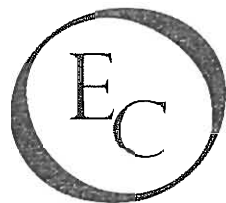


**STATE OF ILLINOIS  
WESTERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010**

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Western Illinois University  
Compliance Examination (In Accordance with the Single Audit Act  
and OMB Circular A-133) for the year ended June 30, 2010

**State of Illinois  
Western Illinois University**

**University Officials**

President

Dr. Alvin Goldfarb

Vice President for Administrative Services

Mrs. Jacqueline K. Thompson

Director of Business Services

Mr. Ronald G. Ward

Director of Internal Auditing

Ms. Rita M. Moore

University offices are located at:

Macomb Campus  
1 University Circle  
Macomb, Illinois 61455-1390

Quad Cities Campus  
3561 60th Street  
Moline, Illinois 61265-5881

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

**Summary of Findings**

The auditors identified matters involving the University's internal control over financial reporting that they considered to be a material weakness and/or significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 45 through 51 of this report as finding 10-1, *Inadequate Controls Over Acquisition of Public TV Station*, and finding 10-2, *Inadequate Process for Evaluating the Estimated Allowance for Doubtful Accounts Receivable*. The auditors also considered finding 10-1 as a material weakness.

**Exit Conference**

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on December 15, 2010. Attending were:

Western Illinois University

Dr. Alvin Goldfarb, President

Jacqueline K. Thompson, Vice President - Administrative Services

Joseph Rives, Vice President - QC Campus, Planning & Technology (via teleconference)

Dr. Kenneth S. Hawkinson, Associate Provost for Budget, Planning & Personnel

Rita M. Moore, Director - Internal Auditing

Michael A. Rodriguez, Chief Technology Security Officer

Theresa D. Roegge, Director - Purchasing

Ronald G. Ward, Director - Business Services

Cheryl L. Webster, Assistant Comptroller - Business Services

Barbara A. Thompson, Assistant Comptroller - Business Services

Michael R. Sartorius, Internal Auditor - Internal Auditing

Ola Adewunmi, Intern - Internal Auditing

Office of the Auditor General

Lisa Warden, Audit Manager

Joe Gudgel, IS Audit Manager

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

**Exit Conference (Continued)**

E. C. Ortiz & Co., LLP

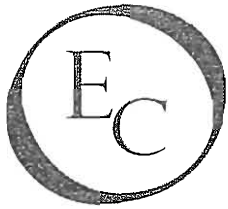
Edilberto C. Ortiz, Partner

Leilani N. Rodrigo, Partner

Cecilia F. Lazaro, Manager

Annabelle S. Abueg, IS Audit Manager

The responses to the recommendations were provided by Rita Moore in a letter dated December 22, 2010.



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

## 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 the business-type activities 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, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2009 financial statements and, in our report dated March 8, 2010, we expressed unqualified opinions on the respective financial statements of the business-type activities and the discretely presented component unit prior to their restatement. We did not audit the financial statements of the discretely presented component unit, as described in Note 1 of the financial statements. Those statements were audited by other auditors whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The fiscal year 2009 summarized comparative information of the component unit has been restated by other auditors as discussed in Note 18, and our opinion, insofar as it relates to the amounts of the restatements, is based solely on the report of the other auditors.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 4, 2011 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 6 through 12 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.

C. C. G. & Co. LLP  
Chicago, Illinois  
February 4, 2011

**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

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, 2010. 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, current known facts, and future outlook. 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) which require that financial statements be presented on a consolidated basis to focus on the University as a whole.

The financial statements 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. 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 presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities, net assets, is one indicator of the financial condition of the University, while the change in net assets that occurs over time indicates improvement or deterioration in the



**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

University's financial condition. 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, reflects 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, 2010 and 2009 is as follows:

Condensed Statement of Net Assets

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets	\$ 82,118,680	\$ 62,962,184
Capital assets, net of accumulated depreciation	153,934,104	151,834,213
Other assets	<u>2,500,082</u>	<u>2,203,584</u>
Total assets	<u>238,552,866</u>	<u>216,999,981</u>
 <b>Liabilities</b>		
Current liabilities	31,687,617	31,509,075
Noncurrent liabilities	<u>66,072,420</u>	<u>59,886,162</u>
Total liabilities	<u>97,760,037</u>	<u>91,395,237</u>
 <b>Net assets</b>		
Invested in capital assets, net of related debt	106,814,814	101,558,444
Restricted	2,028,285	1,931,125
Unrestricted	<u>31,949,730</u>	<u>22,115,175</u>
Total net assets	<u>\$ 140,792,829</u>	<u>\$ 125,604,744</u>

The University's financial position continues to remain strong at June 30, 2010 with assets of \$238.6 million and liabilities of \$97.8 million. Net assets, the difference between total assets and total liabilities, increased by \$15.2 million or 12.1% over the previous year.

Total assets increased by \$21.6 million or 9.9% during fiscal year 2010. The largest components of this change included increases of \$6.0 million in investments and \$12.6

**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

million in receivables from the State of Illinois. The University continued to experience delays in reimbursement for State-funded expenditures. Capital assets increased by \$2.1 million. An increase of \$0.9 million in accounts receivable, net was primarily due to increases in receivables from student tuition and funding agencies for grants and contracts.

Total liabilities increased by \$6.4 million or 7.0% during fiscal year 2010. The University issued the Series 2010 Certificates of Participation for \$11.6 million in February 2010. In fiscal year 2010, the University made total principal payments of \$5.1 million for notes payable, revenue bonds payable, certificates of participation and leases payable. A decrease of \$1.1 million in accounts payable was offset by an increase of \$1.0 million in accrued payroll.

**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, 2010 and 2009 is as follows:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>
Total operating revenues	\$143,738,475	\$142,935,869
Total operating expenses	(258,803,275)	(246,193,621)
Operating loss	(115,064,800)	(103,257,752)
Nonoperating revenues	125,537,604	108,209,615
Nonoperating expenses	(1,780,278)	(1,551,478)
Income before other revenues, expenses, gains and losses	8,692,526	3,400,385
Capital State appropriations	6,495,559	2,990,020
Increase in net assets	15,188,085	6,390,405
Net assets, beginning of year	125,604,744	119,214,339
Net assets, end of year	<u>\$140,792,829</u>	<u>\$125,604,744</u>

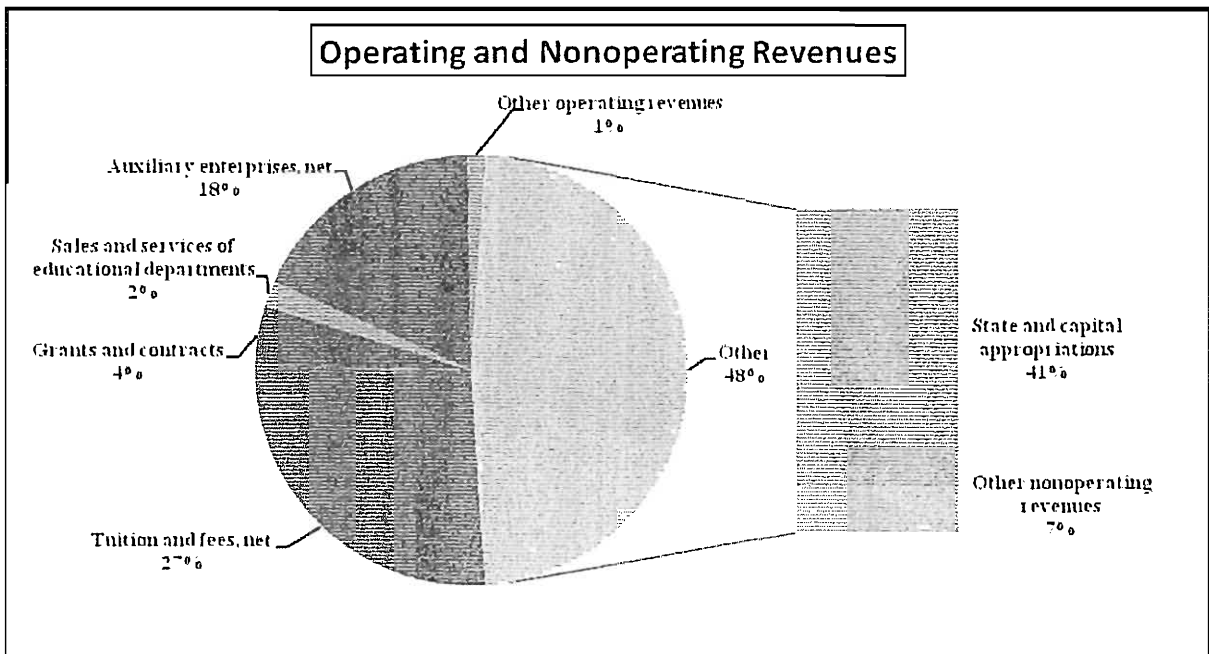
Total revenues increased by \$21.6 million or 8.5% to \$275.8 million. The primary sources of funding for academic programs are student tuition and State appropriations. In fiscal year 2010, tuition revenues increased due in part to an annual increase for tuition and fee rates as approved by the Board of Trustees. Contributions by the State for on-behalf payments

**State of Illinois  
 Western Illinois University  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2010**

related to employee benefits increased \$11.9 million. The University received American Recovery and Reinvestment Act (ARRA) funding of \$3.5 million. Capital appropriations from the State increased \$3.5 million.

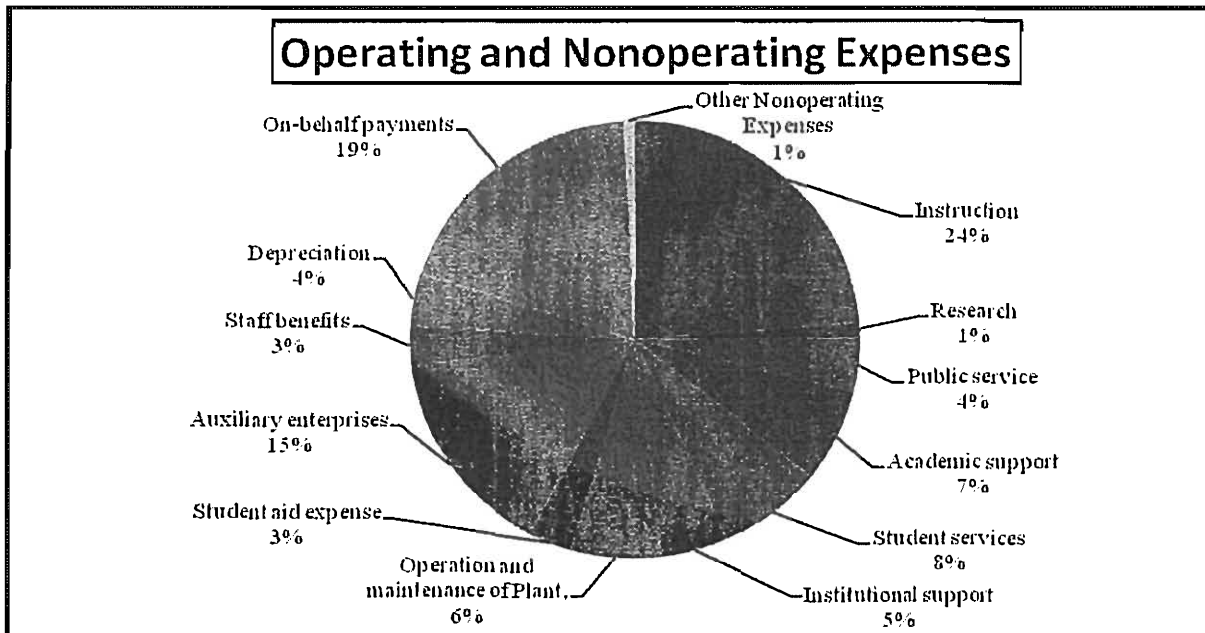
Total expenses increased by \$12.8 million or 5.2% to \$260.6 million. Several functional areas experienced decreased expenses during fiscal year 2010. The increase in expenses represents an increase in contributions by the State for on-behalf payments for employee benefits.

For the fiscal year ended June 30, 2010, all sources of revenues totaled \$275.8 million. The following is a graphical illustration of revenues by source:



**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

For the fiscal ended June 30, 2010, expenses totaled \$260.6 million. The following is a graphical illustration of expenses:



**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, 2010 and 2009 is as follows:

Condensed Statement of Cash Flows

	2010	2009
Cash provided by (used in):		
Operating activities	\$ (54,579,714)	\$ (55,701,031)
Noncapital financing activities	61,909,185	64,488,822
Capital and related financing activities	(1,721,979)	(20,048,164)
Investing activities	(5,879,783)	11,941,021
Net increase (decrease) in cash and cash equivalents	(272,291)	680,648
Cash and cash equivalents - beginning of year	44,161,173	43,480,525
Cash and cash equivalents - end of year	<u>\$ 43,888,882</u>	<u>\$ 44,161,173</u>

**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

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 \$1.1 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations and Pell grant revenues. In fiscal year 2010, the University received American Recovery and Reinvestment Act (ARRA) funding of \$3.5 million. Cash provided from noncapital financing activities decreased by \$2.6 million.

Funds allocated for the acquisition and construction of capital assets decreased \$7.1 million leading to a significant decrease in outflows from capital financing activities. Certificates of Participation issued during the fiscal year provided an inflow of \$11.2 million for capital projects.

Cash provided by investing activities decreased by \$17.8 million.

**Capital Assets and Debt Administration**

The University had \$355.0 million invested in capital assets at the end of fiscal year 2010. Capital assets net of accumulated depreciation totaled \$153.9 million. Depreciation expense for the current year was \$10.2 million.

Construction in progress at June 30, 2010 increased \$6.3 million over the prior year. Capital appropriations through the Capital Development Board (CDB) funded renovations of \$6.3 million for Memorial Hall. The University expended \$1.4 million for renovations to Corbin and Olson Halls in fiscal year 2010. Capital projects completed in fiscal year 2010 include a storm sewer project at the Quad Cities campus, lighting upgrades in instructional buildings, improvements to parking lots and installation of a fire sprinkler system in Tanner Hall.

The Series 2010 Certificates of Participation were issued in the principal amount of \$11.6 million to fund capital improvements in the heating plant and Phase 1 of the campus steamline replacement plan. Additionally, the proceeds were used to reimburse the University for expenditures for a portion of the fire sprinkler system in Tanner Hall and for the entire fire sprinkler system in Thompson Hall.

**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.

**State of Illinois  
Western Illinois University  
Management's Discussion and Analysis  
For the Year Ended June 30, 2010**

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. On July 19, 2010, Standard & Poor's Rating Services affirmed its long-term and underlying rating of A on the University's long-term debt. The outlook is negative.

State appropriations represent operating support provided by the Governor and General Assembly for University programs. The fiscal year 2011 budget of \$56.2 million, as approved by the Governor, decreased \$3.7 million or 6.2% from the 2010 approved budget.

The University projects an increase in tuition and miscellaneous revenues. The recommended \$67.7 million fiscal year 2011 tuition and miscellaneous revenues budget represents a \$3.7 million or 5.8% increase from fiscal year 2010. The estimated increase in tuition revenues is the result of a 6.5% tuition rate increase approved by the Board of Trustees. Western Illinois University offers guaranteed tuition and fees, as well as guaranteed room and board rates for each new class of entering students. The tuition increase is only for new students, those enrolling for the first time in Fall 2010.

The University's Auxiliary Enterprises funds budget for fiscal year 2011 as approved by the Board of Trustees reflects a \$1.6 million increase in spending over fiscal year 2010. Other institutional funds include revenues from sponsored projects and departmental activity revenues. The 2011 budget for these funds as approved by the Board of Trustees reflects a \$2.2 million or 1.0% increase in spending over fiscal year 2010.

Private gifts are an important supplement to the University's sources of funding for operating costs. In fiscal year 2010, alumni, friends, staff, corporations, and other organizations contributed nearly \$7.3 million to the Foundation in support of the University. The Foundation distributed nearly \$5.2 million in fiscal year 2010 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.

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, 2010  
(With Partial Financial Information as of June 30, 2009)**

	University		Component Unit	
	2010	2009	2010	2009
<b>ASSETS</b>				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 43,689,449	\$ 44,047,618	\$ 2,647,665	\$ 2,970,453
Cash and cash equivalents, restricted	199,433	113,555	-	-
Investments	10,000,205	4,017,604	3,854,431	1,091,405
Accounts receivable, net	7,285,370	6,321,958	1,527,254	500,134
Student loans receivable, net	409,363	413,727	-	-
Due from component unit	120,770	12,982	-	-
Due from primary government	17,925,991	5,344,561	-	-
Inventories	2,359,401	2,580,279	-	-
Prepaid expenses	49,407	48,746	26,062	32,093
Other assets	79,291	61,154	-	-
<i>Total current assets</i>	<u>82,118,680</u>	<u>62,962,184</u>	<u>8,055,412</u>	<u>4,594,085</u>
<i>Noncurrent assets:</i>				
Investments	-	-	1,304,571	1,812,934
Endowment investments	-	-	5,103,415	857,151
Endowment investments, restricted	-	-	18,089,526	19,677,294
Charitable remainder trusts, restricted	-	-	2,254,854	2,077,469
Accounts receivable, net	-	-	771,147	987,198
Student loans receivable, net	1,446,130	1,419,493	-	-
Capital assets, net of accumulated depreciation	153,934,104	151,834,213	1,103,104	1,105,206
Other assets	1,053,952	784,091	579,253	529,404
<i>Total noncurrent assets</i>	<u>156,434,186</u>	<u>154,037,797</u>	<u>29,205,870</u>	<u>27,046,656</u>
<b>TOTAL ASSETS</b>	<u>238,552,866</u>	<u>216,999,981</u>	<u>37,261,282</u>	<u>31,640,741</u>
<b>LIABILITIES</b>				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	2,791,624	3,893,034	118,610	109,806
Accrued payroll	15,868,039	14,863,419	-	-
Due to primary government	126,282	51,926	120,770	12,982
Deferred revenues	5,212,037	5,234,412	161,608	133,215
Charitable remainder trust distributions payable	-	-	42,218	27,268
Other liabilities	758,808	664,911	26,219	28,459
Notes payable	259,349	707,116	-	-
Revenue bonds payable	4,077,680	3,945,216	-	-
Certificates of participation	838,081	415,000	-	-
Leases payable	-	387	-	-
Compensated absences	1,755,717	1,733,654	-	-
<i>Total current liabilities</i>	<u>31,687,617</u>	<u>31,509,075</u>	<u>469,425</u>	<u>311,730</u>
<i>Noncurrent liabilities:</i>				
Notes payable	292,827	423,749	-	-
Revenue bonds payable	31,474,896	35,552,575	-	-
Certificates of participation	20,172,555	9,475,000	-	-
Other obligations	224,175	228,225	172,089	182,149
Compensated absences	13,907,967	14,206,613	-	-
<i>Total noncurrent liabilities</i>	<u>66,072,420</u>	<u>59,886,162</u>	<u>172,089</u>	<u>182,149</u>
<b>TOTAL LIABILITIES</b>	<u>97,760,037</u>	<u>91,395,237</u>	<u>641,514</u>	<u>493,879</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	106,814,814	101,558,444	1,103,104	1,105,206
Restricted - nonexpendable	-	-	14,305,400	12,464,875
Restricted - expendable				
Loans	2,028,285	1,931,125	-	-
Other	-	-	7,741,170	6,264,087
Unrestricted	31,949,730	22,115,175	13,470,094	11,312,694
<b>TOTAL NET ASSETS</b>	<u>\$ 140,792,829</u>	<u>\$ 125,604,744</u>	<u>\$ 36,619,768</u>	<u>\$ 31,146,862</u>

*See accompanying notes to financial statements.*

**STATE OF ILLINOIS**  
**WESTERN ILLINOIS UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2010**  
(With Partial Financial Information for the Year Ended June 30, 2009)

	University		Component Unit	
	2010	2009	2010	2009
<b>OPERATING REVENUES</b>				
Tuition and fees, net	\$ 73,193,414	\$ 71,645,549	\$ -	\$ -
Grants and contracts	12,200,079	11,147,740	-	-
Sales and services of educational departments	5,152,143	5,341,490	-	-
Auxiliary enterprises, net	49,638,751	51,487,965	-	-
Student loan activities	114,279	49,379	-	-
Other operating revenues	3,439,809	3,263,746	6,487,546	4,659,473
<i>Total operating revenues</i>	<u>143,738,475</u>	<u>142,935,869</u>	<u>6,487,546</u>	<u>4,659,473</u>
<b>OPERATING EXPENSES</b>				
Instruction	61,811,875	59,986,814	938,719	804,458
Research	2,979,445	2,715,724	22,806	48,450
Public service	10,521,948	10,208,306	120,023	126,010
Academic support	17,687,263	18,099,339	141,376	172,857
Student services	19,746,898	20,429,523	427,260	548,894
Institutional support	12,485,295	12,716,467	1,423,449	1,088,010
Operation and maintenance of plant	16,908,879	15,905,527	143,684	82,973
Student aid expense	8,134,983	6,478,826	1,946,081	1,832,506
Auxiliary enterprises	40,065,528	43,258,058	-	-
Staff benefits	7,800,322	7,551,745	-	-
Depreciation	10,167,598	10,254,593	-	7,836
On-behalf payments	50,455,685	38,584,926	-	-
Other operating expenses	37,556	3,773	-	-
<i>Total operating expenses</i>	<u>258,803,275</u>	<u>246,193,621</u>	<u>5,163,398</u>	<u>4,711,994</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(115,064,800)</u>	<u>(103,257,752)</u>	<u>1,324,148</u>	<u>(52,521)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	106,856,785	97,016,514	-	-
Gifts	301,803	595,448	-	-
Nonoperating grants	14,293,498	9,846,549	-	-
Gain (loss) on disposal of capital assets	30,170	1,763	-	(61,259)
Investment income (loss)	97,094	749,341	2,356,946	(3,333,992)
Interest on capital asset - related debt	(1,780,278)	(1,551,478)	-	-
Change in value of charitable remainder trusts	-	-	57,686	(420,456)
Other nonoperating revenues	3,958,254	-	389,236	768,526
<i>Net nonoperating revenues (expenses)</i>	<u>123,757,326</u>	<u>106,658,137</u>	<u>2,803,868</u>	<u>(3,047,181)</u>
<b>INCOME (LOSS) BEFORE CAPITAL ITEMS</b>	8,692,526	3,400,385	4,128,016	(3,099,702)
Capital State appropriations	6,495,559	2,990,020	-	-
Additions to permanent endowments	-	-	1,344,890	509,999
<i>Total capital items</i>	<u>6,495,559</u>	<u>2,990,020</u>	<u>1,344,890</u>	<u>509,999</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>15,188,085</u>	<u>6,390,405</u>	<u>5,472,906</u>	<u>(2,589,703)</u>
<b>NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED</b>	125,604,744	119,214,339	31,146,862	32,412,381
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	-	1,324,184
<b>NET ASSETS, BEGINNING OF YEAR AS RESTATED</b>	<u>125,604,744</u>	<u>119,214,339</u>	<u>31,146,862</u>	<u>33,736,565</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 140,792,829</u>	<u>\$125,604,744</u>	<u>\$ 36,619,768</u>	<u>\$ 31,146,862</u>

*See accompanying notes to financial statements.*



**STATE OF ILLINOIS  
WESTERN ILLINOIS UNIVERSITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010  
(With Partial Financial Information for the Year Ended June 30, 2009)**

	University		Component Unit	
	2010	2009	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Tuition and fees	\$ 73,473,385	\$ 71,360,071	\$ -	\$ -
Grants and contracts	11,199,313	11,737,908	-	-
Gifts for other than capital and endowment purposes	-	-	4,545,984	3,099,169
Payments for employee salaries and benefits	(134,810,198)	(130,619,040)	-	-
Payments for goods and services	(53,737,854)	(60,718,906)	(2,281,815)	(2,789,681)
Payments to annuitants	-	-	(222,648)	(36,047)
Payments for scholarships and fellowships	(8,952,679)	(6,861,675)	(1,946,081)	(1,832,506)
Student loans issued	(478,207)	(338,743)	-	-
Student loans collected	518,056	360,520	-	-
Student loans interest and fees collected	112,666	46,091	-	-
Auxiliary enterprises charges	49,617,385	50,634,342	-	-
Sales and services of educational departments	5,038,611	5,521,829	-	-
Other receipts	3,439,808	3,176,572	490,390	373,227
Net cash provided by (used in) operating activities	(54,579,714)	(55,701,031)	585,830	(1,185,838)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State appropriations	43,814,632	54,245,021	-	-
Gifts	224,306	371,237	1,344,890	509,999
Nonoperating grants	14,293,498	9,846,549	-	-
Nonoperating revenues, net	3,576,749	26,015	472,253	706,402
Net cash provided by noncapital financing activities	61,909,185	64,488,822	1,817,143	1,216,401
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	(5,646,819)	(12,789,595)	-	(44,681)
Proceeds from issuance of certificates of participation	11,266,413	-	-	-
Payments of bond issuance costs	(87,631)	-	-	-
Principal paid on capital debt and leases	(5,153,246)	(4,974,715)	-	-
Interest paid on capital debt and leases	(2,100,696)	(2,283,854)	-	-
Net cash used in capital and related financing activities	(1,721,979)	(20,048,164)	-	(44,681)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	6,017,834	23,122,460	6,067,200	24,415,554
Earnings on investments	102,818	834,743	1,078,022	1,416,943
Purchase of investments	(12,000,435)	(12,016,182)	(9,870,983)	(24,420,486)
Net cash provided by (used in) investing activities	(5,879,783)	11,941,021	(2,725,761)	1,412,011
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(272,291)	680,648	(322,788)	1,397,893
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	44,161,173	43,480,525	2,970,453	1,572,560
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 43,888,882	\$ 44,161,173	\$ 2,647,665	\$ 2,970,453

*See accompanying notes to financial statements.*

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STATEMENT OF CASH FLOWS  
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	University		Component Unit	
	2010	2009	2010	2009
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ (115,064,800)	\$ (103,257,752)	\$ 1,324,148	\$ (52,521)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
On-behalf payments	50,455,685	38,584,926	-	-
Depreciation expense	10,167,598	10,254,593	2,102	7,836
Actuarial adjustment to annuities payable	-	-	(12,300)	(7,588)
Changes in assets and liabilities:				
Receivables, net	(1,017,107)	(1,308,193)	(894,086)	(1,142,405)
Student loans receivables, net	(22,273)	60,768	-	-
Inventories	220,878	(787,427)	-	18,076
Prepaid expenses and other assets	65,986	26,067	6,031	13,377
Accounts payable and accrued liabilities	(2,426)	275,088	8,804	47,319
Accrued payroll	1,004,620	614,392	-	-
Due to University	-	-	107,788	(25,260)
Charitable remainder trust distribution payable	-	-	14,950	-
Other liabilities	(111,292)	442,706	28,393	(44,672)
Compensated absences	(276,583)	(606,199)	-	-
Net cash provided by (used in) operating activities	<u>\$ (54,579,714)</u>	<u>\$ (55,701,031)</u>	<u>\$ 585,830</u>	<u>\$ (1,185,838)</u>
<b>NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
On-behalf payments	\$ 50,455,685	\$ 38,584,926	\$ -	\$ -
Capital asset acquisition via notes and leases payable	164,170	-	-	-
Capital asset acquisition via capital appropriations	6,495,559	2,990,020	-	-
Capital asset acquisition via support from Foundation	77,497	224,212	-	-
Capitalized interest	503,148	725,278	-	-
Capital asset changes in accounts payable	(1,020,895)	(1,004,156)	-	-
Other capital asset adjustments	2,296,490	63,433	-	-
Gifts in kind	-	-	585,479	63,396
Gain (loss) on disposal of equipment	30,170	1,763	-	(61,259)

*See accompanying notes to 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, has campuses located in Macomb and Moline, 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, the 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 by contacting the 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 fundraising 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.

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)

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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, 2009, from which the partial information was derived. Certain 2009 amounts have been reclassified to conform to the 2010 presentation. However, as more fully discussed in Note 18, the prior year partial comparative information of the component unit reflects the correction of errors in the 2009 financial statements.

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, 2010, cash equivalents consisted primarily of money market and similar funds.

F. Investments

The University accounts for its investments at fair value as determined by quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

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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.

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 presented 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 year ended June 30, 2010 was \$66,646.

I. Student Loans Receivable

The University makes loans to students under various federal and other loan programs. Such loans receivable is presented net of estimated uncollectible amounts.

J. Inventories

Inventories are carried at the lower of cost (determined by first-in, first-out or average cost method, depending on the nature of the inventory item) 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. Intangible assets which are purchased are capitalized at \$100,000 or greater. Internally-generated intangible assets which are primarily software are capitalized at \$1,000,000 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:

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Site improvements	25 years
Buildings	60 years
Building improvements	20 years
Computer equipment	3 years
Trucks greater than 1 ton	12 years
Capital lease equipment	Life of lease
All other equipment	7 years

University capital assets financed by the State of Illinois Capital Development Board (CDB) are recorded by the University as the funds are expended by the CDB.

L. Deferred Revenues

Deferred revenues represent unearned student tuition and 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.

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*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.

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, 2010 were \$8,442,975 and \$3,344,068, respectively.

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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.

R. Endowments

On June 30, 2009, the Illinois Governor signed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) into law. UPMIFA replaced the Uniform Management of Institutional Funds Act and eliminates the historic dollar value rule with respect to endowment fund spending. UPMIFA also updated the prudence standard for the management and investment of charitable funds. The Foundation Board utilizes UPMIFA's provisions in spending decisions regarding the Foundation's endowment funds.

For donor restricted endowments, the UPMIFA permits the Board of Directors of the Foundation to appropriate an amount of donor restricted endowments. 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. A similar strategy has been implemented for Foundation designated endowments.

For both donor restricted endowments and Foundation designated endowments, 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 1.40% 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 endowments' unrealized appreciation with the endowment (either donor restricted or Foundation designated) after spending rule distributions. As of June 30, 2010, the Foundation had a total of \$449,090 of net appreciation from investment of donor-restricted endowments and Foundation designated endowments. This amount is allocated between expendable restricted net assets and unrestricted net assets in the Statement of Net Assets based on the classification (restricted non-expendable vs. unrestricted) of the underlying asset upon which the income was earned.



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S. Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of irrevocable charitable remainder trusts and irrevocable charitable trusts for which the Foundation is a beneficiary. The fair value of the trust assets are reported in the Statement of Net Assets and changes in the fair value of the assets are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. It is management's intent to record the contribution income from these agreements in the fiscal year the Foundation becomes the irrevocable beneficiary. The Foundation received no such new contribution income during fiscal year 2010. Management identified during fiscal year 2010 a previously unrecorded split-interest agreement contribution that irrevocably named the Foundation the beneficiary during fiscal year 2004. The fiscal year 2010 financial statements reflected this contribution's assets and related activities. The fiscal year 2009 financial statements have been restated to include this contribution's assets and related activities (see Note 18). Any outstanding liabilities relating to the annual distributions required by the trust agreements are recorded in the Statement of Net Assets.

T. 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.

U. New Accounting Pronouncements

Effective July 1, 2009, the University adopted the following accounting pronouncements:

- GASB No. 51, *Accounting and Financial reporting for Intangible Assets*, which establishes standards on the measurement and financial reporting requirements for intangible assets.
- GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes standards for the recognition, measurement and disclosure of information regarding derivative instruments entered into by State and local governments.

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**NOTE 2 - 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, 2010, the book balance of various University bank accounts and certificates of deposit was \$13,237,991, while the bank balance was \$13,402,513. The difference between these amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2010.

**Foundation**

At June 30, 2010, the book balance of the Foundation's various bank accounts was \$926,823 while the bank balance was \$191,305. The difference between these amounts primarily represents checks that have been issued, but have not yet cleared the bank, and deposits in transit as of June 30, 2010.

Reconciliation of cash and cash equivalents to deposits:

	<u>University</u>	<u>Foundation</u>
Cash and cash equivalents	\$ 43,689,449	\$ 2,647,665
Cash and cash equivalents, restricted	199,433	—
Less: Money market funds classified as cash and cash equivalents	(40,570,412)	(2,471,229)
Cash on hand	(80,684)	(200)
Add: Certificates of deposit	10,000,205	750,587
Carrying amount of deposits	<u>\$ 13,237,991</u>	<u>\$ 926,823</u>

**NOTE 3 - INVESTMENTS**

**University**

At June 30, 2010, the University had investments with carrying and fair market values of \$40,570,412 invested in the Illinois Funds Money Market. The Illinois Funds Money Market Fund had maturities of less than one year and a Standard and Poor's AAA rating.

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*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 States Treasury bonds, Federal Farm Credit Banks bonds, Federal Home Loan Banks notes, Federal National Mortgage Association, Federal Land Bank bonds, Government National Mortgage Association, and Federal Home Loan Mortgage Corporation.

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**Foundation**

At June 30, 2010, the Foundation held investments with the following maturities:

Type	Total Fair Value	Maturities in Years			
		Less Than One Year or No Maturity	1-5 Years	6-10 Years	Over 10 Years
U.S. Treasury notes	\$ 710,490	\$ —	\$ 501,453	\$209,037	\$ —
U.S. Treasury bonds	477,461	—	—	—	477,461
U. S. agency obligations (FHLM, FNMA)	1,950,540	509,845	661,468	499,213	280,014
Municipal bonds	20,011	—	—	20,011	—
Corporate debt securities	978,625	200,779	445,662	202,505	129,679
Corporate equity securities	128,966	128,966	—	—	—
International equity securities	1,430,191	1,430,191	—	—	—
Cash equivalents held in investment pools	1,009,864	1,009,864	—	—	—
Real asset tax-exempt	186,809	186,809	—	—	—
Real assets exchange traded funds	1,102,250	1,102,250	—	—	—
Absolute return	4,203,743	4,203,743	—	—	—
Mutual funds, international equity	3,564,892	3,564,892	—	—	—
Mutual funds, domestic equity	4,816,964	4,816,964	—	—	—
Open ended mutual funds, U.S. Debt	6,176,064	6,176,064	—	—	—
Private equity	844,486	844,486	—	—	—
Certificates of deposit	750,587	750,587	—	—	—
Bank money market funds	98,323	98,323	—	—	—
Illinois Funds investment pool	2,372,906	2,372,906	—	—	—
<b>Total investments</b>	<b>\$30,823,172</b>	<b>\$27,396,669</b>	<b>\$1,608,583</b>	<b>\$930,766</b>	<b>\$887,154</b>

The Foundation adheres to the total return concepts 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.

*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 Federal Deposit Insurance Corporation and Security Investor Protection Corporation insured account balances of \$191,305 as of June 30, 2010. The account balances of 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). See <http://www.treasurer.il.gov/programs/illinois-funds/about-illinois-funds.aspx> for information on the

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Illinois Funds. The Foundation's deposits in other institutions' money market funds are subject to the Funds' collateralization and investment policies.

*Concentration Risk*

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

*Interest Rate Risk*

Interest rate risk is the risk when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation does not have a policy that specifically addresses interest rate risk. The Foundation had the following assets, at fair values, exposed to interest rate risk at June 30, 2010:

U.S. Treasury notes	\$ 710,490
U.S. Treasury bonds	477,461
U.S. agency obligations (FHLM, FNMA)	1,950,540
Municipal bonds	20,011
Certificate of deposits	750,587
Cash equivalents held in investment pools	1,009,864
Open ended mutual equity funds, U.S. debt	6,176,064
Corporate debt securities	<u>978,625</u>
Sub-total investments	<u>12,073,642</u>
Bank money market funds	98,323
Illinois Funds money market funds	<u>2,372,906</u>
Sub-total cash and cash equivalents	<u>2,471,229</u>
Total assets subject to interest rate risk	<u>\$ 14,544,871</u>

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundation's short-term investments generally are not exposed to foreign currency risk.

The Foundation's investments in international stock and mutual funds represent 18% of the total Foundation investments as of June 30, 2010. The Foundation does not have a policy on foreign currency risk. The U.S. dollar balances of the Foundation's investments exposed to foreign currency risk as of June 30, 2010 are listed below.

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<u>Currency</u>	<u>United States Dollar Equivalent</u>
Euro	\$ 945,144
United Kingdom British Pound	951,959
Japanese Yen	860,417
Swiss Franc	323,652
Yuan Renminbi (China)	302,785
Australian Dollar	215,675
Other currencies, individually less than 5% of fund portfolio	<u>1,417,348</u>
Total	<u>\$ 5,016,980</u>

*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 funds held by Citizens, a division of Morton Bank, and Charles Schwab.

At June 30, 2010, the Foundation had the following investments and their ratings:

<u>Type</u>	<u>Total Fair Value</u>	<u>Credit Rating per Standard and Poor's</u>				
		<u>AAA</u>	<u>AA-</u>	<u>A+</u>	<u>BBB+</u>	<u>Not Rated</u>
U.S. Treasury notes	\$ 710,490	\$ 501,453	\$ -	\$ -	\$ -	\$ 209,037
U.S. Treasury bonds	477,461	234,841	-	-	-	242,620
U.S. agency obligations (FHLM, FNMA)	1,950,540	148,423	-	-	-	1,802,117
Corporate debt securities	978,625	104,580	31,523	400,547	68,694	373,281
Other	26,706,056	-	-	-	-	26,706,056
Total investments	<u>\$30,823,172</u>	<u>\$ 989,297</u>	<u>\$ 31,523</u>	<u>\$400,547</u>	<u>\$ 68,694</u>	<u>\$29,333,111</u>

<u>Type</u>	<u>Total Fair Value</u>	<u>Credit Rating per Moody's</u>								
		<u>Aaa</u>	<u>Aa1</u>	<u>Aa2</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>Baa1</u>	<u>Baa3</u>	<u>Not Rated</u>
U.S. Treasury notes	\$ 710,490	\$ 501,453	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 209,037
U.S. Treasury bonds	477,461	234,841	-	-	-	-	-	-	-	242,620
U.S. agency obligations (FHLM, FNMA)	1,950,540	390,540	-	-	-	-	-	-	-	1,560,000
Corporate debt securities	978,625	-	52,460	152,712	206,063	112,310	136,843	68,694	138,633	110,910
Other	26,706,056	-	-	-	-	-	-	-	-	26,706,056
Total investments	<u>\$30,823,172</u>	<u>\$1,126,834</u>	<u>\$52,460</u>	<u>\$152,712</u>	<u>\$206,063</u>	<u>\$112,310</u>	<u>\$136,843</u>	<u>\$68,694</u>	<u>\$138,633</u>	<u>\$28,828,623</u>

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*Summary of Carrying Values*

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

	<u>University</u>	<u>Foundation</u>
Cash and cash equivalents	\$ 43,689,449	\$ 926,823
Cash and cash equivalents, restricted	199,433	-
Investments	<u>10,000,205</u>	<u>30,823,172</u>
Total	<u>\$ 53,889,087</u>	<u>\$ 31,749,995</u>

Investments at June 30, 2010 are as follows:

	<u>University</u>	<u>Foundation</u>
Current:		
Investments	\$ 10,000,205	\$ 3,854,431
Noncurrent:		
Endowment investments	-	5,103,415
Endowment investments, restricted	-	17,944,306
Donor advised funds, restricted	-	145,220
Other investments	-	<u>1,304,571</u>
Sub-total	<u>10,000,205</u>	<u>28,351,943</u>
Money market funds classified as cash and cash equivalents	<u>40,570,412</u>	<u>2,471,229</u>
Total investments	<u>\$ 50,570,617</u>	<u>\$ 30,823,172</u>

Investment income for the year ended June 30, 2010 consisted of:

	<u>University</u>	<u>Foundation</u>
Interest, dividends, realized gains and market value changes	<u>\$ 97,094</u>	<u>\$ 2,356,946</u>

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**NOTE 4 - ACCOUNTS AND STUDENT LOANS RECEIVABLE**

Accounts receivable are reported net of allowances for uncollectible accounts of \$3,868,300 at June 30, 2010. Accounts receivable consisted of the following as of June 30, 2010:

Receivables from students	\$ 7,520,137
Receivables from funding agencies	2,508,297
Receivables from third parties	<u>1,125,236</u>
Total gross receivables	11,153,670
Allowance for doubtful accounts	<u>(3,868,300)</u>
Total net receivables	<u>\$ 7,285,370</u>

Student loans receivable totaling \$2,371,895 are reported net of allowance for uncollectible loans of \$516,402 at June 30, 2010.

**NOTE 5 - CAPITAL ASSETS**

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Net interest of \$503,148 was capitalized during fiscal year 2010.

Capital asset activities for the University for the year ended June 30, 2010 were as follows:

	Balance June 30, 2009	Additions	Retirements	Transfers	Balance June 30, 2010
<b>Non-depreciable capital assets:</b>					
Land and land improvements	\$ 3,221,432	\$ -	\$ -	\$ -	\$ 3,221,432
Works of art and historical treasures	471,569	-	-	-	471,569
Construction in progress	<u>9,449,383</u>	<u>9,442,526</u>	-	<u>(3,176,858)</u>	<u>15,715,051</u>
<b>Total non-depreciable capital assets</b>	<u>13,142,384</u>	<u>9,442,526</u>	-	<u>(3,176,858)</u>	<u>19,408,052</u>
<b>Depreciable capital assets:</b>					
Site improvements	28,059,420	113,511	-	465,216	28,638,147
Buildings and building improvements	229,959,728	509,600	-	2,711,642	233,180,970
Equipment	70,269,980	4,097,152	(651,408)	20,921	73,736,645
Capital lease - equipment	20,921	-	-	(20,921)	-
<b>Total depreciable capital assets</b>	<u>328,310,049</u>	<u>4,720,263</u>	<u>(651,408)</u>	<u>3,176,858</u>	<u>335,555,762</u>
<b>Less accumulated depreciation</b>	<u>(189,618,220)</u>	<u>(12,028,824)</u>	<u>617,334</u>	-	<u>(201,029,710)</u>
<b>Total depreciable capital assets, net</b>	<u>138,691,829</u>	<u>(7,308,561)</u>	<u>(34,074)</u>	<u>3,176,858</u>	<u>134,526,052</u>
<b>Capital assets, net</b>	<u>\$ 151,834,213</u>	<u>\$ 2,133,965</u>	<u>\$ (34,074)</u>	<u>\$ -</u>	<u>\$ 153,934,104</u>



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Capital asset activities for the Foundation for the year ended June 30, 2010 were as follows:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Land and land improvements	\$ 1,103,104	\$ -	\$ -	\$ 1,103,104
Equipment	23,573	-	(23,573)	-
<b>Total capital assets</b>	<u>1,126,677</u>	<u>-</u>	<u>(23,573)</u>	<u>1,103,104</u>
Less accumulated depreciation: Equipment	(21,471)	-	21,471	-
<b>Capital assets, net</b>	<u>\$ 1,105,206</u>	<u>\$ -</u>	<u>\$ (2,102)</u>	<u>\$ 1,103,104</u>

**NOTE 6 - DEFERRED REVENUES**

Deferred revenues consist of the following as of June 30, 2010:

Tuition and fees	\$ 2,212,529
Grants and contracts	2,068,384
Sales and services of educational departments	265,156
Auxiliary enterprises	<u>665,968</u>
Total	<u>\$ 5,212,037</u>

**NOTE 7 - NOTES PAYABLE**

The University has entered into installment purchase agreements for telecommunications equipment, storage area network equipment, computer equipment, copy equipment, and vehicles with an original cost of \$1,125,897. The related notes payable obligations were recorded at the present value of the future minimum installment payments, discounted using applicable discount rates, which range from 1.95% to 5.33%. Notes payable activities for the year ended June 30, 2010 were as follows:

Balance, beginning of year	\$ 1,130,865
New notes	164,170
Payments	<u>(742,859)</u>
Balance, end of year	<u>\$ 552,176</u>
Current Portion	<u>\$ 259,349</u>

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Following is a schedule by years of the total future minimum note payments under these agreements together with the present value of the net minimum note payments as of June 30, 2010.

2011	\$ 279,335
2012	160,452
2013	113,049
2014	<u>36,497</u>
Total minimum note payments	589,333
Less: amount representing interest	<u>(37,157)</u>
Present value of net minimum note payments	<u>\$ 552,176</u>

**NOTE 8 - REVENUE BONDS PAYABLE**

*General*

At June 30, 2010, 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, and Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2002. On February 9, 2010, Moody's Investors Service downgraded the University's long-term debt rating to A3 from A2 and established the outlook as rating under review. On April 28, 2010, Moody's Investors Service confirmed the long-term A3 rating and revised the outlook to negative.

*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 were used to install fire sprinkler systems in residence hall facilities and graduate and family apartments and to construct an expansion to the Donald S. Spencer Student Recreation Center. In addition, proceeds from the sales of the Series 2006 Bonds, together with other funds of the University, were used to provide for the advance refunding of a portion of the Series 1999 Bonds and to pay certain expenses related to the issuance of the bonds. A portion of bond proceeds plus funds provided by the University were deposited in an irrevocable trust with an escrow agent to provide for a portion of the debt service payments on the 1999 Series Bonds. As a result, a portion of the Series 1999 Bonds are considered defeased and the liability for that portion of the bonds has

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been removed from the University's Statement of Net Assets. The Series 1999 Bonds were retired on April 1, 2009.

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

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*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 was fully paid as of June 30, 2010.

*Debt Service Activity Requirements and Collateral*

Following is a schedule depicting Revenue Bonds Payable activities for the year ended June 30, 2010:

	Beginning Balance	Deletions	Ending Balance	Current Portion
Series 2002 Bonds	\$ 9,645,000	\$ 560,000	\$ 9,085,000	\$ 585,000
Series 2005 Bonds	15,725,000	2,755,000	12,970,000	2,845,000
Series 2006 Bonds	14,985,000	680,000	14,305,000	710,000
Unamortized premium	75,865	28,132	47,733	16,481
Unamortized discount	(132,758)	(8,604)	(124,154)	(9,488)
Deferred loss of refunding	(800,316)	(69,313)	(731,003)	(69,313)
	<u>\$ 39,497,791</u>	<u>\$ 3,945,215</u>	<u>\$ 35,552,576</u>	<u>\$ 4,077,680</u>

Aggregate maturities of the bonds outstanding as of June 30, 2010 are as follows:

	Principal	Interest
2011	\$ 4,140,000	\$ 1,512,834
2012	2,765,000	1,361,040
2013	2,870,000	1,257,102
2014	2,975,000	1,146,820
2015	3,095,000	1,024,163
2016-2020	12,695,000	3,358,168
2021-2025	6,775,000	968,012
2026-2027	1,045,000	71,100
	<u>36,360,000</u>	<u>10,699,239</u>
Unamortized premium	47,733	-
Unamortized discount	(124,154)	-
Deferred loss of refunding	(731,003)	-
	<u>\$ 35,552,576</u>	<u>\$ 10,699,239</u>

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

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student tuition. Maximum annual debt service as defined for all outstanding revenue bonds is \$5,652,834. The estimated debt service coverage ratio based on revenues generated from operations is 1.71. The future pledged revenues for principal and interest in fiscal year 2010 are \$47,059,239. Pledged revenue coverage is 12.96 in fiscal year 2010. Pledged revenues have a term of commitment through 2027.

**NOTE 9 - CERTIFICATES OF PARTICIPATION PAYABLE**

*General*

At June 30, 2010, certificates of participation consist of Western Illinois University Series 2010 Certificates of Participation and Western Illinois University Series 2005 Certificates of Participation. On February 9, 2010, Moody's Investors Service downgraded the University's long-term debt rating to A3 from A2 and established the outlook as rating under review. On April 28, 2010, Moody's Investors Service confirmed the long-term A3 rating and revised the outlook to negative for Western Illinois University Series 2005 Certificates of Participation.

*Series 2010 Certificates of Participation*

On February 23, 2010, the Series 2010 Certificates of Participation were issued in the principal amount of \$11,585,000. The Series 2010 Certificates of Participation are due October 1, 2029 with annual principal payments ranging from \$415,000 to \$825,000 commencing October 1, 2010 and semi-annual interest payments beginning October 1, 2010 at 1.30% to 6.375%.

Proceeds from the sale of the Series 2010 Certificates of Participation will be used for issuance costs and to finance heating plant capital improvements and steam line replacements. Additionally, proceeds from the sale will reimburse the University for a portion of the cost of the sprinkler system installation in Thompson and Tanner Halls.

*Series 2005 Certificates of Participation*

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 were 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

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Redistribution Center. In addition, Series 2005 proceeds were used to pay the costs of issuing the Series 2005 Certificates of Participation.

*Debt Service Activity Requirements and Collateral*

Following is a schedule depicting Certificates of Participation activities for the year ended June 30, 2010:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2005	\$ 9,890,000	\$ -	\$ 415,000	\$ 9,475,000	\$ 430,000
Series 2010	-	11,585,000	-	11,585,000	415,000
Unamortized discount	-	(51,574)	(2,210)	(49,364)	(6,919)
	<u>\$ 9,890,000</u>	<u>\$11,533,426</u>	<u>\$ 412,790</u>	<u>\$21,010,636</u>	<u>\$ 838,081</u>

Aggregate maturities of the certificates of participation outstanding as of June 30, 2010 are as follows:

	Principal	Interest
2011	\$ 845,000	\$ 981,462
2012	885,000	928,328
2013	905,000	903,321
2014	935,000	874,444
2015	965,000	841,829
2016-2020	5,370,000	3,585,904
2021-2025	6,580,000	2,204,069
2026-2030	4,575,000	635,324
	<u>21,060,000</u>	<u>10,954,681</u>
Unamortized discount	(49,364)	-
	<u>\$ 21,010,636</u>	<u>\$ 10,954,681</u>

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 on an annual basis.

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**NOTE 10 - CAPITAL LEASE OBLIGATIONS**

The University entered into several lease purchase contracts for duplicating equipment in prior years. At June 30, 2010, all lease obligations were paid in full. Capital lease activities for the year ended June 30, 2010 were as follows:

Balance, beginning of year	\$ 387
Payments/terminations	<u>(387)</u>
Balance, end of year	<u>\$ -</u>

**NOTE 11 - 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, 2010, such accumulated benefits totaled \$7,832,338.

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, 2010, such accumulated benefits totaled \$7,831,346. Compensated absences activity for the year ended June 30, 2010 was as follows:

Balance, beginning of year	\$ 15,940,267
Deductions	<u>(276,583)</u>
Balance, end of year	15,663,684
Less: current portion	<u>(1,755,717)</u>
Balance, end of year - noncurrent portion	<u>\$ 13,907,967</u>

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**NOTE 12 - RETIREMENT PLAN**

*Plan Description*

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*.

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.

*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 21.27% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ending June 30, 2010, 2009, and 2008 were \$20,300,347, \$12,794,632, \$9,845,270, respectively, equal to the required contributions for each year.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who



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retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the University's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

**NOTE 14 - 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 15 - OPERATING EXPENSES BY NATURAL CLASSIFICATION**

Operating expenses by natural classification for the year ended June 30, 2010, for the University are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 58,487,704	\$ 3,231,280	\$ 92,891	\$ -	\$ 61,811,875
Research	2,494,632	484,813	-	-	2,979,445
Public service	7,010,106	3,477,850	33,992	-	10,521,948
Academic support	12,958,414	4,702,657	26,192	-	17,687,263
Student services	11,163,317	8,537,589	45,992	-	19,746,898
Institutional support	10,725,162	1,760,133	-	-	12,485,295
Operation and maintenance of plant	9,226,332	7,682,547	-	-	16,908,879
Student aid	-	-	8,134,983	-	8,134,983
Auxiliary enterprises	15,469,162	24,038,301	558,065	-	40,065,528
Staff benefits	7,800,322	-	-	-	7,800,322
Depreciation expense	-	-	-	10,167,598	10,167,598
On-behalf payments	50,455,685	-	-	-	50,455,685
Other operating expenses	-	37,556	-	-	37,556
Total	<u>\$ 185,790,836</u>	<u>\$ 53,952,726</u>	<u>\$ 8,892,115</u>	<u>\$ 10,167,598</u>	<u>\$258,803,275</u>

**NOTE 16 - 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 2010, the Foundation did not specifically reimburse the University for \$756,437 of personal service costs or for facility use provided by the University. However, the Foundation gave the University \$2,671,602 for fiscal year 2010, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

**State of Illinois  
Western Illinois University  
Notes to the Basic Financial Statements  
June 30, 2010**

**NOTE 17 - 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.

**NOTE 18 - FOUNDATION PRIOR PERIOD ADJUSTMENTS**

The Foundation restated the beginning net assets balance in fiscal year 2009 from \$32.4 million to \$33.7 million, as follows:

- Certain charitable remainder trusts were not reported as income in the year it became known to the Foundation that the trusts were irrevocable. As a result, restricted expendable net assets were restated and increased by \$1.0 million due to correction of errors in reporting prior charitable remainder trusts.
- Certain life insurances were not reported as income in the year in which the Foundation became both the policy owner and the beneficiary. The restricted - nonexpendable, restricted - expendable, and unrestricted net assets were restated and increased by \$0.3 million.

**NOTE 19 - SUBSEQUENT EVENTS**

On July 19, 2010, Standard & Poor's Rating Services assigned its A long-term rating to Western Illinois University Series 2010 Revenue Bonds issued on August 5, 2010 in the amount of \$25,510,000. The Series 2010 Revenue Bonds (Build America Bonds) will be used to fund the issuance costs and finance renovations to Corbin and Olson Residence Halls. Additionally, Standard & Poor's affirmed its A long-term and underlying rating on the University's remaining long-term debt. The outlook is negative.



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 the business-type activities 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, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated February 4, 2011. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in finding 10-1 in the accompanying schedule of findings to be a material weakness.

*A significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in finding 10-2 in the accompanying schedule of findings to be a significant deficiency.

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 10-1 and 10-2.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the University's responses and, accordingly, we express no opinion on the responses.

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.

*C. C. Gliz & Co. LLP*  
Chicago, Illinois  
February 4, 2011

**State of Illinois  
Western Illinois University  
Schedule of Findings  
For the Year Ended June 30, 2010**

**Current Findings - *Government Auditing Standards***

**Finding No. 10-1 - Inadequate Controls Over Acquisition of Public TV Station**

Western Illinois University (University) did not perform adequate due diligence regarding the acquisition of a public television station (Station).

In line with the University's Strategic Plan *Higher Values in Higher Education*, the University and a community college (College) entered into an agreement (Agreement) on October 16, 2009, to transfer the license and ownership of the Station to the University. The Agreement was contingent upon approval of the Federal Communications Commission (FCC). The Agreement included donation of assets, properties, interests and rights of the College in connection with the operation of the Station to the Western Illinois University Foundation (Foundation) and to the University. Upon approval by the FCC of the license transfer, the Agreement was finalized on May 1, 2010. The University, however, did not perform adequate due diligence prior and subsequent to the closing date. During our review of the Agreement, various contracts, and the University property records, the following were noted:

- Schedules of the Station's tangible personal property, licenses, contracts, leases and other agreements were referenced, but were not included in the original Agreement. Property schedules were provided in June 2010 and leases and other agreements were provided at the May 1, 2010 closing. The College entered into a separate agreement to dispose of certain Station analog equipment just four days after the Agreement was signed. Ten days after the Agreement, the College agreed to loan Station equipment to a vendor in exchange for a discount on production services. However, the specific components loaned out were not itemized or tagged and were co-mingled with other vendor equipment, making identification of Station property impossible. The University took no measures to seek recourse under the terms of the Agreement.
- Errors were made in recording the value of capital assets donated to the University. The University capitalized equipment at historical cost instead of at fair market or appraised value at the time of donation. The University also recorded the retroactive depreciation expense for all equipment transferred, thereby overstating non-operating revenue and depreciation expense accounts by \$1.9 million.
- Prior to the University's physical inventory, we noted that there was a lack of physical controls to secure fixed assets. Equipment was not tagged and inventoried by the University upon the Agreement closing on May 1, 2010 or prior to physical transfer to its new location on June 1, 2010.

**State of Illinois  
Western Illinois University  
Schedule of Findings  
For the Year Ended June 30, 2010**

**Current Findings - *Government Auditing Standards* (Continued)**

**Finding No. 10-1 - Inadequate Controls Over Acquisition of Public TV Station (Continued)**

- Physical inventory of fixed assets at the Station was not performed by the University until July 2010, two months after closing. Based on the inventory, equipment transferred and recorded at \$1.9 million was missing. In addition, staff found 13 assets not included in the Station's equipment inventory with a historical cost of \$194,660. The University subsequently updated their property records based on the results of the inventory.
- The University capitalized equipment in the University's fixed asset's inventory system based on the list provided by the Station's management without verifying whether the equipment existed or the accuracy of the records. Thus, the University's Annual Certification of Inventory and fourth quarter Agency Report of State Property (C-15 report) submitted to the Department of Central Management Services and the State Comptroller, respectively, were inaccurate since these reports included the missing equipment. Equipment found during the inventory at the Station was also excluded from these reports. The University subsequently revised the C-15 report to exclude the missing equipment and include equipment found during the inventory.
- On December 2, 2009, the Station entered into an agreement with another television station connecting its equipment to and through the other station's microwave facilities. Unknown to the University, this agreement was signed by the College's President, and also included transferring ownership of 29 equipment items to the other station in lieu of rent for the first five-year term. The terms of this agreement conflicted with the terms of the agreement between the University and the College. Management stated the University did not seek recourse because the equipment was no longer used and this agreement would help sustain the Station's budget.
- During our testing of equipment at the Station, we noted that one of 25 (4%) items tested, a system satellite valued at \$77,977, could not be located.

Good business practice dictates that prior to any business acquisition, adequate risk assessment and due diligence should be performed to manage and reduce the operational and investment risks. Good business practice also requires that assets be appropriately secured and maintained and fully accounted for. In addition, financial representations should be verified and reviewed to obtain reasonable assurance that all financial records of the business subject to acquisition are free of material misstatements.

Paragraph 8, (d) of the Agreement between the College and the University stated that prior to the closing date, College shall not, without the prior consent of the University, sell, lease, transfer, or agree to sell, lease, or transfer any of the assets without replacement thereof with



**State of Illinois  
Western Illinois University  
Schedule of Findings  
For the Year Ended June 30, 2010**

**Current Findings - *Government Auditing Standards* (Continued)**

**Finding No. 10-1 - Inadequate Controls Over Acquisition of Public TV Station (Continued)**

assets of equivalent kind, condition, and value that meets industry standards for such assets, or create any lien on the assets.

Also, Paragraph 14 of the Agreement between the College and the University stated that the risk of loss or damage to any of the assets prior to the closing date shall be upon the College. In the event that assets with an aggregate value of greater than \$10,000 are damaged or lost as of the closing date, the University may, at its option either (1) postpone closing for a period of up to 60 days while the College repairs or replaces such lost or damaged assets, or (2) elect to close with the assets in their condition as of that time, in which case the College shall assign all proceeds from insurance on such lost or damaged assets to the University, and the University shall have the responsibility to repair or replace the assets. If the condition is not resolved, the University may elect to terminate the Agreement. Good business practice dictates the University should evaluate the existence of assets prior to closing and exercise its options under the Agreement to recoup any losses due to inappropriate disposition, loss or damage of property.

The University policy and Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, states that donated capital assets should be capitalized at the fair market or appraised value of the asset at the date it was donated plus all appropriate ancillary costs.

The State Property Control Act (30 ILCS 605/6.02) describes an agency's reporting responsibilities to the Department of Central Management Services (CMS). Agencies must also maintain a permanent record of all property. A listing of the permanent record is required to be submitted to CMS annually in a format prescribed by CMS. Illinois Administrative Code (Title 44, Subtitle D, Chapter 1, Part 5010.400) requires agencies to adjust property records within 30 days of acquisition, change or deletion of equipment items.

WIU management stated that management was not sufficiently aware of the complex steps involved in the acquisition process to ensure adequate controls are in place. A vice president of the University stated that he was aware that the Station was disposing of the analog equipment; however, there was no written authorization to the College that it was approved to dispose of the equipment. Further, University management stated that the donation of capital assets in conjunction with the acquisition of the Station were recorded on the University's books at historical cost less accumulated depreciation following verbal guidance from a staff member in the Illinois Office of the Comptroller. The total amount capitalized was based on the June 30, 2009 audited financial statements of the Station with additions and deletions through April 30, 2010 as provided by the College. At the time of the license transfer, the Station was in the process of moving and of transferring master control operations to a third

**State of Illinois  
Western Illinois University  
Schedule of Findings  
For the Year Ended June 30, 2010**

**Current Findings - *Government Auditing Standards* (Continued)**

**Finding No. 10-1 - Inadequate Controls Over Acquisition of Public TV Station (Continued)**

party vendor. WIU did not physically inventory equipment in May because of these moves. As equipment was not available for physical inventory until the end of June, Property Accounting staff members visited the Station to physically inventory and tag Station property as soon as possible after 2010 books were closed. The Office of Internal Audit became involved in the process as an audit of Property Accounting was being conducted. Once Property Accounting with the assistance of Internal Audit concluded their assessment of the physical inventory, the 2010 accounting records were corrected and the C-15 was revised. University management also stated that the system satellite could not be located due to staff errors in tagging the equipment.

Failure to perform adequate due diligence on business acquisitions will result in failure to fully integrate identified risks into management or Board of Trustees decisions. Poor physical controls over fixed assets might result in fraud or property losses. Since the University performed a complete equipment inventory after the closing date, there is an increased risk that the value of the missing equipment from the College may not be recovered.

Failure to properly record transactions and account balances may result in inaccurate and incomplete financial statements. Also, transactions were not recorded in accordance with GAAP and University policy. In addition, inaccurate property reporting reduces the reliability of University capital asset information. (Finding Code No. 10-1)

*Recommendation*

We recommend the University implement a formal risk assessment process, perform thorough due diligence, and re-evaluate its financial reporting risk every time it undergoes an unusual, non-recurring, or other complex type of transaction such as acquisition of a business, so that management and the Board of Trustees can make informed decisions. We also recommend that the University implement comprehensive review procedures to ensure that the transactions and account balances are properly recorded in accordance with generally accepted accounting principles. Further, the University should ensure that equipment records are accurately maintained and updated in a timely manner. Finally, the University should evaluate whether any legal remedies can and should be pursued.

*University Response*

The University agrees with the finding. As mentioned above, the acquisition and license transfer of the public television station was from a community college to the University. It was a complex, one-time transaction between the University and community college, compounded by the station relocation, conversion from analog to digital transmission and the outsourcing of

**State of Illinois  
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Schedule of Findings  
For the Year Ended June 30, 2010**

**Current Findings - *Government Auditing Standards* (Continued)**

**Finding No. 10-1 - Inadequate Controls Over Acquisition of Public TV Station (Continued)**

technological functions during the period of license transfer. The University will ensure that future new equipment is properly inventoried and that equipment items acquired are tagged in a timely manner. Both the Macomb and Quad Cities campuses are committed to working closely together and will conduct a review of campus-based functions to ensure that appropriate business practices are followed. The University has evaluated its options and does not plan to seek legal remedies. The questioned equipment is obsolete.

**State of Illinois  
Western Illinois University  
Schedule of Findings  
For the Year Ended June 30, 2010**

**Current Findings - *Government Auditing Standards* (Continued)**

**Finding No. 10-2 - Inadequate Process for Evaluating the Estimated Allowance for Doubtful Accounts Receivable**

The University did not establish an adequate process to evaluate estimated allowance for doubtful accounts.

The University estimated the allowance for doubtful accounts of the student accounts receivable to be \$3,868,300 at the end of June 30, 2010, which represented 51% of the student accounts receivable balance at the end of the fiscal year. The allowance for doubtful accounts was computed based on the total balance of the receivables over one year and 1% of the total revenues for the current fiscal year. During our audit, we noted that the University did not establish a process to evaluate the reasonableness of these estimates. There was not sufficient data on which the estimates were based that were available for review. As such, we could not test the information used by management to develop the estimates.

Generally accepted accounting principles (GAAP) require that allowance for uncollectible accounts represent management's best estimates for the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events, as well as assumptions used. In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to ensure proper financial reporting.

University management stated that the allowance for doubtful accounts estimate was established several years ago based on the fact that student accounts receivable remain on the books for approximately 5 years before being written off due to extensive collection efforts. Collection efforts include in-house collections and placement with a collection agency and/or an attorney. Management stated that since the practice of writing off accounts receivable has not changed, neither has the basis for the allowance estimate. In Fiscal Year 2009 and 2010, the University actually wrote off 8% of total student accounts receivable.

Due to the degree of uncertainty and subjectivity associated in establishing an accounting estimate, failure to establish a periodic process for determining and analyzing the estimate increases the likelihood of material misstatements of accounting estimates. (Finding Code No. 10-2)

**State of Illinois  
Western Illinois University  
Schedule of Findings  
For the Year Ended June 30, 2010**

**Current Findings - *Government Auditing Standards* (Continued)**

**Finding No. 10-2 - Inadequate Process for Evaluating the Estimated Allowance for Doubtful Accounts Receivable (Continued)**

*Recommendation*

We recommend the University management establish an adequate process to prepare annual accounting estimates. Specifically, we recommend the following:

- Accumulate relevant, sufficient, and reliable data on which to base an accounting estimate;
- Identify relevant factors that may affect the accounting estimate;
- Adequately review and approve the accounting estimates by appropriate levels of authority. The review should include review of sources of relevant information, developments of assumptions, reasonableness of assumptions and resulting estimates, and changes in previously established methods to arrive at accounting estimates.
- Compare prior accounting estimates with subsequent results to assess the reliability of the process used to develop estimates;
- Consider whether the resulting accounting estimates are consistent with the operational plans of the University; and
- Determine that the accounting estimate is presented in conformity with applicable accounting principles and properly disclosed.

*University Response*

The University agrees with the finding. The University will develop a process to evaluate the reasonableness of the accounting estimate.