STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION

FINANCIAL AUDIT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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

STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION
FINANCIAL AUDIT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION

FOUNDATION OFFICIALS

Executive Director (Current)	Dr. Dianne Ashby
Executive Director (July 1, 2004 to June 30, 2005)	Dr. Susan Kern
Chairperson	Mr. Stanley R. Ommen
Vice Chairperson	Mrs. Anne P. Baughan
Financial Coordinator	Ms. Ronda Queen
Financial Coordinator	Mr. Dana Jones
Legal Counsel	Ms. Paula Goedert – Barnes & Thornburg

The Foundation offices are located at:

Illinois State University
401 Hovey Hall
Normal, IL 61790

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

ILLINOIS STATE UNIVERSITY FOUNDATION
FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of Illinois State University Foundation as of and for the year ended June 30, 2005 was performed by Nykiel, Carlin & Co., Ltd.

Based on their audit, the auditors expressed an unqualified opinion on the Foundation's basic financial statement as of and for the year ended June 30, 2005.

The financial statements as of and for the year ended June 30, 2004, were audited by other auditors who expressed an unqualified opinion on the basic financial statements in their report dated September 14, 2004.

NYKIEL·CARLIN & CO. Certified Public Accountants/Business Consultants

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Illinois State University Foundation, a component unit of Illinois State University as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Illinois State University Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended June 30, 2004, before they were restated for the matter discussed in Note 13, were audited by other auditors who expressed an unqualified opinion on the basic financial statements in their report dated September 14, 2004.

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

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

In accordance with *Government Auditing Standards* we have also issued a report on our consideration of the Illinois State University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nykiel, Carlin & Co., Ltd.

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

September 22, 2005

200 East Court St., Suite 608 Kankakee, Illinois 60901 • Telephone 815-933-1771 • Fax 815-933-1163

NYKIEL·CARLIN
&CO. Certified Public Accountants/Business Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Illinois State University Foundation as of and for the year ended June 30, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Illinois State University Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Nykiel, Carlin & Co., Ltd.

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

September 22, 2005

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STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004

Overview of the Financial Statements and Financial Analysis

The Illinois State University Foundation is proud to present its financial statements for fiscal year 2005 and 2004. This discussion and analysis is designed to focus on financial activities for the current year and the prior year and should be read in conjunction with the Foundation's financial statements and footnotes. There are three financial statements presented: the Statements of Net Assets; the Statements of Revenues, Expenses, and Changes in Net Assets; and, the Statements of Cash Flows.

Statements of Net Assets

The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Illinois State University Foundation. The Statement of Net Assets presents the assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities) of the Foundation as of the end of the fiscal year. The difference between current and non-current assets will be discussed in the footnotes to the financial statements.

Net assets are divided into three major categories. The first category, **invested in capital assets, net of related debt,** provides the Foundation's equity in property, plant and equipment. The second asset category is **restricted net assets**, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the Foundation but must be spent for purposes as determined by the donors that have placed restrictions on the use of the assets. The final category is **unrestricted net assets.** The unrestricted net assets are available to support the University's highest priorities.

STATEMENTS OF NET ASSETS

	2005	2004	2003
ASSETS:			
Current Assets	$ 8,830,852	$ 12,157,755	$ 12,682,353
Capital Assets	1,813,491	1,868,761	1,925,077
Other Noncurrent Assets	58,580,465	54,370,647	40,932,844
TOTAL ASSETS	**69,224,808**	**68,397,163**	**55,540,274**
LIABILITIES:			
Current Liabilities	544,707	2,203,708	271,542
Noncurrent Liabilities	655,626	166,890	1,203,370
TOTAL LIABILITIES	**1,200,333**	**2,370,598**	**1,474,912**
NET ASSETS:			
Invested in capital assets, net of related debt	1,513,491	868,761	925,077
Restricted - nonexpendable	41,025,261	34,468,908	25,084,235
Restricted - expendable	24,311,808	30,108,617	27,847,048
Unrestricted	1,173,915	580,279	209,002
TOTAL NET ASSETS	**$ 68,024,475**	**$ 66,026,565**	**$ 54,065,362**

The total assets of the Foundation were $69,224,808, $68,397,163, and $55,540,274 for FY 2005, FY 2004, and FY 2003 respectively. In 2005, the College of Business building project was completed with substantial payments to contractors causing a significant decrease in current assets while the conclusion of the comprehensive campaign and continued payment of sizeable pledges attributed to the increase of noncurrent assets. In FY 2004, the Foundation received two large corporate campaign pledges totaling more than $3,400,000 with $2,700,000 outstanding at the end of FY2004. In addition, the endowment portfolio produced a total return of over 16% in FY 2004 producing a significant increase in the endowment investments.

The total liabilities were $1,200,333 for FY 2005, $2,370,598 for FY 2004, and $1,474,912 for FY 2003. The FY 2004 increase was due to accounts payable on the College of Business building construction project.

Statements of Revenues, Expenses and Changes in Net Assets

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

Operating revenues are received for providing goods and services to customers of the Foundation. A majority of the income for the Foundation, gifts and donations, is considered nonoperating revenue as no goods or services are provided; however, as those funds are paid out, the expenses are categorized as operating expenses. The result of this categorization is a large operating loss offset by a large nonoperating gain. Overall, in FY 2005, the Illinois State University Foundation generated an increase of $1,997,910 in net assets compared to an increase of $11,961,203 in FY 2004 and $5,425,148 in FY 2003.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2005	2004	2003
Operating Revenues	$ 307,090	$ 328,808	$ 313,636
Operating Expenses	5,644,162	4,902,332	4,568,041
Operating Loss	(5,337,072)	(4,573,524)	(4,254,405)
Nonoperating Revenues and Expenses	3,434,811	11,678,609	5,748,283
Income (Loss) before Additions to Permanent Endowments	(1,902,261)	7,105,085	1,493,878
Additions to Permanent Endowments	3,900,171	4,856,118	3,931,270
Increase in Net Assets	1,997,910	11,961,203	5,425,148
Net Assets, Beginning of Year	66,026,565	54,065,362	48,640,214
Net Assets, End of Year	**$ 68,024,475**	**$ 66,026,565**	**$ 54,065,362**

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the year for FY 2005, FY 2004 and FY 2003. Some highlights of the information presented are as follows:

- A decrease in gifts and donations in FY 2005 compared to FY 2004 was due to two large corporate pledges totaling over $3.4 million as a part of the Illinois State University capital campaign in FY 2004. No comparable large gift pledges were received in FY 2005.
- Returns on our endowed investments were 8.1% in FY 2005, compared to 16.8% in FY 2004, and 2.6% in FY 2003
- Nonoperating expenses increased significantly in FY 2005 with the completion of the College of Business building.

Statements of Cash Flows

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

CASH FLOWS FOR THE YEARS ENDED JUNE 30,

	2005	2004	2003
Cash provided (used) by:			
Operating activities	$ (5,255,268)	$ (4,536,336)	$ (4,882,969)
Noncapital financing activities	5,660,074	6,878,175	11,295,228
Capital and related financing activities	(742,643)	(43,208)	(39,340)
Investing activities	(5,119,975)	(2,161,394)	(1,046,954)
Net Change in Cash	(5,457,812)	137,237	5,325,965
Cash, beginning of year	8,826,164	8,688,927	3,362,962
Cash, end of year	**$ 3,368,352**	**$ 8,826,164**	**$ 8,688,927**

Capital Asset and Debt Administration

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

Economic Outlook

Private dollars raised by Illinois State University Foundation continue to play a significant part in support of the University's mission and goals as state appropriated dollars fail to provide adequate funding. FY 2005 ended with the investment portfolio producing positive returns for the third consecutive year outperforming the benchmarks. The comprehensive campaign, *Redefining Normal*, concluded, surpassing its goal of $88 million, raising $96 million.

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

STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,904,044	$ 5,149,815
Short-term investments	4,369,332	4,275,690
Accrued interest receivable	15,386	12,098
Pledges receivable, net	2,541,257	2,714,618
Accounts receivable	833	5,534
Total current assets	8,830,852	12,157,755
Noncurrent Assets		
Restricted cash and cash equivalents	1,464,308	3,676,349
Long-term investments	12,501,730	9,733,466
Endowment investments	41,025,261	34,468,908
Pledges receivable, net	2,867,080	5,823,160
Capital assets, net	1,813,491	1,868,761
Other noncurrent assets	722,086	668,764
Total noncurrent assets	60,393,956	56,239,408
TOTAL ASSETS	69,224,808	68,397,163
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	503,293	1,182,857
Long-term liabilities, current portion	41,414	1,020,851
Total current liabilities	544,707	2,203,708
Noncurrent Liabilities		
Long-term liabilities	655,626	166,890
TOTAL LIABILITIES	1,200,333	2,370,598
NET ASSETS		
Invested in capital assets, net of related debt	1,513,491	868,761
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	22,526,597	20,465,634
College and academic department support	8,557,271	7,047,408
Faculty and staff compensation	5,787,717	4,428,187
Other	4,153,676	2,527,679
	41,025,261	34,468,908
Expendable:		
Scholarships and fellowships	7,238,687	6,070,016
Instructional departmental uses	10,749,824	11,769,401
University capital projects	4,522,812	10,445,610
Other restricted expendable	1,800,485	1,823,590
	24,311,808	30,108,617
Unrestricted	1,173,915	580,279
TOTAL NET ASSETS	$ 68,024,475	$ 66,026,565

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

STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For The Years Ended June 30, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Service contract with the University	$ 260,000	$ 260,000
Other operating revenue	47,090	68,808
Total operating revenues	307,090	328,808
OPERATING EXPENSES		
Student aid, scholarships and awards	1,396,026	1,373,482
Expenditures on behalf of ISU departments and programs	3,385,697	2,753,526
Operations	644,722	607,176
Depreciation	55,270	56,316
Other	162,447	111,832
Total operating expenses	5,644,162	4,902,332
Operating loss	(5,337,072)	(4,573,524)
NONOPERATING REVENUES (EXPENSES)		
Gifts and donations	5,717,834	8,891,957
Investment income (loss), net of investment expenses	4,301,005	5,918,503
Interest on capital asset related debt	(39,970)	(43,208)
Other nonoperating revenues	752,524	757,354
Expenditures for ISU capital projects	(7,296,582)	(3,845,997)
Total net nonoperating revenues	3,434,811	11,678,609
Income (loss) before additions to permanent endowments	(1,902,261)	7,105,085
ADDITIONS TO PERMANENT ENDOWMENTS	3,900,171	4,856,118
INCREASE IN NET ASSETS	1,997,910	11,961,203
NET ASSETS, BEGINNING OF YEAR	66,026,565	54,065,362
NET ASSETS, END OF YEAR	$ 68,024,475	$ 66,026,565

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

STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Contracts and grants	$ 260,000	$ 260,000
Payments on behalf of ISU departments and programs	(3,358,905)	(2,835,785)
Payments for operating expenses	(618,561)	(604,250)
Payments for scholarships and fellowships	(1,577,696)	(1,252,352)
Other receipts	47,090	68,808
Other expenditures	(7,196)	(172,757)
Net cash used in operating activities	(5,255,268)	(4,536,336)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants for other than capital purposes	8,846,164	5,821,073
Private gifts for endowment purposes	3,905,705	3,336,952
Other receipts	752,235	757,354
Payments for ISU capital projects	(7,844,030)	(3,037,204)
Net cash provided by noncapital financing activities	5,660,074	6,878,175
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal paid on capital asset related debt	(700,000)	-
Interest paid on capital asset related debt	(42,643)	(43,208)
Net cash used in capital financing activities	(742,643)	(43,208)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	9,969,641	40,908,835
Interest on investments	1,008,188	673,605
Purchase of investments	(16,097,804)	(43,743,834)
Net cash used in investing activities	(5,119,975)	(2,161,394)
NET INCREASE (DECREASE) IN CASH	(5,457,812)	137,237
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	8,826,164	8,688,927
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,368,352	$ 8,826,164

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

STATEMENTS OF CASH FLOWS - CONTINUED
For The Years Ended June 30, 2005 and 2004

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (5,337,072)	$ (4,573,524)
Increase in other noncurrent assets	(53,322)	(106,021)
Increase (decrease) in operating accounts payable	(129,442)	120,722
Increase (decrease) in accrued compensated absences	725	(78,925)
Increase in beneficiary payments payable	208,573	45,096
Depreciation	55,270	56,316
NET CASH USED IN OPERATING ACTIVITIES	$ (5,255,268)	$ (4,536,336)

SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS

The Foundation received donated property with an estimated value of $628,761 and $220,886 at the date of donation in fiscal years 2005 and 2004, respectively.

The cash surrender value of life insurance policies owned by the Foundation increased $53,322 and $106,021 for fiscal years 2005 and 2004, respectively.

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

STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

The Foundation has formed two limited liability companies (LLC) to assist in carrying out the Foundation's mission to assist the University. The Foundation is the sole member of each of these LLC's. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consist of the executive officers of the Foundation. No activity has transpired with either LLC as of June 30, 2005. Any future activity will be consolidated within the Foundation's financial statements.

Financial Statement Presentation

The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and provides an overall perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. The Foundation has also implemented GASB Statement No. 40 *Deposit and Investment Risk Disclosures* with this report.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities (BTA). Due to the Foundation's close relationship with the University, the Foundation follows the same financial reporting guidelines as the University. Accordingly, the Foundation's financial statements have been presented using the BTA reporting requirements and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant inter-account receivables and payables have been eliminated.

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

STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

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

Generally, only investments with original maturities of three months or less meet this definition.

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

Investments

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

Foundation policy states that assets are to be invested in a diversified portfolio of equity and fixed income securities. No investment is to be made that will cause the total investment in equities or fixed income securities issued or guaranteed by any one person, firm, or corporation to exceed five percent of the then fair market value of the Foundation; provided, this restriction is not to apply to either well diversified mutual funds, pooled funds, unit trust, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies. Equities are to represent a majority of Foundation assets up to a desired 75 percent of the total. Investments should be diversified; however investment managers will be allowed to choose reasonable degrees of concentration, or lack thereof. Bias in selection of equity investments should be toward quality and growth. A majority of fixed income securities are to be made in securities rated within the four highest grades assigned by Moody's Investor Service, Inc. or Standard & Poor's Corporation or, if unrated, deemed by the investment manager to be of comparable quality. A maximum of 15 percent of the total portfolio may be invested in foreign securities.

Pledges Receivable

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges Receivable (continued)

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

Allowance for Doubtful Accounts

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

Capital Assets

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

Category	Capitalization Threshold	Estimated Useful Lives
Land	$ 100,000	-
Buildings	$ 100,000	40-60 years
Building Improvements	$ 25,000	30 years
Equipment	$ 7,000	7 years

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

Other Noncurrent Assets

Other noncurrent assets represent the cash surrender value of insurance policies where donors have transferred ownership of the policy to the Foundation and the Foundation is named beneficiary.

Long-term Liabilities

Long-term liabilities include (1) principal amount of notes payable with a contractual maturity greater than one year; (2) estimated amounts for accrued compensated absences for designated University staff vacation and sick pay that will not be paid within the next year; and (3) estimated discounted value of future payments to beneficiaries of charitable remainder trusts, gift annuitants and a charitable lead trust that will not be paid within the next fiscal year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

The Foundation's net assets are classified as follows:

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

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

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

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

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

Classification of Revenues

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

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

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

Use of Estimates in Preparing Financial Statements

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

NOTE 2 – CASH AND CASH EQUIVALENTS

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

	2005		2004	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 3,882,734	$ 3,368,352	$ 9,120,641	$ 8,826,164

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation or Security Investor Protection Corporation insured bank or account balances of $393,377 and $130,297 at June 30, 2005 and 2004, respectively. As of June 30, 2005, $140,451 of the bank balance was uninsured and uncollateralized. The remaining bank balance of $3,348,906 at June 30, 2005 and $8,990,344 at June 30, 2004 was invested in a U.S. Treasury Money Market Fund. The Fund invests exclusively in U.S. Treasury bills, notes and other obligations issued or guaranteed by the U.S. Treasury, and repurchase agreements collateralized by such obligations. The Foundation does not have a formal deposit policy for custodial credit risk

NOTE 3 – INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2005 and 2004, is as follows:

	2005	2004
U.S. Government Securities	$ 13,562	$ 165,638
Corporate Bonds	-	245,367
Certificates of Deposit	27,757	100,233
Common Stock	283,684	1,290,502
Mutual Funds		
Stocks	43,207,840	33,823,256
Bonds	8,256,072	8,301,393
Commodities	1,020,060	-
Money Market	4,497,248	4,275,690
Other	590,100	275,985
Total investments	$57,896,323	$48,478,064

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 – INVESTMENTS (continued)

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy permits fixed income investments in securities rated within the four highest grades assigned by Moody's Investor Service, Inc. or Standard & Poor's Corporation or, if unrated, deemed by the investment manager to be of comparable quality.

As of June 30, 2005 the Foundation had the following investments exposed to interest rate risk and credit risk:

Investment	Fair Market Value	Effective Duration	Average Quality
Bond Mutual Funds	$ 8,256,072	3.50 years	AA+
Money Market Mutual Funds	4,497,248	2.58 years	AAA

Duration is a measure of a fixed income's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable balances at June 30, 2005 and 2004, consist of the following:

2005

	Current	Noncurrent
Pledges Receivable:		
Due within 1 year	$ 2,631,897	$ -
Due within 1 to 5 years	-	3,233,544
	2,631,897	3,233,544
Less:		
Discount for time-value of money	-	(255,104)
Allowance for Doubtful Accounts	(90,640)	(111,360)
Pledges Receivable as of June 30, 2005	$ 2,541,257	$ 2,867,080

NOTE 4 – PLEDGES RECEIVABLE (continued)

2004

	Current	Noncurrent
Pledges Receivable:		
Due within 1 year	$ 2,778,155	$ -
Due within 1 to 5 years	-	6,587,842
	2,778,155	6,587,842
Less:		
Discount for time-value of money	-	(572,394)
Allowance for Doubtful Accounts	(63,537)	(192,288)
Pledges Receivable as of June 30, 2004	$ 2,714,618	$ 5,823,160

The Foundation completed a capital fund-raising campaign during the past fiscal year and has recorded the resulting pledges receivable above. Management believes the allowance for uncollectible pledges is adequate based on information currently known. However, events impacting donors could occur in the future which would materially increase the allowance for uncollectible pledges.

NOTE 5 – CAPITAL ASSETS

Capital assets at June 30, 2005 and 2004, consist of the following:

2005

	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$ 2,139,303	$ -	$ -	$ 2,139,303
Building Improvements	42,312	-	-	42,312
Equipment	17,600	-	-	17,600
Subtotal	2,199,215	-	-	2,199,215
Less Accumulated Depreciation for:				
Buildings	280,474	52,392	-	332,866
Building Improvements	33,848	1,410	-	35,258
Equipment	16,132	1,468	-	17,600
Total Accumulated Depreciation	330,454	55,270	-	385,724
Capital assets, net as of June 30, 2005	$ 1,868,761	$ (55,270)	$ -	$ 1,813,491

NOTE 5 – CAPITAL ASSETS (continued)

2004

	Beginning Balance	Additions	Retirements	Ending Balance
Buildings	$ 2,139,303	$ -	$ -	$ 2,139,303
Building Improvements	42,312	-	-	42,312
Equipment	17,600	-	-	17,600
Subtotal	2,199,215	-	-	2,199,215
Less Accumulated Depreciation for:				
Buildings	228,082	52,392	-	280,474
Building Improvements	32,438	1,410	-	33,848
Equipment	13,618	2,514	-	16,132
Total Accumulated Depreciation	274,138	56,316	-	330,454
Capital assets, net as of June 30, 2004	$ 1,925,077	$ (56,316)	$ -	$ 1,868,761

NOTE 6 – PROPERTY HELD AS TRUSTEE

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

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

Also, in accordance with the terms of the will, a second trust, in which the Foundation was not named as trustee, was created. The income from this trust is paid to the Foundation for the maintenance of the museum. During the years ended June 30, 2005 and 2004, the proceeds from this maintenance trust amounted to $12,485 and $10,244 respectively.

NOTE 7 – LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2005 and 2004, consist of the following:

2005

	Beginning Balance	Additions	Retirements	Ending Balance
Beneficiary/annuity payments	$ 164,815	$ 231,118	$ 22,545	$ 373,388
Compensated absences	22,926	726	-	23,652
Notes payable	1,000,000	-	700,000	300,000
Total	$ 1,187,741	$ 231,844	$ 722,545	$ 697,040

2004

	Beginning Balance	Additions	Retirements	Ending Balance
Beneficiary/annuity payments	$ 119,719	$ 63,939	$ 18,843	$ 164,815
Compensated absences	101,851	-	78,925	22,926
Notes payable	1,000,000	-	-	1,000,000
Total	$ 1,221,570	$ 63,939	$ 97,768	$ 1,187,741

Long-term liabilities are classified as follows:

	2005			2004		
	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion	Total
Beneficiary payments	$ 41,414	$ 331,974	$ 373,388	$ 20,851	$ 143,964	$ 164,815
Compensated absences	-	23,652	23,652	-	22,926	22,926
Notes Payable	-	300,000	300,000	1,000,000	-	1,000,000
Total	$ 41,414	$ 655,626	$ 697,040	$ 1,020,851	$ 166,890	$ 1,187,741

Notes Payable as of June 30, 2005 consists of a $1,000,000 line of credit ($300,000 outstanding as of June 30, 2005) secured by all accounts on deposit with the lender, its subsidiaries, or affiliates; requiring monthly interest payments at 1.25% under the lender's prime rate; and having a principal maturity date of April 15, 2007. The Foundation's interest rate at June 30, 2005 was 5%.

Notes Payable as of June 30, 2004 consisted of a $1,000,000 unsecured note to Bank One requiring monthly interest payments at 4.25% per year with a maturity date of December 2004. Proceeds were used to construct the Ewing Theatre.

NOTE 8 – OPERATING LEASE COMMITMENTS

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporation and Foundation networks. Lease payments for the Chicago office were $58,867 in 2005 and $61,684 in 2004. The current lease has been amended to expire on December 31, 2014. In addition, the Foundation leases a vehicle for the Executive Director of the Foundation and ten vehicles for University Athletic Department employees for a total cost of $ $55,986 in 2005 and $45,661 in 2004. The lease for the Executive Director expires in the fiscal year ending June 30, 2006. One of the leases for the Athletic Department vehicles expires in the fiscal year ending June 30, 2007, with nine leases expiring in the fiscal year ending June 30, 2009.

Future minimum lease payments as of June 30, 2005, are as follows:

	Building	Vehicles
Year ending June 30,		
2006	$ 70,643	$ 41,385
2007	72,051	37,181
2008	73,458	34,638
2009	74,865	6,094
2010	76,273	-
2011 - 2015	360,470	-
Total	$ 727,760	$ 119,298

NOTE 9 – COMMITMENT TO UNIVERSITY PROJECT

During 2003, the University began construction of the College of Business building. This project is jointly funded by the State of Illinois Capital Development Board, the University and private gifts received by the Foundation. The total estimated project cost is approximately $30,000,000. Gifts and gift commitments, through the Foundation, to fund a portion of the project approximate $10,745,000, of which approximately $281,000 was still held by the Foundation as of June 30, 2005.

NOTE 10 – FUNDS HELD BY OTHERS

The Foundation is an income beneficiary of several trusts, the assets of which are held and administered by others, thus, the principal is not recorded in the accompanying financial statements. Income received from these assets was $171,106 in 2005 and $46,271 in 2004.

NOTE 11 – TRANSACTIONS WITH RELATED ORGANIZATIONS

The Foundation enters into annual contracts with the University Board of Trustees (acting for and on behalf of the University) that require the Foundation to provide fund raising and other assistance in order to attract private gifts for the use and benefit of the University. In consideration for these services the University provides office space and clerical, accounting and computer support as necessary. For the years ended June 30, 2005 and 2004, the University also compensated the Foundation $260,000 each year for these services. A majority of accounts payable are due to the University.

NOTE 12 – DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. The Foundation Investment Committee adopted a spending policy for fiscal years 2005 and 2004 of 4.0% and 0.0%, respectively, of the average market value of endowment investments for the preceding 12 months.

At June 30, 2005, net appreciation of approximately $7,281,000 remains available for future authorization for expenditure by the Investment Committee for donor-restricted endowment funds. At June 30, 2005, the fair value of the assets of certain donor-restricted endowments was approximately $25,000 less than the original principal amounts of those funds. These amounts are included in the Net Assets section of the Statement of Net Assets as Restricted for Nonexpendable.

NOTE 13 – PRIOR PERIOD RECLASSIFICATION

During fiscal year 2005, Foundation management identified an account classification error that occurred in a previous year. It was determined that an account previously identified as an endowment actually did not contain a stipulation that the principal remain in perpetuity. Rather, it stipulated that the funds be used for student scholarships and the library fund. Therefore, on its June 30, 2004 Statement of Net Assets, the Foundation reclassified $3,957,635 previously reported as *Net Assets: Restricted for: Nonexpendable Scholarships and fellowships* to *Net Assets: Restricted for: Expendable Scholarships and fellowships*. The same amount was reclassified from *Endowment investments* to *Restricted investments.*