

**State of Illinois**  
**Western Illinois University**  
(A Component Unit of the State of Illinois)  
Financial Audit  
For the Year Ended June 30, 2005  
(With Partial Financial Information For the Year Ended June 30, 2004)  
Performed as Special Assistant Auditors for the Auditor General, State of Illinois

**State of Illinois**  
**Western Illinois University**

(A Component Unit of the State of Illinois)

Financial Audit

For the Year Ended June 30, 2005

(with Partial Financial Information for the Year Ended June 30, 2004)

**Contents**

<b>Agency Officials .....</b>	<b>1</b>
 <b>Financial Statement Report</b>	
Summary .....	2
Independent Auditors' Report.....	3
Management's Discussion and Analysis.....	5
Financial Statements	
Statement of Net Assets .....	11
Statement of Revenues, Expenses, and Changes in Net Assets .....	12
Statement of Cash Flows .....	13
Notes to Financial Statements.....	14

**State of Illinois**  
**Western Illinois University**  
(A Component Unit of the State of Illinois)  
**Agency Officials**  
**For the Year Ended June 30, 2005**

President	Dr. Alvin Goldfarb
Vice President for Administrative Services	Mrs. Jackie Thompson
Director of Business Services	Mr. Ronald G. Ward
Internal Auditor	Mrs. Carole H. Carter

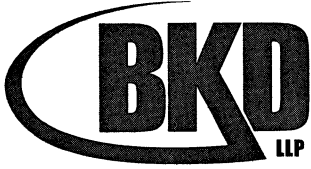
University offices are located at:

Western Illinois University  
1 University Circle  
Macomb, IL 61455

**State of Illinois**  
**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Financial Statement Report Summary**

The audit of the accompanying financial statements of the State of Illinois, Western Illinois University as of and for the year ended June 30, 2005 was performed by **BKD, LLP**.

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



## Independent Auditors' Report

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board of Trustees  
Western Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of Western Illinois University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's 2004 financial statements and, in our report dated November 12, 2004, we expressed unqualified opinions on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable William G. Holland  
Auditor General

and

The Board of Trustees  
Western Illinois University  
Page 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005, on our consideration of the University's internal control over financial reporting and 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 accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

BKD, LLP

October 21, 2005

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2005**

This section of the Western Illinois University (University) annual financial report presents management's discussion and analysis (MD&A) of the financial performance of the University during the fiscal year ended June 30, 2005. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis are designed to focus on current activities, resulting change and current known facts. The financial statements, footnotes and this discussion are the responsibility of University management.

This MD&A focuses on the University. The University's component unit, Western Illinois University Foundation (Foundation), issues separate financial statements that may be obtained at the Foundation's administrative office as summarized in Note 1.

**Using the Financial Report**

The University's annual report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

The financial statements focus on the financial position, changes in financial position and cash flows of the University as a whole. They are prepared under the accrual basis of accounting. Assets and liabilities are categorized as current (due within one year) and noncurrent (due in greater than one year). Current year revenues and expenses are recognized when earned or incurred, regardless of when cash is exchanged. Revenues and expenses are reported as either operating or nonoperating. Significant recurring sources of the University's revenues, including State appropriations, gifts and investment income, are nonoperating as defined by GASB. Scholarship discounts and allowances applied to student accounts are shown as a reduction of tuition and fee revenue and auxiliary enterprise revenue while stipends and other payments made directly to students are presented as student aid expenses. Depreciation is considered an operating expense and capital assets are reported at cost less accumulated depreciation.

**Statement of Net Assets**

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities, net assets, is one indicator of the financial condition of the University, while the change in net assets over time determines whether the financial health of the University is improving. Non-financial factors such as enrollment levels and the condition of facilities are relevant when assessing the overall health of the University. Net assets are divided into three major categories, as follows: invested in capital assets, net of related debt, provides the University's equity in capital assets; restricted net assets are available for expenditure by the institution, but must be spent for purposes as determined by law, donors and/or external entities that have placed time or purpose restrictions on the use of the assets; and unrestricted net assets are available to the University for any lawful purpose of the institution.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2005**

A comparative summary of the condensed Statements of Net Assets for the years ended June 30, 2005 and 2004 is as follows:

<b>Condensed Statements of Net Assets as of June 30, 2005 and 2004</b>		
	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
Current assets	\$ 54,816,250	\$ 51,311,874
Capital assets, net	128,364,208	129,703,354
Other assets	5,727,517	9,158,952
Total assets	188,907,975	190,174,180
<b>LIABILITIES</b>		
Current liabilities	29,660,001	28,251,029
Noncurrent liabilities	61,771,179	70,231,185
Total liabilities	91,431,180	98,482,214
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	85,570,928	78,401,516
Restricted	2,034,791	7,208,468
Unrestricted	9,871,076	6,081,982
<b>TOTAL NET ASSETS</b>	<b>\$ 97,476,795</b>	<b>\$ 91,691,966</b>

The University's financial position continues to remain strong at June 30, 2005 with assets of \$188.9 million and liabilities of \$91.4 million. Net assets, the difference between total assets and total liabilities, increased \$5.8 million or 6.3% over the previous year.

Total assets decreased \$1.3 million to \$188.9 million during fiscal year 2005. The University experienced an increase in cash and cash equivalents of \$2.5 million at year end. This increase was offset by a \$2.3 million decrease in investments. Capital assets decreased \$1.3 million due in part to a decrease of \$0.5 million in capital appropriations.

Total liabilities decreased \$7.1 million during fiscal year 2005. The decrease is largely due to the issuance of the Series 2005 Revenue Bonds to advance refund the Series 1993, 1995A and 1995B Revenue Bonds. As part of the refunding, the 1993 Capital Appreciation Bonds were defeased and securities were placed in escrow to fund future payments.

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's changes in financial position. Revenues and expenses are classified as operating or nonoperating. A public University's dependency on State appropriations and gifts usually results in operating deficits because the financial reporting model classifies these revenue sources as nonoperating.



**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2005**

A comparative summary of the condensed Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2005 and 2004 is as follows:

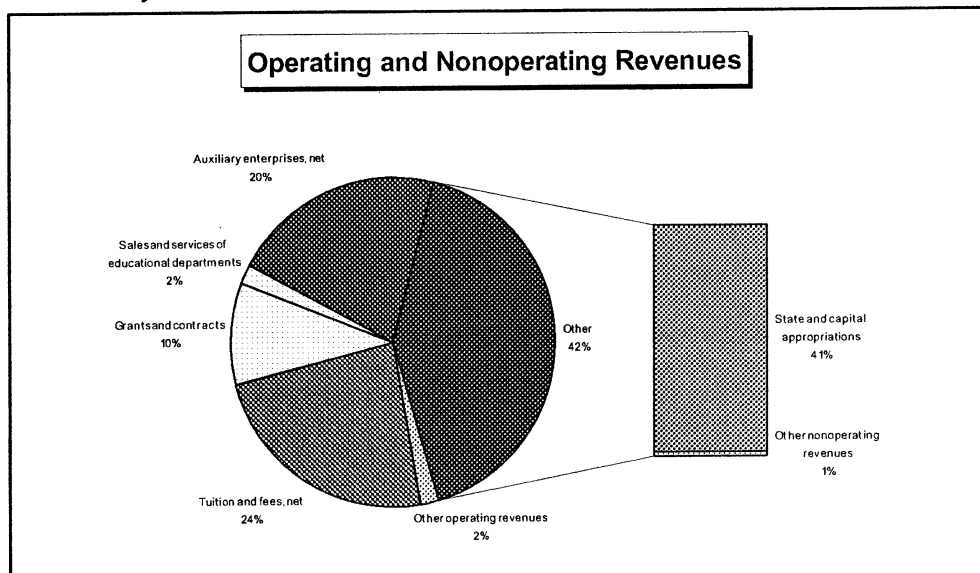
**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Total operating revenues	\$ 125,670,702	\$ 117,009,715
Total operating expenses	<u>(205,843,872)</u>	<u>(238,424,490)</u>
Operating loss	(80,173,170)	(121,414,775)
Nonoperating revenues	88,003,651	123,915,370
Nonoperating expenses	<u>(2,391,788)</u>	<u>(2,563,046)</u>
Income (loss) before other revenues, expenses, gains and losses	5,438,693	(62,451)
Capital state appropriations	346,136	783,810
Capital gifts	-	2,984,444
Increase in net assets	<u>5,784,829</u>	<u>3,705,803</u>
Net assets, beginning of year	<u>91,691,966</u>	<u>87,986,163</u>
<b>Net assets, end of year</b>	<u><u>\$ 97,476,795</u></u>	<u><u>\$ 91,691,966</u></u>

Total revenues decreased \$30.7 million or 12.5% to \$214 million. This is due in part to a significant decrease in State appropriations for mandated contributions to the State Universities Retirement System (SURS) from the previous fiscal year. Revenue from tuition, fees and auxiliary enterprises increased \$10.4 million or 12% over the previous year.

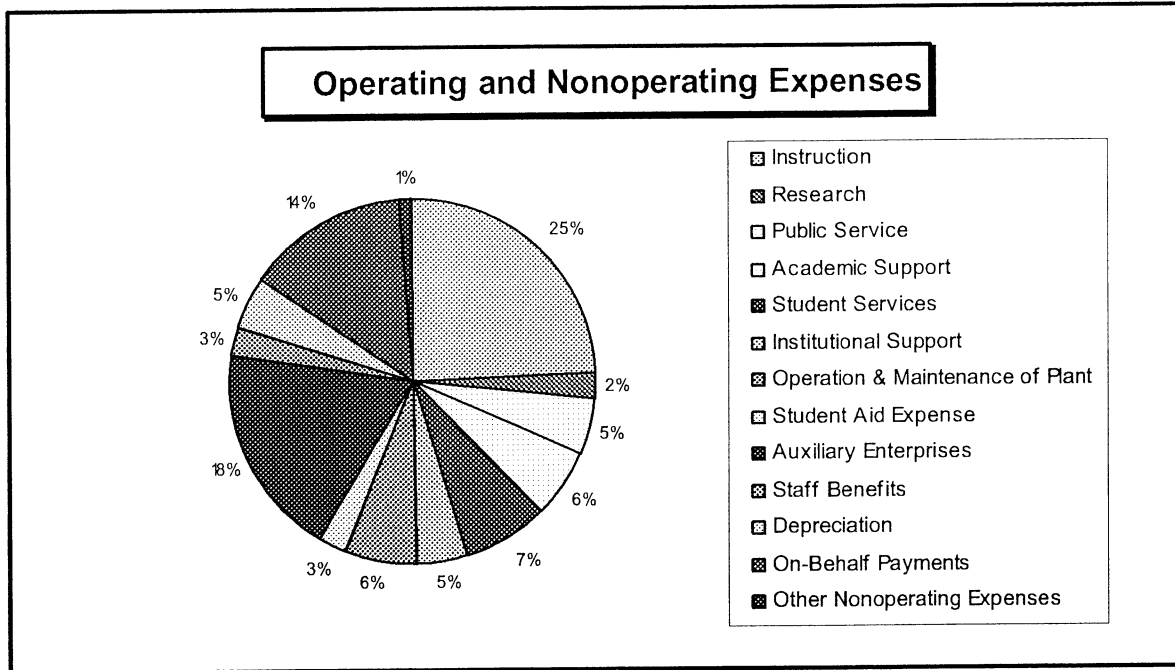
Total expenses decreased \$32.7 million or 13.6% to \$208.3 million. The decrease is primarily due to the significant decrease in State appropriations for mandated contributions to the State Universities Retirement System (SURS) from the previous fiscal year.

For the fiscal year ended June 30, 2005, all sources of revenue totaled \$214 million. The following is a graphical illustration of revenue by source.



**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2005**

For the fiscal ended June 30, 2005, expenses totaled \$208.3 million. The following is a graphical illustration of expenses.



**Statement of Cash Flows**

The Statement of Cash Flows presents information related to the University's cash receipts and disbursements during the fiscal year. This provides an assessment of the University's ability to generate future cash flows and meet obligations as they come due.

A comparative summary of the condensed Statements of Cash Flows for the years ended June 30, 2005 and 2004 is as follows:

<b>Condensed Statements of Cash Flows</b>		
<b>For the Years Ended June 30, 2005 and 2004</b>		
	<u>2005</u>	<u>2004</u>
Cash provided (used) by:		
Operating activities	\$ (38,813,140)	\$ (43,589,329)
Noncapital financing activities	56,895,653	55,030,306
Capital and related financing activities	(18,931,463)	(18,080,682)
Investing activities	3,381,283	9,104,023
Increase in cash and cash equivalents	<u>2,532,333</u>	<u>2,464,318</u>
Cash and cash equivalents, beginning of year	39,969,290	37,504,972
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 42,501,623</u></u>	<u><u>\$ 39,969,290</u></u>

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2005**

Major sources for operating funds provided were tuition and fees, grants and contracts and auxiliary enterprises. Payments for employee salaries and benefits, goods and services and scholarships and fellowships continue to comprise the major uses of operating funds. Cash used by operating activities decreased \$4.8 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations. The University experienced a slight increase in State appropriations of \$1.4 million due to the fact there was no call back of appropriations in fiscal year 2005.

The issuance of the Series 2005 Revenue Bonds for \$26.1 million provided the largest inflow of cash from capital and related financing activities. The bond proceeds together with other funds provided for the advance refunding of the Series 1993, 1995A and 1995B Revenue Bonds. Cash outflows for acquisition and construction of capital assets decreased \$5.3 million.

Cash provided by investing activities decreased \$5.7 million primarily due to the use of investments to fund the advance refunding of several outstanding revenue bond issues during 2005.

**Capital Assets and Debt Administration**

At the end of fiscal year 2005, the University had \$282.4 million invested in capital assets, net of accumulated depreciation of \$154.0 million. Depreciation expense for the current year was \$9.8 million.

The Series 2005 Revenue Bonds issuance and other University funds provided the funding for the advance refunding of several outstanding revenue bonds issues. No new projects were funded from the bond proceeds.

**University's Economic Outlook**

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support and the cost of health care, utilities, employee compensation and benefits and State and Federal mandates.

A crucial element to the University's future will continue to be our relationship with the State of Illinois, as we work to manage tuition to make it competitive while providing an outstanding college education for our students. There is a direct relationship between the growth of State support and the University's ability to control tuition growth, as declines in State appropriations generally result in increased tuition levels.

State appropriations represent operating support provided by the Governor and General Assembly for University programs. The fiscal year 2006 budget, as approved by the Governor, is equal to the fiscal year 2005 approved budget.

The University projects an increase in tuition and miscellaneous revenue. The recommended \$46.8 million fiscal year 2006 tuition and miscellaneous revenue budget represents a \$5.5 million or a 13.4% increase from fiscal year 2005. The estimated increase in tuition revenue is the result of increased enrollments and a 9.5% tuition rate increase approved by the Board of Trustees. Western Illinois University offers guaranteed tuition and fees, as well as guaranteed room and board rates for each new class of entering students. The tuition increase is only for new students, those enrolling for the first time in Summer 2005.

The University's Auxiliary Enterprises funds budget for fiscal year 2006 as approved by the Board of Trustees reflects a \$1.6 million or 3.4% increase in spending over fiscal year 2005. Other institutional funds include revenue from sponsored projects and departmental activity revenue. The 2006 budget for these funds as approved by the Board of Trustees reflects a \$1.8 million or 4.2% decrease in spending over fiscal year 2005.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2005**

In addition to the above, private gifts are an important supplement to the University's sources of funding for operating costs. In fiscal year 2005, alumni, friends, staff, corporations, and other organizations contributed \$3.7 million in support of the University. During the five-year period ended June 30, 2005, the University and the Foundation received more than \$21 million in gift commitments. The Foundation currently distributes (expends) \$3.8 million annually to support academic enhancement and instructional initiatives, student scholarships, capital improvements, cultural activities, athletics, regional outreach efforts, and alumni and Foundation-sponsored programs at Western Illinois University.

As evidenced by an upgrade in the University's bond rating during fiscal year 2005, the University is in a strong financial position in spite of recent economic hardships. Enrollment continues to grow as the University offers its cost guarantee program to incoming students. The University is committed to pursuing its goal in developing the Quad Cities campus while strategically adding, and when appropriate, eliminating programs. Cost containment and revenue initiatives are challenges the University continues to encounter. While it is not possible to predict the ultimate results, management believes the University's financial condition is strong enough to weather economic uncertainties.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**STATEMENT OF NET ASSETS**  
**As of June 30, 2005**  
**(With Partial Financial Information as of June 30, 2004)**

	University		Component Unit	
	2005	2004	2005	2004
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 42,390,439	\$ 39,791,198	\$ 3,246,088	\$ 2,966,339
Cash and cash equivalents, restricted	111,184	178,092	246,480	172,027
Investments	4,131,731	1,170,294	175,148	165,119
Investments, restricted	-	1,617,399	-	-
Accrued investment income, restricted	-	11,814	-	-
Accounts receivable, net	4,464,392	4,766,184	689,883	456,362
Loans and notes receivable, net	425,692	389,775	-	-
Due from component unit	51,532	72,742	-	-
Due from primary government	1,082,500	1,112,328	-	10
Inventories	2,125,046	2,191,512	24,048	17,744
Prepaid expenses	-	-	27,849	6,264
Other assets	33,734	10,536	-	-
<b>Total current assets</b>	<b>54,816,250</b>	<b>51,311,874</b>	<b>4,409,496</b>	<b>3,783,865</b>
<b>Noncurrent assets</b>				
Investments	3,698,591	3,895,969	-	-
Investments, restricted	-	3,409,443	17,245,523	15,885,583
Accounts receivable, net	-	-	78,235	183,517
Loans and notes receivable, net	1,544,008	1,677,056	-	-
Capital assets, net of accumulated depreciation	128,364,208	129,703,354	945,287	956,596
Other assets	484,918	176,484	-	-
<b>Total noncurrent assets</b>	<b>134,091,725</b>	<b>138,862,306</b>	<b>18,269,045</b>	<b>17,025,696</b>
<b>Total assets</b>	<b>188,907,975</b>	<b>190,174,180</b>	<b>22,678,541</b>	<b>20,809,561</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	4,809,683	3,340,896	53,130	79,629
Accrued payroll	12,914,922	12,701,542	-	-
Due to component unit	-	5,009	-	-
Due to primary government	235,585	232,901	51,532	72,742
Deferred revenue	3,215,470	3,806,228	180,682	175,787
Other liabilities	3,705,136	3,585,439	28,459	33,519
Notes payable	677,807	428,412	-	-
Revenue bonds payable, net	2,733,657	2,401,447	-	-
Leases payable	6,883	39,881	4,580	4,335
Compensated absences	1,360,858	1,709,274	-	-
<b>Total current liabilities</b>	<b>29,660,001</b>	<b>28,251,029</b>	<b>318,383</b>	<b>366,012</b>
<b>Noncurrent liabilities</b>				
Notes payable	2,269,419	2,135,843	-	-
Revenue bonds payable, net	42,469,188	51,039,375	-	-
Leases payable	23,966	104,821	20,029	24,609
Other obligations	334,749	339,325	209,378	215,028
Compensated absences	16,673,857	16,611,821	-	-
<b>Total noncurrent liabilities</b>	<b>61,771,179</b>	<b>70,231,185</b>	<b>229,407</b>	<b>239,637</b>
<b>Total liabilities</b>	<b>91,431,180</b>	<b>98,482,214</b>	<b>547,790</b>	<b>605,649</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	85,570,928	78,401,516	942,282	927,652
Restricted:				
Nonexpendable	-	-	15,882,965	14,882,050
Expendable				
Debt Service	-	5,111,039	-	-
Loans	2,034,791	2,097,429	-	-
Other	-	-	1,889,298	1,521,382
Unrestricted	9,871,076	6,081,982	3,416,206	2,872,828
<b>Total net assets</b>	<b>\$ 97,476,795</b>	<b>\$ 91,691,966</b>	<b>\$ 22,130,751</b>	<b>\$ 20,203,912</b>

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Year Ended June 30, 2005**  
**(With Partial Financial Information for the Year Ended June 30, 2004)**

	University		Component Unit	
	2005	2004	2005	2004
<b>OPERATING REVENUES</b>				
Tuition and fees, net	\$ 51,075,172	\$ 44,126,804	\$ -	\$ -
Grants and contracts	20,928,925	21,467,731	-	-
Sales and services of educational departments	4,448,807	5,241,205	-	-
Auxiliary enterprises, net	45,848,730	42,392,818	-	-
Student loan activities	95,662	84,740	-	-
Other	3,273,406	3,696,417	3,065,950	2,875,304
<b>Total operating revenues</b>	<u>125,670,702</u>	<u>117,009,715</u>	<u>3,065,950</u>	<u>2,875,304</u>
<b>OPERATING EXPENSES</b>				
Instruction	51,059,319	49,082,909	566,525	569,806
Research	4,565,146	5,148,557	87,570	45,265
Public service	10,303,513	10,721,040	148,286	49,503
Academic support	12,894,622	12,065,576	74,825	71,439
Student services	15,254,938	15,625,275	538,757	519,150
Institutional support	9,572,886	9,420,983	638,307	688,912
Operation and maintenance of plant	12,702,001	12,483,110	229,379	222,910
Student aid	5,297,863	5,498,580	1,527,970	1,494,099
Auxiliary enterprises	38,970,579	37,122,186	-	-
Staff benefits	5,481,025	4,353,225	-	-
Depreciation	9,763,734	9,606,897	11,309	25,249
On-behalf payments	29,966,687	67,284,696	-	-
Other	11,559	11,456	-	-
<b>Total operating expenses</b>	<u>205,843,872</u>	<u>238,424,490</u>	<u>3,822,928</u>	<u>3,686,333</u>
Operating loss	<u>(80,173,170)</u>	<u>(121,414,775)</u>	<u>(756,978)</u>	<u>(811,029)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	86,359,787	122,302,896	-	-
Gifts	607,893	594,155	-	-
Gain (loss) on disposal of capital assets	2,456	(6,550)	-	(2,180)
Investment income	1,033,515	648,835	966,970	1,529,281
Interest on capital asset-related debt	(2,391,788)	(2,556,496)	(1,484)	(1,302)
Contributions of capital assets to Western Illinois University	-	-	-	(2,984,444)
Other nonoperating revenues (expenses)	-	369,484	675,932	627,173
<b>Net nonoperating revenues</b>	<u>85,611,863</u>	<u>121,352,324</u>	<u>1,641,418</u>	<u>(831,472)</u>
Income (loss) before other revenues, expenses, gains or losses	5,438,693	(62,451)	884,440	(1,642,501)
Capital state appropriations	346,136	783,810	-	-
Additions to permanent endowments	-	-	1,042,399	833,580
Capital gifts	-	2,984,444	-	3,000,000
<b>Increase (decrease) in net assets</b>	<u>5,784,829</u>	<u>3,705,803</u>	<u>1,926,839</u>	<u>2,191,079</u>
Net assets, beginning of year	<u>91,691,966</u>	<u>87,986,163</u>	<u>20,203,912</u>	<u>18,012,833</u>
<b>Net assets, end of year</b>	<u>\$ 97,476,795</u>	<u>\$ 91,691,966</u>	<u>\$ 22,130,751</u>	<u>\$ 20,203,912</u>

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2005**  
**(With Partial Financial Information for the Year Ended June 30, 2004)**

	University		Component Unit	
	2005	2004	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Tuition and fees	\$ 50,973,040	\$ 44,690,059	\$ -	\$ -
Grants and contracts	20,079,914	22,335,883	-	-
Gifts for other than capital and endowment purposes	-	-	2,796,507	2,615,615
Payments for employee salaries and benefits	(108,490,393)	(105,865,924)	-	-
Payments for goods and services	(50,194,194)	(49,957,218)	(2,341,138)	(1,926,911)
Payments to annuitants	-	-	-	(28,410)
Payments for scholarships and fellowships	(5,393,314)	(5,784,733)	(1,527,970)	(1,494,099)
Student loans issued	(706,685)	(748,075)	(29,923)	-
Student loans collected	661,732	652,103	-	-
Student loans interest and fees collected	95,059	84,115	-	-
Auxiliary enterprise charges	46,407,592	41,871,046	-	-
Sales and service of educational departments	4,463,021	5,466,150	-	-
Other receipts	3,291,088	3,667,265	350,502	333,980
<b>Net cash used by operating activities</b>	<b>(38,813,140)</b>	<b>(43,589,329)</b>	<b>(752,022)</b>	<b>(499,825)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State appropriations	56,393,100	55,018,200	-	-
Gifts	338,256	22,319	1,042,399	833,580
Nonoperating revenue (expenses), net	164,297	(10,213)	1,250,885	627,173
<b>Net cash provided by noncapital financing activities</b>	<b>56,895,653</b>	<b>55,030,306</b>	<b>2,293,284</b>	<b>1,460,753</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from capital debt	263,123,757	-	-	-
Bond issuance costs	(351,834)	-	-	-
Bonds refunded/defeased	(32,791,567)	-	-	-
Call premium on refunded bonds	(163,450)	-	-	-
Cash advanced for bond refunding	(197,764)	-	-	-
Escrow for capital appreciation bonds defeasance	(503,075)	-	-	-
Cash paid for capital assets	(7,060,256)	(12,393,684)	-	-
Principal paid on capital debt and leases	(1,395,930)	(2,833,792)	(4,335)	(4,552)
Interest paid on capital debt and leases	(2,591,344)	(2,853,206)	(1,484)	(1,303)
<b>Net cash used by capital and related financing activities</b>	<b>(18,931,463)</b>	<b>(18,080,682)</b>	<b>(5,819)</b>	<b>(5,855)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	6,670,942	11,426,777	16,125,967	14,521,038
Earnings on investments	1,356,907	1,089,183	600,919	194,428
Purchase of investments	(4,646,566)	(3,411,937)	(17,908,127)	(15,547,998)
<b>Net cash provided (used) by investing activities</b>	<b>3,381,283</b>	<b>9,104,023</b>	<b>(1,181,241)</b>	<b>(832,532)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,532,333</b>	<b>2,464,318</b>	<b>354,202</b>	<b>122,541</b>
Cash and cash equivalents - beginning of the year	39,969,290	37,504,972	3,138,366	3,015,825
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 42,501,623</b>	<b>\$ 39,969,290</b>	<b>\$ 3,492,568</b>	<b>\$ 3,138,366</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>				
Cash and cash equivalents	\$ 42,390,439	\$ 39,791,198	\$ 3,246,088	\$ 2,966,339
Restricted cash and cash equivalents - current	111,184	178,092	246,480	172,027
<b>Total cash and cash equivalents</b>	<b>\$ 42,501,623</b>	<b>\$ 39,969,290</b>	<b>\$ 3,492,568</b>	<b>\$ 3,138,366</b>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>				
Operating loss	\$ (80,173,170)	\$ (121,414,775)	\$ (756,978)	\$ (811,029)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:				
Depreciation expense	9,763,734	9,606,897	11,309	25,249
On-behalf payments	29,966,687	67,284,696	-	-
Noncapitalized capital appropriations	-	5,244	-	-
Actuarial adjustment to value of split-interest agreements	-	-	2,905	18,943
Changes in assets and liabilities				
Receivables, net	254,257	72,000	1,104	(36,804)
Pledges receivable	-	-	(76,164)	77,887
Loans receivable, net	97,131	(5,511)	-	-
Inventories	66,466	1,101,701	6,304	917
Other assets	32,025	10,537	21,585	12,853
Accounts payable	1,867,326	(448,344)	26,498	22,741
Accrued payroll	213,380	305,577	-	-
Due to University	-	-	21,210	23,950
Annuities payable	-	-	(4,900)	132,261
Deferred revenue	(614,597)	833,768	(4,895)	33,207
Compensated absences	(286,379)	(941,119)	-	-
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (38,813,140)</b>	<b>\$ (43,589,329)</b>	<b>\$ (752,022)</b>	<b>\$ (499,825)</b>
<b>Noncash investing, capital and financing activities</b>				
On-behalf payments	\$ 29,966,687	\$ 67,284,696	\$ -	\$ -
Capital asset acquisition via notes and leases payable	401,784	301,733	-	46,093
Capital asset acquisition via capital appropriations	377,612	1,370,169	-	-
Capital asset acquisition via support from Foundation	269,637	3,556,280	-	-
Capital gifts received	-	-	-	3,000,000
Capitalized interest	207,268	449,787	-	-
Capital asset changes in accounts payable	(400,864)	455,063	-	-
Other capital asset adjustments	571,914	81,847	-	-

See notes to financial statements.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

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

**Financial Reporting Entity**

Western Illinois University (University), a component unit of the State of Illinois (State), with a primary focus on instruction and an additional commitment to research and public service, is located in Macomb, Illinois. The governing body of the University is the Board of Trustees of Western Illinois University (Board). As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University and its component unit, Western Illinois University Foundation (Foundation). The Foundation is included in the University's reporting entity because of the significance of its financial relationship with the University. Complete financial statements for the Foundation may be obtained at that entity's administrative office:

WIU Foundation  
1 University Circle  
Macomb, IL 61455-1390

The Foundation is a University-related organization as defined under *University Guidelines* adopted by the State of Illinois Legislative Audit Commission in 1982 as amended in 1997. The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research and public service activities. In this capacity, the Foundation solicits, receives, holds and administers gifts for the benefit of the University.

The University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report.

**Basis of Accounting and Presentation**

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The University reports as a Business Type Activity. Business Type Activities are those financed in whole or in part by fees charged to external parties for goods and services.

The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

**Change in Accounting Principle**

In 2005 the University adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Adoption of GASB 40 had no effect on the net assets and change in net assets in the prior or current year.

**Prior-Year Information**

The basic financial statements include certain prior-year partial comparative information but do not include full comparative footnote disclosures required for 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 University's financial statements for the year ended June 30, 2004, from which the partial information was derived.



**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**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, liabilities, and net assets, and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents**

The University considers all liquid investments with original maturities of three months or less to be cash equivalents.

**Investments**

Investment in equity and debt securities, mutual funds and investment pools are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit are carried at cost. Investment income consists of dividend and interest income and the net change for the year in the fair value of investments carried at fair value.

**Accounts Receivable**

Accounts receivable consists of tuition and fee charges to students, amounts receivable from funding agencies for grants, accounts receivable from third parties and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable is recorded net of estimated uncollectible amounts.

**Deferred Bond Issue Costs**

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the straight-line method. Total amortization for the years ended June 30, 2005 and 2004 was \$60,166 and \$10,536 respectively.

**Loans to Students**

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

**Inventories**

Inventories are carried at the lower of cost (first-in, first-out method) or market.

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more. Renovations to buildings and land improvements that increase the value or extend the useful life are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the class of assets. The following estimated useful lives are being used by the University:

Site improvements	25 years
Buildings	60 years
Building improvements	20 years
Computer equipment	3 years
Trucks greater than 1 ton	12 years
Capital lease equipment	Life of lease
All other equipment	7 years

University capital assets financed by the State of Illinois Capital Development Board (CDB) are recorded by the University as the funds are expended by the CDB.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**Deferred Revenue**

Deferred revenue represents unearned student fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements.

**Compensated Absences**

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

**Net Assets**

Net assets of the University are classified in four components. Net assets invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted nonexpendable net assets are required to be retained and invested in perpetuity. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by laws, creditors, grantors or donors external to the University, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, restricted nonexpendable or restricted expendable.

**Classification of Revenues**

The University 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 (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises and (3) interest on student loans.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources, such as state appropriations and investment income, that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34. The State of Illinois General Revenue Fund appropriations are reported as non-operating revenue to the extent that they are expended during the current fiscal year. The University relies on these appropriations to provide funding for operations.

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30, 2005, were \$3,993,504 and \$2,130,749, respectively.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**Collections**

The University has collections of rare manuscripts and art that it does not depreciate. These collections adhere to the University's policy to (a) maintain them for public exhibition, education or research, (b) protect, keep unencumbered, care for and preserve them, and (c) require proceeds from their sale to be used to acquire other collection items.

**Donor Restricted Endowments**

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Illinois, permits the Board of Trustees of the Foundation to appropriate an amount of realized and unrealized endowment appreciation as they determine to be prudent. The Board of Trustees has established an investment policy with the objectives of protecting the principal of these funds and maximizing total investment return without assuming extraordinary risks. It is the goal of the Foundation to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 5% for endowment purposes and 1.4% for operational purposes, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings. The Foundation's policy is to retain the endowment's unrealized appreciation with the endowment after spending rule distributions. As of June 30, 2005, the Foundation had a total of \$1,753,478 of net appreciation from investment of donor-restricted endowments available for expenditure. This amount is reported in expendable restricted net assets on the statement of net assets.

**Income Taxes**

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

**Reclassifications**

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 financial statement presentation. These reclassifications had no effect on the change in net assets.

**NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN**

**Deposits - University**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The University's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the state of Illinois; bonds of any city, county, school district or special road district of the state of Illinois; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2005 the University's bank balances were \$1,281,184. None of the University's bank balances are exposed to custodial credit risk.

**Investments - University**

Illinois statutes and Board policy authorize the University to invest in certificates of deposit, The Illinois Funds, United States Government Securities, securities guaranteed by the full faith and credit of the United States government, and any other security permitted by law and approved by the Board.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

At June 30, 2005, the University had the following investments and maturities:

<u>Type</u>	<u>Total Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than one year</u>	<u>1 - 5 years</u>
The Illinois Funds Investment Pool	\$ 33,329,074	\$ 33,329,074	\$ -
U.S. Treasury Bills	10,308,444	10,308,444	-
Federal Home Loan Banks	1,495,781	493,281	1,002,500
U.S. Treasury Notes	2,355,377	668,672	1,686,705
State & Local Government Securities	<u>1,109,386</u>	<u>100,000</u>	<u>1,009,386</u>
	<u>\$ 48,598,062</u>	<u>\$ 44,899,471</u>	<u>\$ 3,698,591</u>

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the University’s investment policy limits the maturity of its investments to five years or less from the date of purchase.

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the University’s policy to limit its investments to The Illinois Funds Investment Pool, United States Treasury Bills, United States Treasury Notes, United States Treasury Bonds, Federal Farm Credit Bank Bonds, Federal Home Loan Bank Notes, Federal National Mortgage Association, Federal Land Bank Bonds, Government National Mortgage Association, and Federal Home Loan Mortgage Corporation.

**Summary of Carrying Values – University**

The carrying values of deposits and investments shown above are included in the statement of net assets as follows:

<b>Carrying Value</b>	
Deposits	\$ 1,733,883
Investments	<u>48,598,062</u>
	<u>\$ 50,331,945</u>
<b>Included in the following Statement of Net Asset captions</b>	
Cash and cash equivalents	\$ 42,390,439
Cash and cash equivalents, restricted	111,184
Investments - current	4,131,731
Investments - non-current	<u>3,698,591</u>
	<u>\$ 50,331,945</u>

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**Investment Income - University**

Investment income for the year ended June 30, 2005 consisted of the following:

Interest and dividend income	\$ 1,222,706
Net decrease in fair value of investments	<u>(189,191)</u>
	<u>\$ 1,033,515</u>

**Deposits – Foundation**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Foundation's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The Foundation's investment policy requires collateralization of all deposits with federal depository insurance. At June 30, 2005, the Foundation's bank balances were \$31,510. None of the Foundation's bank balances are exposed to custodial credit risk.

**Investments – Foundation**

At June 30, 2005, the Foundation had the following investments and maturities:

Type	Total Fair Value	Maturities in Years			
		Less than one year	1 - 5 years	6 - 10 years	Over 10 years
U.S. Treasury Notes	\$ 2,460,703	\$ -	\$ 1,170,091	\$ 1,290,612	\$ -
U.S. Treasury Bonds	215,646	-	-	-	215,646
U.S. Agency obligations (FHLM, FNMA)	1,322,591	-	570,010	660,143	92,438
Corporate debt securities	390,173	101,123	104,334	114,285	70,431
Corporate equity securities	9,226,919	9,226,919	-	-	-
Cash Equivalents held in investment pools	721,790	721,790	-	-	-
Real Assets	856,887	856,887	-	-	-
Absolute Return	851,960	851,960	-	-	-
Open-ended mutual funds	1,309,002	1,309,002	-	-	-
Private equity	65,000	65,000	-	-	-
Total Investments	<u>\$ 17,420,671</u>	<u>\$ 13,132,681</u>	<u>\$ 1,844,435</u>	<u>\$ 2,065,040</u>	<u>\$ 378,515</u>

Interest rate risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's current asset allocation policy has a 23% allocation to risk protection assets to help enable the portfolio to perform better than the equity market during periods of market decline. The Foundation's policy also has in place a 22% allocation to inflation protection assets which is designed to help retain purchasing power during inflationary periods.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Foundation’s investment policy specifies a weighting of 50% equities, 35% fixed income and 15% of other investment classes to include real assets, private equity and absolute return funds. The Foundation’s policy to address credit risk allows for the allocation of stocks, bonds and cash equivalents to be changed from time to time within the parameters agreed upon by the Foundation’s Executive and Investment Committee.

The endowment investment policy of the Foundation was revised as of June 30, 2005. The general investment considerations are:

Risk: The Investment Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.

Liquidity: The endowment fund does not have an explicit allocation to cash or cash equivalents.

Time Horizon: The endowment fund has an infinite life. An investment time horizon of twenty-five years is appropriate.

The Foundation adheres to the total return concept of investment management. Total return is defined as the aggregate sum of current income and changes in the market value of the assets under management.

**Summary of Carrying Values - Foundation**

The carrying values of deposits and investments shown above are included in the statement of net assets as follows:

<b>Carrying Value</b>	
Deposits	\$ 3,492,568
Investments	17,420,671
	\$ 20,913,239

**Included in the following Statement  
of Net Asset captions**

Cash and cash equivalents	\$ 3,246,088
Cash and cash equivalents, restricted	246,480
Investments - current	175,148
Investments - non-current, restricted	17,245,523
	\$ 20,913,239

**Investment Income – Foundation**

Investment income for the year ended June 30, 2005 consisted of the following:

Interest and dividend income	\$ 596,947
Net increase in fair value of investments	370,023
	\$ 966,970

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**NOTE 3. ACCOUNTS AND LOANS RECEIVABLE**

Accounts receivable are reported net of allowances for uncollectible accounts of \$2,924,550 at June 30, 2005. Loans receivable are reported net of allowances for uncollectible loans of \$586,950 at June 30, 2005.

<b>University Accounts Receivable</b>	
	<b>2005</b>
Receivables from students	\$ 4,876,341
Receivables from funding agencies	1,508,713
Receivables from third parties	1,003,888
Total gross receivables	7,388,942
Allowance for doubtful accounts	(2,924,550)
	<b>\$ 4,464,392</b>

**NOTE 4. CAPITAL ASSETS**

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Net interest of \$207,268 was capitalized during fiscal year 2005.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

The tables below depict capital asset activity for both the University and the Foundation for the year ended June 30, 2005.

**University**  
**Capital Assets Activity, Year Ended June 30, 2005**

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<b>Non-depreciable Capital Assets</b>					
Land & Land Improvements	\$ 3,184,347	\$ 38,800	\$ -	\$ -	\$ 3,223,147
Works of Art and Historical Treasures	471,569	-	-	-	471,569
Construction in Progress	10,340,051	2,466,782	-	(11,386,561)	1,420,272
<b>Total Non-depreciable Capital Assets</b>	<u>13,995,967</u>	<u>2,505,582</u>	<u>-</u>	<u>(11,386,561)</u>	<u>5,114,988</u>
<b>Depreciable Capital Assets</b>					
Site Improvements	26,096,659	243,563	-	199,871	26,540,093
Buildings & Building Improvements	174,714,625	1,553,038	-	11,564,301	187,831,964
Equipment	60,161,645	3,786,499	(1,310,778)	3,850	62,641,216
Capital Lease Equipment	259,344	21,314	(44,482)	(3,850)	232,326
<b>Total Depreciable Capital Assets</b>	<u>261,232,273</u>	<u>5,604,414</u>	<u>(1,355,260)</u>	<u>11,764,172</u>	<u>277,245,599</u>
<b>Accumulated Depreciation</b>	<u>(145,524,886)</u>	<u>(9,763,734)</u>	<u>1,292,241</u>	<u>-</u>	<u>(153,996,379)</u>
<b>Total Depreciable Capital Assets, Net</b>	<u>115,707,387</u>	<u>(4,159,320)</u>	<u>(63,019)</u>	<u>11,764,172</u>	<u>123,249,220</u>
<b>Capital Assets, net</b>	<u>\$129,703,354</u>	<u>\$ (1,653,738)</u>	<u>\$ (63,019)</u>	<u>\$ 377,611</u>	<u>\$128,364,208</u>

**Foundation**  
**Capital Assets Activity, Year Ended June 30, 2005**

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Non-depreciable Capital Assets</b>				
Land and land improvements	\$ 909,200	\$ -	\$ -	\$ 909,200
<b>Depreciable Capital Assets</b>				
Capital lease equipment	55,336	-	-	55,336
<b>Accumulated Depreciation</b>	<u>(7,940)</u>	<u>(11,309)</u>	<u>-</u>	<u>(19,249)</u>
<b>Capital Assets, net</b>	<u>\$ 956,596</u>	<u>\$ (11,309)</u>	<u>\$ -</u>	<u>\$ 945,287</u>



**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**NOTE 5. NOTES PAYABLE**

The University has entered into installment purchase agreements for telecommunications equipment, storage area network equipment, computer equipment, and copy equipment with an original cost of \$4,660,041. The related notes payable obligations were recorded at the present value of the future minimum installment payments, discounted using applicable discount rates, which range from 3.08% to 5.97%.

**Notes Payable Activity, Year Ended June 30, 2005**

Balance, beginning of year	\$ 2,564,255
New installments	912,829
Payments	<u>(529,858)</u>
<b>BALANCE, END OF YEAR</b>	<b><u>\$ 2,947,226</u></b>
Current Portion	<u><u>\$ 677,807</u></u>

Following is a schedule by years of the total future minimum note payments under these agreements together with the present value of the net minimum note payments as of June 30, 2005:

2006	775,558
2007	775,558
2008	775,557
2009	439,062
2010	<u>438,153</u>
Total Minimum Note Payments	3,203,888
Less, Amount Representing Interest	<u>256,662</u>
<b>PRESENT VALUE OF NET MINIMUM NOTE PAYMENTS</b>	<b><u><u>\$ 2,947,226</u></u></b>

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**NOTE 6. REVENUE BONDS PAYABLE**

**General**

At June 30, 2005, revenue bonds payable consist of Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2005, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2002, and Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 1999.

**Series 2005 Bonds**

On February 16, 2005, the Series 2005 Bonds were issued in the principal amount of \$25,715,000. The Series 2005 Bonds are due April 1, 2020, with annual principal payments ranging from \$580,000 to \$2,845,000 commencing April 1, 2006, and semi-annual interest payments beginning October 1, 2005, at 3% to 4.25%.

Proceeds from the sale of the Series 2005 Bonds, together with other funds of the University, were used to provide for the advance refunding of the Series 1993 Bonds and the Series 1995 Bonds and to pay certain expenses related to the issuance of the bonds. The net proceeds plus funds provided by the University were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 and 1995 Series Bonds. As a result, the 1993 and 1995 Bonds are considered defeased and the liability for those bonds has been removed from the University's Statement of Net Assets.

Although the advance refunding resulted in the recognition of an accounting loss of \$1,345,010, for the year ended June 30, 2005, the University in effect reduced its aggregate debt service payments by \$7,682,725 over the next 15 years and obtained an economic gain of \$2,548,409.

**Series 2002 Bonds**

On February 6, 2002, the Series 2002 Bonds were issued in the principal amount of \$12,605,000. The Series 2002 Bonds are due April 1, 2022, with annual principal payments ranging from \$450,000 to \$970,000 commencing April 1, 2004, and semi-annual interest payments beginning April 1, 2002, at 3.50% to 5.00%.

Proceeds from the sale of the Series 2002 Bonds are being used to construct a new residence hall, to renovate existing residence halls, to renovate married student and family housing apartments, and to purchase property adjacent to the University. In addition, Series 2002 proceeds were used to pay interest on the Series 2002 Bonds through October 1, 2003, to fund a deposit to the Debt Service Reserve Account and to pay the costs of issuing the Series 2002 Bonds.

**Series 1999 Bonds**

On July 13, 1999, the Series 1999 Bonds were issued in the principal amount of \$10,000,000. The Series 1999 Bonds are due April 1, 2024, with annual principal payments ranging from \$235,000 to \$695,000 commencing April 1, 2001, and semi-annual interest payments beginning April 1, 2000, at 5.20% to 5.30%.

Proceeds from the sale of the Series 1999 Bonds were used to construct a new dining center, to renovate an existing dining center, to construct an addition to Western Hall, to make fire safety improvements and to refurbish student housing facilities. In addition, Series 1999 proceeds were used to pay interest on a portion of the Series 1999 Bonds through April 1, 2001, to fund a deposit to the Debt Service Reserve Account, and to pay the costs of issuing the Series 1999 Bonds.

**Advance Refunded Bonds**

Certain revenue bonds of the University have been defeased in prior years through advance refundings and, accordingly, have been accounted for as if they were retired. The principal amount of advance refunded bonds outstanding at June 30, 2005 was \$43,990,000.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**Debt Service Activity Requirements and Collateral**

Following is a schedule depicting Revenue Bonds Payable activity for the year ended June 30, 2005:

**Revenue Bonds Payable Activity, Year Ended June 30, 2005**

	<u>Beginning Balance</u>	<u>New Debt/ Accretion</u>	<u>Principal Paid</u>	<u>Refunded/ Defeased</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Series 1993 Bonds	\$24,881,567	\$ -	\$ -	\$24,881,567	\$ -	\$ -
Series 1995A Bonds	7,780,000	-	-	7,780,000	-	-
Series 1995B Bonds	130,000	-	-	130,000	-	-
Series 1999 Bonds	9,000,000	-	280,000	-	8,720,000	290,000
Series 2002 Bonds	12,155,000	-	465,000	-	11,690,000	485,000
Series 2005 Bonds	-	25,715,000	-	-	25,715,000	2,275,000
Total/Subtotal	<u>\$53,946,567</u>	<u>\$25,715,000</u>	<u>\$ 745,000</u>	<u>\$32,791,567</u>	46,125,000	3,050,000
Unamortized Premium (Discount)					333,531	(101,965)
Deferred Gain/Loss of Refunding					(1,255,686)	(214,378)
<b>TOTAL</b>					<u>\$45,202,845</u>	<u>\$2,733,657</u>

Aggregate maturities of the bonds outstanding as of June 30, 2005 are as follows:

	<b>Principal</b>	<b>Interest</b>
2006	\$ 3,050,000	\$ 2,019,509
2007	3,295,000	1,804,959
2008	3,405,000	1,696,399
2009	3,525,000	1,570,309
2010	3,660,000	1,437,274
2011-2015	14,050,000	5,312,018
2016-2020	10,675,000	2,604,837
2021-2025	4,465,000	493,065
Subtotal	<u>46,125,000</u>	<u>16,938,370</u>
Unamortized Premium (Discount)	333,531	-
Deferred Gain/Loss of Refunding	(1,255,686)	-
<b>TOTAL</b>	<u>\$ 45,202,845</u>	<u>\$ 16,938,370</u>

Maximum Annual Debt Service as defined for all outstanding debt is \$5,107,591.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

None of the bonds described above constitute obligations of either the State of Illinois or the Board of Trustees of Western Illinois University, but together with interest thereon, are payable solely from and are collateralized by a) the net revenues of the Western Illinois University Auxiliary Facilities System b) certain pledged student fees, and c) a pledge of student tuition.

**NOTE 7. CAPITAL LEASE OBLIGATIONS**

The University has entered into several lease purchase contracts for duplicating equipment. Assets under capital leases at June 30, 2005, totaled \$232,326, net of accumulated depreciation of \$116,523. The related lease obligations were recorded at the present value of the future minimum lease payments discounted using applicable discount rates, which range from 4.25% to 16.54%.

<u>Capital Lease Activity, Year Ended June 30, 2005</u>	
Balance, beginning of year	\$ 144,702
New leases	21,314
Payments/terminations	<u>(135,167)</u>
<b>BALANCE, END OF YEAR</b>	<b><u>\$ 30,849</u></b>
Current Portion	<b><u>\$ 6,883</u></b>

Following is a schedule by years of the total future minimum lease payments under these leases together with the present value of the net minimum lease payments as of June 30, 2005:

2006	\$ 14,233
2007	9,233
2008	9,233
2009	3,212
2010	<u>1</u>
Total Minimum Lease Payments	35,912
Less, Amount Representing Interest	<u>5,063</u>
<b>PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS</b>	<b><u>\$ 30,849</u></b>

**NOTE 8. ACCRUED COMPENSATED ABSENCES**

Vacation pay earned but not taken may be accumulated up to a specified maximum from 24 to 56 work days, and received as a lump sum payment upon termination. At June 30, 2005, such accumulated benefits totaled \$6,076,728.

Administrative and faculty unused sick leave may be accumulated up to a specified maximum, generally 300 calendar days. Unused and unpaid sick leave can be applied toward the service time requirements for computing retirement benefits. Civil service exempt and nonexempt employees have no specified maximum accumulation of unused sick leave days. One-half of any unused sick leave earned from January 1, 1984 through January 1, 1998 can be received as a lump sum payment upon termination. At June 30, 2005, such accumulated benefits totaled \$11,957,987.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**Compensated Absence Activity**  
**Year Ended June 30, 2005**

---

Balance, beginning of year	\$ 18,321,095
Additions	1,101,517
Deductions	<u>(1,387,897)</u>
<b>BALANCE, END OF YEAR</b>	<b><u>\$ 18,034,715</u></b>
 Current Portion	 <u>\$ 1,360,858</u>

**NOTE 9. RETIREMENT PLAN**

**Plan Description**

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the state's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*.

SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

SURS  
1901 Fox Drive  
Champaign, IL 61820  
or by calling 1-800-275-7877

Eligible employees must participate upon initial employment. Employees are ineligible to participate if a) employed after having attained age 68; or b) employed less than 50 percent of full time. Of these University employees ineligible to participate, the majority are students at the University.

SURS provides retirement, disability and death benefits. Members are eligible for normal retirement at any age after 35 years of service, at age 60 after 8 years of service or at age 62 after 5 years of service. There are also provisions for early retirement. Retirement benefits are based on certain formulas that generally are a function of years of service and the average salary based on the highest earnings of any four consecutive years. Disability benefits are paid to disabled members with two years of covered service, generally at 50% of basic compensation until the total benefits paid equal 50% of the total earnings in covered service.

Death benefits are payable to survivors of an active member with one and one half years of covered service or of a former member with 10 years of covered service. These benefits are payable until children attain the age of 18, to a spouse after age 50 and to a dependent parent after age 55. Benefits are equal to the retirement contributions and interest, a lump sum payment of \$1,000, and a monthly annuity equal to a portion of the accrued normal retirement benefit based on specified formulas.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**Funding Policy**

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 11.12% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ending June 30, 2005, 2004 and 2003 were \$7,864,469, \$49,467,248, and \$8,021,849 respectively, equal to the required contributions for each year.

On April 7, 2003, the Governor signed Public Act 93-0002 into law authorizing the issuance of up to \$10 billion of general obligation bonds for making contributions to the State's designated retirement systems, including the State Universities Retirement System (SURS). On June 12, 2003, the State issued \$10 billion of General Obligation Bonds, Pension Funding Series of June 2003, which generated \$9.96 billion in proceeds in order to pay the designated retirement systems \$300 million for the remaining statutorily required contributions for the fourth quarter of fiscal year 2003, \$1.86 billion for the fiscal year 2004 statutorily required contributions, and \$7.32 billion in order to reduce the actuarial reserve deficiencies of the State's designated retirement systems. The remaining \$481 million of proceeds was authorized by the Bond Sale Order to be held by the State to make the first required interest payment on the bonds. On July 1, 2003, the SURS received an allocation of \$1.43 billion for its share of the \$7.32 billion to reduce the actuarial reserve deficiency at the SURS. The University's allocation of this amount was \$40.3 million.

**NOTE 10. POSTEMPLOYMENT BENEFITS**

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants who are former State employees. This includes annuitants of the University. Substantially all State employees, including the University's employees, may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis.

**NOTE 11. INSURANCE**

The University participates in the State University Risk Management Association (SURMA), a self-insurance pool. Through its participation in the Illinois Public Higher Education Cooperative (IPHC), the University has contracted with commercial carriers to provide various insurance coverages, including educators' legal and other general liability insurance. The University's liability coverages have a \$350,000 deductible per occurrence. SURMA member schools may request reimbursement for claim related expenses from SURMA funds. Additionally, the University purchases property insurance coverage for the replacement value of University real property and contents. Settled claims have not exceeded commercial coverage in any of the three preceding years.

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**NOTE 12. OPERATING EXPENSES BY NATURAL CLASSIFICATION**

Operating expenses by natural classification for the year ended June 30, 2005, for the University are summarized as follows:

	<u>Compensation and Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 47,313,050	\$ 3,727,452	\$ 18,817	\$ -	\$ 51,059,319
Research	2,549,973	2,014,873	300	-	4,565,146
Public service	6,530,456	3,738,969	34,088	-	10,303,513
Academic support	9,135,180	3,755,992	3,450	-	12,894,622
Student services	8,464,582	6,716,982	73,374	-	15,254,938
Institutional support	8,091,545	1,481,341	-	-	9,572,886
Operation and maintenance of plant	7,346,805	5,355,196	-	-	12,702,001
Student aid	-	76,850	5,221,013	-	5,297,863
Auxiliary enterprises	13,494,093	25,291,481	185,005	-	38,970,579
Staff benefits	5,481,025	-	-	-	5,481,025
Depreciation expense	-	-	-	9,763,734	9,763,734
On-behalf payments	29,966,687	-	-	-	29,966,687
Other operating expenses	-	11,559	-	-	11,559
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$138,373,396</u></u>	<u><u>\$ 52,170,695</u></u>	<u><u>\$ 5,536,047</u></u>	<u><u>\$ 9,763,734</u></u>	<u><u>\$205,843,872</u></u>

**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

Operating expenses by natural classification for the year ended June 30, 2005 for the Foundation are summarized as follows:

	<u>Institutional Support</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Advertising and promotions	\$ 106,057	\$ -	\$ -	\$ 106,057
Contractual services	797,059	-	-	797,059
Copying/photo services	53,775	-	-	53,775
Cost of sales	123,525	-	-	123,525
Assets donated to WIU	286,373	-	-	286,373
Food/food supplies/catering	199,973	-	-	199,973
Operating supplies/commodities	224,303	-	-	224,303
Operation of automotive equipment	2,677	-	-	2,677
Postage	94,426	-	-	94,426
Registration fees/conf expenses and dues	45,378	-	-	45,378
Scholarships returned to donors	16,851	-	-	16,851
Scholarships	-	1,526,964	-	1,526,964
Telecommunications	4,915	-	-	4,915
Change in annuities payable/annuity payments	(365)	-	-	(365)
Donation of restricted funds to WIU	246,189	-	-	246,189
Donation of unrestricted funds to WIU	83,519	-	-	83,519
Depreciation	-	-	11,309	11,309
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 2,284,655</u>	<u>\$ 1,526,964</u>	<u>\$ 11,309</u>	<u>\$ 3,822,928</u>

**NOTE 13. CONTRACT WITH WESTERN ILLINOIS UNIVERSITY FOUNDATION**

The University has a contract with The Western Illinois University Foundation in which the Foundation has agreed to aid and assist the University in achieving its educational, research, and service goals by developing and administering its gifts. These gifts received by the Foundation are to be used for the benefit of the University in its scholarship, loan, grant and other supporting programs. The University agreed, as a part of this contract, to furnish certain services necessary to the operation of the Foundation.

For fiscal year 2005, the Foundation did not specifically reimburse the University for \$800,442 of personal service costs or for facility use provided by the University. However, the Foundation gave the University \$1,876,913 for fiscal year 2005, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

**Claims and Litigation**

The University is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The University administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the University.

**Government Grants**

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.



**WESTERN ILLINOIS UNIVERSITY**  
**(A Component Unit of the State of Illinois)**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended June 30, 2005**

**NOTE 15. SUBSEQUENT EVENT**

On September 30, 2005, the Board of Trustees of Western Illinois University approved the issuance of Western Illinois University Certificates of Participation, Series 2005. These certificates are to be sold at public sale, shall not exceed an aggregate principal amount of \$11,000,000, shall have a final maturity no later than October 1, 2025, shall be sold at a price not less than 97% of the par amount, and shall have a true interest cost of borrowing not to exceed 5.75%.