation in a separate letter dated November 29, 2007.

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

*Clifton Gunderson LLP*

Kankakee, Illinois  
November 29, 2007