

State of Illinois
Western Illinois University Foundation
(A Component Unit of Western Illinois University)
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 Foundation
(A Component Unit of Western Illinois University)
Financial Audit
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(With Partial Financial Information for the Year Ended June 30, 2004)

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

Executive Officer

Vice President for Advancement and Public Services

Dr. Larry C. Mortier
(Retired effective July 29, 2005)

Dr. Daniel Hendricks
(Effective August 15, 2005)

The Foundation's offices are located at:

Western Illinois University Foundation
1 University Circle
303 Sherman Hall
Macomb, Illinois 61455-1390

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

The audit of the accompanying financial statements of the State of Illinois, Western Illinois University Foundation 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 Foundation's financial statements.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Directors
Western Illinois University Foundation

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Foundation, as of June 30, 2005, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Directors
Western Illinois University Foundation
Page 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005 on our consideration of the 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 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

**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF WESTERN ILLINOIS UNIVERSITY)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

Introduction

This section of the Western Illinois University Foundation ("the Foundation") annual financial report presents an overview of the financial performance and activities of the Foundation during the fiscal year ended June 30, 2005. This discussion should be read in conjunction with the accompanying financial statements and footnotes and is designed to focus on current activities, resulting change, current known facts, and future outlook. The financial statements, footnotes and this discussion are the responsibility of the Foundation management.

Using the Annual Financial Report

This annual report consists of financial statements, prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The financial statements prescribed by GASB, present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets generally are recognized when the revenue is earned and expenses and liabilities generally are recognized when others provide the good or service, regardless of when cash is exchanged. Revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the Foundation's revenues, specifically investment income (loss) and additions to permanent endowments, are considered nonoperating.

Statement of Net Assets

The Statement of Net Assets includes all assets, liabilities, and net assets of the Foundation at the end of the fiscal year. Current assets consist primarily of cash, investments and receivables. Current liabilities consist of liabilities incurred in one fiscal year, to be paid in the next fiscal year.

The net assets are divided into four major categories. Invested in capital assets, net of related debt, provides the Foundation's equity in capital assets. Restricted nonexpendable net assets are to be held and invested in perpetuity with earnings thereof to be used for purposes as determined by donors and/or external entities making the contribution. Restricted expendable net assets include those endowment assets placed in the restricted category by the Foundation. The expenditure of these assets is at the direction of the Foundation. Unrestricted net assets are available to the Foundation for any authorized purpose.

During the fiscal year ended June 30, 2005, the net assets of the Foundation increased \$1,926,839 (10%). This increase reflects the impact of the appreciation in fair market value of investments and a 4% increase in endowment gift flow. Endowment gift flow rate is defined as the total gifts, bequests, and other similar additions to endowment as a percentage of the average of fiscal year beginning and ending endowment market value.

Condensed Statements of Net Assets
June 30, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and investments	\$ 3,667,716	\$ 3,303,485
Pledges receivable, net	202,025	172,907
Other receivables	487,858	283,465
Other current assets	51,897	24,008
Noncurrent assets:		
Investments	17,245,523	15,885,583
Pledges receivable, net	78,235	183,517
Capital assets, net of accumulated depreciation	945,287	956,596
Total assets	<u>22,678,541</u>	<u>20,809,561</u>
 LIABILITIES		
Current liabilities	318,383	366,012
Noncurrent liabilities	229,407	239,637
Total liabilities	<u>547,790</u>	<u>605,649</u>
 NET ASSETS		
Invested in capital assets, net of related debt	942,282	927,652
Restricted for nonexpendable purposes	15,882,965	14,882,050
Restricted for expendable purposes	1,889,298	1,521,382
Unrestricted	3,416,206	2,872,828
Total net assets	<u>\$ 22,130,751</u>	<u>\$ 20,203,912</u>

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues of the Foundation and the expenses incurred during the year. The major component of operating revenues is gifts and pledges that reflect the purpose of the Foundation: support for the University. The Foundation's operating expenses are primarily distributions of gift income and earnings on investments utilized to carry out the mission of the Foundation.

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	\$ 3,065,950	\$ 2,875,304
Total operating expenses	<u>(3,822,928)</u>	<u>(3,686,333)</u>
Operating loss	(756,978)	(811,029)
Net nonoperating revenues (expenses)	<u>1,641,418</u>	<u>(831,472)</u>
Gain (loss) before other revenues, expenses, gains or losses	884,440	(1,642,501)
Additions to permanent endowment	1,042,399	833,580
Capital gifts	-	<u>3,000,000</u>
Increase in net assets	<u>1,926,839</u>	<u>2,191,079</u>
Net assets, beginning of year	<u>20,203,912</u>	<u>18,012,833</u>
Net assets, end of year	<u>\$ 22,130,751</u>	<u>\$ 20,203,912</u>

The major component of operating revenues are contributions that support the purpose of the Foundation, which is to enhance the programs, facilities and services of the University. The table below presents contribution revenue for fiscal years 2005 and 2004, including additions to permanent endowment and capital contributions. The capital contributions in fiscal year 2004 include a gift of land and buildings in Moline, Illinois for the University's expansion of its Quad Cities campus.

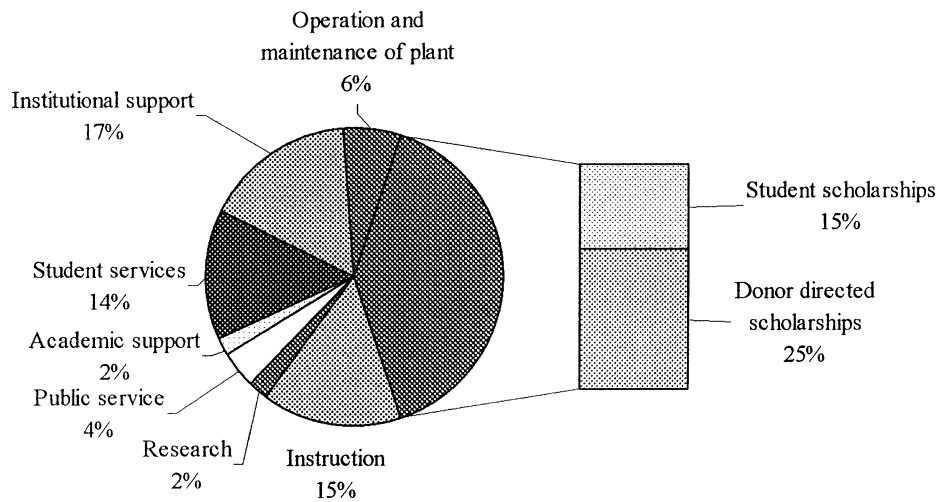
	<u>2005</u>	<u>2004</u>
Contributions	\$ 2,715,448	\$ 2,504,520
Additions to permanent endowments	1,042,399	833,580
Capital contributions	-	<u>3,000,000</u>
	<u>\$ 3,757,847</u>	<u>\$ 6,338,100</u>

In addition to the nonoperating revenues shown in the condensed statement, the University provided personal services, facility use, and other services valued at \$800,442. The Foundation did not specifically pay for these services; however, the Foundation provided \$1,876,913 to the University in unrestricted funds and funds restricted only as to department and generally available for ongoing University operations.

Operating expenses by functional category for the years ended June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Instruction	\$ 566,525	\$ 569,806
Research	87,570	45,265
Public service	148,286	49,503
Academic support	74,825	71,439
Student services	538,757	519,150
Institutional support	638,307	688,912
Operation and maintenance of plant	229,379	222,910
Student scholarships	575,240	526,787
Donor directed scholarships	952,730	967,312
Depreciation	11,309	25,249
Total operating expenses	<u>\$ 3,822,928</u>	<u>\$ 3,686,333</u>

Fiscal Year 2005 Analysis of Expenses by Function



Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the ability to meet financial obligations as they mature.

Condensed Statements of Cash Flows For the Years Ended June 30, 2005 and 2004

	<u>2005</u>		<u>2004</u>
Cash provided (used) by:			
Operating activities	\$ (752,022)	\$	(499,825)
Noncapital financing activities	2,293,284		1,460,753
Capital and related financing activities	(5,819)		(5,855)
Investing activities	<u>(1,181,241)</u>		<u>(832,532)</u>
Net increase in cash and cash equivalents	354,202		122,541
Cash and cash equivalents - beginning of the year	<u>3,138,366</u>		<u>3,015,825</u>
Cash and cash equivalents - end of the year	<u>\$ 3,492,568</u>	\$	<u>3,138,366</u>

The increase in operating activities was due primarily to ongoing athletic facilities renovation projects and new equipment for the Tri-States Public Radio studio.

The fluctuation in noncapital financing activities was a result of investment return from endowment decreasing from 11.3% in fiscal year 2004 to 3.8% in fiscal year 2005. In order to meet the required distribution rate, the balance of the distribution was from previously accumulated unrealized gains.

Foundation's Economic Outlook

The mission of the Western Illinois University Foundation is to encourage and manage contribution income directed to the University, especially for purposes of building endowment and addressing through private support the long-term goals and objectives of the University. The ability to fulfill this mission is influenced by the following factors: growth in contribution revenue, the University's ability and willingness to underwrite a portion of the Foundation's operating budget, the effective management of contributed funds including investment strategies and spending rates, and strong volunteer leadership from the Foundation's officers and Board of Directors.

Private gifts are an important source of funds to supplement operating costs and capital improvements. 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 University and the Foundation are in the final stages of planning a new comprehensive campaign to commence in fiscal year 2006. This new private support should increase endowment and provide additional resources for the University's bold new institutional initiatives and the strategic plan, "Higher Values in Higher Education." The Foundation expended \$3.8 million in fiscal year 2005 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.

Management of the University believes that the institution's financial condition is strong enough to weather ongoing economic uncertainties and the trend of declined state appropriations. Therefore, the Foundation does not anticipate a significant decrease in University support of its services.

While the Foundation's investment pool has posted solid 1-year, 3-year and 5-year annualized rates of return, during fiscal year 2005, the Foundation's officers and Board of Directors restructured the investment portfolio in an effort to further increase diversification, reduce risk and enhance returns. The Foundation's asset allocation policy is designed to produce long-term growth. Viewed on a strategic basis, the endowment policy has a 55% allocation to growth-oriented assets and a 23% allocation to risk protection assets. Therefore, it is anticipated that the portfolio should perform better than the equity market during periods of market decline. The policy also has a 22% allocation to inflation protection assets which should help the Foundation retain purchasing power during inflationary periods.

The annual spending policy was also reviewed during fiscal year 2005 and remains at an appropriate level to seek intergenerational equity; that is, current students, faculty and staff should be neither advantaged nor disadvantaged relative to future students, faculty and staff.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF WESTERN ILLINOIS UNIVERSITY)
STATEMENT OF NET ASSETS
June 30, 2005
(With Partial Financial Information as of June 30, 2004)

ASSETS	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash and cash equivalents	\$ 3,246,088	\$ 2,966,339
Restricted cash and cash equivalents	246,480	172,027
Investments	175,148	165,119
Pledges receivable, net	202,025	172,907
Due from Western Illinois University	-	10
Other receivables	487,858	283,455
Inventories	24,048	17,744
Prepaid expenses	27,849	6,264
Total current assets	<u>4,409,496</u>	<u>3,783,865</u>
Noncurrent Assets:		
Endowment investments	17,245,523	15,885,583
Pledges receivable, net	78,235	183,517
Capital assets, net of accumulated depreciation	945,287	956,596
Total noncurrent assets	<u>18,269,045</u>	<u>17,025,696</u>
Total assets	<u>22,678,541</u>	<u>20,809,561</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	53,130	79,629
Due to Western Illinois University	51,532	72,742
Annuities payable	28,459	33,519
Leases payable	4,580	4,335
Deferred revenue	180,682	175,787
Total current liabilities	<u>318,383</u>	<u>366,012</u>
Noncurrent Liabilities:		
Annuities payable	209,378	215,028
Leases payable	20,029	24,609
Total noncurrent liabilities	<u>229,407</u>	<u>239,637</u>
Total liabilities	<u>547,790</u>	<u>605,649</u>
NET ASSETS		
Invested in capital assets, net of related debt	942,282	927,652
Restricted - nonexpendable	15,882,965	14,882,050
Restricted - expendable	1,889,298	1,521,382
Unrestricted	3,416,206	2,872,828
TOTAL NET ASSETS	<u>\$ 22,130,751</u>	<u>\$ 20,203,912</u>

See Notes to Financial Statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF WESTERN ILLINOIS UNIVERSITY)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005
(With Partial Financial Information for the Year Ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Gifts	2,715,448	2,504,520
Sales and services	\$ 350,502	\$ 370,784
Total operating revenues	<u>3,065,950</u>	<u>2,875,304</u>
OPERATING EXPENSES		
Instruction	566,525	569,806
Research	87,570	45,265
Public service	148,286	49,503
Academic support	74,825	71,439
Student services	538,757	519,150
Institutional support	638,307	688,912
Operation and maintenance of plant	229,379	222,910
Student scholarships	575,240	526,787
Donor directed scholarships	952,730	967,312
Depreciation	11,309	25,249
Total operating expenses	<u>3,822,928</u>	<u>3,686,333</u>
Operating loss	<u>(756,978)</u>	<u>(811,029)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income - net of investment expense	966,970	1,529,281
Interest expense	(1,484)	(1,302)
Other nonoperating revenues	675,932	627,173
Loss on sale of capital assets	-	(2,180)
Contribution of capital assets to Western Illinois University	-	(2,984,444)
Net nonoperating revenues (expenses)	<u>1,641,418</u>	<u>(831,472)</u>
Gain (loss) before other revenues, expenses, gains and losses	884,440	(1,642,501)
Additions to permanent endowments	1,042,399	833,580
Capital gifts	-	3,000,000
Increase in net assets	<u>1,926,839</u>	<u>2,191,079</u>
Net assets - beginning of year	<u>20,203,912</u>	<u>18,012,833</u>
NET ASSETS - END OF YEAR	<u>\$ 22,130,751</u>	<u>\$ 20,203,912</u>

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF WESTERN ILLINOIS UNIVERSITY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005
(With Partial Financial Information for the Year Ended June 30, 2004)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts for other than capital and endowment purposes	\$ 2,796,507	\$ 2,615,615
Sales and services	350,502	333,980
Payments for goods and services	(2,341,138)	(1,926,911)
Payment for scholarships and fellowships	(1,527,970)	(1,494,099)
Payments to annuitants	(29,923)	(28,410)
Net cash used by operating activities	(752,022)	(499,825)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private contributions for endowment purposes	1,042,399	833,580
Nonoperating revenues, net	1,250,885	627,173
Net cash provided by noncapital financing activities	2,293,284	1,460,753
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital lease	(4,335)	(4,552)
Interest paid on capital lease	(1,484)	(1,303)
Net cash used by capital and related financing activities	(5,819)	(5,855)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	16,125,967	14,521,038
Earnings on investments	600,919	194,428
Purchase of investments	(17,908,127)	(15,547,998)
Net cash used by investing activities	(1,181,241)	(832,532)
NET INCREASE IN CASH & EQUIVALENTS	354,202	122,541
CASH & CASH EQUIVALENTS - BEGINNING OF YEAR	3,138,366	3,015,825
CASH & CASH EQUIVALENTS - END OF YEAR	\$ 3,492,568	\$ 3,138,366
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (756,978)	\$ (811,029)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	11,309	25,249
Actuarial adjustment to value of split-interest agreements	2,905	18,943
Change in assets and liabilities:		
Accounts receivable	1,104	(36,804)
Pledges receivable	(76,164)	77,887
Prepaid expense	21,585	12,853
Inventories	6,304	917
Accounts payable	26,498	22,741
Deferred revenue	(4,895)	33,207
Due to Western Illinois University	21,210	23,950
Annuities payable	(4,900)	132,261
Net cash used by operating activities	\$ (752,022)	\$ (499,825)
Noncash capital and related financing activities:		
Capital gifts received	\$ -	\$ 3,000,000
Long-term lease incurred for capital asset purchases	\$ -	\$ 14,330
Capital assets acquired with capital lease	\$ -	\$ 31,763

See Notes to Financial Statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF WESTERN ILLINOIS UNIVERSITY)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Institution

The Western Illinois University Foundation (the "Foundation") exists for the principal purpose of aiding and assisting Western Illinois University (the "University") in achieving its educational, research, and service goals and responsibilities.

Measurement Focus and Basis of Accounting

The financial statements of the Foundation have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as investment income and other revenue sources that are defined as nonoperating revenues by GASB pronouncements. Interest on capital asset-related debt is included in nonoperating expenses. The Foundation 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 Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Foundation follows all applicable GASB pronouncements. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Foundation has elected not to apply FASB pronouncements issued after November 30, 1989.

The Foundation is a component unit of the University for financial reporting purposes. The Foundation's financial statements are, therefore, also included in the University's annual financial report.

Change in Accounting Principle

In 2005 the Foundation 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.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF WESTERN ILLINOIS UNIVERSITY)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior-Year Information

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

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date 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 and Cash Equivalents

Cash and cash equivalents include bank accounts and investments with original maturities of ninety days or less.

Investments and Investment Income

Investments in equity securities with a readily determinable fair value, debt securities, mutual funds and investment pools are carried at fair value. Fair value is determined using quoted market prices. Other investments 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.

Capital Assets

Land and equipment purchased by the Foundation are recorded at cost. Donated assets are capitalized at fair value at the date of contribution. The Foundation capitalizes all equipment items that cost \$5,000 or more, and have an estimated useful life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives (three to sixty years) of the class of assets.

Deferred Revenue

Revenue from dues for various memberships and donor directed scholarships for the next academic year is deferred and recognized over the periods to which the revenue relate.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF WESTERN ILLINOIS UNIVERSITY)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor Restricted Endowments

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Illinois, permits the Board of Directors 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, of a 36-month moving average of endowment market value, 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.

Federal Income Tax Status

The U. S. Treasury Department issued a determination letter dated January, 1948 that the Foundation is exempt from Federal income taxes under what is now Section 501 (c)(3) of the Internal Revenue Code.

NOTE 2 – TRANSACTIONS WITH WESTERN ILLINOIS UNIVERSITY

The Foundation has a contract with the University in which the Foundation has agreed to aid and assist the University in achieving its educational, research, and service goals by developing and administering gifts made to the Foundation to be used for the benefit of the University for scholarships, loans, grants and other supporting programs. The University agreed, as part of this contract to furnish certain services necessary to the operation of the Foundation.

For fiscal year 2005, the University provided for the Foundation personal service costs, facility use, and other costs totaling \$800,442. The Foundation did not specifically pay for these services; however, for fiscal year 2005, the Foundation gave the University \$1,876,913, in unrestricted funds or funds restricted only as to department and generally available for ongoing University operations.

**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
(A COMPONENT UNIT OF WESTERN ILLINOIS UNIVERSITY)**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

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

At June 30, 2005, the Foundation 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>	<u>6-10 years</u>	<u>Over 10 years</u>
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>

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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.

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

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

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

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Included in the following Statement of Net Assets captions:

Cash and Cash Equivalents	\$	3,246,088
Cash and Cash Equivalents, restricted		246,480
Investments – current		175,148
Endowment investments – non current		<u>17,245,523</u>
	\$	<u>20,913,239</u>

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

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

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Balance</u> <u>6/30/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2005</u>
Land and land improvement	\$ 909,200	\$ -	\$ -	\$ 909,200
Equipment	23,573	-	-	23,573
Capital leases – equipment	<u>31,763</u>	<u>-</u>	<u>-</u>	<u>31,763</u>
Total	964,536	-	-	964,536
 Less accumulated depreciation:				
Equipment	4,632	3,367	-	7,999
Capital leases – equipment	<u>3,308</u>	<u>7,942</u>	<u>-</u>	<u>11,250</u>
Capital assets, net	\$ <u>956,596</u>	\$ <u>11,309</u>	\$ <u>-</u>	\$ <u>945,287</u>

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NOTE 5 – ASSETS HELD IN TRUST

The Foundation is the beneficiary of the Seymour Charitable Remainder Trust, Betty J. Collins Charitable Remainder Trust, Marian Harvey Charitable Remainder Trust, Charles R. O'Brien Charitable Remainder Trust, and William G. Hoover Charitable Remainder Trust. The assets of the Trusts are held and administered by others in perpetuity; thus the principal is not reported in the Foundation's financial statements. On June 30, 2005, the fair value of the assets totaled \$1,961,564.

NOTE 6 – LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the Foundation for the year ended June 30, 2005:

	Beginning Balance	2005 Additions	2005 Deductions	Ending Balance	Current Portion
Annuities payable	\$ 248,547	\$ 21,578	\$ 32,288	\$ 237,837	\$ 28,459
Capital lease obligations	<u>28,944</u>	<u>---</u>	<u>4,335</u>	<u>24,609</u>	<u>4,580</u>
Total	<u>\$ 277,491</u>	<u>\$ 21,578</u>	<u>\$ 36,623</u>	<u>\$ 262,446</u>	<u>\$ 33,039</u>

NOTE 7 – ROYALTY INCOME

The Foundation extended the Affinity Group Bankcard agreement effective September 24, 2003 with FirstUSA. The total contract amount is \$2,100,000, prorated over a seven-year period. For fiscal year 2005, the Foundation received \$300,000 in addition to \$68,562 from other sources which was recognized as royalty income and reported as other nonoperating revenues in the Statement of Revenues, Expenses and Changes in Net Assets.

NOTE 8 – RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, errors and omissions, employee health and natural disasters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.