STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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State of Illinois
Western Illinois University

University Officials

President	Dr. Jack Thomas
Provost and Academic Vice President	Dr. Kenneth Hawkinson
Vice President for Student Services	Dr. Gary Biller
Vice President for Administrative Services	Ms. Julie DeWees (Effective 04/01/12 to present) (Interim (06/30/11 to 03/31/12)
Vice President for Advancement and Public Services	Mr. Brad Bainter
Vice President for Quad Cities and Planning	Dr. Joseph Rives
Assistant Vice President for Administrative Services	Ms. Dana Biernbaum
Director of Internal Auditing	Ms. Rita M. Moore
Assistant Comptroller	Ms. Barbara Thompson
Assistant Comptroller	Ms. Cheryl Webster
Assistant Comptroller	Ms. Lisa Hinman

University offices are located at:

Macomb Campus
1 University Circle
Macomb, Illinois 61455-1390

Quad Cities Campus
3300 River Drive
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 unqualified opinions 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 significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings listed on pages 42 through 48 of this report as findings 12-1, *Inadequate Controls over University Property and Equipment*, and 12-2, *Inadequate Controls Over Reporting Accrued Compensated Absences*.

Exit Conference

The University waived having an exit conference in a letter dated January 24, 2013 from Barbara Thompson, Assistant Comptroller.

Responses to the recommendations were provided by Barbara Thompson, Assistant Comptroller, in a letter dated February 7, 2013.

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 aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2012, 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. We did not audit the financial statements of the aggregate discretely presented component unit. The financial statements of the discretely presented component unit were audited by other auditors whose reports thereon has been provided to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component unit, is based solely on the report of the other auditors. The prior year partial comparative information has been derived from the University's June 30, 2011 financial statements and in our report dated February 8, 2012 we expressed unqualified opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component unit.

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, assessing the accounting principles used and the 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 aggregate discretely presented component unit of the University, as of June 30, 2012, and the respective changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

In accordance with *Government Auditing Standards*, we have also issued a report dated March 18, 2013 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.

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

E. C. Ortiz & Co., LLP

Chicago, Illinois
March 18, 2013

State of Illinois
Western Illinois University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2012

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, 2012. 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

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, 2012 and 2011 is as follows:

Condensed Statement of Net Assets

	2012	2011
Assets		
Current assets	$ 124,385,381	$ 119,213,904
Capital assets, net of accumulated depreciation	210,480,188	173,565,011
Other assets	4,239,550	3,380,587
Total assets	339,105,119	296,159,502
Liabilities		
Current liabilities	33,891,389	34,214,268
Noncurrent liabilities	115,675,637	97,019,660
Total liabilities	149,567,026	131,233,928
Net assets		
Invested in capital assets, net of related debt	136,055,293	122,136,440
Restricted	1,986,908	2,047,052
Unrestricted	51,495,892	40,742,082
Total net assets	$ 189,538,093	$ 164,925,574

A review of the University's Statement of Net Assets at June 30, 2012 shows that the University continues to build upon its strong financial foundation with assets of $339.1 million and liabilities of $149.6 million. Net assets, the difference between total assets and total liabilities, increased $24.6 million or 14.9% over the previous year.

Total assets increased $42.9 million or 14.5% during fiscal year 2012. Cash and cash equivalents increased $29.6 million from unspent debt issue proceeds for capital projects. The investments decreased $15.0 million as the University liquidated investments to fund scheduled capital projects. The University continued to experience delays in reimbursement for state-funded expenditures. Capital assets increased $36.9 million.

Total liabilities increased $18.3 million or 14.0% during fiscal year 2012. The University issued the Series 2012 Revenue Bonds for $33.5 million in March 2012. The Series 2002 Revenue Bonds of $7.9 million were refunded in fiscal year 2012. Total long-term debt increased $22.1 million. Accounts payable increased $6.3 million primarily due to expenditures for capital projects. Accrued payroll decreased $7.9 million due to the timing of payrolls at year-end.

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, 2012 and 2011 is as follows:

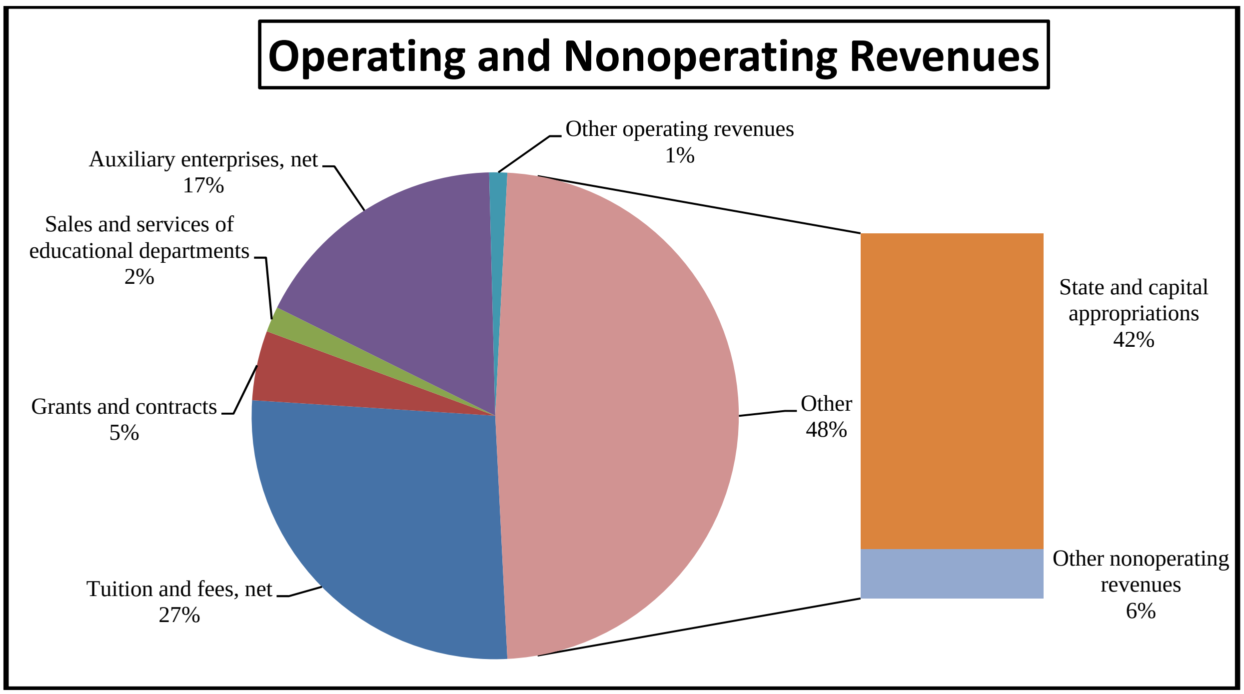
<u>Condensed Statement of Revenues, Expenses and Changes in Net Assets</u>

	2012	2011
Total operating revenues	$156,821,053	$148,085,287
Total operating expenses	(277,524,571)	(262,048,789)
Operating loss	(120,703,518)	(113,963,502)
Nonoperating revenues	138,449,816	128,641,657
Nonoperating expenses	(2,097,697)	(2,066,799)
Income before capital items	15,648,601	12,611,356
Capital State appropriations	8,963,918	11,471,389
Capital gifts	-	50,000
Increase in net assets	24,612,519	24,132,745
Net assets, beginning of year	164,925,574	140,792,829
Net assets, end of year	$189,538,093	$164,925,574

Total revenues increased $16.0 million or 5.5% to $304.2 million. The primary sources of funding for academic programs are student tuition and State appropriations. In fiscal year 2012, tuition revenues increased due in part to an annual increase for tuition and fee rates as approved by the Board of Trustees. Revenue from Pell grants increased $1.1 million.

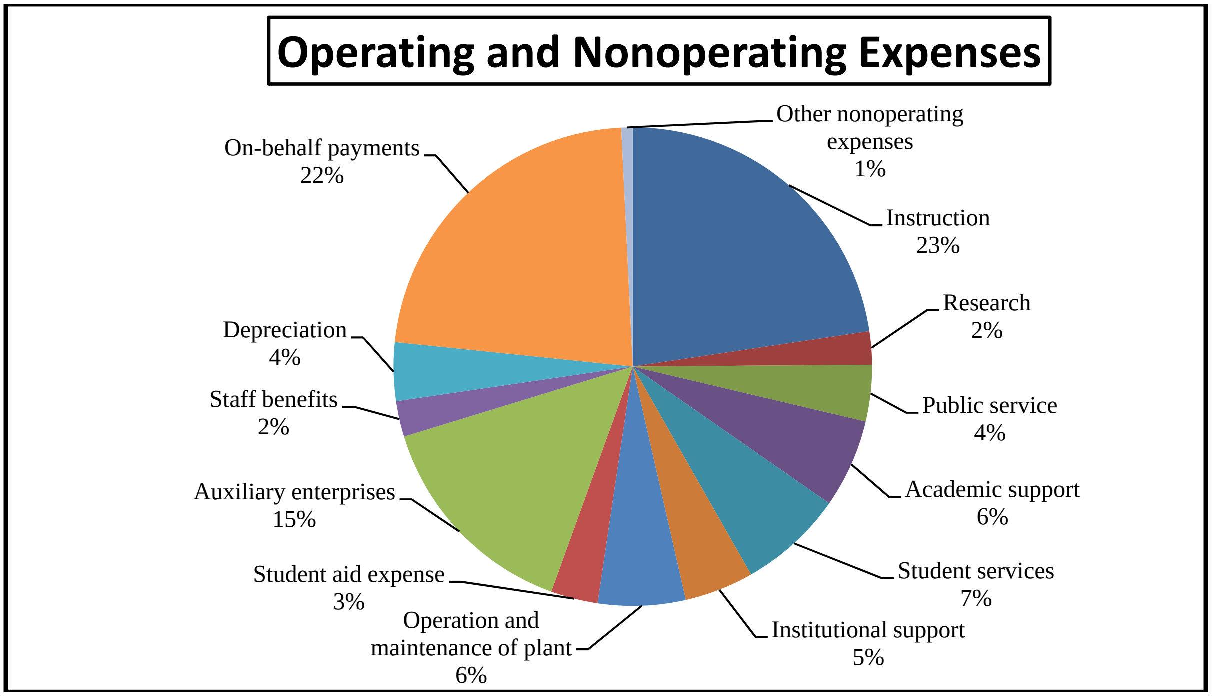
Total expenses increased $15.5 million or 5.9% to $279.6 million. Overall functional expenses increased during fiscal year 2012. Contributions by the State for on-behalf payments related to employee benefits increased $8.6 million.

For the fiscal year ended June 30, 2012, all sources of revenues totaled $304.2 million. The following is a graphical illustration of revenues by source:



State of Illinois
Western Illinois University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2012

For the fiscal ended June 30, 2012, expenses totaled $279.6 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, 2012 and 2011 is as follows:

<u>Condensed Statement of Cash Flows</u>

	2012	2011
Cash provided by (used in):		
Operating activities	$ (59,895,936)	$ (50,339,257)
Noncapital financing activities	87,144,489	65,958,095
Capital and related financing activities	(13,033,570)	13,207,773
Investing activities	15,357,957	(17,813,316)
Net increase in cash and cash equivalents	29,572,940	11,013,295
Cash and cash equivalents, beginning of year	54,902,177	43,888,882
Cash and cash equivalents, end of year	$ 84,475,117	$ 54,902,177

Major sources of funds included in operating activities are student 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 increased $9.6 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations and Pell grant revenues. Cash provided from noncapital financing activities increased $21.2 million.

The Series 2012 Revenue Bonds issued during the fiscal year provided an inflow of $34.1 million for capital projects. Funds from the issuance were used to refund the Series 2002 Revenue Bonds of $7.9 million. Funds allocated for the acquisition and construction of capital assets increased $16.8 million.

Cash used in investing activities increased $33.2 million as more funds were moved to cash equivalents for capital project funding.

Capital Assets and Debt Administration

The University had $430.7 million invested in capital assets at the end of fiscal year 2012. Capital assets net of accumulated depreciation totaled $210.5 million. Depreciation expense for the current year was $11.0 million.

The University continues to renovate its campus facilities. The University issued the Series 2012 Revenue Bonds for $33.5 million in March 2012 to fund capital improvements to Thompson Hall and the University Union. The Series 2002 Revenue Bonds of $7.9 million were refunded in fiscal year 2012. Construction in progress at June 30, 2012 increased $23.1 million over the prior year. Phase I of the Riverfront Campus in Moline was completed during fiscal year 2012. Construction in progress includes renovations to residence halls, heating plant upgrades, and steam line replacements.

University's Economic Outlook

The ability of the University to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support and the cost of health care, utilities, employee compensation and benefits and State and federal mandates.

A crucial element to the University's future will continue to be our relationship with the State of Illinois, as we work to manage tuition to make it competitive while providing an outstanding college education for our students. There is a direct relationship between the growth of State support, the impact of state regulations and the University's ability to control tuition growth. The trend of declining State support, the lack of capital investment, declining student assistance and the increase in regulations will result in increased tuition and fees. Standard & Poor's Rating Services revised its outlook to stable from negative, on debt issued by the University.

State appropriations represent operating support provided by the Governor and General Assembly for University programs. The fiscal year 2013 budget of $52.2 million, as passed by the General Assembly and signed by the Governor, decreased $3.4 million or 6.1%, from the 2012 approved budget.

The University projects an increase in tuition and miscellaneous revenues. The recommended $72.3 million fiscal year 2013 tuition and miscellaneous revenues budget represents a $0.8 million or 1.1% increase from fiscal year 2012. The estimated increase in tuition revenues is the result of a 4.75% tuition rate increase approved by the Board of Trustees in June 2012. Because of the reduction in the fiscal year 2013 State appropriation, the University's recommended income fund expenditure budget is $74.9 million. The 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 2012.

The University's Auxiliary Enterprises funds budget for fiscal year 2013 as approved by the Board of Trustees reflects a $1.2 million decrease in spending over fiscal year 2012. Other institutional funds include revenues from sponsored projects and departmental activity revenues. The 2013 budget for these funds as approved by the Board of Trustees reflects an increase in spending over fiscal year 2012.

Private gifts are an important supplement to the University's sources of funding for operating costs. In fiscal year 2012, alumni, friends, staff, corporations, and other organizations contributed nearly $6.5 million to the Foundation in support of the University. The Foundation distributed nearly $6.6 million in fiscal year 2012 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. Management has historically made the necessary decisions to ensure the strength of the University. However, going forward the University's management team will find the cost containment decisions to have increased complexity should reductions continue, regulations increase, or if decisions are made that require the shift of expenses to the University.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2012
(With Partial Financial Information as of June 30, 2011)

	University		Component Unit	
	2012	**2011**	**2012**	**2011**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 84,334,052	$ 54,825,938	$ 3,096,836	$ 3,540,099
Cash and cash equivalents, restricted	141,065	76,239	-	-
Investments	13,021,405	28,004,685	4,436,371	3,918,627
Accounts receivable, net	9,301,799	8,059,275	1,121,713	3,950,355
Student loans receivable, net	377,736	388,028	-	-
Due from component unit	146,343	98,031	-	-
Due from primary government	14,477,971	25,359,680	-	-
Inventories	2,411,091	2,225,104	28,445	-
Prepaid expenses	31,571	52,396	80,680	34,580
Other assets	142,348	124,528	-	-
Total current assets	124,385,381	119,213,904	8,764,045	11,443,661
Noncurrent assets:				
Investments	-	-	874,663	457,494
Endowment investments	-	-	5,706,807	6,309,249
Endowment investments, restricted	-	-	22,715,917	21,566,560
Charitable remainder trusts, restricted	-	-	2,478,421	2,529,563
Accounts receivable, net	-	-	886,492	1,034,040
Student loans receivable, net	1,507,309	1,605,086	-	-
Capital assets, net of accumulated depreciation	210,480,188	173,565,011	4,140,104	1,140,104
Other assets	2,732,241	1,775,501	646,645	626,536
Total noncurrent assets	214,719,738	176,945,598	37,449,049	33,663,546
TOTAL ASSETS	339,105,119	296,159,502	46,213,094	45,107,207
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	11,437,188	5,095,763	103,043	81,628
Accrued payroll	8,258,300	16,206,185	-	-
Due to primary government	222,579	179,766	146,343	98,031
Deferred revenues	4,976,637	5,209,598	121,379	118,085
Charitable remainder trust distributions payable	-	-	41,730	43,713
Other liabilities	1,253,894	1,355,662	33,690	29,272
Notes payable	108,331	149,848	-	-
Revenue bonds payable	3,988,862	2,694,602	-	-
Certificates of participation	1,520,611	1,484,943	-	-
Compensated absences	2,124,987	1,837,901	-	-
Total current liabilities	33,891,389	34,214,268	446,185	370,729
Noncurrent liabilities:				
Notes payable	34,649	142,980	-	-
Revenue bonds payable	76,746,817	54,290,293	-	-
Certificates of participation	28,949,560	30,470,171	-	-
Other obligations	-	-	222,321	195,772
Compensated absences	9,944,611	12,116,216	-	-
Total noncurrent liabilities	115,675,637	97,019,660	222,321	195,772
TOTAL LIABILITIES	149,567,026	131,233,928	668,506	566,501
NET ASSETS				
Invested in capital assets, net of related debt	136,055,293	122,136,440	4,140,104	1,140,104
Restricted - nonexpendable	-	-	17,464,101	18,576,569
Restricted - expendable				
Loans	1,986,908	2,047,052	-	-
Other	-	-	8,984,008	7,825,581
Unrestricted	51,495,892	40,742,082	14,956,375	16,998,452
TOTAL NET ASSETS	$ 189,538,093	$ 164,925,574	$ 45,544,588	$ 44,540,706

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, 2012
(With Partial Financial Information for the Year Ended June 30, 2011)

	University		Component Unit	
	2012	2011	2012	2011
OPERATING REVENUES				
Tuition and fees, net	$ 81,496,306	$ 75,988,377	$ -	$ -
Grants and contracts	14,043,801	12,492,123	-	-
Sales and services of educational departments	5,158,900	5,106,058	-	-
Auxiliary enterprises, net	52,496,824	50,574,372	-	-
Student loan activities	65,476	84,142	-	-
Other operating revenues	3,559,746	3,840,215	5,368,635	7,719,203
Total operating revenues	156,821,053	148,085,287	5,368,635	7,719,203
OPERATING EXPENSES				
Instruction	62,972,278	61,150,804	1,141,038	926,587
Research	6,234,015	3,142,658	167,462	121,885
Public service	10,621,314	10,557,238	818,957	152,021
Academic support	17,793,589	17,268,784	233,795	118,160
Student services	19,713,883	20,013,208	520,542	581,083
Institutional support	12,988,188	12,814,727	1,060,664	2,052,185
Operation and maintenance of plant	16,462,678	15,463,334	576,102	58,795
Student aid expense	8,829,374	9,533,397	2,130,977	1,975,463
Auxiliary enterprises	41,013,799	40,884,119	-	-
Staff benefits	7,000,880	6,595,910	-	-
Depreciation	10,986,216	10,268,225	-	-
On-behalf payments	62,873,406	54,313,978	-	-
Other operating expenses	34,951	42,407	-	-
Total operating expenses	277,524,571	262,048,789	6,649,537	5,986,179
OPERATING INCOME (LOSS)	(120,703,518)	(113,963,502)	(1,280,902)	1,733,024
NONOPERATING REVENUES (EXPENSES)				
State appropriations	118,421,706	110,504,651	-	-
Gifts	1,170,607	320,827	-	-
Nonoperating grants	18,403,556	17,324,135	-	-
Loss on disposal of capital assets	(255,246)	(45,816)	-	-
Investment income	262,272	298,293	41,086	4,336,649
Interest on capital asset - related debt	(1,842,451)	(2,020,983)	-	-
Change in value of charitable remainder trusts	-	-	(75,601)	186,100
Other nonoperating revenues	191,675	193,751	526,799	673,020
Net nonoperating revenues	136,352,119	126,574,858	492,284	5,195,769
INCOME (LOSS) BEFORE CAPITAL ITEMS	15,648,601	12,611,356	(788,618)	6,928,793
Capital State appropriations	8,963,918	11,471,389	-	-
Additions to permanent endowments	-	-	1,792,500	888,665
Capital gifts	-	50,000	-	-
Total capital items	8,963,918	11,521,389	1,792,500	888,665
INCREASE IN NET ASSETS	24,612,519	24,132,745	1,003,882	7,817,458
NET ASSETS, BEGINNING OF YEAR	164,925,574	140,792,829	44,540,706	36,723,248
NET ASSETS, END OF YEAR	$ 189,538,093	$164,925,574	$ 45,544,588	$ 44,540,706

See accompanying notes to financial statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(With Partial Financial Information for the Year Ended June 30, 2011)

	University 2012	University 2011	Component Unit 2012	Component Unit 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$ 80,465,110	$ 75,604,571	$ -	$ -
Grants and contracts	13,141,311	12,846,007	-	-
Gifts for other than capital and endowment purposes	-	-	7,414,103	3,796,977
Payments for employee salaries and benefits	(145,905,714)	(135,159,128)	-	-
Payments for goods and services	(58,765,519)	(52,874,202)	(6,829,399)	(3,316,019)
Payments to annuitants	-	-	(188,472)	(165,967)
Payments for scholarships and fellowships	(9,340,944)	(10,098,991)	(2,130,977)	(1,975,463)
Student loans issued	(380,320)	(594,251)	-	-
Student loans collected	448,324	479,098	-	-
Student loans interest and fees collected	82,237	81,861	-	-
Auxiliary enterprises charges	51,990,174	50,314,890	-	-
Sales and services of educational departments	4,809,659	5,220,673	-	-
Other receipts	3,559,746	3,840,215	639,312	717,523
Net cash used in operating activities	(59,895,936)	(50,339,257)	(1,095,433)	(942,949)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	67,564,900	48,161,022	-	-
Capital appropriations for operating expenses	801,099	-	-	-
Gifts	227,805	231,987	1,792,500	888,665
Nonoperating grants	18,403,556	17,324,135	-	-
Nonoperating revenues, net	147,129	240,951	344,980	587,150
Net cash provided by noncapital financing activities	87,144,489	65,958,095	2,137,480	1,475,815
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital appropriations	923,209	-	-	-
Acquisition of capital assets	(31,272,500)	(14,466,683)	-	-
Proceeds from issuance of certificates of participation	-	11,600,260	-	-
Proceeds from issuance of revenue bonds	34,051,855	25,001,721	-	-
Payments of bond issuance costs	(130,847)	(181,945)	-	-
Bonds refunded/defeased	(7,768,728)	-	-	-
Deferred loss on bond refunding	(121,273)	-	-	-
Principal paid on capital debt	(4,399,848)	(5,244,349)	-	-
Interest paid on capital debt	(4,315,438)	(3,501,231)	-	-
Net cash provided by (used in) capital and related financing activities	(13,033,570)	13,207,773	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	34,000,986	22,005,073	7,397,320	4,545,872
Earnings on investments	356,971	187,465	1,686,541	2,255,949
Purchase of investments	(19,000,000)	(40,005,854)	(10,569,171)	(6,442,253)
Net cash provided by (used in) investing activities	15,357,957	(17,813,316)	(1,485,310)	359,568
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,572,940	11,013,295	(443,263)	892,434
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	54,902,177	43,888,882	3,540,099	2,647,665
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 84,475,117	$ 54,902,177	$ 3,096,836	$ 3,540,099

See accompanying notes to financial statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(With Partial Financial Information for the Year Ended June 30, 2011)

	University		Component Unit	
	2012	**2011**	**2012**	**2011**
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	$ (120,703,518)	$ (113,963,502)	$ (1,280,902)	$ 1,733,024
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
On-behalf payments	62,873,406	54,313,978	-	-
Capital assets donated	-	-	(3,000,000)	(2,000)
Depreciation expense	10,986,216	10,268,225	-	-
Actuarial adjustment to annuities payable	-	-	30,967	26,736
Changes in assets and liabilities:				
Receivables, net	(2,538,456)	(58,680)	3,158,009	(2,600,124)
Student loans receivables, net	108,069	(137,621)	-	-
Inventories	(185,987)	134,297	(28,445)	-
Prepaid expenses and other assets	(478,882)	104,518	(46,100)	1,164
Accounts payable and accrued liabilities	284,929	464,852	21,415	(36,982)
Accrued payroll	(7,947,885)	338,146	-	-
Due to University, net	-	-	48,312	(22,739)
Charitable remainder trust distribution payable	-	-	(1,983)	1,495
Other liabilities	(409,309)	(93,903)	3,294	(43,523)
Compensated absences	(1,884,519)	(1,709,567)	-	-
Net cash used in operating activities	$ (59,895,936)	$ (50,339,257)	$ (1,095,433)	$ (942,949)
NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES				
On-behalf payments	$ 62,873,406	$ 54,313,978	$ -	$ -
Capital asset acquisition via capital appropriations	7,239,610	11,471,389	-	-
Capital asset acquisition via support from Foundation	569,813	88,840	-	-
Capitalized interest	2,618,048	1,974,207	-	-
Capital asset changes in accounts payable	6,098,912	1,893,170	-	-
Other capital asset adjustments	372,939	50,000	-	-
Gifts in kind	-	-	476,523	561,056
Loss on disposal of equipment	(255,246)	(45,816)	-	-

See accompanying notes to financial statements.

State of Illinois
Western Illinois University
Notes to the Basic Financial Statements
June 30, 2012

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)

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, 2011, from which the partial information was derived.

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, 2012, 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.

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, 2012 was $128,201.

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:

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.

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 nonoperating 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, 2012 were $10,514,508 and $3,862,153, respectively.

Q. Collections

The University has collections of rare manuscripts and art that it does not depreciate. These collections adhere to the University's policy to (a) maintain them for public exhibition, education or research, (b) protect, keep unencumbered, care for and preserve them, and (c) require proceeds from their sale to be used to acquire other collection items.

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, 2012, the Foundation had a total of $3,686,522 of net cumulative appreciation from investment of donor-restricted endowments and Foundation designated endowments available for expenditure. 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.

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 $24,460 of new contribution income during fiscal year 2012. 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 Pronouncement

Effective July 1, 2011, the University adopted GASB No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. There was no significant impact on the University's financial statements as a result of adopting this statement.

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, 2012, the book balance of various University bank accounts and certificates of deposit was $18,732,183, while the bank balance was $18,714,990. The difference between these amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2012.

Foundation

At June 30, 2012, the book balance of the Foundation's various bank accounts was $173,380, while the bank balance was $205,275. 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, 2012.

Reconciliation of cash and cash equivalents to deposits:

	University	Foundation
Cash and cash equivalents	$ 84,334,052	$ 3,096,836
Cash and cash equivalents, restricted	141,065	–
Less: Money market funds classified as cash and cash equivalents	(78,701,293)	(2,923,456)
Cash on hand	(63,046)	–
Add: Certificates of deposit	13,021,405	–
Carrying amount of deposits	$ 18,732,183	$ 173,380

NOTE 3 - INVESTMENTS

University

At June 30, 2012, the University had investments with carrying and fair market values of $78,701,293 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.

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.

Foundation

At June 30, 2012, the Foundation held investments with the following maturities:

		Maturities in Years			
Type	Total Fair Value	Less Than One Year or No Maturity	1-5 Years	6-10 Years	Over 10 Years
U.S. Treasury notes	$ 379,965	$ –	$ 258,561	$ 121,404	$ –
U.S. Treasury bonds	111,389	–	–	–	111,389
U.S. agency obligations (FHLM, FNMA)	491,323	301,920	–	163,321	26,082
Municipal bonds	424,366	102,903	117,383	43,650	160,430
Corporate debt securities	2,121,190	234,235	1,274,187	363,551	249,217
Corporate equity securities	34,045	34,045	–	–	–
International equity securities	1,734,793	1,734,793	–	–	–
Cash equivalents held in investment pools	940,136	940,136	–	–	–
Real asset tax-exempt	1,269,108	500,000	–	–	769,108
Real assets exchange traded funds	1,831,244	1,831,244	–	–	–
Absolute return	5,033,439	4,177,754	654,347	201,338	–
Mutual funds, international equity	4,564,101	4,564,101	–	–	–
Mutual funds, domestic equity	6,201,249	6,201,249	–	–	–
Mutual funds, international debt	1,452,595	1,452,595	–	–	–
Open ended mutual funds, U.S. debt	5,685,708	5,685,708	–	–	–
Private equity	1,459,107	–	–	1,120,850	338,257
Total investments	$ 33,733,758	$ 27,760,683	$ 2,304,478	$ 2,014,114	$1,654,483

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 were $2,925,069 as of June 30, 2012. 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 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, 2012:

U.S. Treasury notes	$ 379,965
U.S. Treasury bonds	111,389
U.S. agency obligations (FHLM, FNMA)	491,323
Municipal bonds	424,366
Corporate debt securities	2,121,190
Cash equivalents held in investment pools	940,136
Open ended mutual funds, U.S. debt	1,452,595
Sub-total investments	5,920,964
Bank money market funds	2,735,295
Illinois Funds money market funds	188,161
Sub-total cash and cash equivalents	2,923,456
Total assets subject to interest rate risk	$ 8,844,420

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 19% of the total Foundation investments as of June 30, 2012. 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, 2012 are listed below.

Currency	*United States Dollar Equivalent*
Euro	$ 1,114,218
United Kingdom British Pound	1,326,050
Japanese Yen	997,976
Swiss Franc	453,993
Yuan Renminbi (China)	273,137
Brazilian Real	26,618
Australian Dollar	21,778
Other currencies, individually less than 1% of fund portfolio	2,078,339
Total	$ 6,292,109

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 Community Bank, and Charles Schwab.

At June 30, 2012, the Foundation had the following investments and their ratings:

Credit Rating per Standard and Poor's

	Total Fair Value	U.S. Treasury notes	U.S. Treasury bonds	U.S. Agency Obligations (FHLM, FNMA)	Corporate debt securities	Other
AAA	$ 491,354	$ 379,965	$ 111,389	$ –	$ –	$ –
AA+	301,920	–	–	301,920	–	–
AA-	30,175	–	–	–	30,175	–
A+	52,431	–	–	–	52,431	–
BBB+	72,460	–	–	–	72,460	–
Not Rated	32,785,418	–	–	189,403	1,966,124	30,629,891
	$ 33,733,758	$ 379,965	$ 111,389	$ 491,323	$ 2,121,190	$ 30,629,891

Credit Rating per Moodys's

	Total Fair Value	U.S. Treasury notes	U.S. Treasury bonds	U.S. Agency Obligations (FHLM, FNMA)	Corporate debt securities	Other
Aaa	$ 1,082,100	$ 379,965	$ 111,389	$ 491,323	$ 99,423	$ –
Aa1	21,234	–	–	–	–	21,234
Aa2	143,210	–	–	–	100,405	42,805
Aa3	184,570	–	–	–	136,731	47,839
A1	347,158	–	–	–	180,241	166,917
A2	393,290	–	–	–	361,065	32,225
A3	30,175	–	–	–	30,175	–
Baa1	72,460	–	–	–	72,460	–
B3	43,472	–	–	–	43,472	–
Not Rated	31,416,089	–	–	–	1,097,218	30,318,871
	$ 33,733,758	$ 379,965	$ 111,389	$ 491,323	$ 2,121,190	$ 30,629,891

Summary of Carrying Values

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

	University	Foundation
Cash and cash equivalents	$ 84,334,052	$ 3,096,836
Cash and cash equivalents, restricted	141,065	–
Investments	13,021,405	33,733,758
Total	$ 97,496,522	$ 36,830,594

Investments at June 30, 2012 are as follows:

	University	Foundation
Current:		
Investments	$ 13,021,405	$ 4,436,371
Noncurrent:		
Endowment investments	–	5,706,807
Endowment investments, restricted	–	22,715,917
Other investments	–	874,663
Sub-total	13,021,405	33,733,758
Money market funds classified as cash and cash equivalents	78,701,293	–
Total investments	$ 91,722,698	$ 33,733,758

Investment income for the year ended June 30, 2012 consisted of:

	University	Foundation
Interest, dividends, realized gains and market value changes	$ 262,272	$ 41,086

NOTE 4 - ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable are reported net of allowances for uncollectible accounts of $3,082,404 at June 30, 2012. Accounts receivable consisted of the following as of June 30, 2012:

Receivables from students	$ 8,427,252
Receivables from third parties	2,249,301
Receivables from funding agencies	1,707,650
Total gross receivables	12,384,203
Allowance for doubtful accounts	(3,082,404)
Total net receivables	$ 9,301,799

Student loans receivable totaling $2,339,845 are reported net of allowance for uncollectible loans of $454,800 at June 30, 2012.

NOTE 5 - CAPITAL ASSETS

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Net interest of $2,618,048 was capitalized during fiscal year 2012.

Capital asset activities for the University for the year ended June 30, 2012 were as follows:

	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Non-depreciable capital assets:					
Land and land improvements	$ 3,236,432	$ –	$ –	$ –	$ 3,236,432
Works of art and historical treasures	471,569	15,000	–	–	486,569
Construction in progress	30,124,413	42,794,233	(24,031)	(19,671,432)	53,223,183
Total non-depreciable capital assets	33,832,414	42,809,233	(24,031)	(19,671,432)	56,946,184
Depreciable capital assets:					
Site improvements	28,638,147	505,394	–	5,486,827	34,630,368
Buildings and building improvements	247,105,517	1,406,854	(201,295)	14,184,605	262,495,681
Equipment	74,000,608	3,522,148	(890,376)	–	76,632,380
Total depreciable capital assets	349,744,272	5,434,396	(1,091,671)	19,671,432	373,758,429
Less accumulated depreciation:					
Site improvements	15,016,536	983,159	–	–	15,999,695
Buildings and building improvements	127,939,357	7,059,440	(34,377)	–	134,964,420
Equipment	67,055,782	2,943,617	(739,089)	–	69,260,310
Total accumulated depreciation	210,011,675	10,986,216	(773,466)	–	220,224,425
Total depreciable capital assets, net	139,732,597	(5,551,820)	(318,205)	19,671,432	153,534,004
Capital assets, net	$ 173,565,011	$ 37,257,413	$ (342,236)	$ –	$ 210,480,188

Capital asset activities for the Foundation for the year ended June 30, 2012 were as follows:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Land and land improvements	$ 1,140,104	$ 3,000,000	$ –	$ 4,140,104

NOTE 6 - DEFERRED REVENUES

Deferred revenues consist of the following as of June 30, 2012:

Tuition and fees	$ 2,603,409
Grants and contracts	314,629
Sales and services of educational departments	657,940
Auxiliary enterprises	1,400,659
Total	$ 4,976,637

NOTE 7 - NOTES PAYABLE

The University has entered into installment purchase agreements for equipment and vehicles with an original cost of $637,901. The related notes payable obligations were recorded at the present value of the future minimum installment payments, discounted using applicable discount rates, which range from 3.55% to 5.33%. Notes payable activities for the year ended June 30, 2012 were as follows:

Balance, beginning of year	$ 292,828
Payments	(149,848)
Balance, end of year	$ 142,980
Current Portion	$ 108,331

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, 2012:

2013	$ 113,049
2014	36,497
Total minimum note payments	149,546
Less: amount representing interest	(6,566)
Present value of net minimum note payments	$ 142,980

NOTE 8 - REVENUE BONDS PAYABLE

General

At June 30, 2012, revenue bonds payable consists of Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2012, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2010, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2006, and Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2005.

Series 2012 Bonds

On March 6, 2012, the Series 2012 Revenue Bonds were issued in the principal amount of $33,520,000. The Series 2012 bonds are due April 1, 2032, with annual principal payments ranging from $1,290,000 to $3,130,000 commencing on April 1, 2013 and semi-annual interest payments beginning April 1, 2013 at 3.00% to 4.20%.

Proceeds from the sale of the Series 2012 Bonds will be used for issuance costs and to finance capital improvements to Thompson Hall and the University Union. In addition, a portion of the proceeds from the Series 2012 Bonds will be used to provide for the advance refunding of the outstanding Series 2002 Bonds in the principal amount of $7,890,000. The total principal amount was deposited into the Series 2002 Refunding Fund to redeem all of the Refunded Series 2002 bonds on their redemption date at a price equal to the principal amount thereof. As a result, the Series 2002 Bonds are considered defeased and the liability for that portion of the bonds has been removed from the University's Statement of Net Assets.

Although the current refunding resulted in the recognition of an accounting loss of $121,273 for the year ended June 30, 2012, the University in effect reduced it aggregate debt service payments by $983,824 over the next 10 years and obtained an economic gain of $851,778.

Series 2010 Bonds

On August 5, 2010, the Series 2010 Revenue Bonds (Build America Bonds) were issued in the principal amount of $25,510,000. The Series 2010 bonds are due April 1, 2033, with annual principal payments ranging from $1,120,000 to $2,010,000 commencing on April 1, 2017 and semi-annual interest payments beginning April 1, 2011 at 4.35% to 6.60%.

Proceeds from the sale of the Series 2010 Bonds will be used for issuance costs and to finance capital improvement renovations to Corbin and Olson Residence Halls including the Commons Dining Center.

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 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.

The Series 2002 Bonds with outstanding principal in the amount of $7,890,000 were refunded in fiscal year 2012.

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, 2012.

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Revenue Bonds Payable activities for the year ended June 30, 2012:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2002 Bonds	$ 8,500,000	$ –	$ 8,500,000	$ –	$ –
Series 2005 Bonds	10,125,000	–	1,425,000	8,700,000	1,475,000
Series 2006 Bonds	13,595,000	–	730,000	12,865,000	760,000
Series 2010 Bonds	25,510,000	–	–	25,510,000	–
Series 2012 Bonds	–	33,520,000	–	33,520,000	1,605,000
Unamortized premium	31,251	965,435	57,207	939,479	238,564
Unamortized discount	(114,666)	–	(26,460)	(88,206)	(8,160)
Deferred loss on refunding	(661,690)	(121,273)	(72,369)	(710,594)	(81,542)
	$56,984,895	$ 34,364,162	$10,613,378	$ 80,735,679	$ 3,988,862

Aggregate maturities of the bonds outstanding as of June 30, 2012 are as follows:

	Principal	Interest
2013	$ 3,840,000	$ 3,575,218
2014	3,900,000	3,507,785
2015	4,040,000	3,367,685
2016	4,190,000	3,206,085
2017	4,350,000	3,038,485
2018-2022	22,955,000	12,348,608
2023-2027	18,070,000	7,768,465
2028-2032	17,240,000	3,496,468
2033	2,010,000	132,659
	80,595,000	40,441,458
Unamortized premium	939,479	–
Unamortized discount	(88,206)	–
Deferred loss on refunding	(710,594)	–
	$ 80,735,679	$ 40,441,458

None of the bonds described above constitute obligations of either the State of Illinois or the Board of Trustees of Western Illinois University, but together with interest thereon, are payable solely from and are collateralized by: a) the net revenues of the Western Illinois University Auxiliary Facilities System, b) certain pledged student fees, and c) a pledge of student tuition. Maximum annual debt service as defined for all outstanding revenue bonds is $7,415,218. The estimated debt service coverage ratio based on revenues generated from operations is 1.65. The future pledged revenues for principal and interest in fiscal year 2013 are $121,036,458. Pledged revenue coverage is 12.50 in fiscal year 2012. Pledged revenues have a term of commitment through 2033.

NOTE 9 - CERTIFICATES OF PARTICIPATION PAYABLE

General

At June 30, 2012, certificates of participation consist of Western Illinois University Series 2011 Certificates of Participation, Western Illinois University Series 2010 Certificates of Participation and Western Illinois University Series 2005 Certificates of Participation.

Series 2011 Certificates of Participation

On March 30, 2011, the Series 2011 Certificates of Participation were issued in the principal amount of $11,775,000. The Series 2011 Certificates of Participation are due October 1, 2025 with annual principal payments ranging from $600,000 to $1,060,000 commencing October 1, 2011 and semi-annual interest payments beginning October 2, 2011 at 2.50% to 5.375%.

Proceeds from the sale of the Series 2011 Certificates of Participation will be used for issuance costs and to finance capital improvements projects to several campus buildings as well as Phase II of the campus steam line replacement plan.

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 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, 2012:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2005	$ 9,045,000	$ –	$ 445,000	$ 8,600,000	$ 460,000
Series 2010	11,170,000	–	440,000	10,730,000	445,000
Series 2011	11,775,000	–	600,000	11,175,000	620,000
Unamortized premium	7,559	–	6,270	1,289	1,289
Unamortized discount	(42,445)	–	(6,327)	(36,118)	(5,678)
	$ 31,955,114	$ –	$ 1,484,943	$ 30,470,171	$ 1,520,611

Aggregate maturities of the certificates of participation outstanding as of June 30, 2012 are as follows:

	Principal	Interest
2013	$ 1,525,000	$ 1,376,118
2014	1,570,000	1,330,003
2015	1,620,000	1,279,625
2016	1,670,000	1,221,826
2017	1,730,000	1,156,861
2018-2022	9,770,000	4,578,146
2023-2027	10,260,000	1,964,065
2028-2030	2,360,000	229,987
	30,505,000	13,136,631
Unamortized premium	1,289	–
Unamortized discount	(36,118)	–
	$ 30,470,171	$ 13,136,631

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.

NOTE 10 - 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, 2012, such accumulated benefits totaled $7,122,680.

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, 2012, such accumulated benefits totaled $4,946,919. Compensated absences activity for the year ended June 30, 2012 was as follows:

Balance, beginning of year	$ 13,954,117
Deductions	(1,884,519)
Balance, end of year	12,069,598
Less: current portion	(2,124,987)
Balance, end of year - noncurrent portion	$ 9,944,611

NOTE 11 - 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 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 for fiscal year 2013 is 34.51% 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, 2012, 2011, and 2010 were $27,890,164, $22,432,857 and $20,300,347, respectively, equal to the required contributions for each year.

NOTE 12 - 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 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 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 13 - 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.

NOTE 14 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2012, for the University are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 59,500,071	$ 3,420,501	$ 51,706	$ –	$ 62,972,278
Research	2,779,381	3,454,634	–	–	6,234,015
Public service	6,980,494	3,615,675	25,145	–	10,621,314
Academic support	12,722,499	5,060,650	10,440	–	17,793,589
Student services	11,153,454	8,507,926	52,503	–	19,713,883
Institutional support	10,425,774	2,562,414	–	–	12,988,188
Operation and maintenance of plant	9,350,166	7,112,512	–	–	16,462,678
Student aid	–	–	8,829,374	–	8,829,374
Auxiliary enterprises	16,063,029	24,538,731	412,039	–	41,013,799
Staff benefits	7,000,880	–	–	–	7,000,880
Depreciation expense	–	–	–	10,986,216	10,986,216
On-behalf payments	62,873,406	–	–	–	62,873,406
Other operating expenses	–	34,951	–	–	34,951
Total	$ 198,849,154	$ 58,307,994	$ 9,381,207	$ 10,986,216	$ 277,524,571

NOTE 15 - 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 2012, the Foundation did not specifically reimburse the University for $1,207,608 of personal service costs, facility use and other costs provided by the University. However, the Foundation gave the University $3,625,203 for fiscal year 2012, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Claims and Litigation

The University is currently involved in various claims and pending legal actions related to matters arising from the ordinary conduct of business. The University administration believes that ultimate disposition of the actions will not have a material effect on the financial statements of the University.

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and State governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursements of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Western Illinois University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 18, 2013. 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

Management of the University is responsible for establishing and maintaining effective 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, but 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.

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

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possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 12-1 and 12-2 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a 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.

Compliance and Other Matters

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

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 them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees and the University's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co. LLP

Chicago, Illinois
March 18, 2013

State of Illinois
Western Illinois University
Schedule of Findings
For the Year Ended June 30, 2012

Current Findings - *Government Auditing Standards*

Finding No. 12-1 - Inadequate Controls Over University Property and Equipment

Western Illinois University (University) had not established adequate internal controls over property records to ensure proper calculation and recording of depreciation expense. In addition, the management control created to determine whether additions to property and equipment are adequately supported, properly reported, and accurately recorded was not operating as intended.

During our review of the University's capital assets, the following were noted:

- Nine of 25 (36%) assets examined were not accurately depreciated during fiscal year 2012. Through further examination of all capital assets, it was determined that depreciation expenses on capital assets with additional capitalized costs in a fiscal year subsequent to the capitalized fiscal year were incorrectly calculated. To calculate depreciation expenses on these assets, the University's fixed assets inventory system rounds down the assets' useful lives by omitting the last two decimal digits (i.e., asset net useful life of 6.67 years was replaced by 6 years). Thus, useful lives of these assets were shortened which resulted in net overstatement of the University's depreciation expense and corresponding accumulated depreciation by approximately $76,675 in FY 2012.

- One of 4 (25%) quarterly Agency Reports of State Property (Form C-15) filed with the Illinois Office of the Comptroller during fiscal year 2012 was not accurate. The Form C-15 did not include the cost of equipment transferred by the Capital Development Board (CDB) to the University through the CDB Agency Turnover Report, during the second quarter of fiscal year 2012, totaling $1,724,308. The equipment was properly recorded in the University's financial statements as of fiscal year ended June 30, 2012.

- Seventeen pieces of furniture (classroom podiums), individually amounting to more than $500, totaling $69,943, were purchased during fiscal year 2012, but were not supported by an affidavit filed with the Department of Central Management Services (DCMS). The affidavit should list the reasons why the furniture must be purchased new as opposed to obtaining the equipment from the surplus property.

- One of 37 (3%) capital asset additions examined pertains to an equipment item donated by a federal agency in February 2012 which was erroneously recorded at historical cost and was depreciated for the full amount during fiscal year 2012. This error caused the depreciation expense and accumulated depreciation to be overstated by $348,000. The donated asset had zero net book value at the time of donation.

Current Findings - *Government Auditing Standards* (Continued)

Finding No. 12-1 - Inadequate Controls Over University Property and Equipment (Continued)

During the current year, the University reviewed its existing procedures to resolve prior year's issues on property and equipment however, the University did not update the fixed assets inventory system and correct miscalculations on capital asset depreciation.

The University calculates its depreciation using the straight line depreciation method by spreading the cost evenly over the life of the fixed assets. According to University policy, additional capitalized costs are depreciated over the remaining useful life of the main asset. Government Accounting Standards Board (GASB) Statement No. 34 paragraph 22, states that depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner.

The Statewide Accounting Management System (SAMS) Procedure 29.10.30 states that when an agency receives durable, movable equipment purchased by the CDB, the equipment should be recorded on the agency's property records as the equipment is received, and the equipment should be reported on the Form C-15 in the period during which the equipment's cost is transferred from the CDB.

The State Property Control Act (30 ILCS 605/7a) requires that State agencies that desire to purchase new furniture with a purchase price of $500 or more, shall first check with the DCMS to determine if any of the surplus furniture under the DCMS control can be used in place of new furniture. If an agency finds that it is unable to use the surplus property, the agency shall file an affidavit with the DCMS prior to any purchase specifying the types of new furniture to be bought, the quantities of each type of new furniture, the cost per type, the total cost per category, and the reasons why the furniture must be purchased new as opposed to obtaining it from surplus property.

GASB Statement No. 34 paragraph 18 requires that donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires agencies establish internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Current Findings - *Government Auditing Standards* (Continued)

Finding No. 12-1 - Inadequate Controls Over University Property and Equipment (Continued)

University management stated the overstatement of depreciation expense and the corresponding accumulated depreciation is due to system limitations for fixed assets with additional capitalized costs after the initial capitalization year. University management also stated the University received a cash advance from CDB for $1.724 million during the second quarter to facilitate efficient management of purchases for startup costs at the Riverfront Campus. The transfer of cash had not been a normal practice between the University and CDB and this led to the inaccurate data on Form C-15. In addition, non filing of affidavit with the DCMS prior to the purchase of furniture was due to oversight. Management stated that the staff who recorded the capital addition overlooked that the item was donated; thus, it was not recorded at fair market value.

Failure to properly calculate depreciation may result in the overstatement or understatement of capital asset records and an inaccurate presentation of the University's financial statements. Inaccurate property reporting reduces the reliability of University capital asset information and accountability for State property. Failure to submit new furniture affidavits prior to purchases may result in unnecessary expenditures of State funds. (Finding Code Nos. 12-1 and 11-1)

Recommendation

We recommend the University make the necessary adjustments to its capital asset depreciation calculations to ensure all assets have the correct depreciation amounts and book values at year end. Specifically, the University should work with its system administrators to update the values in the fixed assets inventory system so that these miscalculations do not continue in the future. We also recommend the University seek necessary reporting guidance to ensure equipment additions are timely and accurately recorded and C-15 reports are properly completed. Internal controls should be implemented to ensure new furniture affidavits are filed with DCMS and required approval is obtained from DCMS prior to purchasing furniture amounting to $500 or more. Further, controls should be strengthened to ensure donated assets are recorded at fair market value on the date of acquisition and depreciated over the asset's estimated useful life.

University Response

The University agrees with the finding. The University has modified its procedures for adding capitalized costs after the initial capitalization year to ensure correct depreciation expense and book values at year end. Additional controls for accurate completion of the C-15 report have

Current Findings - *Government Auditing Standards* (Continued)

Finding No. 12-1 - Inadequate Controls Over University Property and Equipment (Continued)

been implemented. The University will strengthen controls to ensure new furniture affidavits are filed with DCMS when applicable. Donated capital assets will be reviewed on a case-by-case basis to ensure accurate recording of the value and depreciation calculation at the time of acquisition.

Current Findings - *Government Auditing Standards* (Continued)

Finding No. 12-2 - Inadequate Controls Over Reporting Accrued Compensated Absences

Western Illinois University (University) did not have adequate controls in place for identifying and reporting the University's liability for accrued compensated absences.

The liability for accrued compensated absences reported on the University's financial statements amounted to $12,069,598 as of June 30, 2012. During our review of supporting documentation for the sick and vacation historical transaction report against the recorded liability for accrued compensated absences for 79 employees, the following were noted:

- Sick leave accruals totaling $47,540 were not recorded for 4 faculty employees. Of this amount, $46,155 pertains to the sick leave balances of 3 faculty employees who elected to be paid on Irrevocable Election to Retire (IER) payment plans. The IER is an installment payment plan which allows eligible employees to be paid unused sick leave accruals over a period of time (not exceeding 24 months) prior to the actual retirement date. Also, the unused sick leave of 1 faculty employee under the regular plan, amounting to $1,385, was not accrued at year end although the employee had a net sick leave hours balance reported in the sick and vacation historical transaction report.

- Vacation leave accruals totaling $12,998 were not recorded for 3 faculty employees. Of this amount, $12,140 pertains to 2 faculty employees with vacation leave hours reported in the sick and vacation historical transaction report but no corresponding amount was accrued at year end. Also, a portion of vacation leave accrual of a full-time temporary faculty employee of over a year, amounting to $858, was not accrued at year end.

- Vacation leave accruals totaling $15,034 were erroneously recorded at year end for 4 employees. Of this amount, $13,651 was accrued for two administrative employees who were on a 9-month contract. These employees were not eligible for vacation accrual but were assigned an erroneous leave code in the system that caused the incorrect accrual at year end. In addition, accrued vacation leave totaling $1,383 was recorded for 2 employees (faculty/administrative) for vacation leaves already taken.

Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*, requires that vacation leave, sick leave, and other compensated absences with similar characteristics be accrued as a liability as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means such as cash payments at termination or retirement (termination payments).

Current Findings - *Government Auditing Standards* (Continued)

Finding No. 12-2 - Inadequate Controls Over Reporting Accrued Compensated Absences (Continued)

The University Policy on IER per WIU-UPI Bargaining Agreement Section 27.7.g.3 (Unit A Faculty) and Section 41.7.h (Unit B Faculty) states the University's policy on sick leave buy out for faculty IER is pursuant to the Illinois Pension Code (40 ILCS 5/15 et. seq.).

The State Finance Act (30 ILCS 105/14a (f)) dictates how accrued sick leave and related payouts shall be computed upon employee separation.

Board of Trustees' (BOT) Regulations on vacation and sick leave for faculty and administrative employees state that upon termination of employment, an employee shall be entitled to a lump sum payment for accrued vacation leave. The BOT Regulations state terms and calculation of lump sum payments for eligible vacation leave days.

BOT Regulations on vacation leave accrual of temporary employees states that an employee hired specifically for a full-time temporary position, who is appointed to said position for more than one consecutive fiscal year, shall be eligible for vacation leave.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires agencies establish internal fiscal and administrative controls to provide assurance that obligations and costs are in compliance with applicable law; and that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

University management stated the errors in the accrual of compensated absences were mainly due to system errors and oversight.

Failure to implement adequate internal control procedures for identifying, calculating and reporting the University's liability for accrued compensated absences may result in misstatement of the University's financial statements. This also could result in incomplete and inaccurate disclosure of compensated absences liability and noncompliance with University policies and State statutes. (Finding Code No. 12-2)

Current Findings - *Government Auditing Standards* (Continued)

Finding No. 12-2 - Inadequate Controls Over Reporting Accrued Compensated Absences (Continued)

Recommendation

We recommend the University implement adequate controls to ensure that financial information on employee vacation and sick leave accruals is complete and accurate. Specifically, the University should work with its system administrators to update the values and codes in the payroll system so that discrepancies with sick and vacation leave historical transaction reports are timely resolved and errors will be avoided and/or timely detected. Further, monitoring and oversight procedures should be implemented on the review and confirmation of employee time cards.

University Response

The University agrees with the finding and will establish appropriate procedures to ensure accurate financial information related to employee vacation and sick leave accruals. Review of the controls for monitoring and performing reconciliations of vacation and sick leave accruals is in process.

State of Illinois
Western Illinois University
Prior Finding Not Repeated
For the Year Ended June 30, 2012

A. Inaccurate Accounting for Participation in Public Entity Risk Pool

In the prior examination, the University did not properly account for its participation in the State University Risk Management Association (SURMA) in accordance with accounting principles generally accepted in the United States of America (GAAP). The University did not record capital contributions to SURMA as an asset on the University's books or financial statements. Further, the University did not adequately monitor SURMA to ensure an annual audit was performed to assure accuracy of financial information reported to the University. (Finding Code No. 11-2)

Status: Not repeated
In the current examination, the University accounted for its participation in the SURMA in accordance with GAAP by recording the capital contributions based on the audited financial statements of SURMA as of June 30, 2012.