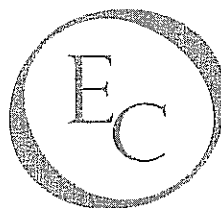


**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION**

**FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2008**

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



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

**State of Illinois
Western Illinois University Foundation
Financial Audit
For the Year Ended June 30, 2008**

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**State of Illinois
Western Illinois University Foundation**

Foundation Officials

President	Ms. Cathy Early (Effective 07/01/08 to present) Mr. Arlington N. Seymour (07/01/06 to 06/30/08)
Vice President	Mr. Todd Lester (Effective 07/01/08 to present) Ms. Cathy Early (07/01/06 to 06/30/08)
Secretary	Ms. Judith W. Kerr
Treasurer	Mr. Ron Peterson
Executive Officer and Vice President for Advancement and Public Services	Dr. Daniel Hendricks
Executive Committee:	Mr. Arthur D. Chown Mr. Donald W. Dieke Mr. Larry D. Ehmen Ms. Diana Irish Mr. James Lodico Mr. Douglas J. March Mr. Richard P. Miller Mr. Jack Stites Mr. F. Eugene Strode

The Foundation's Office is located at:

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

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

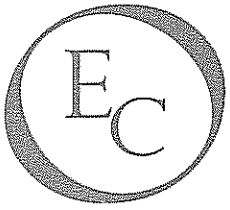
Summary

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

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

Exit Conference

The Foundation waived having an exit conference in a letter dated January 5, 2009 from the Foundation's Accountant, Janet Gabbert.



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

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Directors
Western Illinois University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of Western Illinois University Foundation (Foundation), a component unit of Western Illinois University and the State of Illinois, as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Foundation's 2007 financial statements and, in our report dated February 6, 2008, we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Illinois University Foundation as of June 30, 2008, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2009 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

E. C. Ortiz & Co. LLP

Chicago, Illinois
January 22, 2009

**State of Illinois
Western Illinois University Foundation
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

Introduction

This section of the Western Illinois University Foundation (the Foundation) annual financial report presents an overview of the financial performance and activities of the Foundation during the fiscal year ended June 30, 2008. This discussion should be read in conjunction with the accompanying financial statements and footnotes and is designed to focus on current activities, resulting change, current known facts, and future outlook. The financial statements, footnotes and this discussion are the responsibility of the Foundation management.

Using the Annual Financial Report

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

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

Financial Highlights

Statement of Net Assets

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

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

**State of Illinois
Western Illinois University Foundation
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

During the fiscal year ended June 30, 2008, the net assets of the Foundation increased \$1,231,715 (4%). This increase reflects the impact of a 5% increase in endowment gift flow. Endowment gift flow rate is defined as the total gifts, bequests, and other similar additions to endowment as a percentage of the average of fiscal year beginning and ending endowment market value.

Condensed Statement of Net Assets

Assets	2008	2007
Current assets:		
Cash and investments	\$ 2,383,472	\$ 1,588,116
Pledges receivable, net	170,401	128,215
Other receivables	315,289	356,570
Other current assets	63,546	46,935
Noncurrent assets:		
Endowment investments	1,643,546	2,723,159
Endowment investments, restricted	23,316,072	22,066,074
Other investments	2,373,663	2,380,526
Pledges receivable, net	76,367	48,491
Capital assets, net of accumulated depreciation	1,129,620	922,670
Total assets	<u>31,471,976</u>	<u>30,260,756</u>
Liabilities		
Current liabilities	307,075	319,933
Noncurrent liabilities	189,737	197,374
Total liabilities	<u>496,812</u>	<u>517,307</u>
Net assets		
Invested in capital assets, net of related debt	1,129,620	907,480
Restricted for nonexpendable purposes	22,293,020	21,789,409
Restricted for expendable purposes	2,532,292	2,336,224
Unrestricted	5,020,232	4,710,336
Total net assets	<u>\$ 30,975,164</u>	<u>\$ 29,743,449</u>

**State of Illinois
Western Illinois University Foundation
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

Statement of Revenues, Expenses, and Changes in Net Assets

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Total operating revenues	\$ 4,323,950	\$ 3,331,032
Total operating expenses	5,150,537	3,728,170
Operating loss	(826,587)	(397,138)
Net nonoperating revenues	909,899	4,271,888
Gain before other revenues, expenses, gains or losses	83,312	3,874,750
Additions to permanent endowments	1,148,403	1,226,574
Increase in net assets	1,231,715	5,101,324
Net assets, beginning of year	29,743,449	24,642,125
Net assets, end of year	<u>\$ 30,975,164</u>	<u>\$ 29,743,449</u>

The major component of operating revenues are contributions that support the purpose of the Foundation, which is to enhance the programs, facilities and services of the University. The table below presents contribution revenues for fiscal year 2008 and 2007, including additions to permanent endowment.

	<u>2008</u>	<u>2007</u>
Contributions	\$ 3,801,644	\$ 2,887,336
Additions to permanent endowments	1,148,403	1,226,574
Contribution revenues	<u>\$ 4,950,047</u>	<u>\$ 4,113,910</u>

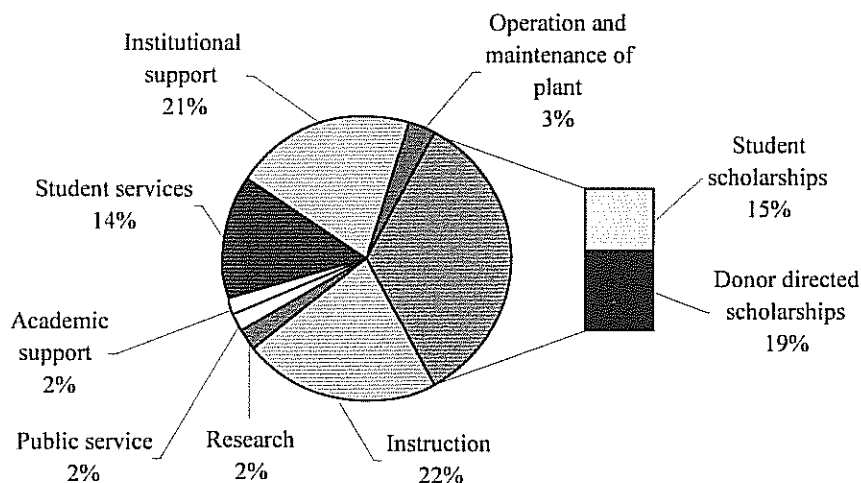
In addition to the nonoperating revenues shown in the condensed statement, the University provided personal services, facility use, and other services valued at \$644,390. The Foundation did not specifically pay for these services; however, the Foundation provided \$2,479,361 to the University in unrestricted funds and funds restricted only as to department and generally available for ongoing University operations.

**State of Illinois
Western Illinois University Foundation
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

Operating expenses by functional category for the years ended June 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Instruction	\$ 1,149,443	\$ 648,202
Research	124,627	70,362
Public service	91,446	67,579
Academic support	97,850	81,825
Student services	723,316	338,678
Institutional support	1,053,413	815,742
Operation and maintenance of plant	154,103	184,038
Student scholarships	771,760	625,930
Donor directed scholarships	977,341	884,505
Depreciation	7,238	11,309
Total operating expenses	<u>\$ 5,150,537</u>	<u>\$ 3,728,170</u>

Fiscal Year 2008 Analysis of Expenses by Function



Statement of Cash Flows

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

**State of Illinois
Western Illinois University Foundation
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

Condensed Statement of Cash Flows

	<u>2008</u>	<u>2007</u>
Cash provided by (used in):		
Operating activities	\$ (1,105,229)	\$ (382,294)
Noncapital financing activities	2,091,863	1,869,416
Capital and related financing activities	(22,191)	(5,999)
Investing activities	(96,681)	(1,064,032)
Net increase (decrease) in cash and cash equivalents	867,762	417,091
Cash and cash equivalents - beginning of the year	704,798	287,707
Cash and cash equivalents - end of the year	<u>\$ 1,572,560</u>	<u>\$ 704,798</u>

Foundation's Economic Outlook

The Western Illinois Foundation exists to support the educational mission of the University by soliciting, processing, and managing contributions given by donors, alumni, friends and others. The Foundation's staff and Board of Directors plan and implement programs that encourage private philanthropic support from contributors. With the guidance and counsel of Hammond Associates, the Foundation invests its assets to insure a steady stream of income and growth for support of its numerous spending accounts. The Foundation fulfills its mission by implementing an effective program of contributor solicitation.

Several factors contribute to the success of the Foundation's program on behalf of the University. First, the University plays a critical role in the Foundation's success by underwriting a portion of the Foundation's operating budget. Second, the staff and board plan and implement progressive investment and spending policies to steward the Foundation assets. Moreover, volunteers from business, finance, and industry provide strong and enlightened leadership on the Board.

Private contributions to the Foundation support students, faculty, capital needs and other educational programs. In the fiscal year 2008, alumni, friends, corporations and other organizations committed \$8.703 million in cash gifts, pledges, expectancies and bequests. At the end of the third year of the University's capital campaign, "Higher Values in Higher Education," a total of \$23,648,898 has been committed. This represents 39.41% of the campaign goal of \$60,000,000.

The WIU Foundation grew in fiscal year 2008 by over 4% to over \$31.0 million in net assets and spent \$5.1 million to support academic programs, particularly scholarships for needy and

**State of Illinois
Western Illinois University Foundation
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

meritorious students. Over the last three years ending June 30, 2008, the Foundation's endowment has earned 8% annualized and net of fees, demonstrating steady philanthropic support and portfolio performance. The Foundation is in an excellent liquidity position, with enough funds in reserve to cover one year's expenses.

In the past year, financial market uncertainties have spread. Losses in the stock market now affect nearly every sector. Sub-prime mortgage loan failures have driven major investment banks and insurance companies into bankruptcy or liquidation. Banks and lending institutions have responded to the mortgage and Wall Street crises. In this environment, credit has dramatically tightened or even dried up altogether, threatening to plunge the entire U.S. economy into recession. However, the Foundation's strategic plan for investment, maximizing asset diversity and global reach has mitigated both short and long-term risk to the security of our holdings. Although the Foundation may endure short-term challenges as the economy and financial markets sort themselves out, we are confident our philanthropic support from alumni and friends together with fiscal prudence in the management of our assets will serve the Foundation and the University well in the coming years.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF NET ASSETS
JUNE 30, 2008
(With Partial Financial Information as of June 30, 2007)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,572,560	\$ 704,798
Investments	810,912	883,318
Pledges receivable, net	170,401	128,215
Other receivables	315,289	356,570
Inventories	18,076	20,107
Prepaid expenses	45,470	26,828
Total current assets	2,932,708	2,119,836
Noncurrent assets:		
Endowment investments	1,643,546	2,723,159
Endowment investments, restricted	23,316,072	22,066,074
Other investments	2,373,663	2,380,526
Pledges receivable, net	76,367	48,491
Capital assets, net of accumulated depreciation	1,129,620	922,670
Total noncurrent assets	28,539,268	28,140,920
TOTAL ASSETS	31,471,976	30,260,756
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	62,487	17,929
Due to Western Illinois University	38,242	77,549
Annuities payable	28,459	28,459
Leases payable	-	15,191
Deferred revenues	177,887	180,805
Total current liabilities	307,075	319,933
Noncurrent liabilities:		
Annuities payable	189,737	197,374
TOTAL LIABILITIES	496,812	517,307
NET ASSETS		
Invested in capital assets, net of related debt	1,129,620	907,480
Restricted - nonexpendable	22,293,020	21,789,409
Restricted - expendable	2,532,292	2,336,224
Unrestricted	5,020,232	4,710,336
TOTAL NET ASSETS	\$ 30,975,164	\$ 29,743,449

See accompanying notes to basic financial statements

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008
(With Partial Financial Information for the Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Gifts	\$ 3,801,644	\$ 2,887,336
Sales and services	522,306	443,696
Total operating revenues	<u>4,323,950</u>	<u>3,331,032</u>
 OPERATING EXPENSES		
Instruction	1,149,443	648,202
Research	124,627	70,362
Public Service	91,446	67,579
Academic support	97,850	81,825
Student services	723,316	338,678
Institutional support	1,053,413	815,742
Operation and maintenance of plant	154,103	184,038
Student scholarships	771,760	625,930
Donor directed scholarships	977,341	884,505
Depreciation	7,238	11,309
Total operating expenses	<u>5,150,537</u>	<u>3,728,170</u>
OPERATING LOSSES	<u>(826,587)</u>	<u>(397,138)</u>
 NONOPERATING REVENUES (EXPENSES)		
Investment income (loss), net of investment expense	(5,565)	3,585,045
Interest expense	(447)	(1,162)
Loss on disposal of equipment	(1,460)	-
Other nonoperating revenues	917,371	688,005
Net nonoperating revenues	<u>909,899</u>	<u>4,271,888</u>
 INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	 83,312	 3,874,750
Additions to permanent endowments	<u>1,148,403</u>	<u>1,226,574</u>
INCREASE IN NET ASSETS	1,231,715	5,101,324
NET ASSETS, BEGINNING OF YEAR	<u>29,743,449</u>	<u>24,642,125</u>
NET ASSETS, END OF YEAR	<u>\$ 30,975,164</u>	<u>\$ 29,743,449</u>

See accompanying notes to basic financial statements

**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008
(With Partial Financial Information for the Year Ended June 30, 2007)**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts for other than capital and endowment purposes	\$ 3,534,761	\$ 2,931,480
Sales and services	522,306	450,670
Payments for goods and services	(3,377,099)	(2,225,550)
Payment for scholarships and fellowships	(1,749,101)	(1,510,435)
Payments to annuitants	(36,096)	(28,459)
Net cash used in operating activities	<u>(1,105,229)</u>	<u>(382,294)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private contributions for endowment purposes	1,148,403	1,226,574
Nonoperating revenues, net	943,460	642,842
Net cash provided by noncapital financing activities	<u>2,091,863</u>	<u>1,869,416</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital asset	(21,744)	-
Principal paid on capital lease	-	(4,837)
Interest paid on capital lease	(447)	(1,162)
Net cash used in capital and related financing activities	<u>(22,191)</u>	<u>(5,999)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	9,440,665	3,399,252
Earnings on investments	(1,475,886)	1,657,410
Purchase of investments	(8,061,460)	(6,120,694)
Net cash used in investing activities	<u>(96,681)</u>	<u>(1,064,032)</u>
NET INCREASE IN CASH & CASH EQUIVALENTS	867,762	417,091
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>704,798</u>	<u>287,707</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,572,560</u>	<u>\$ 704,798</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (826,587)	\$ (397,138)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	7,238	11,309
Actuarial adjustment to values of split-interest agreements	(7,637)	(7,786)
Effects of changes in assets and liabilities:		
Other receivables	-	(3,551)
Capital assets donated	(193,903)	-
Pledges receivable, net	(70,062)	68,450
Prepaid expenses	(18,642)	(23,329)
Inventories	2,031	1,382
Accounts payable and accrued expenses	44,558	(88,886)
Deferred revenues	(2,918)	(8,486)
Due to Western Illinois University	(39,307)	65,741
Net cash used by operating activities	<u>\$ (1,105,229)</u>	<u>\$ (382,294)</u>
Noncash noncapital financing activity:		
Gifts in kind	\$ 508,247	\$ 51,200

Noncash capital and related financing activity:

During the fiscal year ended June 30, 2008, the Foundation disposed of equipment with an original cost of \$31,763 and accumulated depreciation of \$30,303 for a loss on disposal of equipment of \$1,460.

State of Illinois
Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Institution

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

The Foundation is a “University Related Organization,” as defined under the University Guidelines adopted by the Legislative Audit Commission in 1982, as amended in 1997, and a component unit of the State of Illinois for financial reporting purposes. Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14, the Foundation is also included as a component unit of the University for financial reporting purposes. The financial balances and activities included in these financial statements are therefore also included as part of the University’s financial statements and the State of Illinois Comprehensive Annual Financial Report. All funds of the Foundation are locally administered and are neither subject to the State of Illinois appropriation process nor held in the State treasury.

B. Measurement Focus and Basis of Accounting

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

The financial statement presentation required by GASB Statement Nos. 35, 37 and 38 provides a comprehensive perspective of the Foundation’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*,

State of Illinois
Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008

the Foundation follows all applicable GASB pronouncements. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Foundation has elected not to apply FASB pronouncements issued after November 30, 1989.

C. Prior-Year Information

The basic financial statements include certain prior year partial comparative information, which has been derived from the Foundation's 2007 financial statements. Such information does not include all disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2007.

D. Use of Estimates

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

E. Classification of Revenues

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

Operating revenues include activities that have the characteristics of exchange transactions or that are part of the Foundation's mission to raise funds for the University, such as gifts and other revenues generated in support of the University, per contractual agreement with the University.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as investment income and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

State of Illinois
Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008

F. Cash and Cash Equivalents

The Foundation considers highly liquid investments with original maturities of ninety days or less to be cash equivalents. At June 30, 2008, cash equivalents consisted primarily of money market and similar funds.

G. Investments and Investment Income

Investments in equity securities with a readily determinable fair value, debt securities, mutual funds and investment pools are carried at fair value. Fair value is determined using quoted market prices. Endowment investments are held in a unitized pool which is carried as an investment, regardless of maturity dates. Investment income consists of dividend and interest income, realized gains and losses, and the net change for the year in the fair values of investments carried at fair value.

Investment in private equity pertains to investment in Limited Partnerships. Management's valuation of the investment in Limited Partnerships is primarily based on valuations by the General Partner. Although the General Partner uses its best judgment in estimating the fair value of the Limited Partnership investments, there are inherent limitations. Therefore, the values presented are not necessarily indicative of the amount that the Partnerships could currently realize. Future events could affect the estimates of fair value and could also affect the amount realized upon liquidation of the Limited Partnership investments.

The Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Investment Committee is responsible for recommending investment policy for Board approval. Investment performance is reviewed quarterly by the Investment Committee and reviewed at each monthly Executive Committee meeting.

The Foundation's permissible investment categories include:

- Domestic equity
- International equity
- Emerging markets equity
- Fixed income
- Real assets
- Private equity
- Absolute return strategies
- Cash and cash equivalents

H. Capital Assets

Land and equipment purchased by the Foundation are recorded at cost. Donated assets are capitalized at fair value at the date of contribution. The Foundation capitalizes all equipment

State of Illinois
Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008

items that cost \$5,000 or more, and have an estimated useful life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense was incurred.

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

I. Deferred Revenues

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

J. Net Assets

The Foundation's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Foundation's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from unrestricted gifts, agreement with the University and various other sources of revenue. These resources are used for transactions relating to the general operations of the Foundation, and may be used at the discretion of the governing board to meet current expenses for any purpose.

K. Donor Restricted Endowments

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Illinois, permits the Board of Directors of the Foundation to appropriate an amount of realized and unrealized endowment appreciation as they determine to be prudent. The Board of Directors has established an investment policy with the objectives of protecting the principal of these funds and maximizing total investment return without assuming

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Notes to Financial Statements
June 30, 2008

extraordinary risks. It is the goal of the Foundation to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 4.25% for endowment purposes and 1.25% for operational purposes, of a 36-month moving average of endowment market value, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings. The Foundation's policy is to retain the endowment's unrealized appreciation with the endowment after spending rule distributions. As of June 30, 2008, the Foundation had a total of \$2,304,629 of net appreciation from investment of donor-restricted endowments available for expenditure. This amount is reported in expendable restricted net assets on the Statement of Net Assets.

L. Tax-exempt Status

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is subject to federal income tax on unrelated business income.

NOTE 2 - TRANSACTIONS WITH WESTERN ILLINOIS UNIVERSITY

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

For fiscal year 2008, the University provided for the Foundation personal service costs, facility use, and other costs, totaling \$644,390. The Foundation did not specifically pay for these services; however, for fiscal year 2008, the Foundation gave the University \$2,479,361, in unrestricted funds or funds restricted only as to department and generally available for ongoing University operations.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

The Foundation's investment policy requires collateralization of all deposits with federal depository insurance. At June 30, 2008, the book balance of the Foundation's various bank accounts was \$176,885, while the bank balance was \$205,678. The difference between these amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2008. None of the Foundation's bank balances are exposed to custodial credit risk.

**State of Illinois
Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008**

Reconciliation of cash and cash equivalents to deposits:

Cash and cash equivalents			\$ 1,572,560
Less:			
Money market funds classified as cash and cash equivalents		\$ 1,395,575	
Cash on hand		100	1,395,675
			<u>176,885</u>
Carrying amount of deposits			\$ <u>176,885</u>

Investments

At June 30, 2008, the Foundation had the following investments and maturities:

Type	Total Fair Value	Maturities in Years			
		Less than one year	1-5 years	6-10 years	Over 10 Years
U.S. Treasury notes	\$ 1,873,005	\$ -	\$ 682,342	\$ 1,190,663	\$ -
U.S. Treasury bonds	221,782	-	-	-	221,782
U.S. Agency obligations (FHLM, FNMA)	4,397,134	799,077	983,260	2,012,073	602,724
Corporate debt securities	764,876	-	561,755	48,167	154,954
Corporate equity securities	8,187,780	8,187,780	-	-	-
International equity securities	4,298,657	4,298,657	-	-	-
Cash equivalents held in investment pools	808,812	808,812	-	-	-
Real assets	915,238	915,238	-	-	-
Absolute return	1,023,481	1,023,481	-	-	-
Open-ended mutual funds	3,401,770	3,401,770	-	-	-
Private equity	700,864	700,864	-	-	-
Real estate exchange traded fund	450,794	450,794	-	-	-
Certificate of deposit	1,100,000	1,100,000	-	-	-
Bank money market funds	267,986	267,986	-	-	-
Illinois Funds investment pool	1,127,589	1,127,589	-	-	-
Total investments	<u>\$ 29,539,768</u>	<u>\$ 23,082,048</u>	<u>\$ 2,227,357</u>	<u>\$ 3,250,903</u>	<u>\$ 979,460</u>

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.

The Illinois Funds are in the custody of the State Treasurer and are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report. The money market funds totaling \$267,986 were held in a bank trust department and insured by the Securities Investor Protection Corporation (SIPC).

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Notes to Financial Statements
June 30, 2008

Summary of Carrying Values

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

Cash and cash equivalents	\$ 1,572,560
Investments	<u>28,144,193</u>
Total	<u>\$ 29,716,753</u>

Investments as of June 30, 2008 are as follows:

Current:		
Investments		\$ 810,912
Noncurrent:		
Endowment investments	\$ 1,643,546	
Endowment investments, restricted	23,316,072	
Other investments	<u>2,373,663</u>	<u>27,333,281</u>
Sub-total		28,144,193
Money market funds classified as cash and cash equivalents		<u>1,395,575</u>
Total investments		<u>\$ 29,539,768</u>

Custodial Credit Risk

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

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

Concentration Risk

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

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Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation does not have a policy that specifically addresses interest rate risk. Money market funds in the amount of \$267,986 have an average weighted maturity of 41 days. Illinois Funds have an average weighted maturity of approximately 20 days.

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 14% of the total Foundation deposits and investment. 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, 2008 are listed below.

<u>Currency</u>	<u>United States Dollar Equivalent</u>
Euro	\$ 911,628
United Kingdom British Pound	967,190
Japanese Yen	768,145
Hong Kong Dollar	70,445
Swiss Franc	190,281
Singapore Dollar	128,832
Australian Dollar	224,577
Canadian Dollar	37,119
Korean Won	4,263
South Africa Rand	843
Indonesia Rupiah	424
Taiwan Dollar	1,240
Brazil Real	1,014
Other currencies, individually less than 5% of fund portfolio	992,656
Total	<u>\$ 4,298,657</u>

State of Illinois
Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008

Credit Risk

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

At June 30, 2008, the Foundation had the following investments and their ratings:

Type	Total Fair Value	Credit Rating per Standard and Poor's					Not Rated
		AAA	AA-	A+	A	BBB	
U.S. Treasury notes	\$ 1,873,005	\$1,873,005	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury bonds	221,782	221,782	-	-	-	-	-
U.S. Agency obligations (FHLM, FNMA)	4,397,134	4,397,134	-	-	-	-	-
Corporate debt securities	764,876	297,461	128,488	248,538	30,112	60,277	-
Corporate equity securities	8,187,780	-	-	-	-	-	8,187,780
International equity securities	4,298,657	-	-	-	-	-	4,298,657
Cash equivalents held in investment pools	808,812	-	-	-	-	-	808,812
Real assets	915,238	-	-	-	-	-	915,238
Real estate ETF	450,794	-	-	-	-	-	450,794
Absolute return	1,023,481	-	-	-	-	-	1,023,481
Open-ended mutual funds	3,401,770	-	-	-	-	-	3,401,770
Private equity	700,864	-	-	-	-	-	700,864
Certificate of deposit	1,100,000	-	-	-	-	-	1,100,000
Bank money market funds	267,986	267,986	-	-	-	-	-
Illinois Funds investment pool	1,127,589	1,127,589	-	-	-	-	-
Total investments	\$29,539,768	\$8,184,957	\$128,488	\$248,538	\$30,112	\$60,277	\$20,887,396

Investment income (loss) for the year ended June 30, 2008 consisted of:

Interest and dividend income	\$ 1,364,965
Net decrease in fair value of investments	(1,370,530)
Net investment loss	\$ (5,565)

State of Illinois
Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Land and land improvements	\$ 909,200	\$ 193,904	\$ -	\$ 1,103,104
Equipment	23,573	21,744	-	45,317
Capital leases - equipment	31,763	-	(31,763)	-
Total capital assets	<u>964,536</u>	<u>215,648</u>	<u>(31,763)</u>	<u>1,148,421</u>
Less accumulated depreciation:				
Equipment	14,735	4,066	-	18,801
Capital leases - equipment	27,131	3,172	(30,303)	-
Total accumulated depreciation	<u>41,866</u>	<u>7,238</u>	<u>(30,303)</u>	<u>18,801</u>
Capital assets, net	<u>\$ 922,670</u>	<u>\$ 208,410</u>	<u>\$ (1,460)</u>	<u>\$ 1,129,620</u>

NOTE 5 - ASSETS HELD IN TRUST

The Foundation is the beneficiary of the Seymour Charitable Remainder Trust, Betty J. Collins Charitable Remainder Trust, Marian Harvey Charitable Remainder Trust, Charles R. O'Brien Charitable Remainder Trust, and William G. Hoover Charitable Remainder Trust. The assets of the Trusts are held and administered by others in perpetuity; thus the principal is not reported in the Foundation's financial statements. On June 30, 2008, the fair value of the assets totaled \$1,484,992.

NOTE 6 - LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the Foundation for the year ended June 30, 2008:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Annuities payable	\$ 225,833	\$ -	\$ 7,637	\$ 218,196	\$ 28,459
Capital lease obligations	15,191	-	15,191	-	-
Total	<u>\$ 241,024</u>	<u>\$ -</u>	<u>\$ 22,828</u>	<u>\$ 218,196</u>	<u>\$ 28,459</u>

**State of Illinois
Western Illinois University Foundation
Notes to Financial Statements
June 30, 2008**

NOTE 7 - ROYALTY INCOME

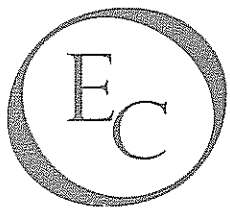
The Foundation extended the Affinity Group Bankcard agreement effective September 23, 2002 with FirstUSA. The total contract amount is \$2,100,000, prorated over a seven-year period. For fiscal year 2008, the Foundation received \$300,000 in addition to \$84,087 from other sources which was recognized as royalty income and reported as other nonoperating revenues in the Statement of Revenues, Expenses and Changes in Net Assets.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - SUBSEQUENT EVENT

As of October 31, 2008, due to fluctuations in the overall economy, the market value of the Foundations investments has declined by \$4,400,000 or 15%.



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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Directors
Western Illinois University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Western Illinois University Foundation (Foundation), a component unit of Western Illinois University and the State of Illinois, as of and for the year ended June 30, 2008, and have issued our report thereon dated January 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

E. C. Ortiz & Co. LLP

Chicago, Illinois
January 22, 2009

**State of Illinois
Western Illinois University Foundation
Schedule of Findings
June 30, 2008**

There are no current examination findings.

**State of Illinois
Western Illinois University Foundation
Prior Findings Not Repeated
June 30, 2008**

A. Failure to Apply Appropriate Accounting Principles

In the prior fiscal year, the Western Illinois University Foundation (Foundation) did not properly apply the appropriate generally accepted accounting principles (GAAP) in recording the following transactions:

- Cash equivalents reported in the original financial statements submitted to the auditors included investments held in one bank maturing beyond ninety days from the date of purchase totaling \$3,182,466.
- Gifts in kind totaling \$479,622 were not recorded in the Foundation's books.

Status: Not Repeated

The Foundation subsequently revised the FY 2007 financial statements to include the adjustment to reclassify the cash equivalents to current and noncurrent investments. Based on our testing of all investment balances during the current fiscal year, we noted that investments were properly recorded. Further, a policy in recording gifts in kind was adopted for proper gift recording and accountability.

B. Lack of Fraud Prevention and Detection Program

In the prior fiscal year, the Foundation did not have a fraud risk assessment program in place. The Foundation relied on current internal controls that have been put in place to prevent and detect fraud. These controls and associated risks are not monitored on an on-going basis.

Status: Not Repeated

In the current fiscal year, the Foundation established a Fraud Risk Assessment Task Force that determines whether appropriate policies and procedures exist to address risks within the Foundation. The task force has identified significant risk areas and has been continuously working with key University and Foundation personnel to address those risks.