

**State of Illinois**  
**Western Illinois University**  
(A Component Unit of the State of Illinois)  
Financial Audit  
For the Year Ended June 30, 2006  
(With Partial Financial Information For the Year Ended June 30, 2005)  
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, 2006**  
(with Partial Financial Information for the Year Ended June 30, 2005)

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**State of Illinois**  
**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Agency Officials**  
**For the Year Ended June 30, 2006**

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 (Through May 31, 2006)
	Ms. Rita M. Moore (Effective December 1, 2006)

University offices are located at:

Western Illinois University  
1 University Circle  
Macomb, IL 61455

# **Financial Statement Report**

**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, 2006 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, 2006, 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 2005 financial statements and, in our report dated October 21, 2005, 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, 2006, 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, under separate cover, our report dated November 2, 2006, 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, upon issuance, 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

November 2, 2006

**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2006**

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, 2006. 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, 2006**

A comparative summary of the condensed Statements of Net Assets for the years ended June 30, 2006 and 2005 is as follows:

**Condensed Statements of Net Assets as of June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current assets	\$ 63,488,863	\$ 54,816,250
Capital assets, net	128,156,579	128,364,208
Other assets	9,463,472	5,727,517
Total assets	\$ 201,108,914	\$ 188,907,975
<b>Liabilities</b>		
Current liabilities	\$ 22,333,350	\$ 29,660,001
Noncurrent liabilities	73,859,174	61,771,179
Total liabilities	\$ 96,192,524	\$ 91,431,180
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 88,281,244	\$ 85,570,928
Restricted	1,990,095	2,034,791
Unrestricted	14,645,051	9,871,076
Total net assets	\$ 104,916,390	\$ 97,476,795

The University's financial position continues to remain strong at June 30, 2006 with assets of \$201.1 million and liabilities of \$96.2 million. Net assets, the difference between total assets and total liabilities, increased \$7.4 million or 7.6% over the previous year.

Total assets increased \$12.2 million to \$201.1 million during fiscal year 2006. The University held more funds in investments in the current year as compared to the previous year. Investments totaled \$31.2 million at June 30, 2006 compared to \$7.8 million at June 30, 2005 for an increase of \$23.4 million. This increase was offset by a \$13.5 million decrease in cash and cash equivalents. Unspent debt proceeds were invested which contributed to the increase in investments.

Total liabilities increased \$4.8 million during fiscal year 2006. The University issued the Series 2005 Certificates of Participation for \$10.3 million and the Series 2006 Revenue Bonds for \$15.3 million to fund major capital asset projects. Additionally, \$7.6 million of the Series 1999 Revenue Bonds were advance refunded from the bond proceeds. At June 30, 2006, accounts payable and accrued payroll decreased \$8.2 million from the previous year.

**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2006**

***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.

A comparative summary of the condensed Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2006 and 2005 is as follows:

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2006 and 2005**

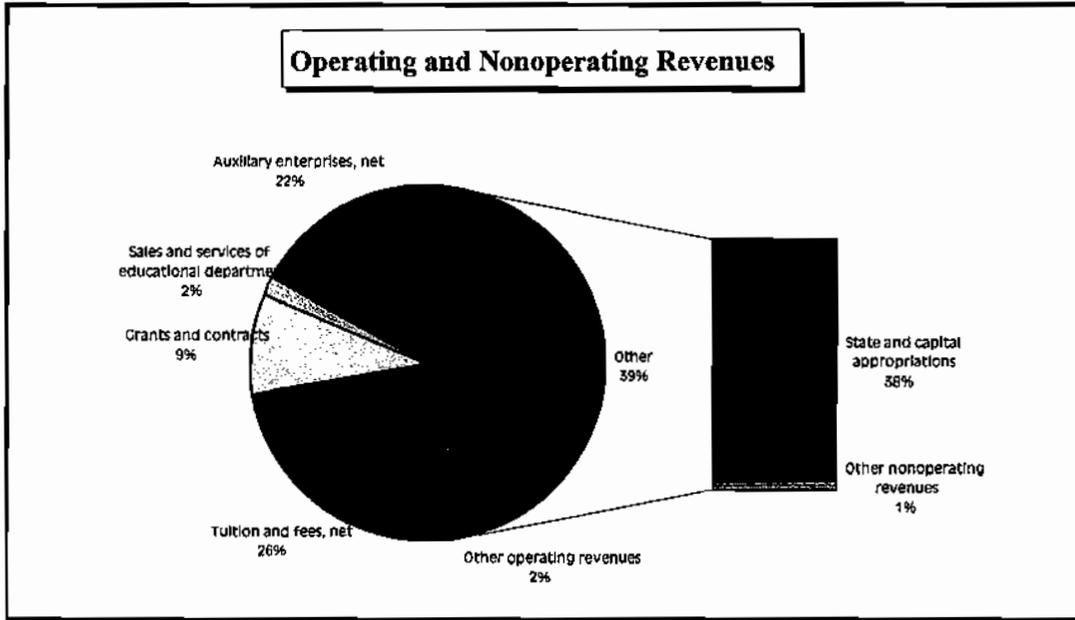
	<b>2006</b>	<b>2005</b>
Total operating revenues	\$ 132,321,560	\$ 125,670,702
Total operating expenses	<u>(212,694,364)</u>	<u>(205,843,872)</u>
Operating loss	(80,372,804)	(80,173,170)
Nonoperating revenues	87,141,578	88,003,651
Nonoperating expenses	<u>(2,481,552)</u>	<u>(2,391,788)</u>
Income before other revenues, expenses, gains and losses	4,287,222	5,438,693
Capital state appropriations	<u>3,152,373</u>	<u>346,136</u>
Increase in net assets	7,439,595	5,784,829
Net Assets, beginning of year	<u>97,476,795</u>	<u>91,691,966</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 104,916,390</u></b>	<b><u>\$ 97,476,795</u></b>

Total revenue increased \$8.6 million or 4.0% to \$222.6 million. This is due in part to annual increases for tuition, fees, room and board revenue. Investment income increased \$1.4 million as unspent debt proceeds were invested. Capital appropriations increased \$2.8 million.

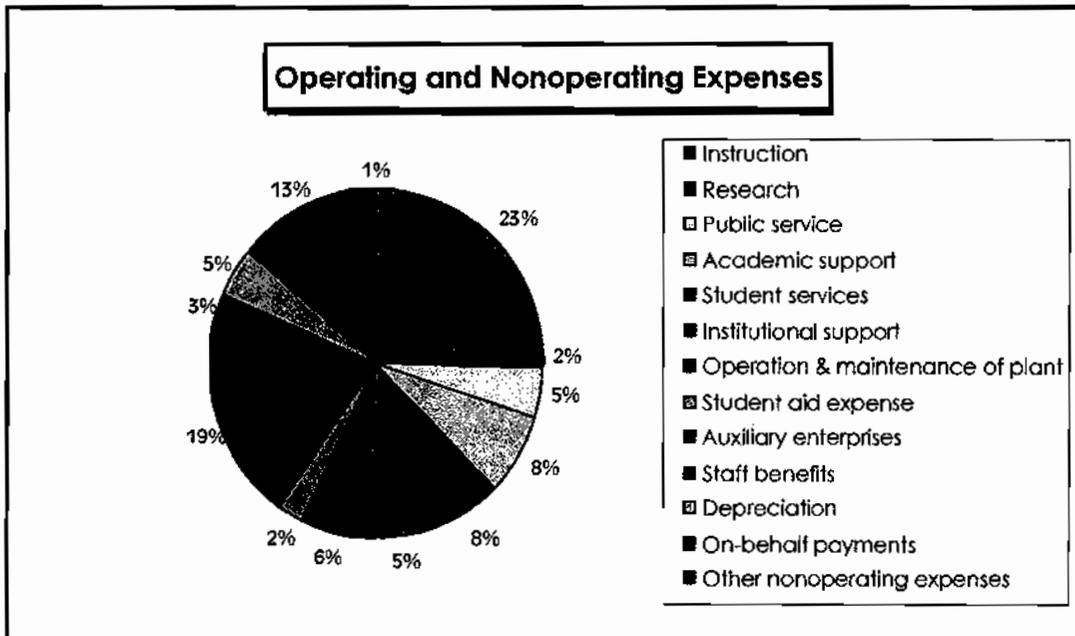
Total expenses increased \$6.9 million or 3.3% to \$215.2 million. The increase reflects salary equity adjustments and salary increases for faculty and staff.

**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2006**

For the fiscal year ended June 30, 2006, all sources of revenue totaled \$222.6 million. The following is a graphical illustration of revenue by source.



For the fiscal ended June 30, 2006, expenses totaled \$215.2 million. The following is a graphical illustration of expenses.



**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2006**

**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, 2006 and 2005 is as follows:

**Condensed Statements of Cash Flows**  
**For the Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
Cash provided (used) by:		
Operating activities	\$ (53,452,459)	\$ (38,813,140)
Noncapital financing activities	56,700,016	56,895,653
Capital and related financing activities	4,402,233	(18,931,463)
Investing activities	(21,184,585)	3,381,283
Increase (decrease) in cash and cash equivalents	(13,534,795)	2,532,333
Cash and cash equivalents, beginning of year	42,501,623	39,969,290
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 28,966,828</b>	<b>\$ 42,501,623</b>

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 use of operating funds. Cash used by operating activities increased \$14.6 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations which remained consistent from the prior year.

The issuance of the Series 2005 Certificates of Participation for \$10.3 million and the Series 2006 Revenue Bonds for \$15.3 million provided the largest inflow of cash from capital and related financing activities. The bond proceeds together with other funds provided for the partial advanced refunding of the Series 1999 Revenue Bonds. Debt principal payments increased \$2.3 million over the previous year. Cash outflows for acquisition and construction of capital assets decreased by \$0.5 million.

Cash used for investing activities increased \$24.6 million. The increase reflects the investment of unspent debt proceeds throughout the year and the additional investment income related to those investments.

**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2006**

***Capital Assets and Debt Administration***

At the end of fiscal year 2006, the University had \$290.6 million invested in capital assets, and accumulated depreciation of \$162.5. Depreciation expense for the current year was \$9.9 million.

Several major construction projects are underway. Projects partially funded by the Series 2005 Certificates of Participation proceeds of \$10.3 million are renovations to the student section of the football stadium, construction of a new multicultural center and construction of a dual purpose building to accommodate Document and Publication Services, including copy centers and mail services, in addition to the Property Accounting and Redistribution Center. The Series 2006 Revenue Bonds issued in March 2006 for \$15.3 million funded the partial advance refunding of the Series 1999 Revenue Bonds in the amount of \$7.6 million. The remaining proceeds from the Series 2006 Revenue Bonds will fully fund the installation of fire sprinkler systems in residence hall facilities and graduate and family apartments as required by Illinois law and partially fund construction of an expansion to the Donald S. Spencer Student Recreation Center.

***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 2007 budget, as approved by the Governor, increased \$822,300 or 1.5% over the 2006 approved budget.

The University projects an increase in tuition and miscellaneous revenue. The recommended \$52.2 million fiscal year 2007 tuition and miscellaneous revenue budget represents a \$5.4 million or 11.5% increase from fiscal year 2006. 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 2006.

The University's Auxiliary Enterprises funds budget for fiscal year 2007 as approved by the Board of Trustees reflects a \$2.2 million or 4.6% increase in spending over fiscal year 2006. Other institutional funds include revenue from sponsored projects and departmental activity revenue. The 2007 budget for these funds as approved by the Board of Trustees reflects a \$0.4 million or 1.0% increase in spending over fiscal year 2006.

**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2006**

In addition to the above, private gifts are an important supplement to the University's sources of funding for operating costs. In fiscal year 2006, alumni, friends, staff, corporations, and other organizations contributed \$4 million in support of the University. During the five-year period ended June 30, 2006, the University and the Foundation received more than \$20.2 million in gift commitments. The Foundation currently distributes (expends) \$4 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.

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.

## **Financial Statements**

**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Statement of Net Assets**  
**As of June 30, 2006**  
**(With Partial Financial Information as of June 30, 2005)**

	University		Component Unit	
	2006	2005	2006	2005
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 28,807,984	\$ 42,390,439	\$ 3,272,616	\$ 3,246,088
Cash and cash equivalents, restricted	158,844	111,184	90,044	246,480
Investments	24,146,728	4,131,731	169,968	175,148
Accounts receivable, net	4,472,938	4,464,392	473,388	689,883
Loans and notes receivable, net	456,461	425,692	-	-
Due from component unit	16,993	51,532	-	-
Due from primary government	2,319,096	1,082,500	5,185	-
Inventories	3,048,665	2,125,046	21,489	24,048
Prepaid expenses	-	-	3,499	27,849
Other assets	61,154	33,734	-	-
<b>Total current assets</b>	<b>63,488,863</b>	<b>54,816,250</b>	<b>4,036,189</b>	<b>4,409,496</b>
<b>Noncurrent assets</b>				
Investments	7,086,006	3,698,591	-	-
Investments, restricted	-	-	20,166,592	17,245,523
Accounts receivable, net	-	-	72,111	78,235
Loans and notes receivable, net	1,409,912	1,544,008	-	-
Capital assets, net of accumulated depreciation	128,156,579	128,364,208	933,979	945,287
Other assets	967,554	484,918	-	-
<b>Total noncurrent assets</b>	<b>137,620,051</b>	<b>134,091,725</b>	<b>21,172,682</b>	<b>18,269,045</b>
<b>Total assets</b>	<b>201,108,914</b>	<b>188,907,975</b>	<b>25,208,871</b>	<b>22,678,541</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	3,236,161	4,809,683	106,815	53,130
Accrued payroll	6,304,612	12,914,922	-	-
Due to component unit	5,185	-	-	-
Due to primary government	71,355	235,585	16,993	51,532
Deferred revenue	3,312,293	3,215,470	189,291	180,682
Other liabilities	3,729,422	3,705,136	28,459	28,459
Notes payable	796,186	677,807	-	-
Revenue bonds payable	3,046,443	2,733,657	-	-
Leases payable	39,897	6,883	4,838	4,580
Compensated absences	1,791,796	1,360,858	-	-
<b>Total current liabilities</b>	<b>22,333,350</b>	<b>29,660,001</b>	<b>346,396</b>	<b>318,383</b>
<b>Noncurrent liabilities</b>				
Notes payable	1,727,211	2,269,419	-	-
Revenue bonds payable	46,466,197	42,469,188	-	-
Certificates of participation payable	10,290,000	-	-	-
Leases payable	48,637	23,966	15,190	20,029
Other obligations	336,600	334,749	205,160	209,378
Compensated absences	14,990,529	16,673,857	-	-
<b>Total noncurrent liabilities</b>	<b>73,859,174</b>	<b>61,771,179</b>	<b>220,350</b>	<b>229,407</b>
<b>Total liabilities</b>	<b>96,192,524</b>	<b>91,431,180</b>	<b>566,746</b>	<b>547,790</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	88,281,244	85,570,928	886,061	942,282
Restricted:				
Nonexpendable	-	-	18,342,511	15,882,965
Expendable				
Loans	1,990,095	2,034,791	-	-
Other	-	-	1,969,589	1,889,298
Unrestricted	14,645,051	9,871,076	3,443,964	3,416,206
<b>Total net assets</b>	<b>\$ 104,916,390</b>	<b>\$ 97,476,795</b>	<b>\$ 24,642,125</b>	<b>\$ 22,130,751</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, 2006**  
**(With Partial Financial Information for the Year Ended June 30, 2005)**

	University		Component Unit	
	2006	2005	2006	2005
<b>OPERATING REVENUES</b>				
Tuition and fees, net	\$ 56,901,766	\$ 51,075,172	\$ -	\$ -
Grants and contracts	20,043,910	20,928,925	-	-
Sales and services of educational departments	3,985,824	4,448,807	-	-
Auxiliary enterprises, net	48,131,654	45,848,730	-	-
Student loan activities	42,152	95,662	-	-
Other operating revenues	3,216,254	3,273,406	2,966,619	3,065,950
<b>Total operating revenues</b>	<u>132,321,560</u>	<u>125,670,702</u>	<u>2,966,619</u>	<u>3,065,950</u>
<b>OPERATING EXPENSES</b>				
Instruction	50,065,412	51,059,319	759,280	566,525
Research	4,199,667	4,565,146	61,338	87,570
Public service	10,211,092	10,303,513	33,180	148,286
Academic support	16,251,212	12,894,622	107,091	74,825
Student services	17,518,386	15,254,938	433,192	538,757
Institutional support	11,215,194	9,572,886	710,897	638,307
Operation and maintenance of plant	13,609,700	12,702,001	435,017	229,379
Student aid expense	5,297,383	5,297,863	1,528,165	1,527,970
Auxiliary enterprises	41,334,877	38,970,579	-	-
Staff benefits	5,435,556	5,481,025	-	-
Depreciation	9,926,247	9,763,734	11,308	11,309
On-behalf payments	27,624,162	29,966,687	-	-
Other operating expenses	5,476	11,559	-	-
<b>Total operating expenses</b>	<u>212,694,364</u>	<u>205,843,872</u>	<u>4,079,468</u>	<u>3,822,928</u>
Operating loss	<u>(80,372,804)</u>	<u>(80,173,170)</u>	<u>(1,112,849)</u>	<u>(756,978)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	84,025,247	86,359,787	-	-
Gifts	696,200	607,893	-	-
Gain (loss) on disposal of capital assets	(122,109)	2,456	-	-
Investment income	2,420,131	1,033,515	1,497,633	966,970
Interest on capital asset-related debt	(2,359,443)	(2,391,788)	(1,435)	(1,484)
Other nonoperating revenues	-	-	784,858	675,932
<b>Net nonoperating revenues</b>	<u>84,660,026</u>	<u>85,611,863</u>	<u>2,281,056</u>	<u>1,641,418</u>
Income before other revenues, expenses, gains or losses	4,287,222	5,438,693	1,168,207	884,440
Capital state appropriations	3,152,373	346,136	-	-
Additions to permanent endowments	-	-	1,343,167	1,042,399
<b>Increase in net assets</b>	<u>7,439,595</u>	<u>5,784,829</u>	<u>2,511,374</u>	<u>1,926,839</u>
Net assets, beginning of year	<u>97,476,795</u>	<u>91,691,966</u>	<u>22,130,751</u>	<u>20,203,912</u>
<b>Net assets, end of year</b>	<u>\$ 104,916,390</u>	<u>\$ 97,476,795</u>	<u>\$ 24,642,125</u>	<u>\$ 22,130,751</u>

**Western Illinois University**  
**(A Component Unit of the State of Illinois)**  
**Statement of Cash Flows**  
**Year Ended June 30, 2006**  
**(With Partial Financial Information for the Year Ended June 30, 2005)**

	University		Component Unit	
	2006	2005	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Tuition and fees	\$ 57,094,700	\$ 50,973,040	\$ -	\$ -
Grants and contracts	20,044,008	20,079,914	-	-
Gifts for other than capital and endowment purposes	-	-	2,699,598	2,796,507
Payments for employee salaries and benefits	(122,324,816)	(108,490,393)	-	-
Payments for goods and services	(58,538,340)	(50,194,194)	(2,470,166)	(2,341,138)
Payments to annuitants	-	-	(32,677)	(29,923)
Payments for scholarships and fellowships	(5,518,113)	(5,393,314)	(1,528,165)	(1,527,970)
Student loans issued	(639,049)	(706,685)	-	-
Student loans collected	681,744	661,732	-	-
Student loans interest and fees collected	41,837	95,059	-	-
Auxiliary enterprise charges	47,840,119	46,407,592	-	-
Sales and service of educational departments	4,695,409	4,463,021	-	-
Other receipts (payments)	3,170,042	3,291,088	310,735	350,502
<b>Net cash used by operating activities</b>	<b>(53,452,459)</b>	<b>(38,813,140)</b>	<b>(1,020,675)</b>	<b>(752,022)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State appropriations	56,401,085	56,393,100	-	-
Gifts	238,848	338,256	1,343,167	1,042,399
Nonoperating revenue, net	60,083	164,297	742,139	1,250,885
<b>Net cash provided by noncapital financing activities</b>	<b>56,700,016</b>	<b>56,895,653</b>	<b>2,085,306</b>	<b>2,293,284</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from capital debt	25,462,557	26,123,757	-	-
Bond issuance costs	(558,525)	(351,834)	-	-
Bonds refunded/defeased	(7,630,034)	(32,791,567)	-	-
Call premium on refunded bonds	-	(163,450)	-	-
Cash advanced for bond refunding	(23,403)	(197,764)	-	-
Deferred amount on bond refunding	(226,159)	-	-	-
Escrow for capital appreciation bonds defeasance	-	(503,075)	-	-
Acquisition of capital assets	(6,538,755)	(7,060,256)	-	-
Principal paid on capital debt	(3,764,532)	(1,395,930)	(4,581)	(4,335)
Interest paid on capital debt	(2,318,916)	(2,591,344)	(1,436)	(1,484)
<b>Net cash provided (used) by capital financing activities</b>	<b>4,402,233</b>	<b>(18,931,463)</b>	<b>(6,017)</b>	<b>(5,819)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	13,711,964	6,670,942	1,744,219	16,125,967
Earnings on investments	2,259,741	1,356,907	1,033,558	600,919
Purchase of investments	(37,156,290)	(4,646,566)	(3,966,299)	(17,908,127)
<b>Net cash provided (used) by investing activities</b>	<b>(21,184,585)</b>	<b>3,381,283</b>	<b>(1,188,522)</b>	<b>(1,181,241)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(13,534,795)</b>	<b>2,532,333</b>	<b>(129,908)</b>	<b>354,202</b>
Cash and cash equivalents - beginning of year	42,501,623	39,969,290	3,492,568	3,138,366
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 28,966,828</b>	<b>\$ 42,501,623</b>	<b>\$ 3,362,660</b>	<b>\$ 3,492,568</b>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>				
Operating loss	\$ (80,372,804)	\$ (80,173,170)	\$ (1,112,849)	\$ (756,978)
Adjustments to reconcile net operating loss to net cash provided (used) by operating activities:				
Depreciation expense	9,926,247	9,763,734	11,308	11,309
On-behalf payments	27,624,162	29,966,687	-	-
Actuarial adjustment to value of split-interest agreements	-	-	(4,218)	2,905
Changes in assets and liabilities				
Receivables, net	(238,182)	254,257	500	1,104
Due from University	-	-	(5,185)	-
Pledges receivable	-	-	35,105	(76,164)
Loans receivable, net	103,327	97,131	-	-
Inventories	(923,619)	66,466	2,559	6,304
Other assets	(34,238)	32,025	24,350	21,585
Accounts payable	(1,687,959)	1,867,326	53,685	26,498
Accrued payroll	(6,610,310)	213,380	-	-
Due to University	-	-	(34,539)	21,210
Annuities payable	-	-	-	(4,900)
Other liabilities	13,309	(614,597)	8,609	(4,895)
Compensated absences	(1,252,392)	(286,379)	-	-
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (53,452,459)</b>	<b>\$ (38,813,140)</b>	<b>\$ (1,020,675)</b>	<b>\$ (752,022)</b>
<b>Noncash investing, capital and financing activities</b>				
On-behalf payments	\$ 27,624,162	\$ 29,966,687	\$ -	\$ -
Capital asset acquisition via notes and leases payable	247,928	401,784	-	-
Capital asset acquisition via capital appropriations	2,394,428	377,612	-	-
Capital asset acquisition via support from Foundation	457,352	269,637	-	-
Capitalized interest	63,704	207,268	-	-
Capital asset changes in accounts payable	(44,608)	(400,864)	-	-
Other capital asset adjustments	292,750	571,914	-	-

**Western Illinois University**  
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**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.

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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.

***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, 2005, from which the partial information was derived.

***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***

Investments 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, amounts 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.

**Western Illinois University**  
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***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, 2006 and 2005 was \$48,469 and \$60,166, 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.

***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.

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**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 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.

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***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, 2006, were \$4,134,238 and \$2,039,726, respectively.

***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 4.25% for endowment purposes and 1.25% 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, 2006, the Foundation had a total of \$1,841,189 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.

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**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, 2006 the University's bank balances were \$5,660,423. 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.

At June 30, 2006, the University had the following investments and maturities:

<b>Type</b>	<b>Total Fair Value</b>	<b>Maturities in Years</b>	
		<b>Less than One Year</b>	<b>1 – 5 Years</b>
The Illinois Funds Investment Pool	\$ 23,649,110	\$ 23,649,110	\$ —
LaSalle National Bank – Money Market Account	20,582	20,582	—
U.S. Treasury Bills	7,057,015	7,057,015	—
Federal Home Loan Banks	12,511,805	10,531,960	1,979,845
U.S. Treasury Notes	9,814,004	5,717,229	4,096,775
State and Local Government Securities	<u>1,009,386</u>	<u>—</u>	<u>1,009,386</u>
	<u>\$ 54,061,902</u>	<u>\$ 46,975,896</u>	<u>\$ 7,086,006</u>

**Western Illinois University**  
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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	\$ 6,137,660
Investments	<u>54,061,902</u>
	<u>\$ 60,199,562</u>

**Included in the Following Statement of Net Asset**

<b>Captions</b>	
Cash and cash equivalents	\$ 28,807,984
Cash and cash equivalents, restricted	158,844
Investments – current	24,146,728
Investments – non-current	<u>7,086,006</u>
	<u>\$ 60,199,562</u>

***Investment Income - University***

Investment income for the year ended June 30, 2006 consisted of the following:

Interest and dividend income	\$ 2,456,574
Net decrease in fair value of investments	<u>(36,443)</u>
	<u>\$ 2,420,131</u>

**Western Illinois University**  
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**Fiscal Year Ended June 30, 2006**

***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, 2006, the Foundation's bank balances were \$51,600. None of the Foundation's bank balances are exposed to custodial credit risk.

***Investments - Foundation***

At June 30, 2006, 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	\$ 2,529,408	\$ —	\$ 1,418,249	\$ 1,111,159	\$ —
U.S. Treasury Bonds	197,833	—	—	—	197,833
U.S. Agency Obligations (FHLM, FNMA)	1,536,035	99,255	827,426	471,420	137,934
Corporate debt securities	224,258	101,354	30,113	30,859	61,932
Corporate equity securities	7,154,354	7,154,354	—	—	—
International equity securities	3,647,538	3,647,538	—	—	—
Cash equivalents held in investment pools	544,031	544,031	—	—	—
Equity mutual funds	42,639	42,639	—	—	—
Real assets	590,546	590,546	—	—	—
Absolute return	934,523	934,523	—	—	—
Open-ended mutual funds	2,395,495	2,395,495	—	—	—
Private equity	79,177	79,177	—	—	—
Real estate Exchange Traded Fund	460,723	460,723	—	—	—
	<u>\$ 20,336,560</u>	<u>\$ 16,049,635</u>	<u>\$ 2,275,788</u>	<u>\$ 1,613,438</u>	<u>\$ 397,699</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 general investment considerations of the endowment investment policy of the Foundation 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.

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**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	\$ 3,362,660
Investments	<u>20,336,560</u>
	<u>\$ 23,699,220</u>

**Included in the Following Statement of Net Asset**

<b>Captions</b>	
Cash and cash equivalents	\$ 3,272,616
Cash and cash equivalents, restricted	90,044
Investments – current	169,968
Investments – non-current	<u>20,166,592</u>
	<u>\$ 23,699,220</u>

**Investment Income - Foundation**

Investment income for the year ended June 30, 2006 consisted of the following:

Interest and dividend income	\$ 1,027,787
Net increase in fair value of investments	<u>469,846</u>
	<u>\$ 1,497,633</u>

**Note 3: Accounts and Loans Receivable**

Accounts receivable are reported net of allowances for uncollectible accounts of \$3,138,500 at June 30, 2006. Loans receivable are reported net of allowances for uncollectible loans of \$584,700 at June 30, 2006.

**University Accounts Receivable**

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Receivables from students	\$ 5,425,333
Receivables from funding agencies	2,070,136
Receivables from third parties	<u>115,969</u>
Total gross receivables	7,611,438
Allowance for doubtful accounts	<u>(3,138,500)</u>
	<u>\$ 4,472,938</u>

**Western Illinois University**  
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**Note 4: Capital Assets**

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Net interest of \$63,704 was capitalized during fiscal year 2006.

The tables below depict capital asset activity for both the University and the Foundation for the year ended June 30, 2006.

**University**  
**Capital Assets Activity, Year Ended June 30, 2006**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Non-depreciable Capital Assets</b>					
Land and Land Improvements	\$ 3,223,147	\$ —	\$ —	\$ —	\$ 3,223,147
Works of Art and Historical Treasures	471,569	—	—	—	471,569
Construction in Progress	<u>1,420,272</u>	<u>3,418,726</u>	<u>—</u>	<u>(2,256,959)</u>	<u>2,582,039</u>
<b>Total Non-depreciable Capital Assets</b>	<u>5,114,988</u>	<u>3,418,726</u>	<u>—</u>	<u>(2,256,959)</u>	<u>6,276,755</u>
<b>Depreciable Capital Assets</b>					
Site Improvements	26,540,093	84,031	(33,692)	—	26,590,432
Buildings and Building Improvements	187,831,964	956,311	—	4,651,387	193,439,662
Equipment	62,641,216	2,997,405	(1,438,427)	—	64,200,194
Capital Lease Equipment	<u>232,326</u>	<u>99,411</u>	<u>(194,212)</u>	<u>—</u>	<u>137,525</u>
<b>Total Depreciable Capital Assets</b>	277,245,599	4,137,158	(1,666,331)	4,651,387	284,367,813
<b>Accumulated Depreciation</b>	<u>(153,996,379)</u>	<u>(9,926,247)</u>	<u>1,434,637</u>	<u>—</u>	<u>(162,487,989)</u>
<b>Total Depreciable Capital Assets, net</b>	<u>123,249,220</u>	<u>(5,789,089)</u>	<u>(231,694)</u>	<u>4,651,387</u>	<u>121,879,824</u>
<b>Capital Assets, net</b>	<u>\$ 128,364,208</u>	<u>\$(2,370,363)</u>	<u>\$ (231,694)</u>	<u>\$ 2,394,428</u>	<u>\$ 128,156,579</u>

**Western Illinois University**  
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**Fiscal Year Ended June 30, 2006**

**Foundation**  
**Capital Assets Activity, Year Ended June 30, 2006**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Non-depreciable Capital Assets</b>					
Land and Land Improvements	\$ 909,200	\$ —	\$ —	\$ —	\$ 909,200
<b>Depreciable Capital Assets</b>					
Equipment	—	—	—	23,573	23,573
Capital Lease Equipment	55,336	—	—	(23,573)	31,763
<b>Total Depreciable Capital Assets</b>	55,336	—	—	—	55,336
<b>Accumulated Depreciation</b>	(19,249)	(11,308)	—	—	(30,557)
<b>Total Depreciable Capital Assets, net</b>	36,087	(11,308)	—	—	24,779
<b>Capital Assets, net</b>	\$ 945,287	\$ (11,308)	\$ —	\$ —	\$ 933,979

**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 \$4,987,499. 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, 2006**

Balance, beginning of year	\$ 2,947,226
New notes	253,978
Payments	(677,807)
<b>BALANCE, END OF YEAR</b>	<b>\$ 2,523,397</b>
Current portion	\$ 796,186

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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, 2006:

2007	\$ 874,616
2008	874,616
2009	510,131
2010	<u>438,153</u>
Total Minimum Note Payments	2,697,516
Less, Amount Representing Interest	<u>174,119</u>
<b>PRESENT VALUE OF NET MINIMUM NOTE PAYMENTS</b>	<b><u>\$ 2,523,397</u></b>

**Note 6: Revenue Bonds Payable**

***General***

At June 30, 2006, revenue bonds payable consist of Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2006, 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 2006 Bonds***

On March 9, 2006, the Series 2006 Bonds were issued in the principal amount of \$15,250,000. The Series 2006 Bonds are due April 1, 2027, with annual principal payments ranging from \$265,000 to \$1,170,000 commencing April 1, 2009 and semi-annual interest payments beginning October 1, 2006 at 3.5% to 4.5%.

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Proceeds from the sale of the Series 2006 Bonds are being used to install fire sprinkler systems in residence hall facilities and graduate and family apartments and to construct an expansion to the Donald S. Spencer Student Recreation Center. In addition, proceeds from the sales of the Series 2006 Bonds, together with other funds of the University were used to provide for the advance refunding of a portion of the Series 1999 Bonds and to pay certain expenses related to the issuance of the bonds. A portion of Bond proceeds plus funds provided by the University were deposited in an irrevocable trust with an escrow agent to provide for a portion of the debt service payments on the 1999 Series Bonds. As a result, a portion of the 1999 Bonds are considered defeased and the liability for that portion of the 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 \$249,562, for the year ended June 30, 2006, the University in effect reduced its aggregate debt service payments by \$401,922 over the next 19 years and obtained an economic gain of \$365,626.

**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 3.00% 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 were 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.

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**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, 2006 was \$19,295,000.

**Debt Service Activity Requirements and Collateral**

Following is a schedule depicting Revenue Bonds Payable activity for the year ended June 30, 2006:

**Revenue Bonds Payable Activity, Year Ended June 30, 2006**

	<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 1999 Bonds	\$ 8,720,000	\$ —	\$ 290,000	\$7,640,000	\$ 790,000	\$ 210,000
Series 2002 Bonds	11,690,000	—	485,000	—	11,205,000	500,000
Series 2005 Bonds	25,715,000	—	2,275,000	—	23,440,000	2,490,000
Series 2006 Bonds	—	<u>15,250,000</u>	—	—	<u>15,250,000</u>	—
Total/Subtotal	<u>\$46,125,000</u>	<u>\$15,250,000</u>	<u>\$ 3,050,000</u>	<u>\$7,640,000</u>	50,685,000	3,200,000
Unamortized Premium					113,909	74,621
Deferred Loss of Refunding					<u>(1,286,269)</u>	<u>(228,178)</u>
					<u>\$49,512,640</u>	<u>\$ 3,046,443</u>

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Aggregate maturities of the bonds outstanding as of June 30, 2006 are as follows:

	<b>Principal</b>	<b>Interest</b>
2007	\$ 3,200,000	\$ 2,064,236
2008	3,340,000	1,922,579
2009	3,790,000	1,799,869
2010	3,995,000	1,657,559
2011	4,140,000	1,512,833
2012-2016	14,920,000	5,685,317
2017-2021	11,430,000	2,813,188
2022-2026	5,335,000	663,825
2027-2032	535,000	24,075
	50,685,000	18,143,481
Unamortized Premium	113,909	—
Deferred Loss of Refunding	(1,286,269)	—
	<b><u>\$ 49,512,640</u></b>	<b><u>\$ 18,143,481</u></b>

Maximum Annual Debt Service as defined for all outstanding revenue bond debt is \$5,652,834.

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: Certificates of Participation Payable**

On December 7, 2005, the Series 2005 Certificates of Participation (Capital Improvement Projects) were issued in the principal amount of \$10,290,000. The Series 2005 Certificates of Participation are due October 1, 2025 with annual principal payments ranging from \$400,000 to \$805,000 commencing October 1, 2008 and semi-annual interest payments beginning April 1, 2006 at 3.3% to 4.5%.

Proceeds from the sale of the Series 2005 Certificates of Participation are being used to renovate the student section of the football stadium, to construct a new multicultural center, and to construct a combination Document and Publication Services and Property Accounting and Redistribution Center. In addition, Series 2005 proceeds were used to pay the costs of issuing the Series 2005 Certificates of Participation.

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***Debt Service Activity Requirements and Collateral***

Following is a schedule depicting Certificates of Participation Payable activity for the year ended June 30, 2006:

**Certificates of Participation Payable Activity, Year Ended June 30, 2006**

	<u>Beginning Balance</u>	<u>New Debt/ Accretion</u>	<u>Principal Paid</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Series 2005	\$ _____	\$ <u>10,290,000</u>	\$ _____	\$ <u>10,290,000</u>	\$ _____

Aggregate maturities of the certificates of participation outstanding as of June 30, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ —	\$ 430,484
2008	—	430,484
2009	400,000	423,884
2010	415,000	410,125
2011	430,000	395,173
2012-2016	2,405,000	1,710,248
2017-2021	2,955,000	1,155,414
2022-2026	<u>3,685,000</u>	<u>428,773</u>
	<u>\$ 10,290,000</u>	<u>\$ 5,384,585</u>

Maximum Annual Debt Service as defined for outstanding Certificates of Participation is \$825,173.

The Certificates of Participation described above do not 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 lawful appropriations by the General Assembly for such purposes and legally available nonappropriated funds.

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**Note 8: Capital Lease Obligations**

The University has entered into several lease purchase contracts for duplicating equipment. Assets under capital leases at June 30, 2006, totaled \$137,525, net of accumulated depreciation of \$50,292. 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%.

**Capital Lease Activity, Year Ended June 30, 2006**

Balance, beginning of year	\$ 30,849
New leases	99,411
Payments/terminations	<u>(41,726)</u>
<b>BALANCE, END OF YEAR</b>	<b>\$ <u>88,534</u></b>
Current Portion	<u>\$ 39,897</u>

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, 2006:

2007	\$ 45,281
2008	45,281
2009	5,534
2010	<u>388</u>
Total Minimum Lease Payments	96,484
Less, Amount Representing Interest	<u>7,950</u>
<b>PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS</b>	<b>\$ <u>88,534</u></b>

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**Note 9: 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, 2006, such accumulated benefits totaled \$6,256,553.

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, 2006, such accumulated benefits totaled \$10,525,772.

**Compensated Absence Activity, Year Ended June 30, 2006**

Balance, beginning of year	\$ 18,034,715
Additions	854,320
Deductions	<u>(2,106,710)</u>
<b>BALANCE, END OF YEAR</b>	<b>\$ <u>16,782,325</u></b>
Current Portion	<u>\$ 1,791,796</u>

**Note 10: 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*.

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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% 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 eight years of service or at age 62 after five 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.

***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 10.18% 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, 2006, 2005 and 2004 were \$4,983,711, \$7,864,469 and \$49,467,248, respectively, equal to the required contributions for each year.

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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 11: 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 12: 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 \$250,000 to \$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.

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**Note 13: Operating Expenses by Natural Classification**

Operating expenses by natural classification for the year ended June 30, 2006, for the University are summarized as follows:

<b>University</b>					
	<b>Compensation and Benefits</b>	<b>Supplies and Services</b>	<b>Scholarships and Fellowships</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 46,888,146	\$ 3,174,513	\$ 2,753	\$ —	\$ 50,065,412
Research	2,991,793	1,207,874	—	—	4,199,667
Public service	6,475,768	3,711,973	23,351	—	10,211,092
Academic support	12,295,549	3,952,465	3,198	—	16,251,212
Student services	9,057,460	8,396,245	64,681	—	17,518,386
Institutional support	9,339,171	1,876,023	—	—	11,215,194
Operation and maintenance of plant	7,906,654	5,703,046	—	—	13,609,700
Student aid	—	—	5,297,383	—	5,297,383
Auxiliary enterprises	14,048,380	27,098,740	187,757	—	41,334,877
Staff benefits	5,435,556	—	—	—	5,435,556
Depreciation expense	—	—	—	9,926,247	9,926,247
On-behalf payments	27,624,162	—	—	—	27,624,162
Other operating expenses	—	5,476	—	—	5,476
	<u>\$ 142,062,639</u>	<u>\$ 55,126,355</u>	<u>\$ 5,579,123</u>	<u>\$ 9,926,247</u>	<u>\$ 212,694,364</u>

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Operating expenses by natural classification for the year ended June 30, 2006 for the Foundation are summarized as follows:

	<b>Foundation</b>			<b>Total</b>
	<b>Institutional Support</b>	<b>Scholarships and Fellowships</b>	<b>Depreciation</b>	
Advertising and promotions	\$ 83,173	\$ —	\$ —	\$ 83,173
Contractual services	760,356	—	—	760,356
Copying/photo sales	71,315	—	—	71,315
Cost of sales	128,761	—	—	128,761
Assets purchased/donated to WIU	565,225	—	—	565,225
Food/food supplies/catering	204,170	—	—	204,170
Operating supplies/commodities	204,370	—	—	204,370
Operation of automotive equipment	3,392	—	—	3,392
Postage	100,291	—	—	100,291
Registration fees/conference expense and dues	35,150	—	—	35,150
Scholarships returned to donors	23,443	—	—	23,443
Scholarships	—	1,545,104	—	1,545,104
Telecommunications	21,245	—	—	21,245
Change in annuities payable/annuity payments	24,240	—	—	24,240
Donation of restricted funds to WIU	198,869	—	—	198,869
Donation of unrestricted funds to WIU	99,236	—	—	99,236
Depreciation	—	—	11,308	11,308
	<u>\$ 2,523,236</u>	<u>\$ 1,545,104</u>	<u>\$ 11,308</u>	<u>\$ 4,079,648</u>

**Note 14: 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 2006, the Foundation did not specifically reimburse the University for \$927,009 of personal service costs or for facility use provided by the University. However, the Foundation gave the University \$2,158,239 for fiscal year 2006, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

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**Note 15: 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.