

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

**Contents**

<b>Agency Officials .....</b>	<b>1</b>
<b>Financial Statement Report</b>	
Summary .....	2
Independent Auditors' Report .....	3
Management's Discussion and Analysis .....	5
Financial Statements	
Statement of Net Assets .....	11
Statement of Revenues, Expenses and Changes in Net Assets .....	12
Statement of Cash Flows.....	13
Notes to Financial Statements .....	14
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	22

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

Executive Officer

Vice President for Advancement and Public Services

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

Dr. Daniel Hendricks  
(Effective August 15, 2005)

The Foundation's offices are located at:

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

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Financial Statement Report Summary**  
**For the Year Ended June 30, 2006**

The audit of the accompanying financial statements of the State of Illinois, Western Illinois University Foundation as of and for the year ended June 30, 2006 was performed by **BKD, LLP**.

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



## Independent Auditors' Report

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board of Directors  
Western Illinois University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of Western Illinois University Foundation ("Foundation"), a component unit of Western Illinois University, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Foundation's 2005 financial statements and, in our report dated October 21, 2005, we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation, as of June 30, 2006, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board of Directors  
Western Illinois University Foundation  
Page 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**BKD, LLP**

November 2, 2006

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

***Introduction***

This section of the Western Illinois University Foundation (the "Foundation") annual financial report presents an overview of the financial performance and activities of the Foundation during the fiscal year ended June 30, 2006. This discussion should be read in conjunction with the accompanying financial statements and footnotes and is designed to focus on current activities, resulting change, current known facts, and future outlook. The financial statements, footnotes and this discussion are the responsibility of the Foundation management.

***Using the Annual Financial Report***

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

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

***Statement of Net Assets***

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

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

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

During the fiscal year ended June 30, 2006, the net assets of the Foundation increased \$2,511,374 (11%). This increase reflects the impact of the appreciation in fair market value of investments and a 29% increase in endowment gift flow. Endowment gift flow rate is defined as the total gifts, bequests, and other similar additions to endowment as a percentage of the average of fiscal year beginning and ending endowment market value.

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

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current assets		
Cash and investments	\$ 3,532,628	\$ 3,667,716
Pledges receivable, net	173,045	202,025
Other receivables	305,528	487,858
Other current assets	24,988	51,897
Noncurrent assets		
Investments	20,166,592	17,245,523
Pledges receivable, net	72,111	78,235
Capital assets, net of accumulated depreciation	933,979	945,287
Total assets	25,208,871	22,678,541
<b>Liabilities</b>		
Current liabilities	346,396	318,383
Noncurrent liabilities	220,350	229,407
Total liabilities	566,746	547,790
<b>Net Assets</b>		
Invested in capital assets, net of related debt	886,061	942,282
Restricted for nonexpendable purposes	18,342,511	15,882,965
Restricted for expendable purposes	1,969,589	1,889,298
Unrestricted	3,443,964	3,416,206
Total net assets	\$ 24,642,125	\$ 22,130,751



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

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

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

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

	<b>2006</b>	<b>2005</b>
Total operating revenues	\$ 2,966,619	\$ 3,065,950
Total operating expenses	<u>(4,079,468)</u>	<u>(3,822,928)</u>
Operating loss	(1,112,849)	(756,978)
Net nonoperating revenues (expenses)	<u>2,281,056</u>	<u>1,641,418</u>
Gain (loss) before other revenues, expenses, gains or losses	1,168,207	884,440
Additions to permanent endowment	<u>1,343,167</u>	<u>1,042,399</u>
Increase in net assets	2,511,374	1,926,839
Net assets, beginning of year	<u>22,130,751</u>	<u>20,203,912</u>
Net assets, end of year	<u>\$ 24,642,125</u>	<u>\$ 22,130,751</u>

The major component of operating revenues are contributions that support the purpose of the Foundation, which is to enhance the programs, facilities and services of the University. The table below presents contribution revenue for fiscal years 2006 and 2005, including additions to permanent endowment.

	<b>2006</b>	<b>2005</b>
Contributions	\$ 2,664,493	\$ 2,715,448
Additions to permanent endowments	<u>1,343,167</u>	<u>1,042,399</u>
Contribution revenue	<u>\$ 4,007,660</u>	<u>\$ 3,757,847</u>

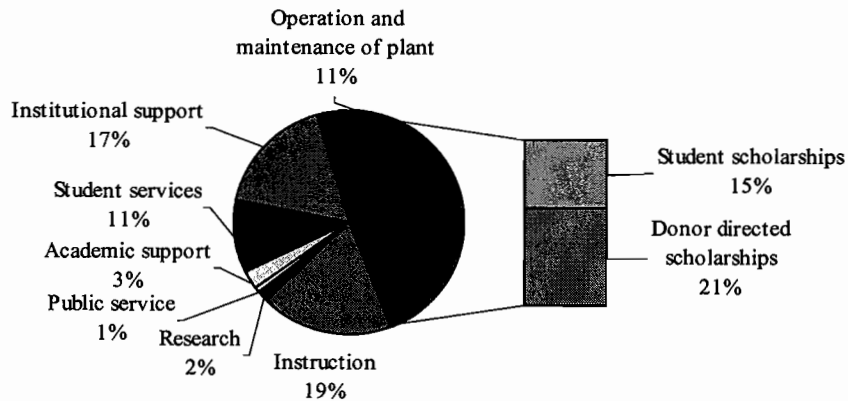
**State of Illinois**  
**Western Illinois University Foundation**  
(A Component Unit of Western Illinois University)  
**Management's Discussion and Analysis**  
**June 30, 2006**

In addition to the nonoperating revenues shown in the condensed statement, the University provided personal services, facility use, and other services valued at \$927,009. The Foundation did not specifically pay for these services; however, the Foundation provided \$2,158,239 to the University in unrestricted funds and funds restricted only as to department and generally available for ongoing University operations.

Operating expenses by functional category for the years ended June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Instruction	\$ 759,280	\$ 566,525
Research	61,338	87,570
Public service	33,180	148,286
Academic support	107,091	74,825
Student services	433,192	538,757
Institutional support	710,897	638,307
Operation and maintenance of plant	435,017	229,379
Student scholarships	632,616	575,240
Donor directed scholarships	895,549	952,730
Depreciation	<u>11,308</u>	<u>11,309</u>
	<u>\$ 4,079,468</u>	<u>\$ 3,822,928</u>

**Fiscal Year 2006 Analysis of Expenses by Function**



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

**Statement of Cash Flows**

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

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

	<b>2006</b>	<b>2005</b>
Cash provided (used) by:		
Operating activities	\$ (1,020,675)	\$ (752,022)
Noncapital financing activities	2,085,306	2,293,284
Capital and related financing activities	(6,017)	(5,819)
Investing activities	(1,188,522)	(1,181,241)
Net increase (decrease) in cash and cash equivalents	(129,908)	354,202
Cash and cash equivalents - beginning of the year	3,492,568	3,138,366
Cash and cash equivalents - end of the year	\$ 3,362,660	\$ 3,492,568

**Foundation's Economic Outlook**

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

Private gifts are an important source of funds to supplement operating costs and capital improvements. In fiscal year 2006, alumni, friends, staff, corporations, and other organizations contributed \$4.0 million in support of the University. During the five-year period ended June 30, 2006, the University and the Foundation received more than \$21 million in gift commitments. The University and the Foundation are in the final stages of planning a new comprehensive campaign to commence in fiscal year 2007. This new private support should increase endowment and provide additional resources for the University's bold new institutional initiatives and the strategic plan, "Higher Values in Higher Education." The Foundation expended \$4.0 million in fiscal year 2006 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.

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

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

Stable and even strengthening financial markets portend a positive result for the Foundation's endowment pool. Efforts to enhance fundraising infrastructure in the areas of added personnel, enhanced database management, leadership development and major gift prospecting, promise to increase gift and pledge production in the next one to three years.

The absence of significant new cash obligations will enable the Foundation's overall financial position to improve with the long-term projections suggesting a significant increase in the Foundation's asset base.

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

<b>ASSETS</b>	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash and cash equivalents	\$ 3,272,616	\$ 3,246,088
Restricted cash and cash equivalents	90,044	246,480
Investments	169,968	175,148
Pledges receivable, net	173,045	202,025
Due from Western Illinois University	5,185	-
Other receivables	300,343	487,858
Inventories	21,489	24,048
Prepaid expenses	3,499	27,849
Total current assets	<u>4,036,189</u>	<u>4,409,496</u>
Noncurrent Assets:		
Endowment investments	20,166,592	17,245,523
Pledges receivable, net	72,111	78,235
Capital assets, net of accumulated depreciation	933,979	945,287
Total noncurrent assets	<u>21,172,682</u>	<u>18,269,045</u>
Total assets	<u>25,208,871</u>	<u>22,678,541</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	106,815	53,130
Due to Western Illinois University	16,993	51,532
Annuities payable	28,459	28,459
Leases payable	4,838	4,580
Deferred revenue	189,291	180,682
Total current liabilities	<u>346,396</u>	<u>318,383</u>
Noncurrent Liabilities:		
Annuities payable	205,160	209,378
Leases payable	15,190	20,029
Total noncurrent liabilities	<u>220,350</u>	<u>229,407</u>
Total liabilities	<u>566,746</u>	<u>547,790</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	886,061	942,282
Restricted - nonexpendable	18,342,511	15,882,965
Restricted - expendable	1,969,589	1,889,298
Unrestricted	3,443,964	3,416,206
<b>TOTAL NET ASSETS</b>	<u>\$ 24,642,125</u>	<u>\$ 22,130,751</u>

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2006**  
**(With Partial Financial Information for the Year Ended June 30, 2005)**

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Gifts	2,664,493	2,715,448
Sales and services	\$ 302,126	\$ 350,502
Total operating revenues	<u>2,966,619</u>	<u>3,065,950</u>
<b>OPERATING EXPENSES</b>		
Instruction	759,280	566,525
Research	61,338	87,570
Public service	33,180	148,286
Academic support	107,091	74,825
Student services	433,192	538,757
Institutional support	710,897	638,307
Operation and maintenance of plant	435,017	229,379
Student scholarships	632,616	575,240
Donor directed scholarships	895,549	952,730
Depreciation	11,308	11,309
Total operating expenses	<u>4,079,468</u>	<u>3,822,928</u>
<b>Operating loss</b>	<u>(1,112,849)</u>	<u>(756,978)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income - net of investment expense	1,497,633	966,970
Interest expense	(1,435)	(1,484)
Other nonoperating revenues	784,858	675,932
Net nonoperating revenues	<u>2,281,056</u>	<u>1,641,418</u>
Gain before other revenues, expenses, gains and losses	1,168,207	884,440
Additions to permanent endowments	1,343,167	1,042,399
Increase in net assets	<u>2,511,374</u>	<u>1,926,839</u>
Net assets - beginning of year	<u>22,130,751</u>	<u>20,203,912</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 24,642,125</u>	<u>\$ 22,130,751</u>

**State of Illinois  
Western Illinois University Foundation  
(A Component Unit of Western Illinois University)**

**Statement of Cash Flows  
For the Year Ended June 30, 2006**

(With Partial Financial Information for the Year Ended June 30, 2005)

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Gifts for other than capital and endowment purposes	\$ 2,699,598	\$ 2,796,507
Sales and services	310,735	350,502
Payments for goods and services	(2,470,166)	(2,341,138)
Payment for scholarships and fellowships	(1,528,165)	(1,527,970)
Payments to annuitants	(32,677)	(29,923)
Net cash used by operating activities	(1,020,675)	(752,022)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Private contributions for endowment purposes	1,343,167	1,042,399
Nonoperating revenues, net	742,139	1,250,885
Net cash provided by noncapital financing activities	2,085,306	2,293,284
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital lease	(4,581)	(4,335)
Interest paid on capital lease	(1,436)	(1,484)
Net cash used by capital and related financing activities	(6,017)	(5,819)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	1,744,219	16,125,967
Earnings on investments	1,033,558	600,919
Purchase of investments	(3,966,299)	(17,908,127)
Net cash used by investing activities	(1,188,522)	(1,181,241)
<b>NET INCREASE (DECREASE) IN CASH &amp; EQUIVALENTS</b>	(129,908)	354,202
<b>CASH &amp; CASH EQUIVALENTS - BEGINNING OF YEAR</b>	3,492,568	3,138,366
<b>CASH &amp; CASH EQUIVALENTS - END OF YEAR</b>	\$ 3,362,660	\$ 3,492,568
<b>Reconciliation of operating loss to net cash used by operating activities:</b>		
Operating loss	\$ (1,112,849)	\$ (756,978)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	11,308	11,309
Actuarial adjustment to value of split-interest agreements	(4,218)	2,905
Change in assets and liabilities:		
Accounts receivable	500	1,104
Due from WIU	(5,185)	-
Pledges receivable	35,105	(76,164)
Prepaid expense	24,350	21,585
Inventories	2,559	6,304
Accounts payable	53,685	26,498
Deferred revenue	8,609	(4,895)
Due to Western Illinois University	(34,539)	21,210
Annuities payable	-	(4,900)
Net cash used by operating activities	\$ (1,020,675)	\$ (752,022)

See Notes to Financial Statements.

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 1: Summary of Significant Accounting Policies**

***Nature of Institution***

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

***Measurement Focus and Basis of Accounting***

The financial statements of the Foundation have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as investment income and other revenue sources that are defined as nonoperating revenues by GASB pronouncements. Interest on capital asset-related debt is included in nonoperating expenses. The Foundation first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

***Prior-Year Information***

The basic financial statements include certain prior-year partial comparative information but do not include all disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2005, from which the partial information was derived.



**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Use of Estimates***

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

***Cash and Cash Equivalents***

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

***Investments and Investment Income***

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

***Capital Assets***

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

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

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Deferred Revenue***

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

***Donor Restricted Endowments***

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Illinois, permits the Board of Directors of the Foundation to appropriate an amount of realized and unrealized endowment appreciation as they determine to be prudent. The Board of Trustees has established an investment policy with the objectives of protecting the principal of these funds and maximizing total investment return without assuming extraordinary risks. It is the goal of the Foundation to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 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.

***Federal Income Tax Status***

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

**Note 2: Transactions with Western Illinois University**

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

For fiscal year 2006, the University provided for the Foundation personal service costs, facility use, and other costs totaling \$927,009. The Foundation did not specifically pay for these services; however, for fiscal year 2006, the Foundation gave the University \$2,158,239, in unrestricted funds or funds restricted only as to department and generally available for ongoing University operations.

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 3: Deposits and Investments**

***Deposits***

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

The Foundation's investment policy requires collateralization of all deposits with federal depository insurance. At June 30, 2006 the Foundation's bank balances were \$51,600. None of the Foundation's bank balances are exposed to custodial credit risk.

***Investments***

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

<u>Type</u>	<u>Total Fair Value</u>	<u>Maturities in Years</u>			
		<u>Less than one year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>Over 10 years</u>
U.S. Treasury notes	\$ 2,529,408	—	\$ 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	—	—	—
<b>Total Investments</b>	<b>\$ <u>20,336,560</u></b>	<b>\$ <u>16,049,635</u></b>	<b>\$ <u>2,275,788</u></b>	<b>\$ <u>1,613,438</u></b>	<b>\$ <u>397,699</u></b>

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 3: Deposits and Investments (Continued)**

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

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

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

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

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

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

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

**Summary of Carrying Values**

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

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

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 3: Deposits and Investments (Continued)**

Included in the following Statement of Net Assets captions:

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

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

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

**Note 4: Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	<b>Balance June 30, 2005</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2006</b>
Land and land improvement	\$ 909,200	—	—	\$ 909,200
Equipment	23,573	—	—	23,573
Capital leases – equipment	<u>31,763</u>	<u>—</u>	<u>—</u>	<u>31,763</u>
Total	964,536	—	—	964,536
Less accumulated depreciation:				
Equipment	7,999	3,368	—	11,367
Capital leases – equipment	<u>11,250</u>	<u>7,940</u>	<u>—</u>	<u>19,190</u>
Capital assets, net	<u>\$ 945,287</u>	<u>\$ 11,308</u>	<u>\$ —</u>	<u>\$ 933,979</u>

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 5: Assets Held in Trust**

The Foundation is the beneficiary of the Seymour Charitable Remainder Trust, Betty J. Collins Charitable Remainder Trust, Marian Harvey Charitable Remainder Trust, Charles R. O'Brien Charitable Remainder Trust, and William G. Hoover Charitable Remainder Trust. The assets of the Trusts are held and administered by others in perpetuity; thus the principal is not reported in the Foundation's financial statements. On June 30, 2006, the fair value of the assets totaled \$1,511,935.

**Note 6: Long-Term Liabilities**

The following is a summary of long-term obligation transactions for the Foundation for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Annuities payable	\$ 237,837	\$ 24,240	\$ 28,458	\$ 233,619	\$ 28,459
Capital Lease Obligations	<u>24,609</u>	<u>—</u>	<u>4,581</u>	<u>20,028</u>	<u>4,838</u>
Total	<u>\$ 262,446</u>	<u>\$ 24,240</u>	<u>\$ 33,039</u>	<u>\$ 253,647</u>	<u>\$ 33,297</u>

**Note 7: Royalty Income**

The Foundation has an Affinity Group Bankcard agreement with FirstUSA. The total contract amount is \$2,100,000, prorated over a seven-year period. For fiscal year 2006, the Foundation received \$300,000 in addition to \$74,915 from other sources which was recognized as royalty income and reported as other nonoperating revenues in the Statement of Revenues, Expenses and Changes in Net Assets.

**State of Illinois**  
**Western Illinois University Foundation**  
**(A Component Unit of Western Illinois University)**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 8: Risk Management**

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



**Independent Accountants' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of the 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 financial statements of Western Illinois University Foundation ("Foundation"), a component unit of Western Illinois University as of and for the year ended June 30, 2006, and have issued our report thereon dated November 2, 2006. 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 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 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 Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Honorable William G. Holland  
Auditor General  
State of Illinois  
Page 2.

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

BKD, LLP

November 2, 2006