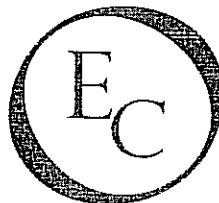


**STATE OF ILLINOIS  
WESTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2007**

Performed as Special Assistant Auditors for  
the Auditor General, State of Illinois



**E.C. ORTIZ & CO., LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**State of Illinois  
Western Illinois University  
Financial Audit  
For the Year Ended June 30, 2007**

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**Other Reports Issued Under Separate Covers**

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    Compliance Examination (In Accordance with the Single Audit Act  
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- Western Illinois University Foundation  
    Financial Audit for the Year Ended June 30, 2007
  
- Western Illinois University Foundation  
    Compliance Examination for the Two Years Ended June 30, 2007

**State of Illinois  
Western Illinois University**

**University Officials**

President	Dr. Alvin Goldfarb
Vice President for Administrative Services	Mrs. Jackie K. Thompson
Director of Business Services	Mr. Ronald G. Ward
Internal Auditor	Ms. Rita M. Moore (Effective December 1, 2006 to present)

University offices are located at:

1 University Circle  
Macomb, Illinois 61455-1390

**State of Illinois  
Western Illinois University  
Financial Statement Report**

**Summary**

The audit of the accompanying financial statements of Western Illinois University (University) was performed by E.C. Ortiz and Co., LLP.

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

**Summary of Finding**

The auditors identified a matter involving the University's internal control over financial reporting that they consider to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Finding on pages 39 through 40 of this report, as finding 07-1, Contract Retainage Liabilities Not Recorded.

**Exit Conference**

The finding and recommendation appearing in this report was discussed with University personnel at an exit conference on January 23, 2008. Attending were:

Western Illinois University

Dr. Alvin Goldfarb, President  
Jackie K. Thompson, Vice President for Administrative Services  
Rita Moore, Director of Internal Auditing  
Ron Ward, Director of Business Services  
Michael Dickson, Director of Special Projects  
Cheryl Webster, Accountant  
Barb Thompson, Accountant  
Michael Sartorius, Internal Auditor

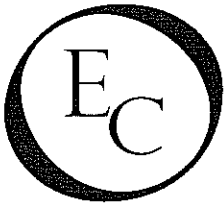
Office of the Auditor General

Karen Appelbaum, Audit Manager

E. C. Ortiz & Co., LLP

Stella Marie B. Santos, Partner  
Leilani N. Rodrigo, Partner

Responses to the recommendations were provided by Rita Moore, on behalf of management, in a letter dated February 7, 2008.



## 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, 2007, as listed in the table of contents. These financial statements are the responsibility of the University'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 University's 2006 financial statements, which were audited by other independent auditors whose report dated November 2, 2006, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Western Illinois University and of its discretely presented component unit as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2008 on our consideration of the University'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 5 to 11 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.

*E. C. Gutz & Co. LLP*

Chicago, Illinois  
February 15, 2008

**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

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, 2007. 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.

**Financial Highlights**

**Statement of Net Assets**

The Statement of Net Assets present 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

**State of Illinois**  
**Western Illinois University**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2007**

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.

A comparative summary of the condensed Statement of Net Assets for the years ended June 30, 2007 and 2006 is as follows:

Condensed Statement of Net Assets

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets	\$ 67,156,729	\$ 62,701,150
Capital assets, net of accumulated depreciation	135,028,693	128,939,107
Other assets	4,215,403	9,463,472
Total assets	<u>206,400,825</u>	<u>201,103,729</u>
<b>Liabilities</b>		
Current liabilities	23,315,113	22,328,165
Noncurrent liabilities	70,097,338	73,859,174
Total liabilities	<u>93,412,451</u>	<u>96,187,339</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	88,114,439	83,060,714
Restricted	1,955,012	1,990,095
Unrestricted	22,918,923	19,865,581
Total net assets	<u>\$ 112,988,374</u>	<u>\$ 104,916,390</u>

The University's financial position continues to remain strong at June 30, 2007 with assets of \$206.4 million and liabilities of \$93.4 million. Net assets, the difference between total assets and total liabilities, increased by \$8.1 million or 7.7% over the previous year.

Total assets increased by \$5.3 million or 2.6% during fiscal year 2007. This growth is largely due to an increase in capital assets of \$6.1 million as several projects are in progress or near completion. The University held more funds in cash and cash equivalents in the



**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

current year as compared to the previous year. Cash and cash equivalents totaled \$39.5 million at June 30, 2007 compared to \$29.0 million at June 30, 2006 for an increase of \$10.5 million. This increase was offset by a \$9.9 million decrease in investments. Inventory balances decreased by \$0.9 million.

Total liabilities decreased by \$2.8 million or 2.9% during fiscal year 2007. Revenue bonds payable decreased \$3.0 million from principal payments. This decrease was offset by an increase of \$1.3 million in accounts payable and \$1.6 million in deferred revenues.

**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 GASB reporting standards classify these revenue sources as nonoperating.

A comparative summary of the condensed Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2007 and 2006 is as follows:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

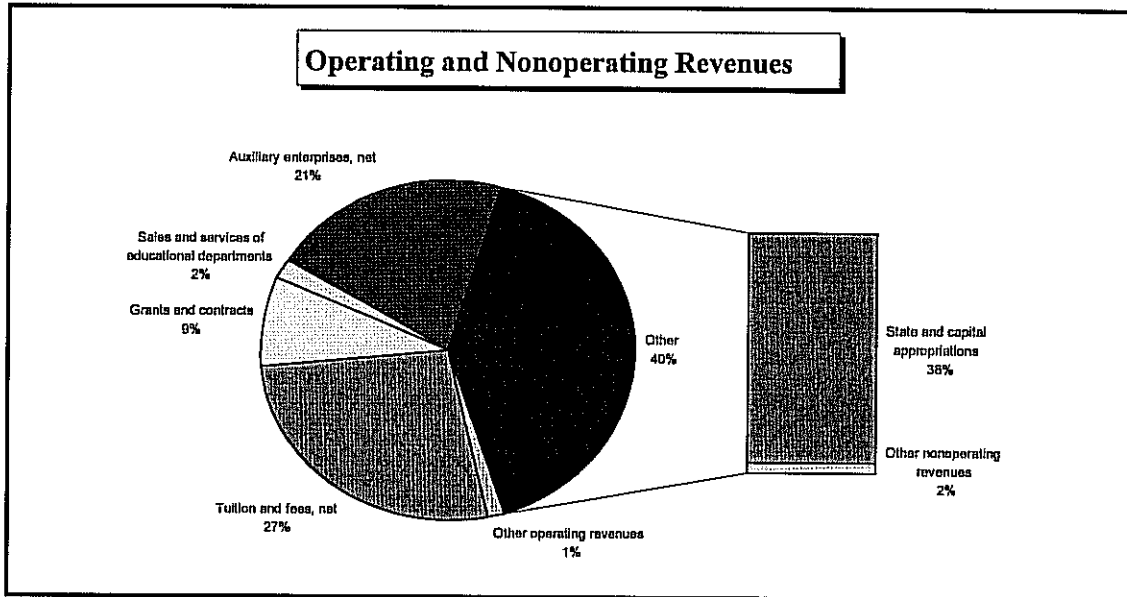
	<u>2007</u>	<u>2006</u>
Total operating revenues	\$140,542,399	\$132,321,560
Total operating expenses	(224,581,692)	(212,694,364)
Operating loss	(84,039,293)	(80,372,804)
Nonoperating revenues	92,348,481	87,141,578
Nonoperating expenses	(2,655,171)	(2,481,552)
Income before other revenues, expenses, gains or losses	5,654,017	4,287,222
Capital state appropriations	2,417,967	3,152,373
Increase in net assets	8,071,984	7,439,595
Net assets, beginning of year	104,916,390	97,476,795
Net assets, end of year	<u>\$112,988,374</u>	<u>\$104,916,390</u>

Total revenues increased by \$12.7 million (5.7%) to \$235.3 million. The primary sources of funding for academic programs are student tuition and State appropriations. In fiscal year 2007, tuition revenues increased by \$6.3 million due in part to an annual increase for tuition and fee rates as approved by the Board of Trustees. Investment income increased by \$1.5 million as unspent capital financing proceeds were invested with maturity dates to meet construction project needs.

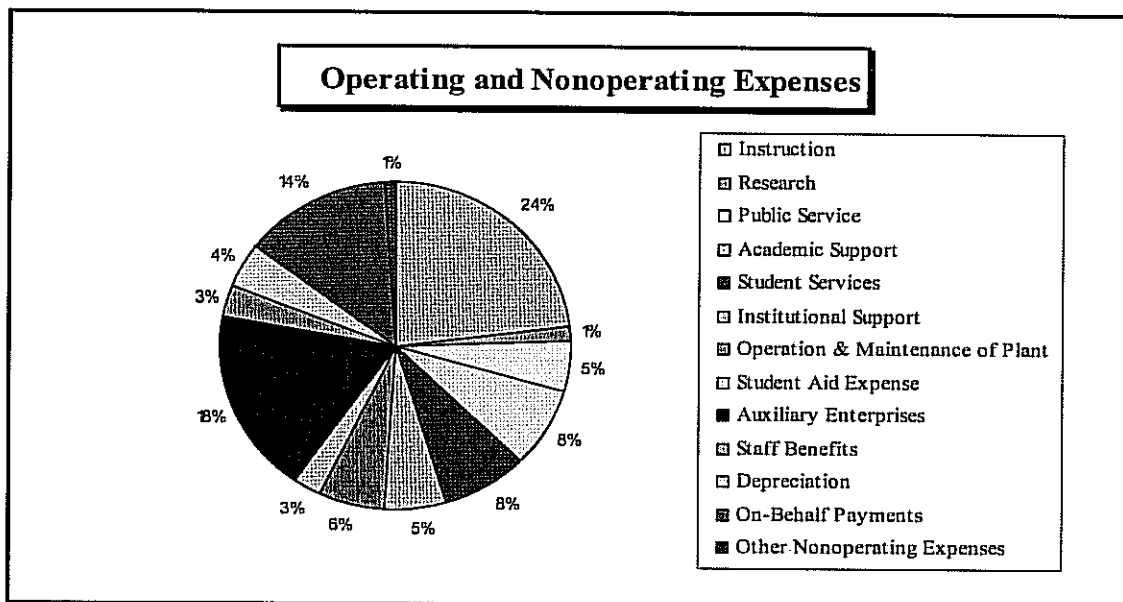
**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

Total expenses increased by \$12.1 million (5.6%) to \$227.2 million. Most functional areas experienced increased expenses during fiscal year 2007.

For the fiscal year ended June 30, 2007, all sources of revenues totaled \$235.3 million. The following is a graphical illustration of revenues by source:



For the fiscal ended June 30, 2007, expenses totaled \$227.2 million. The following is a graphical illustration of expenses:



**State of Illinois**  
**Western Illinois University**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2007**

**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 Statement of Cash Flows for the years ended June 30, 2007 and 2006 is as follows:

Condensed Statement of Cash Flows

	<u>2007</u>	<u>2006</u>
Cash provided by (used in):		
Operating activities	\$(39,486,482)	\$(53,452,459)
Noncapital financing activities	54,805,599	56,700,016
Capital and related financing activities	(18,719,817)	4,402,233
Investing activities	<u>13,897,671</u>	<u>(21,184,585)</u>
Net increase (decrease) in cash and cash equivalents	10,496,971	(13,534,795)
Cash and cash equivalents - beginning of the year	<u>28,966,828</u>	<u>42,501,623</u>
Cash and cash equivalents - end of the year	<u>\$ 39,463,799</u>	<u>\$ 28,966,828</u>

Major sources for operating activities 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 in operating activities decreased by \$14.0 million.

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

Funds allocated for the acquisition and construction of capital assets increased by \$5.6 million. Several major construction projects are in progress or near completion leading to a significant increase in outflows from capital financing activities.

Cash provided by investing activities increased by \$35.1 million as more funds were held in cash and cash equivalents throughout the fiscal year.

**Capital Assets and Debt Administration**

At the end of fiscal year 2007, the University had \$306.3 million invested in capital assets, and accumulated depreciation of \$171.2. Depreciation expense for the current year was \$10.0 million.

**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

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 a Property Storage and Distribution Center. The dual-purpose building named Document and Publication Services and Property Accounting Redistribution Center was completed and placed in service in fiscal year 2007. 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 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 2008 budget, as approved by the Governor, increased by \$1.1 million or 1.9% over the 2007 approved budget.

The University projects an increase in tuition and miscellaneous revenues. The recommended \$60.0 million fiscal year 2008 tuition and miscellaneous revenues budget represents a \$6.3 million or 11.8% increase from fiscal year 2007. The estimated increase in tuition revenues is the result of increased enrollments and an 8.4% 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 2007.

The University's Auxiliary Enterprises funds budget for fiscal year 2008 as approved by the Board of Trustees reflects a \$0.6 million or 1.2% increase in spending over fiscal year 2007. Other institutional funds include revenues from sponsored projects and departmental activity

**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

revenues. The 2008 budget for these funds as approved by the Board of Trustees reflects a \$1.5 million or 3.6% increase in spending over fiscal year 2007.

In addition to the above, private gifts are an important supplement to the University's sources of funding for operating costs. In fiscal year 2007, alumni, friends, staff, corporations, and other organizations contributed over \$4.1 million in support of the University. The Foundation distributed \$3.6 million in fiscal year 2007 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.

STATE OF ILLINOIS  
WESTERN ILLINOIS UNIVERSITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2007  
(With Partial Financial Information as of June 30, 2006)

	University		Component Unit	
	2007	2006	2007	2006
<b>ASSETS</b>				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 39,247,473	\$ 28,807,984	\$ 704,798	\$ 287,707
Cash and cash equivalents, restricted	216,326	158,844	-	-
Investments	19,312,788	24,146,728	883,318	1,197,587
Accounts receivables, net	4,435,084	4,472,938	484,785	473,388
Loans and notes receivables, net	472,981	456,461	-	-
Due from component unit	77,549	11,808	-	-
Due from primary government	1,138,643	1,536,568	-	-
Inventories	2,194,731	3,048,665	20,107	21,489
Prepaid expenses	-	-	26,828	3,499
Other assets	61,154	61,154	-	-
<i>Total current assets</i>	<u>67,156,729</u>	<u>62,701,150</u>	<u>2,119,836</u>	<u>1,983,670</u>
<i>Noncurrent assets:</i>				
Investments	2,025,619	7,086,006	2,380,526	2,047,334
Endowment investments	-	-	2,723,159	1,658,572
Endowment investments, restricted	-	-	22,066,074	18,508,020
Accounts receivables, net	-	-	48,491	72,111
Loans and notes receivables, net	1,283,384	1,409,912	-	-
Capital assets, net of accumulated depreciation	135,028,693	128,939,107	922,670	933,979
Other assets	906,400	967,554	-	-
<i>Total noncurrent assets</i>	<u>139,244,096</u>	<u>138,402,579</u>	<u>28,140,920</u>	<u>23,220,016</u>
<b>TOTAL ASSETS</b>	<u>206,400,825</u>	<u>201,103,729</u>	<u>30,260,756</u>	<u>25,203,686</u>
<b>LIABILITIES</b>				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	4,512,895	3,236,161	17,929	106,815
Accrued payroll	6,603,557	6,304,612	-	-
Due to primary government	307,735	71,355	77,549	11,808
Deferred revenues	4,910,839	3,312,293	180,805	189,291
Other liabilities	1,214,419	3,729,422	28,459	28,459
Notes payable	820,531	796,186	-	-
Revenue bonds payable	3,210,185	3,046,443	-	-
Leases payable	42,984	39,897	15,191	4,838
Compensated absences	1,691,968	1,791,796	-	-
<i>Total current liabilities</i>	<u>23,315,113</u>	<u>22,328,165</u>	<u>319,933</u>	<u>341,211</u>
<i>Noncurrent liabilities:</i>				
Notes payable	937,584	1,727,211	-	-
Revenue bonds payable	43,256,012	46,466,197	-	-
Certificates of participation, net	10,290,000	10,290,000	-	-
Leases payable	5,653	48,637	-	15,190
Other obligations	402,400	336,600	197,374	205,160
Compensated absences	15,205,689	14,990,529	-	-
<i>Total noncurrent liabilities</i>	<u>70,097,338</u>	<u>73,859,174</u>	<u>197,374</u>	<u>220,350</u>
<b>TOTAL LIABILITIES</b>	<u>93,412,451</u>	<u>96,187,339</u>	<u>517,307</u>	<u>561,561</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	88,114,439	83,060,714	907,480	886,061
Restricted - nonexpendable	-	-	21,789,409	18,342,511
Restricted - expendable				
Loans	1,955,012	1,990,095	-	-
Other	-	-	2,336,224	1,969,589
Unrestricted	22,918,923	19,865,581	4,710,336	3,443,964
<b>TOTAL NET ASSETS</b>	<u>\$ 112,988,374</u>	<u>\$ 104,916,390</u>	<u>\$ 29,743,449</u>	<u>\$ 24,642,125</u>

See accompanying notes to basic financial statements

**STATE OF ILLINOIS**  
**WESTERN ILLINOIS UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(With Partial Financial Information for the Year Ended June 30, 2006)

	University		Component Unit	
	2007	2006	2007	2006
<b>OPERATING REVENUES</b>				
Tuition and fees, net	\$ 63,194,327	\$ 56,901,766	\$ -	\$ -
Grants and contracts	20,130,041	20,043,910	-	-
Sales and services of educational departments	4,569,219	3,985,824	-	-
Auxiliary enterprises, net	49,335,561	48,131,654	-	-
Student loan activities	46,654	42,152	-	-
Other operating revenues	3,266,597	3,216,254	3,331,032	2,966,619
<i>Total operating revenues</i>	<u>140,542,399</u>	<u>132,321,560</u>	<u>3,331,032</u>	<u>2,966,619</u>
<b>OPERATING EXPENSES</b>				
Instruction	52,589,250	50,065,412	648,202	759,280
Research	3,103,945	4,199,667	70,362	61,338
Public service	11,033,770	10,211,092	67,579	33,180
Academic support	17,620,763	16,251,212	81,825	107,091
Student services	18,635,960	17,518,386	338,678	433,192
Institutional support	12,352,845	11,215,194	815,742	710,897
Operation and maintenance of plant	14,324,253	13,609,700	184,038	435,017
Student aid expense	5,720,519	5,297,383	1,510,435	1,528,165
Auxiliary enterprises	41,457,129	41,334,877	-	-
Staff benefits	6,898,098	5,435,556	-	-
Depreciation	9,989,358	9,926,247	11,309	11,308
On-behalf payments	30,855,587	27,624,162	-	-
Other operating expenses	215	5,476	-	-
<i>Total operating expenses</i>	<u>224,581,692</u>	<u>212,694,364</u>	<u>3,728,170</u>	<u>4,079,468</u>
<b>OPERATING LOSSES</b>	<u>(84,039,293)</u>	<u>(80,372,804)</u>	<u>(397,138)</u>	<u>(1,112,849)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	88,078,972	84,025,247	-	-
Gifts	309,244	696,200	-	-
Loss on disposal of capital assets	(25,369)	(122,109)	-	-
Investment income	3,960,265	2,420,131	3,585,045	1,497,633
Interest on capital asset-related debt	(2,629,802)	(2,359,443)	(1,162)	(1,435)
Other nonoperating revenues	-	-	688,005	784,858
<i>Net nonoperating revenues</i>	<u>89,693,310</u>	<u>84,660,026</u>	<u>4,271,888</u>	<u>2,281,056</u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	5,654,017	4,287,222	3,874,750	1,168,207
Capital State appropriations	2,417,967	3,152,373	-	-
Additions to permanent endowments	-	-	1,226,574	1,343,167
<b>INCREASE IN NET ASSETS</b>	<u>8,071,984</u>	<u>7,439,595</u>	<u>5,101,324</u>	<u>2,511,374</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>104,916,390</u>	<u>97,476,795</u>	<u>24,642,125</u>	<u>22,130,751</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 112,988,374</u>	<u>\$ 104,916,390</u>	<u>\$ 29,743,449</u>	<u>\$ 24,642,125</u>

*See accompanying notes to basic financial statements*

STATE OF ILLINOIS  
WESTERN ILLINOIS UNIVERSITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007  
(With Partial Financial Information for the Year Ended June 30, 2006)

	University		Component Unit	
	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Tuition and fees	\$ 63,668,139	\$ 57,094,700	\$ -	\$ -
Grants and contracts	20,701,591	20,044,008	-	-
Gifts for other than capital and endowment purposes	-	-	2,931,480	2,699,598
Payments for employee salaries and benefits	(120,226,114)	(122,324,816)	-	-
Payments for goods and services	(55,540,955)	(58,538,340)	(2,225,550)	(2,470,166)
Payments to annuitants	-	-	(28,459)	(32,677)
Payments for scholarships and fellowships	(5,884,533)	(5,518,113)	(1,510,435)	(1,528,165)
Student loans issued	(635,522)	(639,049)	-	-
Student loans collected	688,306	681,744	-	-
Student loans interest and fees collected	46,642	41,837	-	-
Auxiliary enterprises charges	50,286,386	47,840,119	-	-
Sales and service of educational departments	4,163,581	4,695,409	-	-
Other receipts	3,245,997	3,170,042	450,670	310,735
Net cash used in operating activities	<u>(39,486,482)</u>	<u>(53,452,459)</u>	<u>(382,294)</u>	<u>(1,020,675)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State appropriations	57,223,385	56,401,085	-	-
Gifts	210,770	238,848	1,226,574	1,343,167
Nonoperating revenue (expenses), net	(2,628,556)	60,083	642,842	742,139
Net cash provided by noncapital financing activities	<u>54,805,599</u>	<u>56,700,016</u>	<u>1,869,416</u>	<u>2,085,306</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from capital debt	-	25,462,557	-	-
Bond issuance costs	-	(558,525)	-	-
Bonds refunded/defeased	-	(7,630,034)	-	-
Cash advanced for bond refunding	-	(23,403)	-	-
Deferred amount on bond refunding	-	(226,159)	-	-
Acquisition of capital assets	(12,091,368)	(6,538,755)	-	-
Principal paid on capital debt	(4,033,168)	(3,764,532)	(4,837)	(4,581)
Interest paid on capital debt	(2,595,281)	(2,318,916)	(1,162)	(1,436)
Net cash provided by (used in) capital and related financing activities	<u>(18,719,817)</u>	<u>4,402,233</u>	<u>(5,999)</u>	<u>(6,017)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	25,976,639	13,711,964	3,399,252	1,452,339
Earnings on investments	3,882,498	2,259,741	1,657,410	808,547
Purchase of investments	(15,961,466)	(37,156,290)	(6,120,694)	(3,966,299)
Net cash provided by (used in) investing activities	<u>13,897,671</u>	<u>(21,184,585)</u>	<u>(1,064,032)</u>	<u>(1,705,413)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>10,496,971</b>	<b>(13,534,795)</b>	<b>417,091</b>	<b>(646,799)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>28,966,828</b>	<b>42,501,623</b>	<b>287,707</b>	<b>934,506</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 39,463,799</b>	<b>\$ 28,966,828</b>	<b>\$ 704,798</b>	<b>\$ 287,707</b>
<b>Reconciliation of operating losses to net cash used in operating activities:</b>				
Operating losses	\$ (84,039,293)	\$ (80,372,804)	\$ (397,138)	\$ (1,112,849)
Adjustments to reconcile operating losses to net cash used in operating activities:				
On-behalf payments	30,855,587	27,624,162	-	-
Depreciation expense	9,989,358	9,926,247	11,309	11,308
Actuarial adjustment to value of split-interest agreements	-	-	(7,786)	(4,218)
Noncapitalized capital appropriations	10,196	-	-	-
Changes in assets and liabilities:				
Receivables, net	352,519	(238,182)	(3,551)	500
Pledges receivable	-	-	68,450	35,105
Loans and notes receivables, net	110,008	103,327	-	-
Inventories	853,934	(923,619)	1,382	2,559
Other assets	67,965	(34,238)	(23,329)	24,350
Accounts payable and accrued liabilities	35,788	(1,687,959)	(88,886)	53,685
Accrued payroll	298,945	(6,610,310)	-	-
Due to Western Illinois University	-	-	65,741	(39,724)
Other liabilities	1,863,179	13,309	(8,486)	8,609
Compensated absences	115,332	(1,252,392)	-	-
Net cash used in operating activities	<u>\$ (39,486,482)</u>	<u>\$ (53,452,459)</u>	<u>\$ (382,294)</u>	<u>\$ (1,020,675)</u>
<b>Significant noncash activities:</b>				
On-behalf payments	\$ 30,855,587	\$ 27,624,162	\$ -	\$ -
Capital asset acquisition via notes and leases payable	-	247,928	-	-
Capital asset acquisition via capital appropriations	2,876,375	2,394,428	-	-
Capital asset acquisition via support from Foundation	57,913	457,352	-	-
Capitalized interest	41,261	63,704	-	-
Capital asset changes in accounts payable	1,472,237	(44,608)	-	-
Other capital asset adjustments	106,011	292,750	-	-

See accompanying notes to basic financial statements



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

A. 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.

B. 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.

C. Prior-Year Information

The basic financial statements include certain prior-year partial comparative information. Such information does 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, 2006, from which the partial information was derived. Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

D. 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.

E. Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007, cash equivalents consisted primarily of money market and similar funds.

F. 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. Endowment investments are held in a unitized pool which is carried as an investment, regardless of maturity dates. 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.

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G. 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.

H. Deferred Bond and Certificates of Participation Issue Costs

Bond and certificates of participation issue costs incurred on the revenue bond and certificates of participation issues have been deferred and are being amortized over the life of the bonds/certificates of participation using the straight-line method. Total amortization for the years ended June 30, 2007 and 2006 was \$61,154 and \$48,469, respectively.

I. 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.

J. Inventories

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

K. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The University's capitalization policy for capital assets is as follows: equipment - \$5,000 or greater; land or buildings - \$100,000 or greater; and, site or building improvements - \$25,000 or greater. 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
Building	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

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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.

L. Deferred Revenues

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

M. 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 absences 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.

N. Net Assets

Net assets of the University are classified in four components:

*Invested in capital assets, net of related debt* - consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing used to finance the purchase or construction of those assets.

*Restricted net assets - nonexpendable* - are required to be retained and invested in perpetuity.

*Restricted net assets - expendable* - 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.

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O. Classification of Revenues

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

*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* 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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The State of Illinois General Revenue Fund appropriations are reported as non-operating revenues to the extent that they are expended during the current fiscal year. The University relies on these appropriations to provide funding for operations.

P. 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, 2007 were \$4,536,768 and \$2,069,559, respectively.

Q. 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.

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R. 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 Directors 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, 2007, the Foundation had a total of \$2,107,112 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.

S. 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.

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

**Deposits - University**

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, 2007 the University's bank balances were \$5,637,500. None of the University's bank balances are exposed to custodial credit risk.

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**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, 2007, the University had the following investments and maturities:

Type	Total Fair Value	Maturities in Years	
		Less than one year	1-5 years
The Illinois Funds Investment Pool (AAA)	\$ 38,444,179	\$ 38,444,179	\$ -
US Bank Trust Money Market Account	1,792	1,792	-
U.S. Treasury Bills	1,081,473	1,081,473	-
Federal Home Loan Banks (Aaa)	7,469,855	6,470,165	999,690
Federal Farm Credit Banks (Aaa)	1,775,500	1,775,500	-
U.S. Treasury Notes	5,167,747	5,167,747	-
State and Local Government Securities	1,009,386	1,009,386	-
Total Investments	<u>\$ 54,949,932</u>	<u>\$ 53,950,242</u>	<u>\$ 999,690</u>

*Custodial credit risk*

Custodial credit risk is the risk that in the event of a financial institution's failure, a government's deposits, investments or collateral securities that are in the possession of an outside party may not be returned to it. The University's policy for custodial credit risk requires compliance with the provisions of state law.

*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 maturity of its investments to five years or less from the date of purchase.

*Credit Risk*

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The University's policy limits its investments to the Illinois Funds Investment Pool, United States Treasury Bills, United States Treasury Notes, United State 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.

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**Deposits - Foundation**

The Foundation's investment policy requires collateralization of all deposits with federal depository insurance. At June 30, 2007, the Foundation's bank balances were \$84,002. None of the Foundation's bank balances are exposed to custodial credit risk.

**Investments - Foundation**

At June 30, 2007, 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	\$ 2,157,112	\$ 644,218	\$ 688,128	\$ 824,766	\$ -
U.S. Treasury bonds	197,496	-	-	-	197,496
U.S. Agency obligations (FHLM, FNMA)	4,581,802	1,030,239	2,144,625	1,368,407	38,531
Corporate debt securities	371,439	-	280,812	27,379	63,248
Corporate equity securities	10,993,220	10,993,220	-	-	-
International equity securities	2,823,153	2,823,153	-	-	-
Cash equivalents held in investment pools	1,029,952	1,029,952	-	-	-
Real assets	721,952	721,952	-	-	-
Absolute return	1,072,235	1,072,235	-	-	-
Open-ended mutual funds	3,281,352	3,281,352	-	-	-
Private equity	308,502	308,502	-	-	-
Real estate exchange traded fund	514,862	514,862	-	-	-
<b>Total investments</b>	<b>\$ 28,053,077</b>	<b>\$ 22,419,685</b>	<b>\$3,113,565</b>	<b>\$2,220,552</b>	<b>\$299,275</b>

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.

The Illinois Funds are in the custody of the State Treasurer and are pooled and invested with other state funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). At June 30, 2007, the Foundation had \$545,615 invested in the Illinois Funds. The Illinois Funds investments are rated "AAA". Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report.



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*Custodial Credit Risk*

Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the Foundation would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The Foundation's policy does not address custodial credit risk. All of the Foundation's investments are held by a custodian in the Foundation's name and are not subject to creditors of a custodial bank.

The Foundation's investments in The Illinois Funds, money market mutual funds, mutual funds, bond funds, and equity funds are not subject to detail disclosure because the Foundation owns shares of each investment fund and not the physical securities.

*Concentration Risk*

The Foundation does not have any investments representing 5% or more of the total assets in any single issuer. The Foundation has not held foreign currency positions. Managers may not purchase securities on margin or leverage. The Foundation does not have a policy that specifically addresses concentration risk.

The Illinois Funds do not have any direct or indirect investments in derivative instruments. The money market mutual funds, bond funds, equity funds, and mutual funds have not disclosed to the Foundation whether derivatives are used, held or were written during the period covered by the financial statements.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation does not have a policy that specifically addresses interest rate risk.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. Credit quality ratings are not required for U. S. government securities that are explicitly guaranteed by the U. S. government. The Foundation's mutual funds are invested in the funds held by Citizens National Bank of Macomb, and Charles Schwab.

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At June 30, 2007, the Foundation had the following investments and their ratings:

Type	Total Fair Value	Credit Rating per Standard and Poor's				
		AAA	A	A-	BBB	Not Rated
U.S. Treasury notes	\$ 2,157,112	\$2,157,112	\$ -	\$ -	\$ -	\$ -
U.S. Treasury bonds	197,496	197,496	-	-	-	-
U.S. Agency obligations (FHLM, FNMA)	4,581,802	4,581,802	-	-	-	-
Corporate debt securities	371,439	200,662	27,379	30,111	63,248	50,039
Corporate equity securities	10,993,220	-	-	-	-	10,993,220
International equity securities	2,823,153	-	-	-	-	2,823,153
Cash equivalents held in investment pools	1,029,952	-	-	-	-	1,029,952
Real assets	721,952	-	-	-	-	721,952
Absolute return	1,072,235	-	-	-	-	1,072,235
Private equity	308,502	-	-	-	-	308,502
Real estate exchange traded fund	514,862	-	-	-	-	514,862
Total investments rated by Standard and Poor's	<u>\$24,771,725</u>	<u>\$7,137,072</u>	<u>\$ 27,379</u>	<u>\$ 30,111</u>	<u>\$ 63,248</u>	<u>\$17,513,915</u>
		Credit Rating per Morning Star				
		5	4	Not Rated		
Open-ended mutual funds	<u>\$ 3,281,352</u>	<u>\$1,310,358</u>	<u>\$1,944,977</u>	<u>\$ 26,017</u>		
Total investments	<u>\$28,053,077</u>					

*Summary of Carrying Values*

The carrying values of deposits and investments shown above are included in the Statement of Net Assets as follows:

	University	Foundation
Deposits	\$ 5,852,274	\$ 704,798
Investments	54,949,932	28,053,077
Total	<u>\$ 60,802,206</u>	<u>\$ 28,757,875</u>

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Included in the following Statement of Net Assets captions:

	<u>University</u>	<u>Foundation</u>
Cash and cash equivalents	\$ 39,247,473	\$ 704,798
Cash and cash equivalents, restricted	216,326	-
Investments - current	19,312,788	883,318
Investments - noncurrent	2,025,619	2,380,526
Endowment investments - noncurrent	-	2,723,159
Endowment investments, restricted - noncurrent	-	22,066,074
Total	<u>\$ 60,802,206</u>	<u>\$ 28,757,875</u>

Investment income for the year ended June 30, 2007 consisted of the following:

	<u>University</u>	<u>Foundation</u>
Interest and dividend income	\$ 3,825,648	\$ 1,198,573
Net increase in fair value of investments	134,617	2,386,472
Total	<u>\$ 3,960,265</u>	<u>\$ 3,585,045</u>

**NOTE 3 - ACCOUNTS AND LOANS RECEIVABLE**

Accounts receivable are reported net of allowances for uncollectible accounts of \$3,464,300 at June 30, 2007. Loans receivable are reported net of allowance for uncollectible loans of \$590,000 at June 30, 2007. Accounts receivable consisted of the following as of June 30, 2007:

Receivables from students	\$ 5,418,562
Receivables from funding agencies	2,352,148
Receivables from third parties	<u>128,674</u>
Total gross receivables	7,899,384
Allowance for doubtful accounts	<u>(3,464,300)</u>
Total net receivables	<u>\$ 4,435,084</u>

**NOTE 4 - CAPITAL ASSETS**

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Net interest of \$41,261 was capitalized during fiscal year 2007.

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Capital asset activities for the University for the year ended June 30, 2007 were as follows:

	Balance 6/30/2006	Additions	Retirements	Transfers	Balance 6/30/2007
<b>Non-depreciable capital assets:</b>					
Land and land improvements	\$ 3,223,147	\$ -	\$ (5,690)	\$ -	\$ 3,217,457
Works of art and historical treasures	471,569	-	-	-	471,569
Construction in progress	3,364,567	11,887,470	-	(4,199,674)	11,052,363
<b>Total non-depreciable capital assets</b>	<b>7,059,283</b>	<b>11,887,470</b>	<b>(5,690)</b>	<b>(4,199,674)</b>	<b>14,741,389</b>
<b>Depreciable capital assets:</b>					
Site improvements	26,590,432	-	-	200,692	26,791,124
Buildings and building improvements	193,439,662	950,982	(28,991)	3,998,982	198,360,635
Equipment	64,200,194	3,310,119	(1,282,067)	-	66,228,246
Capital lease - equipment	137,525	-	-	-	137,525
<b>Total depreciable capital assets</b>	<b>284,367,813</b>	<b>4,261,101</b>	<b>(1,311,058)</b>	<b>4,199,674</b>	<b>291,517,530</b>
<b>Less accumulated depreciation</b>	<b>(162,487,989)</b>	<b>(9,989,358)</b>	<b>1,247,121</b>	<b>-</b>	<b>(171,230,226)</b>
<b>Total depreciable capital assets, net</b>	<b>121,879,824</b>	<b>(5,728,257)</b>	<b>(63,937)</b>	<b>4,199,674</b>	<b>120,287,304</b>
<b>Capital assets, net</b>	<b>\$ 128,939,107</b>	<b>\$6,159,213</b>	<b>\$ (69,627)</b>	<b>\$ -</b>	<b>\$ 135,028,693</b>

Capital asset activities for the Foundation for the year ended June 30, 2007 were as follows:

	Balance 6/30/2006	Additions	Retirements	Balance 6/30/2007
Land and land improvements	\$ 909,200	\$ -	\$ -	\$ 909,200
Equipment	23,573	-	-	23,573
Capital leases - equipment	31,763	-	-	31,763
<b>Total capital assets</b>	<b>964,536</b>	<b>-</b>	<b>-</b>	<b>964,536</b>
<b>Less accumulated depreciation:</b>				
Equipment	11,367	3,368	-	14,735
Capital leases - equipment	19,190	7,941	-	27,131
<b>Total accumulated depreciation</b>	<b>30,557</b>	<b>11,309</b>	<b>-</b>	<b>41,866</b>
<b>Capital assets, net</b>	<b>\$ 933,979</b>	<b>\$ (11,309)</b>	<b>\$ -</b>	<b>\$ 922,670</b>

**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

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discount rates, which range from 2.67% to 5.97%. Notes payable activity for the year ended June 30, 2007 was as follows:

Balance, beginning of year	\$ 2,523,397
New notes	27,989
Payments	<u>(793,271)</u>
Balance, end of year	<u>\$ 1,758,115</u>
Current portion	<u>\$ 820,531</u>

Following is a schedule by years of the total future minimum note payments under these agreements together with the present value of the net minimum note payments as of June 30, 2007.

2008	\$ 874,616
2009	538,120
2010	<u>438,153</u>
Total minimum note payments	1,850,889
Less: amount representing interest	<u>92,774</u>
Present value of net minimum note payments	<u>\$ 1,758,115</u>

**NOTE 6 - REVENUE BONDS PAYABLE**

*General*

At June 30, 2007, revenue bonds payable consists 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%.

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

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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 Series 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 a portion 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 Series 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 Bonds proceeds were used to pay interest on the Series 2002 Bonds through October 1, 2003,

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to fund a deposit to the Debt Service Reserve Account and to pay the costs of issuing the Series 2002 Bonds.

*Series 1999 Bonds*

On July 13, 1999, the Series 1999 Bonds were issued in the principal amount of \$10,000,000. On March 9, 2006, proceeds from the issuance of the Series 2006 Bonds were used to advance refund a portion of the Series 1999 Bonds. As a result of the advance refunding, the Series 1999 Bonds are due April 1, 2009.

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 refunding and, accordingly, have been accounted for as if they were retired. The principal amount of advance refunded bonds outstanding at June 30, 2007 was \$18,151,254.

*Debt Service Activity Requirements and Collateral*

Following is a schedule depicting Revenue Bonds Payable activity for the year ended June 30, 2007:

	Beginning Balance	Deletions	Ending Balance	Current Portion
Series 1999 Bonds	\$ 790,000	\$ 210,000	\$ 580,000	\$ 250,000
Series 2002 Bonds	11,205,000	500,000	10,705,000	520,000
Series 2005 Bonds	23,440,000	2,490,000	20,950,000	2,570,000
Series 2006 Bonds	15,250,000	—	15,250,000	—
Unamortized premium	269,281	82,174	187,107	66,095
Unamortized discount	(155,371)	(7,552)	(147,819)	(7,448)
Deferred loss of refunding	(1,286,270)	(228,179)	(1,058,091)	(188,462)
	<u>\$ 49,512,640</u>	<u>\$ 3,046,443</u>	<u>\$ 46,466,197</u>	<u>\$ 3,210,185</u>

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Aggregate maturities of the bonds outstanding as of June 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>
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	1,512,834
2012	2,765,000	1,361,040
2013-2017	14,375,000	5,086,760
2018-2022	11,255,000	2,312,142
2023-2027	3,825,000	426,462
	<u>47,485,000</u>	<u>16,079,245</u>
Unamortized premium	187,107	-
Unamortized discount	(147,819)	-
Deferred loss of refunding	(1,058,091)	-
	<u>\$ 46,466,197</u>	<u>\$ 16,079,245</u>

Maximum Annual Debt Service as defined for all outstanding revenue bonds 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*

Aggregate maturities of the certificates of participation outstanding as of June 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ —	\$ 430,484
2009	400,000	423,884
2010	415,000	410,125
2011	430,000	395,172
2012	445,000	379,035
2013-2017	2,500,000	1,611,709
2018-2022	3,085,000	1,024,981
2023-2025	3,015,000	278,711
	<u>\$ 10,290,000</u>	<u>\$ 4,954,101</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.

**NOTE 8 - CAPITAL LEASE OBLIGATIONS**

The University has entered into several lease purchase contracts for duplicating equipment. Assets under capital leases at June 30, 2007, totaled \$137,525, net of accumulated depreciation of \$91,238. 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 for the year ended June 30, 2007 was as follows:

Balance, beginning of year	\$ 88,534
New leases	—
Payments/terminations	<u>(39,897)</u>
Balance, end of year	<u>\$ 48,637</u>
Current portion	<u>\$ 42,984</u>

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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, 2007:

2008	\$ 45,281
2009	5,534
2010	<u>388</u>
Total minimum lease payments	51,203
Less: amount representing interest	<u>2,566</u>
Present value of net minimum lease payments	<u>\$ 48,637</u>

**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, 2007, such accumulated benefits totaled \$6,804,822.

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, 2007, such accumulated benefits totaled \$10,092,835. Compensated absences activity for the year ended June 30, 2007 was as follows:

Balance, beginning of year	\$ 16,782,325
Additions	1,591,810
Deductions	<u>(1,476,478)</u>
Balance, end of year	<u>\$ 16,897,657</u>
Current portion	<u>\$ 1,691,968</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

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whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*.

SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at [www.SURS.org](http://www.SURS.org) 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 10.61% 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

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contributions to SURS for the years ending June 30, 2007, 2006, and 2005 were \$7,353,832, \$4,983,711, \$7,864,469, respectively, equal to the required contributions for each year.

**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, 2007, for the University are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 49,001,716	\$ 3,546,675	\$ 40,859	\$ —	\$ 52,589,250
Research	2,525,860	578,085	—	—	3,103,945
Public service	6,457,458	4,575,676	636	—	11,033,770
Academic support	13,440,724	4,178,714	1,325	—	17,620,763
Student services	9,691,827	8,944,133	—	—	18,635,960
Institutional support	10,251,664	2,101,181	—	—	12,352,845
Operation and maintenance of plant	8,307,855	6,016,398	—	—	14,324,253
Student aid	—	5,900	5,714,619	—	5,720,519
Auxiliary enterprises	14,346,593	26,919,225	191,311	—	41,457,129
Staff benefits	6,898,098	—	—	—	6,898,098
Depreciation expense	—	—	—	9,989,358	9,989,358
On-behalf payment	30,855,587	—	—	—	30,855,587
Other operating expenses	—	215	—	—	215
Total	<u>\$ 151,777,382</u>	<u>\$ 56,866,202</u>	<u>\$ 5,948,750</u>	<u>\$ 9,989,358</u>	<u>\$224,581,692</u>

Operating expenses by natural classification for the year ended June 30, 2007 for the Foundation are summarized as follows:

	Institutional Support	Scholarships and Fellowships	Depreciation	Total
Advertising and promotions	\$ 77,038	\$ —	\$ —	\$ 77,038
Contractual services	831,534	—	—	831,534
Copying/photo sales	87,172	—	—	87,172
Cost of sales	113,353	—	—	113,353
Assets purchased/donated to WIU	135,227	—	—	135,227
Food/food supplies/catering	242,748	—	—	242,748
Operating supplies/commodities	213,593	—	—	213,593
Operation of automotive equipment	2,863	—	—	2,863
Postage	109,938	—	—	109,938
Registration fees/conference expense and dues	38,571	—	—	38,571
Scholarships returned to donors	38,692	—	—	38,692
Scholarships	—	1,511,944	—	1,511,944
Telecommunications	30,152	—	—	30,152
Change in annuities payable/annuity payments	20,958	—	—	20,958
Donation of restricted funds to WIU	171,676	—	—	171,676
Donation of unrestricted funds to WIU	91,402	—	—	91,402
Depreciation	—	—	11,309	11,309
Total	<u>\$ 2,204,917</u>	<u>\$ 1,511,944</u>	<u>\$ 11,309</u>	<u>\$ 3,728,170</u>

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**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 part of this contract, to furnish certain services necessary to the operation of the Foundation.

For fiscal year 2007, the Foundation did not specifically reimburse the University for \$865,279 of personal service costs or for facility use provided by the University. However, the Foundation gave the University \$1,800,151 for fiscal year 2007, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

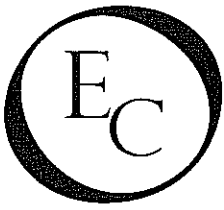
**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

*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 that 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 reimbursements of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.



E.C. ORTIZ & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' 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

and

The Board of Trustees  
Western Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the 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, 2007, and have issued our report thereon dated February 15, 2008. 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 University'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 for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of

control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of finding to be a significant deficiency in internal control over financial reporting (07-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University'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*.

We have conducted a State compliance examination of the University as required by the Illinois State Auditing Act. The results of that examination will be reported to management under a separate cover.

The University's response to the finding identified in our audit is described in the accompanying schedule of finding. We did not audit the University's response and, accordingly, we express no opinion on it.

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 the University's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*E. C. Ortiz & Co. LLP*

Chicago, Illinois  
February 15, 2008



**State of Illinois  
Western Illinois University  
Schedule of Finding  
June 30, 2007**

**CURRENT FINDING - GOVERNMENT AUDITING STANDARDS**

**Finding No. 07-1 - Contract Retainage Liabilities Not Recorded**

The University did not properly record contract retainage liabilities in the financial statements.

Certain construction contracts require the University to withhold a percentage of each payment related to the total contract until the contractor has completed performance under the contract.

Our review of the University's existing construction contracts as of June 30, 2007 disclosed that approximately 60% of the University's construction contracts have retainage clauses and retainage balances were withheld from each progress payment. However, the University recorded only the net payment as construction in progress and did not set up the retainage liability amounts. Contract retainages totaling \$570,934 were not properly accrued.

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, requires the financial statements to be presented using the full accrual method which recognizes the financial effect of events that impact the entity during the accounting period, regardless of whether cash has been received or spent.

Generally Accepted Accounting Principles require that expenditures for goods and services and related payables reported in the financial statements exist and represent valid transactions that occurred during the period. In addition, Procedure 03.50.10 of the Statewide Accounting Management System Manual (SAMS Manual) states that expenditures and related liabilities should be recognized in the accounting period in which the liability is incurred.

Historically the University has taken the position that these amounts were not due until construction was complete.

Non-recording of contract retainage liabilities resulted in construction in progress and accrued liabilities in the financial statements to be understated by \$570,934. (Finding Code No. 07-1)

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**CURRENT FINDING - *GOVERNMENT AUDITING STANDARDS* (CONTINUED)**

**Finding No. 07-1 - Contract Retainage Liabilities Not Recorded (Continued)**

*Recommendation*

We recommend the University establish procedures to properly account for and record contract retainages as each payment is made to the contractors. Retainage balances should be reviewed regularly to ensure that liabilities exist and represent valid amounts due to contractors.

*University Response*

We agree with the finding. Contract retainage liabilities have historically not been recorded since the amounts have been immaterial and were not due until the construction was complete and accepted by the University. Beginning fiscal year 2008, year end procedures will include the booking of retainage liabilities.