STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2014

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

State of Illinois
Western Illinois University
Financial Audit
For the Year Ended June 30, 2014

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Related Report Issued Under a Separate Cover

Western Illinois University
Compliance Examination (In accordance with the Single Audit Act and OMB Circular A-133) for the Year Ended June 30, 2014

State of Illinois
Western Illinois University
Financial Audit
For the Year Ended June 30, 2014

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
Vice President for Advancement and Public Services	Mr. Brad Bainter
Vice President for Quad Cities and Planning	Dr. Joseph Rives
Director of Business and Financial Services	Mr. Matthew Bierman, Interim (09/01/14 to Present) Vacant (09/07/13 to 08/31/14) Ms. Dana Biernbaum, Interim (Through 09/06/13)
Director of Internal Auditing	Ms. Rita Moore

Board of Trustees (as of June 30, 2014)

Chair	Cathy E. Early, Macomb
Vice Chair	Carolyn J. Ehlert Fuller, Milan
Secretary	Lynier R. Cole, Chicago
Member	Roger D. Clawson, Moline
Member	William L. Epperly, Chicago
Member	Phil G. Hare, Rock Island
Member	Yvonne S. Savala, Moline
Student Member	Andre B. Ashmore

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 Audit
For the Year Ended June 30, 2014

Financial Statement Report Summary

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

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

Summary of Findings

The auditors identified matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 44 through 48 of this report as items 2014-001, *Inadequate Controls Over Journal Entries*, and 2014-002, *Inaccurate Recording of Transactions*.

Exit Conference

The University waived having an exit conference in a letter dated November 26, 2014 from Matthew Bierman, Interim Director of Business and Financial Services and Budget Director.

The responses to the recommendations were provided by Matthew Bierman, Interim Director of Business and Financial Services and Budget Director, in a letter dated December 11, 2014.

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

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of Western Illinois University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those statements were audited by other auditors whose report has been furnished 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. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 of the University and its aggregate discretely presented component unit, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in Fiscal Year 2014, the University adopted new accounting guidance Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component unit of the University in our report dated December 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived, with the exception of the effects of the implementation of GASB Statement 65, as discussed in the emphasis of matter paragraph immediately preceding this section. Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 12 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

E. C. Ortiz & Co. LLP

Chicago Illinois
December 18, 2014

State of Illinois
Western Illinois University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

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, 2014. 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 Position; the Statement of Revenues, Expenses and Changes in Net Position; 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, net position, is one indicator of the financial condition of the University, while the change in net position 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 position is divided into three major categories, as follows: net investment in capital assets reflects the University's equity in capital assets; restricted net position 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 position are available to the University for any lawful purpose of the institution.

A comparative summary of the condensed Statement of Net Position for the years ended June 30, 2014 and 2013 is as follows. Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Condensed Statement of Net Position

	2014	2013
Assets		
Current assets	$ 84,485,888	$ 98,449,655
Capital assets, net of accumulated depreciation	270,221,524	244,022,963
Other assets	2,184,072	2,396,220
Total assets	356,891,484	344,868,838
Deferred outflow of resources	547,510	629,052
Liabilities		
Current liabilities	35,697,988	40,656,194
Noncurrent liabilities	105,788,666	111,879,672
Total liabilities	141,486,654	152,535,866
Net position		
Net investment in capital assets	169,896,891	140,096,553
Restricted	1,877,287	1,921,875
Unrestricted	44,178,162	50,943,596
Total net position	$ 215,952,340	$ 192,962,024

A review of the University's Statement of Net Position at June 30, 2014 shows that the University continues to build upon its strong financial foundation with assets and deferred outflow of resources of $357.4 million and liabilities of $141.5 million. Net position, the difference between total assets and deferred outflow of resources and total liabilities, increased $23 million or 11.9% over the previous year.

Total assets and deferred outflow of resources increased $11.9 million or 3.5% during Fiscal Year 2014. Cash and cash equivalents decreased $13.2 million as funds were expended for capital projects, deferred maintenance and operations. The University continued to experience delays in reimbursement for State-funded expenditures. Capital assets increased $26.2 million due to the construction of additional buildings on the University's Quad Cities campus which were funded by the Capital Development Board.

Total liabilities decreased $11.0 million or 7.2% during Fiscal Year 2014. Total long-term debt decreased $5.3 million from scheduled debt payments. Accounts payable decreased $5.3 million due to a decrease in University funded construction projects.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position 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 Position for the years ended June 30, 2014 and 2013 is as follows:

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

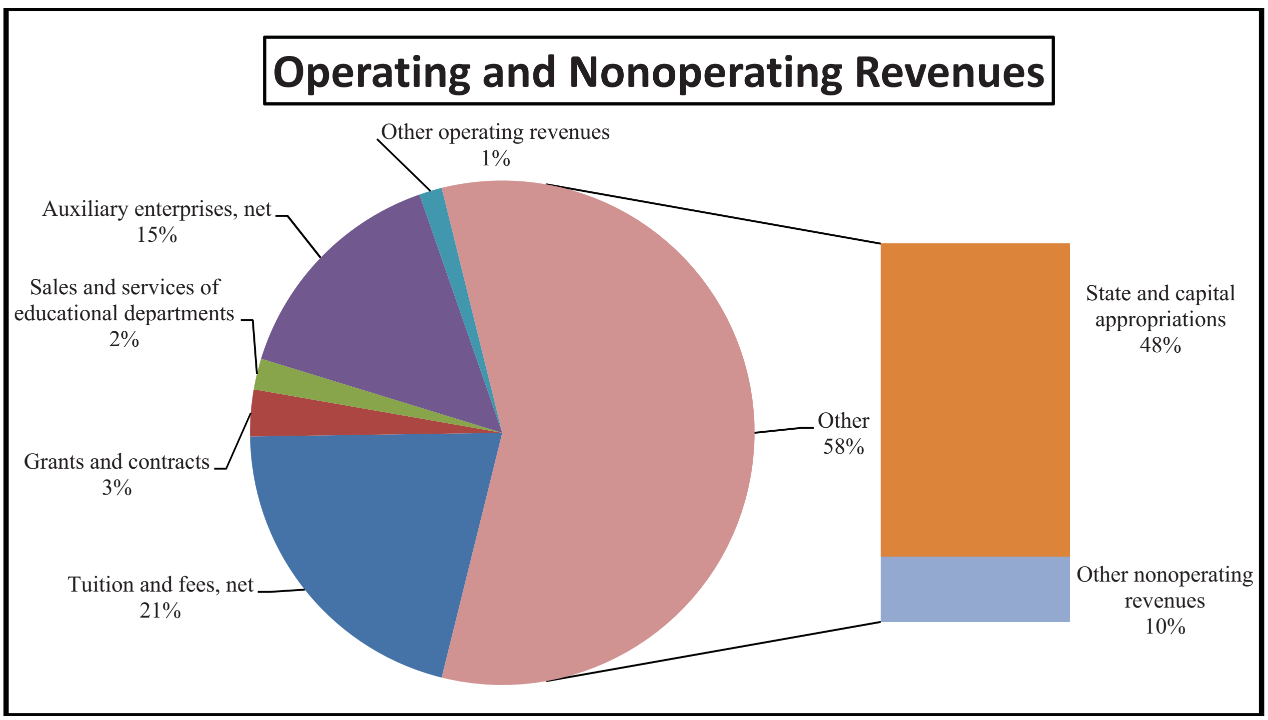
	2014	2013
Total operating revenues	$ 139,300,249	$141,096,311
Total operating expenses	(300,255,906)	(301,303,008)
Operating loss	(160,955,657)	(160,206,697)
Nonoperating revenues	162,494,351	163,292,941
Nonoperating expenses	(4,915,927)	(4,070,039)
Loss before capital items	(3,377,233)	(983,795)
Capital State appropriations	26,367,549	6,187,500
Increase in net position	22,990,316	5,203,705
Net position, beginning of year, as previously reported	192,962,024	189,538,093
Prior period adjustment	–	(1,779,774)
Net position, beginning of year, as restated	192,962,024	187,758,319
Net position, end of year	$ 215,952,340	$ 192,962,024

State of Illinois
Western Illinois University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2014

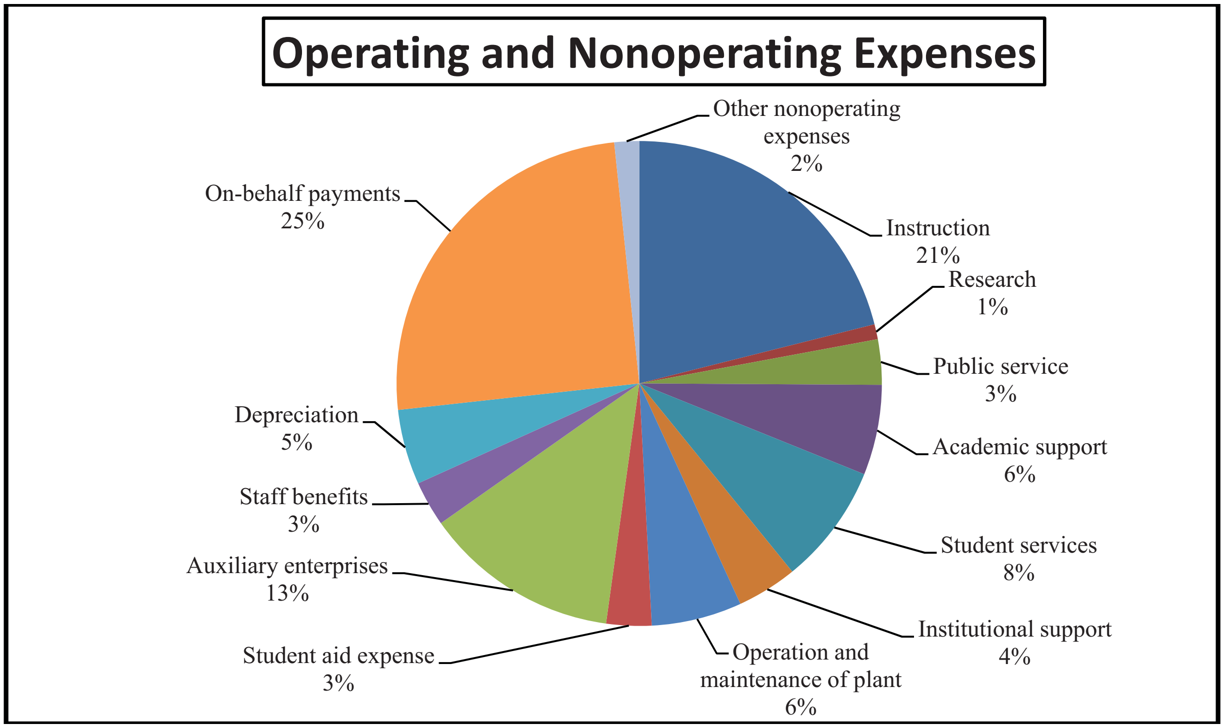
Total revenues increased $17.6 million or 5.7% to $328.2 million in 2014. Capital State appropriations increased $20.2 million as the University received funds from the Capital Development Board for construction on the University's Quad Cities campus.

Total expenses decreased $2 million or .65% to $305.2 million in 2014. Total operating expenses decreased by $1.0 million in 2014 due to reduced spending. There was a decrease in the loss of disposal of capital assets of $2.6 million due to the demolition of a residence hall incurred and completed during Fiscal Year 2013 and a $1.8 million prior period adjustment attributable to the accounting treatment of bond issuance cost in accordance with GASB No. 65, *Items Previously Reported as Assets and Liabilities*. Interest on capital asset-related debt increased $3.5 million due to lower interest cost capitalized on capital projects in Fiscal Year 2014 as most of these projects were completed during 2014.

For the fiscal year ended June 30, 2014, all sources of revenues totaled $328.2 million. The following is a graphical illustration of revenues by source:



For the fiscal year ended June 30, 2014, expenses totaled $305.2 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, 2014 and 2013 is as follows:

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

	2014	2013
Cash provided by (used in):		
Operating activities	$ (73,390,264)	$ (54,142,450)
Noncapital financing activities	85,908,047	81,637,505
Capital and related financing activities	(25,821,226)	(54,893,356)
Investing activities	136,223	13,275,989
Net decrease in cash and cash equivalents	(13,167,220)	(14,122,312)
Cash and cash equivalents, beginning of year	70,352,805	84,475,117
Cash and cash equivalents, end of year	$ 57,185,585	$ 70,352,805

Major sources of funds included in operating activity are student tuition and fees, grants and contracts and auxiliary enterprises. Payment 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 $19.2 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations, Monetary Award Program awards and Pell grant revenues. Cash provided by noncapital financing activities increased $4.3 million.

Several capital projects were completed in Fiscal Year 2013 contributing to an overall decrease of $29.1 million in cash used in capital and related financing activities.

Cash provided by investing activity decreased by $13.1 million as investments were liquidated to fund capital projects in Fiscal Year 2013.

Capital Assets and Debt Administration

The University had $509.9 million invested in capital assets at the end of Fiscal Year 2014. Capital assets net of accumulated depreciation totaled $270.2 million. Depreciation expense for the current year was $14.7 million.

The University continues to renovate its campus facilities. Renovations on Thompson Hall and Heating Plant were completed during Fiscal Year 2014 totaling $27.8 million and $4.9 million, respectively. Constructions of three new buildings on the Quad Cities Riverfront campus were in progress at the end of Fiscal Year 2014.

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 or decline 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 have and will continue to create more financial burden for our students through increased tuition and fees.

State appropriations represent operating support provided by the Governor and General Assembly for University programs. A Fiscal Year 2015 budget of $52.6 million was passed by the General Assembly and signed by the Governor. This is essentially a level appropriation from Fiscal Year 2014.

The University projects an increase in tuition and miscellaneous revenues. The approved Fiscal Year 2015 budget projects a $3.0 million increase in tuition and miscellaneous revenues. The estimated increase in tuition revenues is the result of a 2.7% tuition rate increase approved by the Board of Trustees in March 2014. With the Fiscal Year 2015 State appropriation, the University's recommended income fund expenditure budget is $79.9 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 2014.

The University's Auxiliary Enterprises funds budget for Fiscal Year 2015 as approved by the Board of Trustees reflects level spending over Fiscal Year 2014. Other institutional funds include revenues from sponsored projects and departmental activity revenues. The 2015 budget for these funds as approved by the Board of Trustees reflects a $1.0 million increase in spending over Fiscal Year 2014.

Private gifts are an important supplement to the University's sources of funding for operating costs. In Fiscal Year 2014, alumni, friends, staff, corporations, and other organizations contributed nearly $7.2 million to the Foundation in support of the University. The Foundation distributed nearly $7.7 million in Fiscal Year 2014 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.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2014
(With Partial Financial Information as of June 30, 2013)

	University		Component Unit	
	2014	**2013**	**2014**	**2013**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 57,010,613	$ 70,251,817	$ 3,541,526	$ 3,562,469
Cash and cash equivalents, restricted	174,972	100,988	-	-
Investments	-	-	4,708,053	4,390,180
Accounts receivable, net	9,728,314	10,553,007	1,163,602	1,245,545
Student loans receivable, net	430,373	395,246	-	-
Due from component unit	128,403	120,997	-	-
Due from primary government	13,914,961	14,270,508	-	-
Inventories	2,978,433	2,668,280	2,839	61,085
Prepaid expenses	98,838	67,831	90,037	101,968
Other assets	20,981	20,981	-	3,000,000
Total current assets	84,485,888	98,449,655	9,506,057	12,361,247
Noncurrent assets:				
Investments	-	-	733,425	473,486
Endowment investments	-	-	5,983,850	5,802,420
Endowment investments, restricted	-	-	37,236,371	26,331,829
Charitable remainder trusts, restricted	-	-	4,060,421	2,692,991
Accounts receivable, net	-	-	564,405	730,986
Student loans receivable, net	1,344,740	1,473,984	79,912	77,556
Capital assets, net of accumulated depreciation	270,221,524	244,022,963	1,105,104	1,105,104
Other assets	839,332	922,236	703,531	675,754
Total noncurrent assets	272,405,596	246,419,183	50,467,019	37,890,126
TOTAL ASSETS	356,891,484	344,868,838	59,973,076	50,251,373
DEFERRED OUTFLOW OF RESOURCES				
Unamortized losses on bond refundings	547,510	629,052	-	-
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	4,780,226	10,108,992	107,457	80,825
Accrued payroll	16,593,016	16,313,865	-	-
Due to primary government	126,933	121,880	128,403	120,997
Unearned revenue	4,847,622	5,172,684	399,102	120,352
Charitable remainder trust distributions payable	-	-	114,409	44,335
Other liabilities	1,534,187	1,355,581	44,940	41,190
Notes payable	128,835	34,649	-	-
Revenue bonds payable	4,200,133	4,095,420	-	-
Certificates of participation	1,615,562	1,564,808	-	-
Compensated absences	1,871,474	1,888,315	-	-
Total current liabilities	35,697,988	40,656,194	794,311	407,699
Noncurrent liabilities:				
Notes payable	263,951	-	-	-
Revenue bonds payable	69,080,317	73,280,449	-	-
Certificates of participation	25,769,190	27,384,752	-	-
Other liabilities	-	-	267,174	259,142
Compensated absences	10,675,208	11,214,471	-	-
Total noncurrent liabilities	105,788,666	111,879,672	267,174	259,142
TOTAL LIABILITIES	141,486,654	152,535,866	1,061,485	666,841
NET POSITION				
Net investment in capital assets	169,896,891	140,096,553	1,105,104	1,105,104
Restricted - nonexpendable	-	-	25,737,410	21,765,670
Restricted - expendable				
Loans	1,877,287	1,921,875	-	-
Other	-	-	11,281,971	9,330,375
Unrestricted	44,178,162	50,943,596	20,787,106	17,383,383
TOTAL NET POSITION	$ 215,952,340	$ 192,962,024	$ 58,911,591	$ 49,584,532

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014
(With Partial Financial Information for the Year Ended June 30, 2013)

	University		Component Unit	
	2014	2013	2014	2013
OPERATING REVENUES				
Tuition and fees, net	$ 70,658,513	$ 71,342,301	$ -	$ -
Grants and contracts	10,649,936	9,833,111	-	-
Sales and services of educational departments	5,156,684	5,474,752	-	-
Auxiliary enterprises, net	48,008,630	50,625,418	-	-
Student loan activities	51,256	58,445	-	-
Other operating revenues	4,775,230	3,762,284	6,661,486	5,203,551
Total operating revenues	139,300,249	141,096,311	6,661,486	5,203,551
OPERATING EXPENSES				
Instruction	63,851,972	62,799,450	1,224,730	938,398
Research	3,575,944	3,835,902	106,933	75,592
Public service	10,478,375	9,250,223	1,157,037	927,737
Academic support	17,401,648	17,712,701	122,927	147,121
Student services	23,698,404	19,997,584	577,248	546,989
Institutional support	13,810,986	13,321,350	1,510,550	1,163,223
Operation and maintenance of plant	17,459,050	16,437,591	369,318	162,490
Student aid expense	9,007,606	8,504,416	2,601,568	2,215,815
Auxiliary enterprises	40,559,720	47,017,745	-	-
Staff benefits	8,281,208	9,357,808	-	-
Depreciation	14,700,384	12,633,211	-	-
On-behalf payments	77,330,961	80,402,307	-	-
Other operating expenses	99,648	32,720	-	-
Total operating expenses	300,255,906	301,303,008	7,670,311	6,177,365
OPERATING LOSS	(160,955,657)	(160,206,697)	(1,008,825)	(973,814)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	130,106,057	132,570,103	-	-
Gifts	642,295	434,795	-	-
Nonoperating grants	31,443,005	29,863,852	-	-
Gain/(loss) on disposal of capital assets	(8,076)	(2,641,282)	2,637,264	-
Investment income	136,223	243,606	5,412,970	3,163,011
Interest on capital asset - related debt	(4,907,851)	(1,428,757)	-	-
Change in value of charitable remainder trusts	-	-	212,213	194,765
Other nonoperating revenues	166,771	180,585	582,836	398,653
Net nonoperating revenues	157,578,424	159,222,902	8,845,283	3,756,429
INCOME (LOSS) BEFORE CAPITAL ITEMS	(3,377,233)	(983,795)	7,836,458	2,782,615
Capital State appropriations	26,367,549	6,187,500	-	-
Additions to permanent endowments	-	-	1,490,601	1,257,329
Total capital items	26,367,549	6,187,500	1,490,601	1,257,329
INCREASE IN NET POSITION	22,990,316	5,203,705	9,327,059	4,039,944
NET POSITION, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	192,962,024	189,538,093	49,584,532	45,544,588
PRIOR PERIOD ADJUSTMENT	-	(1,779,774)	-	-
NET POSITION, BEGINNING OF YEAR AS RESTATED	192,962,024	187,758,319	49,584,532	45,544,588
NET POSITION, END OF YEAR	$ 215,952,340	$ 192,962,024	$ 58,911,591	$ 49,584,532

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(With Partial Financial Information for the Year Ended June 30, 2013)

	University		Component Unit	
	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees, net	$ 70,744,748	$ 71,414,365	$ -	$ -
Grants and contracts	10,970,451	10,157,371	-	-
Gifts for other than capital and endowment purposes	-	-	4,462,499	4,052,285
Payments for employee salaries and benefits	(140,695,545)	(128,571,418)	-	-
Payments for goods and services	(63,570,580)	(58,000,981)	(4,138,350)	(3,356,761)
Payments to annuitants	-	-	(282,945)	(206,085)
Payments for scholarships and fellowships	(8,964,951)	(8,675,015)	(2,601,568)	(2,215,815)
Student loans issued	(403,845)	(487,855)	-	-
Student loans collected	455,307	453,376	-	-
Student loans interest and fees collected	72,992	72,720	-	-
Auxiliary enterprises charges	48,015,630	50,356,439	-	-
Sales and services of educational departments	5,210,299	5,376,264	-	-
Other receipts	4,775,230	3,762,284	1,007,959	689,460
Net cash used in operating activities	(73,390,264)	(54,142,450)	(1,552,405)	(1,036,916)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	53,334,121	51,279,933	-	-
Capital appropriations for operating expenses	648,860	110,127	-	-
Gifts	298,712	244,131	1,490,601	1,257,329
Nonoperating grants	31,443,005	29,863,852	-	-
Nonoperating revenues, net	183,349	139,462	309,400	395,280
Cash provided by noncapital financing activities	85,908,047	81,637,505	1,800,001	1,652,609
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital State appropriations	-	64,259	-	-
Acquisition of capital assets	(15,476,943)	(44,526,869)	-	-
Proceeds from sale of land	-	-	5,637,264	-
Payments of bond issuance costs	-	(1,360)	-	-
Principal paid on capital debt	(5,504,649)	(5,473,331)	-	-
Interest paid on capital debt	(4,839,634)	(4,956,055)	-	-
Net cash provided by (used in) capital and related financing activities	(25,821,226)	(54,893,356)	5,637,264	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	13,021,405	3,201,292	5,972,819
Earnings on investments	136,223	254,584	2,857,295	1,860,378
Purchase of investments	-	-	(11,964,390)	(7,983,257)
Net cash provided by (used in) investing activities	136,223	13,275,989	(5,905,803)	(150,060)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,167,220)	(14,122,312)	(20,943)	465,633
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	70,352,805	84,475,117	3,562,469	3,096,836
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 57,185,585	$ 70,352,805	$ 3,541,526	$ 3,562,469

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(With Partial Financial Information for the Year Ended June 30, 2013)

	University		Component Unit	
	2014	**2013**	**2014**	**2013**
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (160,955,657)	$ (160,206,697)	$ (1,008,825)	$ (973,814)
Adjustments to reconcile operating loss to net cash used in operating activities:				
On-behalf payments	77,330,961	80,402,307	-	-
Capital assets donated	-	-	-	35,000
Stock gifts in process	-	-	(46,670)	-
Charitable remainder trust assets donated	-	-	(1,110,712)	-
Depreciation	14,700,384	12,633,211	-	-
Actuarial adjustment to annuities payable	-	-	11,782	44,321
Changes in assets and liabilities:				
Receivables, net	601,700	(142,814)	148,981	(42,509)
Student loans receivables, net	94,117	15,815	-	-
Inventories	(310,153)	(257,189)	58,246	(32,640)
Prepaid expenses and other assets	51,897	(160,005)	11,931	(21,288)
Accounts payable and accrued liabilities	(4,513,303)	4,162,878	26,632	(22,218)
Accrued payroll	279,151	8,055,565	-	-
Due to primary government, net	-	-	7,406	(25,346)
Charitable remainder trust distributions payable	-	-	70,074	2,605
Other liabilities	(113,257)	321,291	278,750	(1,027)
Compensated absences	(556,104)	1,033,188	-	-
Net cash used in operating activities	$ (73,390,264)	$ (54,142,450)	$ (1,552,405)	$ (1,036,916)
NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES				
On-behalf payments	$ 77,330,961	$ 80,402,307	$ -	$ -
Capital asset acquisition via capital appropriations	25,718,689	6,013,114	-	-
Capital asset acquisition via support from Foundation	343,583	190,664	-	-
Capitalized interest	223,654	3,401,692	-	-
Capital asset changes in accounts payable	801,327	(5,591,773)	-	-
Other capital asset adjustments	-	263,505	-	-
Gifts in kind	-	-	519,623	418,270
Loss on disposal of equipment	(8,076)	(2,641,282)	-	-

See accompanying notes to the basic financial statements.

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

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, 2013, from which the partial information was derived. Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, 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 position 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, 2014, 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 Position.

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. Bonds and Certificates of Participation Issue Costs

The insurance premium on the bonds and certificates of participation issue costs incurred on the revenue bonds and certificates of participation 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, 2014 was $20,981.

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. Unearned Revenue

Unearned revenue represents 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 Position 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 Position

The University's net position is classified as follows:

Net investment in capital assets - consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets and deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.

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

Restricted net position - 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 - is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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 Position. 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, 2014 were $23,975,380 and $5,163,310, 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, 2014, the Foundation had a total of $9,285,602 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 position and unrestricted net position in the Statement of Net Position based on the classification 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 Position and changes in the fair value of the assets are recognized in the Statement of Revenues, Expenses, and Changes in Net Position. 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 $1,214,858 of new contribution income during Fiscal Year 2014. Any outstanding liabilities relating to the annual distributions required by the trust agreements are recorded in the Statement of Net Position.

T. Income Taxes

As a State institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

U. New Accounting Pronouncements

Effective July 1, 2013, the University adopted the following accounting pronouncements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items previously reported as assets and liabilities and recognize, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. As discussed in Notes 18 and 19, the University has restated its financial statements to remove most unamortized debt issuance costs as assets and to reclassify refunding losses as deferred outflow of resources.

- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, resolves conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as well as No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Because the Statement incorporates existing guidance, the Statement does affect the University, but does not significantly change the University's financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement amends Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, which revised existing guidance for financial reporting of pension plans of state and local governments.

The implementation of GASB Statement Nos. 66 and 67 had no significant impact on the University's financial statements.

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, 2014, the book balance of various University bank accounts and certificates of deposit was $262,960, while the bank balance was $275,495. The difference between these amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2014.

Foundation

At June 30, 2014, the book balance of the Foundation's various bank accounts was $187,517, while the bank balance was $239,535. 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, 2014.

Reconciliation of cash and cash equivalents to deposits:

	University	Foundation
Cash and cash equivalents	$ 57,010,613	$ 3,541,526
Cash and cash equivalents, restricted	174,972	–
Less: Money market funds classified as cash and cash equivalents	(56,860,760)	(3,354,009)
Cash on hand	(61,865)	–
Carrying amount of deposits	$ 262,960	$ 187,517

NOTE 3 - INVESTMENTS

University

The University held no investments as of June 30, 2014.

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, 2014, the Foundation held investments with the following maturities:

Type	Total Fair Value	Maturities in Years: Less Than One Year or No Maturity	1-5 Years	6-10 Years	Over 10 Years
U.S. Treasury notes	$ 491,639	$ –	$ 119,533	$ 372,106	$ –
U.S. Treasury bonds	104,110	–	–	–	104,110
U.S. agency obligations (FHLM, FNMA)	195,320	–	57,843	98,184	39,293
Municipal bonds	626,454	51,725	174,349	330,867	69,513
Corporate debt securities	2,706,695	521,267	1,265,860	871,624	47,944
Corporate equity securities	78,938	78,338	600	–	–
International equity securities	2,020,502	2,020,502	–	–	–
Cash equivalents held in investment pools	332,896	332,896	–	–	–
Real asset tax-exempt	2,106,892	–	612,967	918,875	575,050
Real assets exchange traded funds	3,141,142	3,141,142	–	–	–
Absolute return	8,099,006	8,099,006	–	–	–
Mutual funds, international equity	9,036,891	9,036,891	–	–	–
Mutual funds, domestic equity	8,286,690	8,286,690	–	–	–
Mutual funds, international debt	2,049,220	2,049,220	–	–	–
Open ended mutual funds, U.S. debt	6,963,480	6,963,480	–	–	–
Private equity	2,421,824	50,000	–	1,437,012	934,812
Total investments	$ 48,661,699	$ 40,631,157	$ 2,231,152	$ 4,028,668	$1,770,722

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 balance of $3,544,066 as of June 30, 2014. 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, 2014:

U.S. Treasury notes	$ 491,639
U.S. Treasury bonds	104,110
U.S. agency obligations (FHLM, FNMA)	195,320
Municipal bonds	626,454
Corporate debt securities	2,706,695
Cash equivalents held in investment pools	332,896
Mutual funds, international debt	2,049,220
Open ended mutual funds, U. S. debt	6,963,480
Sub-total investments	13,469,814
Bank money market funds	3,304,630
Illinois Funds money market funds	49,378
Sub-total cash and cash equivalents	3,354,008
Total assets subject to interest rate risk	$ 16,823,822

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 22.7% of the total Foundation investments as of June 30, 2014. The Foundation does not have a policy on foreign currency risk. The U.S. dollar balances of the Foundation's investment exposed to foreign currency risk as of June 30, 2014 are listed below.

Currency	*United States Dollar Equivalent*
Euro	$ 2,111,279
United Kingdom British Pound	1,809,906
Japanese Yen	1,547,926
Swiss Franc	797,287
Yuan Renminbi (China)	651,351
Other currencies, individually less than 1% of fund portfolio	4,139,644
Total	$ 11,057,393

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.

At June 30, 2014, 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	Municipal Bonds
AAA	$ 223,643	$ 119,533	$ 104,110	$ –	$ –	$ –
BBB+	72,350	–	–	–	72,350	–
Not Rated	3,828,225	372,106	–	195,320	2,634,345	626,454
	$ 4,124,218	$ 491,639	$ 104,110	$ 195,320	$ 2,706,695	$ 626,454

Credit Rating per Moody's

	Total Fair Value	U.S. Treasury Notes	U.S. Treasury Bonds	U.S. Agency Obligations (FHLM, FNMA)	Corporate Debt Securities	Municipal Bonds
Aaa	$ 791,069	$ 491,639	$ 104,110	$ 195,320	$ –	$ –
Aa1	21,626	–	–	–	–	21,626
Aa2	132,786	–	–	–	90,932	41,854
Aa3	191,424	–	–	–	100,398	91,026
A1	149,454	–	–	–	127,539	21,915
A2	302,566	–	–	–	271,324	31,242
A3	495,024	–	–	–	385,473	109,551
Baa1	123,411	–	–	–	123,411	–
Baa2	67,371	–	–	–	67,371	–
Baa3	80,099	–	–	–	80,099	–
B3	50,621	–	–	–	50,621	–
Not Rated	1,718,767	–	–	–	1,409,527	309,240
	$ 4,124,218	$ 491,639	$ 104,110	$ 195,320	$ 2,706,695	$ 626,454

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 Position as follows:

	University	Foundation
Cash and cash equivalents	$ 57,010,613	$ 3,541,526
Cash and cash equivalents, restricted	174,972	–
Investments	–	48,661,699
Total	$ 57,185,585	$ 52,203,225

Investments at June 30, 2014 are as follows:

	University	Foundation
Current:		
Investments	$ –	$ 4,708,053
Noncurrent:		
Endowment investments	–	5,983,850
Endowment investments, restricted	–	37,236,371
Other investments	–	733,425
Sub-total	–	43,953,646
Total investments	$ –	$ 48,661,699

Investment income for the year ended June 30, 2014 consisted of:

	University	Foundation
Interest, dividends, realized gains and market value changes	$ 136,223	$ 5,412,970

NOTE 4 - ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable are reported net of allowances for uncollectible accounts of $4,225,400 at June 30, 2014. Accounts receivable consisted of the following as of June 30, 2014:

Receivables from students	$ 10,216,661
Receivables from third parties	1,814,538
Receivables from funding agencies	1,922,515
Total gross receivables	13,953,714
Allowance for doubtful accounts	(4,225,400)
Total net receivables	$ 9,728,314

Student loans receivable totaling $2,262,213 are reported net of allowance for uncollectible loans of $487,100 at June 30, 2014.

NOTE 5 - CAPITAL ASSETS

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Total interest of $4,837,788 was incurred and net interest of $223,654 was capitalized during Fiscal Year 2014.

Capital asset activities for the University for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Non-depreciable capital assets:					
Land and land improvements	$ 3,236,432	$ –	$ –	$ –	$ 3,236,432
Works of art and historical treasures	486,569	101,252	–	–	587,821
Construction in progress	49,888,849	34,817,286	–	(39,042,702)	45,663,433
Total non-depreciable capital assets	53,611,850	34,918,538	–	(39,042,702)	49,487,686
Depreciable capital assets:					
Site improvements	43,999,136	320,402	(62,000)	2,712,053	46,969,591
Buildings and building improvements	296,024,613	2,445,763	–	36,330,649	334,801,025
Equipment	77,739,111	3,261,585	(2,340,247)	–	78,660,449
Total depreciable capital assets	417,762,860	6,027,750	(2,402,247)	39,042,702	460,431,065

	Balance June 30, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Less accumulated depreciation:					
Site improvements	17,303,556	1,572,709	(50,840)	–	18,825,425
Buildings and building improvements	139,187,561	10,539,930	–	–	149,727,491
Equipment	70,860,630	2,587,745	(2,304,064)	–	71,144,311
Total accumulated depreciation	227,351,747	14,700,384	(2,354,904)	–	239,697,227
Total depreciable capital assets, net	190,411,113	(8,672,634)	(47,343)	39,042,702	220,733,838
Capital assets, net	$ 244,022,963	$ 26,245,904	$ (47,343)	$ –	$ 270,221,524

Capital asset activities for the Foundation for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Land and land improvements	$ 1,105,104	$ –	$ –	$ 1,105,104

NOTE 6 - DEFERRED OUTFLOW OF RESOURCES

Deferred outflow of resources included losses on bond refundings which resulted from the difference between the reacquisition price and the net carrying amount of the old debt. Total amortization for the year ended June 30, 2014 was $81,542.

NOTE 7 - UNEARNED REVENUE

Unearned revenues consist of the following as of June 30, 2014:

Tuition and fees	$ 2,953,458
Grants and contracts	1,374,342
Sales and services of educational departments	276,413
Auxiliary enterprises	243,409
Total	$ 4,847,622

NOTE 8 - NOTES PAYABLE

The University has entered into installment purchase agreement for networking equipment with an original cost of $392,786. As of June 30, 2014, the related notes payable obligation was recorded at the present value of the future minimum installment payments, discounted using an applicable discount rate of 1.62%. Notes payable activities for the year ended June 30, 2014 were as follows:

Balance, beginning of year	$ 34,649
New notes	392,786
Payments	(34,649)
Balance, end of year	$ 392,786
Current Portion	$ 128,835

NOTE 9 - REVENUE BONDS PAYABLE

General

At June 30, 2014, 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 were used to finance capital improvements to Thompson Hall and the University Union. In addition, a portion of the proceeds from the Series 2012 Bonds were 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 Position.

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 were used 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 Position. 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 Position.

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.

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.

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Revenue Bonds Payable activities for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2005 Bonds	$ 7,225,000	$ –	$ 1,525,000	$ 5,700,000	$ 1,585,000
Series 2006 Bonds	12,105,000	–	785,000	11,320,000	815,000
Series 2010 Bonds	25,510,000	–	–	25,510,000	–
Series 2012 Bonds	31,915,000	–	1,590,000	30,325,000	1,640,000
Unamortized premium	700,915	–	204,716	496,199	170,094
Unamortized discount	(80,046)	–	(9,297)	(70,749)	(9,961)
	$ 77,375,869	$ –	$ 4,095,419	$ 73,280,450	$ 4,200,133

Aggregate maturities of the bonds outstanding as of June 30, 2014 are as follows:

	Principal	Interest
2015	$ 4,040,000	$ 3,367,685
2016	4,190,000	3,206,085
2017	4,350,000	3,038,485
2018	4,515,000	2,860,565
2019	4,680,000	2,671,340
2020-2024	21,440,000	10,435,908
2025-2029	16,875,000	6,071,015
2030-2033	12,765,000	1,707,373
	72,855,000	33,358,456
Unamortized premium	496,199	–
Unamortized discount	(70,749)	–
	$ 73,280,450	$ 33,358,456

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 $7,407,685. The estimated debt service coverage ratio based on revenues generated from operations is 1.38. The future pledged revenues for principal and interest in Fiscal Year 2014 are $106,213,456. Pledged revenue coverage is 12.50 in Fiscal Year 2014. Pledged revenues have a term of commitment through 2033.

NOTE 10 - CERTIFICATES OF PARTICIPATION PAYABLE

General

At June 30, 2014, 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 were used 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 were used 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, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2005	$ 8,140,000	$ –	$ 480,000	$ 7,660,000	$ 500,000
Series 2010	10,285,000	–	455,000	9,830,000	465,000
Series 2011	10,555,000	–	635,000	9,920,000	655,000
Unamortized discount	(30,440)	–	(5,192)	(25,248)	(4,438)
	$ 28,949,560	$ –	$ 1,564,808	$ 27,384,752	$ 1,615,562

Aggregate maturities of the certificates of participation outstanding as of June 30, 2014 are as follows:

	Principal	Interest
2015	$ 1,620,000	$ 1,279,625
2016	1,670,000	1,221,826
2017	1,730,000	1,156,861
2018	1,795,000	1,085,534
2019	1,870,000	1,007,615
2020-2024	10,655,000	3,623,609
2025-2029	7,245,000	1,029,144
2030	825,000	26,297
	27,410,000	10,430,511
Unamortized discount	(25,248)	–
	$ 27,384,752	$ 10,430,511

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 11 - ACCRUED COMPENSATED ABSENCES

Vacation pay earned but not taken may be accumulated up to a specified maximum from 24 to 56 work days, and received as a lump sum payment upon termination. At June 30, 2014, such accumulated benefits totaled $8,353,701.

Administrative and faculty unused sick leave may be accumulated up to a specified maximum, generally 360 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 and prior to January 1, 1998 can be received as a lump sum payment upon termination. At June 30, 2014, such accumulated benefits totaled $4,192,981. Compensated absences activity for the year ended June 30, 2014 was as follows:

Balance, beginning of year	$ 13,102,786
Additions	(556,104)
Balance, end of year	12,546,682
Less: current portion	(1,871,474)
Balance, end of year - noncurrent portion	$ 10,675,208

NOTE 12 - RETIREMENT PLAN

Plan Description

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit 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 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 2015 is 35.80% 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, 2014, 2013, and 2012 were $41,579,382, $38,500,752, and $27,890,164, respectively, equal to the required contributions for each year.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of 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 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.

Public Act 97-0695, effective July 1, 2012, altered the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs were to be assessed beginning July 1, 2013. However, four putative class actions were filed challenging the validity of this legislation under, among other things, the pension protection clause of the Illinois Constitution of 1970. The four class actions were consolidated in the circuit court of Sangamon County. The circuit court dismissed each of them for failure to state a cause of action, without certifying any classes. The Illinois Supreme Court allowed direct appeal. In July of 2014, the Illinois Supreme Court ruled that state retiree health care benefits are protected by the State constitution. The case then reverted to the Circuit Court for further proceedings. As a result, on August 28, 2014, the Sangamon County Circuit Court ordered the State to stop deducting monthly percentage-of-annuity health care premiums from annuity checks of State retirees and survivors enrolled in the State of Illinois Group Health Insurance Plan. The refunding of premiums paid since July 2013 is unresolved and will be decided by the courts.

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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

NOTE 14 - INSURANCE

The University participates in the State University Risk Management Association (SURMA), a self-insurance pool. Through its participation in the Illinois Public Higher Education Cooperative (IPHC), the University has contracted with commercial carriers to provide various insurance coverages, including educators' legal and other general liability insurance. The University's liability coverages have a $250,000 to $350,000 deductible per occurrence.

SURMA member schools may request reimbursement for claim related expenses from SURMA funds. Additionally, the University purchases property insurance coverage for the replacement value of University real property and contents. Settled claims have not exceeded commercial coverage in any of the three preceding years.

NOTE 15 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2014, for the University are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 61,104,868	$ 2,747,104	$ –	$ –	$ 63,851,972
Research	2,814,702	761,242	–	–	3,575,944
Public service	6,650,335	3,828,040	–	–	10,478,375
Academic support	13,317,898	4,083,750	–	–	17,401,648
Student services	11,890,798	11,807,606	–	–	23,698,404
Institutional support	10,701,260	3,109,726	–	–	13,810,986
Operation and maintenance of plant	9,475,468	7,983,582	–	–	17,459,050
Student aid expense	–	–	9,007,606	–	9,007,606
Auxiliary enterprises	16,166,195	24,393,525	–	–	40,559,720
Staff benefits	8,281,208	–	–	–	8,281,208
Depreciation	–	–	–	14,700,384	14,700,384
On-behalf payments	77,330,961	–	–	–	77,330,961
Other operating expenses	–	99,648	–	–	99,648
Total	$ 217,733,693	$ 58,814,223	$ 9,007,606	$ 14,700,384	$ 300,255,906

NOTE 16 - CONTRACT WITH WESTERN ILLINOIS UNIVERSITY FOUNDATION

The University has a contract with the Western Illinois University Foundation in which the Foundation has agreed to aid and assist the University in achieving its educational, research, and service goals by developing and administering its gifts. These gifts received by the Foundation are to be used for the benefit of the University in its scholarship, loan, grant and other supporting programs. The University agreed, as part of this contract, to furnish certain services necessary to the operation of the Foundation.

For Fiscal Year 2014, the Foundation did not specifically reimburse the University for $1,517,077 of personal service costs, facility use and other costs provided by the University. However, the Foundation gave the University $3,788,921 for Fiscal Year 2014, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Claims and Litigation

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

Government Grants

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

NOTE 18 - CHANGE IN ACCOUNTING PRINCIPLE

The University implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance on which balances previously reported as assets and liabilities should now be reported as deferred outflows or inflows. In implementing this pronouncement, the University reported an effect of a change in accounting principle which adjusted the beginning net position as of July 1, 2012, to eliminate the unamortized bond issuance costs previously capitalized as follows:

Net position, beginning of year, as previously reported	$ 189,538,093
Cumulative effect of change in accounting principle	(1,779,774)
Net position, beginning of year, as restated	$ 187,758,319

Additionally, an adjustment was made to the 2013 Statement of Net Position totaling $629,052 to reclassify the net accounting loss on debt refunding from revenue bonds payable to deferred outflow of resources.

NOTE 19 - PRIOR PERIOD RESTATEMENT AND RECLASSIFICATION

As discussed in Note 1. C., Note 1. U., and Note 18, certain restatement and reclassification were made to Fiscal Year 2013 amounts, due to the following:

(a) The University restated its net position balance in Fiscal Year 2013 from $189.5 million to $187.8 million, to reflect accounting treatment for bond issuance costs in accordance with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These adjustments decreased net position (net investment in capital assets) by about $1.8 million.

(b) The University restated the Fiscal Year 2013 deferred outflow of resources balance to reflect losses on bond refundings totaling over $629,000, in accordance with GASB Statement No. 65. This adjustment had no effect on the net position balance.

(c) The University reclassified various Fiscal Year 2013 revenues and expenses balances to reflect revenues and scholarship discounts and allowances not reported on Monetary Award Program grants received and awarded totaling about $11.1 million. This adjustment had no effect on the net position balance.

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

Independent Auditor's 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, in accordance with the 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, the financial statements of the business-type activities of the 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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 18, 2014. Our report includes a reference to other auditors who 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 auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

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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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2014-001 and 2014-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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.*

University's Responses to Findings

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

E. C. Ortiz & Co. LLP

Chicago, Illinois
December 18, 2014

Current Findings - *Government Auditing Standards*

2014-001 - Inadequate Controls Over Journal Entries

Western Illinois University (University) did not have adequate controls over its journal entries. Effective policies and procedures are not in place to ensure the propriety and completeness of journal entries. Specifically, there were not effective processes in place to ensure that all journal entries are properly prepared, supported, and approved.

The University used the Financial Records System (FRS) to initiate and process financial information and facilitate its financial reporting. The FRS maintains all general ledger and subsidiary ledger accounts and sub-accounts with specific funds and account groups in accordance with the Statewide Accounting Management System (SAMS). A significant number of accounting transactions were recorded into the FRS through the use of journal entries. These entries were initiated and posted by the respective Accountants in-charge of specific accounts in the Business and Financial Services Department. In order to control the journal entry process, Accountants in-charge used standardized journal entry forms which included the name of the preparer, date the entry was prepared, description of the entry (which included the reason for the entry and amount), and a comment box. Support for the journal entries were scanned into laser fiche.

On July 1, 2014, the University adopted journal entry review and approval policies and procedures. The newly implemented procedures require that all journal entries of $100,000 or more require the approval by either the Director of Business and Financial services, the Vice President for Administrative Services, or an Assistant Comptroller, prior to entry into the FRS. The approval process will include a review of the documentation to ensure the entries are adequately supported.

During our review of 25 batches of journal entries, we noted the following:

- One of 25 (4%) batches of journal entries totaling $816,062 was approved but not supported. The entry pertained to accrual of accounts payable at fiscal year-end.

- No independent review and/or approval was noted for two of 25 (8%) batches of journal entries totaling $13,078,569. Each of these batches of journal entries totaled more than the $100,000 threshold for journal entry approval. These transactions pertained to recording of Capital Development Board’s property transfers at year-end.

- A journal entry was made in Fiscal Year 2014 to correct a prior year error on capitalized interest. The transaction was in relation to a journal entry prepared in Fiscal Year 2013 which was not subjected to an independent review. The error resulted in an overstatement of capital assets and interest on capital asset related debt by $1,383,438 in the prior fiscal year.

Current Findings - *Government Auditing Standards* (Continued)

2014-001 - Inadequate Controls Over Journal Entries (Continued)

- Seven of 25 (28%) batches of journal entries totaling $656,649 were not reviewed by the University at all. No single entry in these batches met the $100,000 threshold. These transactions pertained to recording of accounts payable, lease payments and equipment maintenance, reversal of payroll entry and reclassification entries relating to inventory and contractual services expenditures. There were about 2,705 manual batches of journal entries, totaling approximately $29,200,000, not reviewed during Fiscal Year 2014 because they were below the approval threshold. In addition, the process in place still allows journal entries to be both prepared and posted by the same individual.

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.

Also, sound internal controls require all journal entries, including nonstandard/nonroutine entries, have adequate supporting documentation, and be reviewed and approved independently prior to posting, to prevent errors and fraud.

University management stated: the lack of support was due to human error; manual entries to the fixed assets system were not approved due to a misunderstanding regarding the approval of these entries; the error in Fiscal Year 2013 entry occurred as a result of human error and due to absence of review; and the journal entries below the threshold were not approved based on University policy in effect during Fiscal Year 2014.

In the prior audit, the University had no formal policy on review and approval prior to posting of journal entries in the general ledger. Further, journal entries were not adequately supported or independently reviewed and/or approved prior to posting to the general ledger. Management stated these exceptions were due to a lack of formal policies and procedures due to a lack of resources, and stated formal policies and procedures would be implemented. However, the policy adopted July 1, 2014 only required review and approval of journal entries of $100,000 or more and was not consistently followed for Fiscal Year 2014 journal entries.

The lack of effective controls over journal entries increases the risk of incorrect or unauthorized adjustments posted to the general ledger, which may cause material misstatements to the financial statements. (Finding Code Nos. 2014-001 and 2013-001)

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

2014-001 - Inadequate Controls Over Journal Entries (Continued)

Recommendation

We recommend the University develop effective policies and procedures that will strengthen controls over the journal entry review and approval process to ensure all journal entries are complete, accurate, properly supported and approved prior to posting in the general ledger. Further, effective policies and procedures should also be developed to address processing of nonstandard/nonroutine transactions.

University Response

The University agrees with the finding. The University will review its existing policy and procedures for processing, reviewing and approving journal entries. The University will also consider revisions to the policy that will strengthen controls.

State of Illinois
Western Illinois University
Schedule of Findings
June 30, 2014

Current Findings - *Government Auditing Standards* (Continued)

2014-002 - Inaccurate Recording of Transactions

Western Illinois University (University) did not properly record certain transactions in the general ledger.

The University issued Revenue Bonds (Bonds) and Certificate of Participation (COPs) in order to fund construction/renovation of various capital projects. Bonds and COPs series issued were associated with either a single or multiple capital projects as predetermined by the University at the point of debt issuance. Generally, the University capitalizes interest costs incurred during the construction period of a project as part of the cost of the project. Also, investment earnings on the unspent bond proceeds are offset by the amount of interest expense capitalized.

During our review of the capitalized interest on various capital projects, we noted the University capitalized interest on projects already completed. This error resulted in an overstatement of the capitalized interest recorded in the Fiscal Year 2014 financial statements by approximately $800 thousand.

Paragraphs 16 and 17 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, state that interest capitalization period should begin when three conditions are present, namely: (1) outlays for the assets have been made, (2) activities that are necessary to get the asset ready for its intended use are in progress, and (3) interest cost is being incurred. Interest capitalization should continue as long as those three conditions are present. The capitalization period should end when the asset is substantially complete and ready for its intended use. Some assets are completed in parts, and each part is capable of being used independently while work is continuing on other parts. For such assets, interest capitalization should stop on each part when it is substantially complete and ready for use.

Lastly, 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 capitalized interest on capital projects was not properly recorded due to incorrect interpretation of the applicable accounting standards.

Failure to properly record capitalized interest on capital projects may result in misstatements in the University’s financial statements. (Finding Code No. 2014-002)

Current Findings - *Government Auditing Standards* (Continued)

2014-002 - Inaccurate Recording of Transactions (Continued)

Recommendation

We recommend the University review its current process of recording and accounting for transactions to ensure interest capitalized is recorded in accordance with generally accepted accounting principles. We further recommend the University ensure accounting staff receive appropriate training on financial reporting.

University Response

The University agrees with the finding. The University will review and adjust the existing procedures to ensure capitalized interest is accurately recorded.