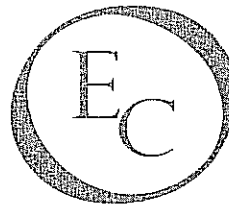


**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY**

**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
Financial Audit
For the Year Ended June 30, 2008**

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Western Illinois University
 Compliance Examination (In Accordance with the Single Audit Act
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Western Illinois University Foundation
 Financial Audit for the Year Ended June 30, 2008

**State of Illinois
Western Illinois University**

University Officials

President

Dr. Alvin Goldfarb

Vice President for Administrative Services

Mrs. Jacqueline K. Thompson

Director of Business Services

Mr. Ronald G. Ward

Internal Auditor

Ms. Rita M. Moore

University offices are located at:

1 University Circle
Macomb, Illinois 61455-1390

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

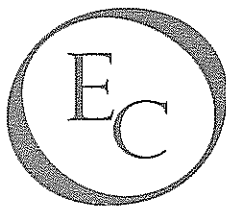
Summary

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

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

Exit Conference

The University waived having an exit conference in a letter dated January 6, 2009 from the University's Director of Internal Auditing, Rita Moore.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the Western Illinois University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's 2007 financial statements and, in our report dated February 15, 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 opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe

the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 to 11 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

E. C. Ortiz & Co. LLP

Chicago, Illinois
January 28, 2009

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

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, 2008. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis are designed to focus on current activities, resulting change and current known facts. The financial statements, footnotes and this discussion are the responsibility of University management.

This MD&A focuses on the University. The University's component unit, Western Illinois University Foundation (Foundation), issues separate financial statements that may be obtained at the Foundation's administrative office as summarized in Note 1.

Using the Financial Report

The University's annual report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

The financial statements focus on the financial position, changes in financial position and cash flows of the University as a whole. They are prepared under the accrual basis of accounting. Assets and liabilities are categorized as current (due within one year) and noncurrent (due in greater than one year). Current year revenues and expenses are recognized when earned or incurred, regardless of when cash is exchanged. Revenues and expenses are reported as either operating or nonoperating. Significant recurring sources of the University's revenues, including State appropriations, gifts and investment income, are nonoperating as defined by GASB. Scholarship discounts and allowances applied to student accounts are shown as a reduction of tuition and fee revenue and auxiliary enterprise revenue while stipends and other payments made directly to students are presented as student aid expenses. Depreciation is considered an operating expense and capital assets are reported at cost less accumulated depreciation.

Financial Highlights

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities, net assets, is one indicator of the financial condition of the University, while the change in net assets over time determines whether the financial health of the University is

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

improving. Non-financial factors such as enrollment levels and the condition of facilities are relevant when assessing the overall health of the University. Net assets are divided into three major categories, as follows: invested in capital assets, net of related debt, provides the University's equity in capital assets; restricted net assets are available for expenditure by the institution, but must be spent for purposes as determined by law, donors and/or external entities that have placed time or purpose restrictions on the use of the assets; and unrestricted net assets are available to the University for any lawful purpose of the institution.

A comparative summary of the condensed Statement of Net Assets for the years ended June 30, 2008 and 2007 is as follows:

Condensed Statement of Net Assets

	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 67,189,579	\$ 67,156,729
Capital assets, net of accumulated depreciation	146,357,402	135,028,693
Other assets	<u>2,292,536</u>	<u>4,215,403</u>
Total assets	<u>215,839,517</u>	<u>206,400,825</u>
Liabilities		
Current liabilities	31,001,807	23,315,113
Noncurrent liabilities	<u>65,623,371</u>	<u>70,097,338</u>
Total liabilities	<u>96,625,178</u>	<u>93,412,451</u>
Net assets		
Invested in capital assets, net of related debt	95,334,312	88,114,439
Restricted	1,965,769	1,955,012
Unrestricted	<u>21,914,258</u>	<u>22,918,923</u>
Total net assets	<u>\$ 119,214,339</u>	<u>\$ 112,988,374</u>

The University's financial position continues to remain strong at June 30, 2008 with assets of \$215.8 million and liabilities of \$96.6 million. Net assets, the difference between total assets and total liabilities, increased by \$6.2 million or 5.5% over the previous year.

Total assets increased by \$9.4 million or 4.6% during fiscal year 2008. This growth is largely due to an increase in capital assets of \$11.3 million as several projects were completed or in progress. The University held more funds in cash and cash equivalents in the current year as compared to the previous year. Cash and cash equivalents totaled \$43.5

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

million at June 30, 2008 compared to \$39.5 million at June 30, 2007 for an increase of \$4.0 million. This increase was offset by a \$6.2 million decrease in investments. Inventory balances decreased by \$0.4 million.

Total liabilities increased by \$3.2 million or 3.4% during fiscal year 2008. Accrued wages payable increased at June 30, 2008 by \$7.6 million over the previous year. This increase was offset by a decrease of \$3.2 million in revenue bonds payable. Deferred revenues, other liabilities, and compensated absences decreased by \$0.3 million, \$0.4 million and \$0.4 million, respectively.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's changes in financial position. Revenues and expenses are classified as operating or nonoperating. A public University's dependency on State appropriations and gifts usually results in operating deficits because the GASB reporting standards classify these revenue sources as nonoperating.

A comparative summary of the condensed Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2008 and 2007 is as follows:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

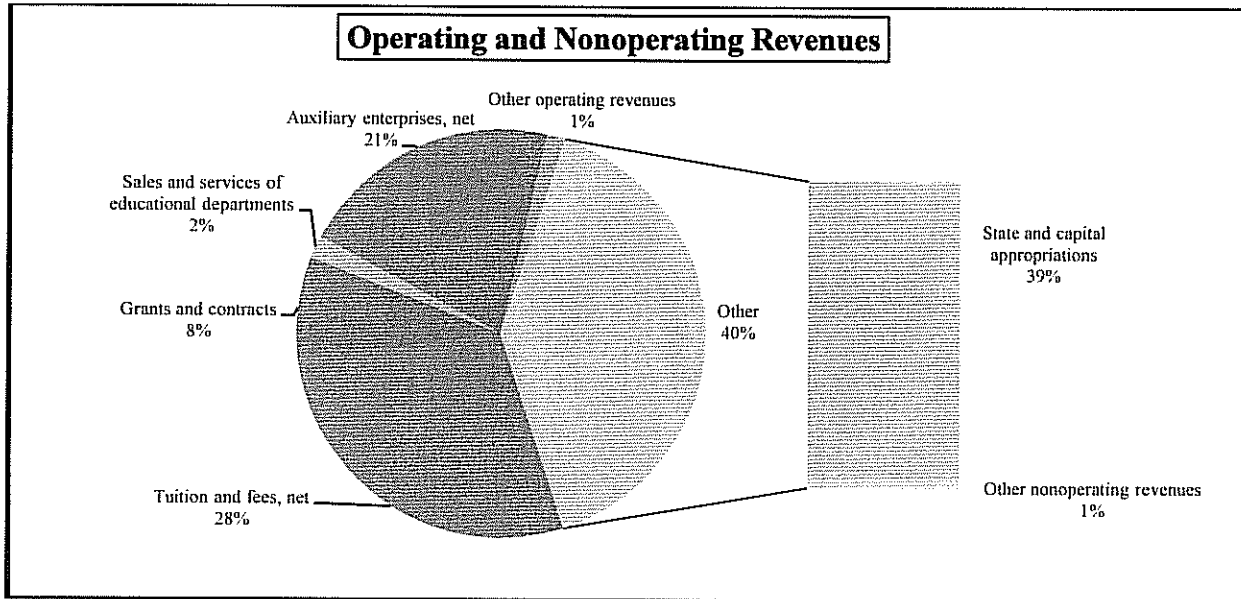
	<u>2008</u>	<u>2007</u>
Total operating revenues	\$147,307,501	\$140,542,399
Total operating expenses	(237,066,357)	(224,530,921)
Operating loss	(89,758,856)	(83,988,522)
Nonoperating revenues	96,966,439	92,297,710
Nonoperating expenses	(2,100,451)	(2,655,171)
Income before other revenues, expenses, gains or losses	5,107,132	5,654,017
Capital state appropriations	1,118,833	2,417,967
Increase in net assets	6,225,965	8,071,984
Net assets, beginning of year	112,988,374	104,916,390
Net assets, end of year	<u>\$119,214,339</u>	<u>\$112,988,374</u>

Total revenue increased by \$10.1 million or 4.3% to \$245.4 million. The primary sources of funding for academic programs are student tuition and State appropriations. In fiscal year 2008, tuition revenues increased by \$5.2 million due in part to an annual increase for tuition and fee rates as approved by the Board of Trustees. State general and administrative appropriations increased by \$1.1 million. State appropriations for on-behalf payments related to employee benefits increased by \$4.5 million in fiscal year 2008.

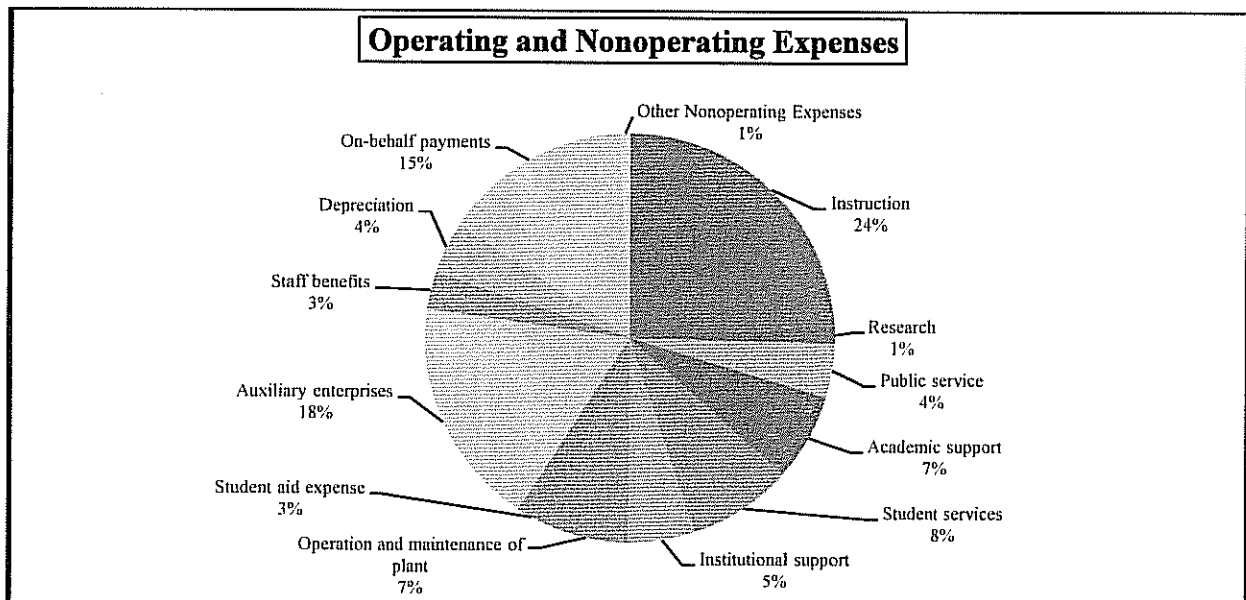
**State of Illinois
Western Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

Total expenses increased by \$12.0 million (5.3%) to \$239.2 million. Most functional areas experienced increased expenses during fiscal year 2008.

For the fiscal year ended June 30, 2008, all sources of revenues totaled \$245.4 million. The following is a graphical illustration of revenues by source:



For the fiscal ended June 30, 2008, expenses totaled \$239.2 million. The following is a graphical illustration of expenses:



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

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, 2008 and 2007 is as follows:

Condensed Statement of Cash Flows

	<u>2008</u>	<u>2007</u>
Cash provided by (used in):		
Operating activities	\$(38,167,497)	\$(39,486,482)
Noncapital financing activities	58,499,099	54,805,599
Capital and related financing activities	(25,135,842)	(18,719,817)
Investing activities	8,820,966	13,897,671
Net increase in cash and cash equivalents	4,016,726	10,496,971
Cash and cash equivalents - beginning of year	39,463,799	28,966,828
Cash and cash equivalents - end of year	<u>\$ 43,480,525</u>	<u>\$ 39,463,799</u>

Major sources for operating activities were tuition and fees, grants and contracts and auxiliary enterprises. Payments for employee salaries and benefits, goods and services and scholarships and fellowships continue to comprise the major use of operating funds. Cash used in operating activities decreased by \$1.3 million.

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

Funds allocated for the acquisition and construction of capital assets increased by \$6.3 million leading to a significant increase in outflows from capital financing activities. Several major construction projects were completed or in progress.

Cash provided by investing activities decreased by \$5.1 million as more funds were held in cash and cash equivalents throughout the fiscal year. Cash provided by investment income decreased \$1.4 million in fiscal year 2008.

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

Capital Assets and Debt Administration

At the end of fiscal year 2008, the University had \$326.9 million invested in capital assets, net of accumulated depreciation of \$180.5 million. Depreciation expense for the current year was \$10.0 million.

Construction in progress at June 30, 2008 increased \$6.9 million over the prior year due to several major constructions projects. Construction of a new multicultural center is currently in progress. Renovations to the student section of the football stadium were completed in fiscal year 2008. Construction of the dual-purpose building named Document and Publication Services and Property Accounting and Redistribution Center was completed in the prior year. These projects were partially funded by the Series 2005 Certificates of Participation proceeds of \$10.3 million.

The University issued the Series 2006 Revenue Bonds in March 2006 for \$15.3 million. The proceeds from the issuance funded the partial advance refunding of the Series 1999 Revenue Bonds in the amount of \$7.6 million. The remaining proceeds from the Series 2006 Revenue Bonds will partially fund the installation of fire sprinkler systems in residence hall facilities and graduate and family apartments as required by Illinois law and construction of an expansion to the Donald S. Spencer Student Recreation Center. Several of the fire sprinkler systems were completed at June 30, 2008.

University's Economic Outlook

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

A crucial element to the University's future will continue to be our relationship with the State of Illinois, as we work to manage tuition to make it competitive while providing an outstanding college education for our students. There is a direct relationship between the growth of State support and the University's ability to control tuition growth, as declines in State appropriations generally result in increased tuition levels.

State appropriations represent operating support provided by the Governor and General Assembly for University programs. The fiscal year 2009 budget, as approved by the Governor, increased by \$1.6 million or 2.8% over the 2008 approved budget.

The University projects an increase in tuition and miscellaneous revenues. The recommended \$62.0 million fiscal year 2009 tuition and miscellaneous revenues budget represents a \$2.0 million or 3.3% increase from fiscal year 2008. The estimated increase in tuition revenues is the result of a 9.5% tuition rate increase approved by the Board of

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

Trustees. Western Illinois University offers guaranteed tuition and fees, as well as guaranteed room and board rates for each new class of entering students. The tuition increase is only for new students, those enrolling for the first time in Summer 2008.

The University's Auxiliary Enterprises funds budget for fiscal year 2009 as approved by the Board of Trustees reflects a \$0.7 million or 1.4% increase in spending over fiscal year 2008. Other institutional funds include revenues from sponsored projects and departmental activity revenues. The 2009 budget for these funds as approved by the Board of Trustees reflects a \$1.0 million or 2.3% increase in spending over fiscal year 2008.

In addition to the above, private gifts are an important supplement to the University's sources of funding for operating costs. In fiscal year 2008, alumni, friends, staff, corporations, and other organizations contributed nearly \$5.0 million in support of the University. The Foundation distributed \$5.1 million in fiscal year 2008 to support academic enhancement and instructional initiatives, student scholarships, capital improvements, cultural activities, athletics, regional outreach efforts, and alumni and Foundation-sponsored programs at Western Illinois University.

The University is committed to pursuing its goal in developing the Quad Cities campus while strategically adding, and when appropriate, eliminating programs. Cost containment and revenue initiatives are challenges the University continues to encounter. While it is not possible to predict the ultimate results, management believes the University's financial condition is strong enough to weather economic uncertainties.

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

	University		Component Unit	
	2008	2007	2008	2007
ASSETS				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 43,394,269	\$ 39,247,473	\$ 1,572,560	\$ 704,798
Cash and cash equivalents, restricted	86,256	216,326	-	-
Investments	15,103,871	19,312,788	810,912	883,318
Accounts receivable, net	5,496,686	4,435,084	485,690	484,785
Student loans receivable, net	446,698	472,981	-	-
Due from component unit	38,242	77,549	-	-
Due from primary government	751,201	1,138,643	-	-
Inventories	1,792,852	2,194,731	18,076	20,107
Prepaid expenses	18,350	-	45,470	26,828
Other assets	61,154	61,154	-	-
Total current assets	67,189,579	67,156,729	2,932,708	2,119,836
<i>Noncurrent assets:</i>				
Investments	-	2,025,619	2,373,663	2,380,526
Endowment investments	-	-	1,643,546	2,723,159
Endowment investments, restricted	-	-	23,316,072	22,066,074
Accounts receivable, net	-	-	76,367	48,491
Student loans receivable, net	1,447,290	1,283,384	-	-
Capital assets, net of accumulated depreciation	146,357,402	135,028,693	1,129,620	922,670
Other assets	845,246	906,400	-	-
Total noncurrent assets	148,649,938	139,244,096	28,539,268	28,140,920
TOTAL ASSETS	215,839,517	206,400,825	31,471,976	30,260,756
LIABILITIES				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	4,578,198	4,512,895	62,487	17,929
Accrued payroll	14,249,027	6,603,557	-	-
Due to primary government	92,027	307,735	38,242	77,549
Deferred revenues	4,648,203	4,910,839	177,887	180,805
Other liabilities	801,474	1,214,419	28,459	28,459
Notes payable	746,325	820,531	-	-
Revenue bonds payable	3,758,220	3,210,185	-	-
Certificates of participation	400,000	-	-	-
Leases payable	5,265	42,984	-	15,191
Compensated absences	1,723,068	1,691,968	-	-
Total current liabilities	31,001,807	23,315,113	307,075	319,933
<i>Noncurrent liabilities:</i>				
Notes payable	1,173,096	937,584	-	-
Revenue bonds payable	39,497,791	43,256,012	-	-
Certificates of participation	9,890,000	10,290,000	-	-
Leases payable	386	5,653	-	-
Other obligations	238,700	402,400	189,737	197,374
Compensated absences	14,823,398	15,205,689	-	-
Total noncurrent liabilities	65,623,371	70,097,338	189,737	197,374
TOTAL LIABILITIES	96,625,178	93,412,451	496,812	517,307
NET ASSETS				
Invested in capital assets, net of related debt	95,334,312	88,114,439	1,129,620	907,480
Restricted - nonexpendable	-	-	22,293,020	21,789,409
Restricted - expendable				
Loans	1,965,769	1,955,012	-	-
Other	-	-	2,532,292	2,336,224
Unrestricted	21,914,258	22,918,923	5,020,232	4,710,336
TOTAL NET ASSETS	\$ 119,214,339	\$ 112,988,374	\$ 30,975,164	\$ 29,743,449

See accompanying notes to basic financial statements

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

	University		Component Unit	
	2008	2007	2008	2007
OPERATING REVENUES				
Tuition and fees, net	\$ 68,440,030	\$ 63,194,327	\$ -	\$ -
Grants and contracts	19,981,340	20,130,041	-	-
Sales and services of educational departments	4,378,319	4,569,219	-	-
Auxiliary enterprises, net	50,936,746	49,335,561	-	-
Student loan activities	43,259	46,654	-	-
Other operating revenues	3,527,807	3,266,597	4,323,950	3,331,032
Total operating revenues	147,307,501	140,542,399	4,323,950	3,331,032
OPERATING EXPENSES				
Instruction	57,646,549	54,952,748	1,149,443	648,202
Research	2,965,570	3,103,945	124,627	70,362
Public service	10,320,311	10,920,123	91,446	67,579
Academic support	16,386,681	15,223,513	97,850	81,825
Student services	19,871,281	18,635,960	723,316	338,678
Institutional support	12,600,302	12,358,970	1,053,413	815,742
Operation and maintenance of plant	15,969,509	14,414,756	154,103	184,038
Student aid expense	5,693,687	5,720,519	1,749,101	1,510,435
Auxiliary enterprises	43,242,917	41,457,129	-	-
Staff benefits	7,012,001	6,898,098	-	-
Depreciation	9,961,891	9,989,358	7,238	11,309
On-behalf payments	35,394,969	30,855,587	-	-
Other operating expenses	689	215	-	-
Total operating expenses	237,066,357	224,530,921	5,150,537	3,728,170
OPERATING LOSSES	(89,758,856)	(83,988,522)	(826,587)	(397,138)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	93,692,465	88,078,972	-	-
Gifts	573,221	258,473	-	-
Loss on disposal of capital assets	(28,583)	(25,369)	(1,460)	-
Investment income (losses)	2,700,753	3,960,265	(5,565)	3,585,045
Interest on capital asset - related debt	(2,071,868)	(2,629,802)	(447)	(1,162)
Other nonoperating revenues	-	-	917,371	688,005
Net nonoperating revenues	94,865,988	89,642,539	909,899	4,271,888
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	5,107,132	5,654,017	83,312	3,874,750
Capital State appropriations	1,118,833	2,417,967	-	-
Additions to permanent endowments	-	-	1,148,403	1,226,574
INCREASE IN NET ASSETS	6,225,965	8,071,984	1,231,715	5,101,324
NET ASSETS, BEGINNING OF YEAR	112,988,374	104,916,390	29,743,449	24,642,125
NET ASSETS, END OF YEAR	\$ 119,214,339	\$ 112,988,374	\$ 30,975,164	\$ 29,743,449

See accompanying notes to basic financial statements

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

	University		Component Unit	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 68,070,806	\$ 63,668,139	\$ -	\$ -
Grants and contracts	19,122,886	20,701,591	-	-
Gifts for other than capital and endowment purposes	-	-	3,534,761	2,931,480
Payments for employee salaries and benefits	(118,930,854)	(120,226,114)	-	-
Payments for goods and services	(58,841,828)	(55,540,955)	(3,377,099)	(2,225,550)
Payments to annuitants	-	-	(36,096)	(28,459)
Payments for scholarships and fellowships	(5,854,590)	(5,884,533)	(1,749,101)	(1,510,435)
Student loans issued	(613,345)	(635,522)	-	-
Student loans collected	399,108	688,306	-	-
Student loans interest and fees collected	41,384	46,642	-	-
Auxiliary enterprises charges	50,856,413	50,286,386	-	-
Sales and services of educational departments	4,175,502	4,163,581	-	-
Other receipts	3,407,021	3,245,997	522,306	450,670
Net cash used in operating activities	<u>(38,167,497)</u>	<u>(39,486,482)</u>	<u>(1,105,229)</u>	<u>(382,294)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	58,297,496	57,223,385	-	-
Gifts	211,963	210,770	1,148,403	1,226,574
Nonoperating revenues (expenses), net	(10,360)	(2,628,556)	943,460	642,842
Net cash provided by noncapital financing activities	<u>58,499,099</u>	<u>54,805,599</u>	<u>2,091,863</u>	<u>1,869,416</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(18,387,320)	(12,091,368)	(21,744)	-
Principal paid on capital debt	(4,331,528)	(4,033,168)	-	(4,837)
Interest paid on capital debt	(2,416,994)	(2,595,281)	(447)	(1,162)
Net cash used in capital and related financing activities	<u>(25,135,842)</u>	<u>(18,719,817)</u>	<u>(22,191)</u>	<u>(5,999)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	21,699,053	25,976,639	9,440,665	3,399,252
Earnings (losses) on investments	2,509,335	3,882,498	(1,475,886)	1,657,410
Purchase of investments	(15,387,422)	(15,961,466)	(8,061,460)	(6,120,694)
Net cash provided by (used in) investing activities	<u>8,820,966</u>	<u>13,897,671</u>	<u>(96,681)</u>	<u>(1,064,032)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,016,726	10,496,971	867,762	417,091
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	39,463,799	28,966,828	704,798	287,707
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 43,480,525</u>	<u>\$ 39,463,799</u>	<u>\$ 1,572,560</u>	<u>\$ 704,798</u>
Reconciliation of operating losses to net cash used in operating activities:				
Operating losses	\$ (89,758,856)	\$ (84,039,293)	\$ (826,587)	\$ (397,138)
Adjustments to reconcile operating losses to net cash used in operating activities:				
On-behalf payments	35,394,969	30,855,587	-	-
Depreciation expense	9,961,891	9,989,358	7,238	11,309
Actuarial adjustment to value of split-interest agreements	-	-	(7,637)	(7,786)
Noncapitalized capital appropriations	-	10,196	-	-
Changes in assets and liabilities:				
Receivables, net	(752,057)	352,519	-	(3,551)
Pledges receivable, net	-	-	(70,062)	68,450
Student loans receivables, net	(137,623)	110,008	-	-
Inventories	401,879	853,934	2,031	1,382
Capital assets donated	-	-	(193,903)	-
Prepaid expenses and other assets	115,702	67,965	(18,642)	(23,329)
Accounts payable and accrued liabilities	(112,038)	35,788	44,558	(88,886)
Accrued payroll	7,645,470	298,945	-	-
Due to University	-	-	(39,307)	65,741
Other liabilities	(575,643)	1,863,179	(2,918)	(8,486)
Compensated absences	(351,191)	115,332	-	-
Net cash used in operating activities	<u>\$ (38,167,497)</u>	<u>\$ (39,486,482)</u>	<u>\$ (1,105,229)</u>	<u>\$ (382,294)</u>

See accompanying notes to basic financial statements

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

	University		Component Unit	
	2008	2007	2008	2007
NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES				
On-behalf payments	\$ 35,394,969	\$ 30,855,587	\$ -	\$ -
Capital asset acquisition via notes and leases payable	1,109,199	27,989	-	-
Capital asset acquisition via capital appropriations	1,118,833	2,876,375	-	-
Capital asset acquisition via support from Foundation	283,733	57,913	-	-
Capitalized interest	444,264	41,261	-	-
Capital asset changes in accounts payable	(28,792)	1,472,237	-	-
Other capital asset adjustments	54,504	78,022	-	-
Gifts in kind	-	-	508,247	51,200
Loss on disposal of equipment	(28,583)	(25,369)	(1,460)	-

See accompanying notes to basic financial statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Western Illinois University (University), a component unit of the State of Illinois (State), with a primary focus on instruction and an additional commitment to research and public service, is located in Macomb, Illinois. The governing body of the University is the Board of Trustees of Western Illinois University (Board). As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University and its component unit, Western Illinois University Foundation (Foundation). The Foundation is included in the University's reporting entity because of the significance of its financial relationship with the University. Complete financial statements for the Foundation may be obtained at that entity's administrative office:

WIU Foundation
1 University Circle
Macomb, IL 61455-1390

The Foundation is a University-related organization as defined under *University Guidelines* adopted by the State of Illinois Legislative Audit Commission in 1982 as amended in 1997. The Foundation was formed for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research and public service activities. In this capacity, the Foundation solicits, receives, holds and administers gifts for the benefit of the University.

The University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report.

B. Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The University reports as a Business Type Activity. Business Type Activities are those financed in whole or in part by fees charged to external parties for goods and services.

The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University follows all applicable GASB Pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

C. Prior-Year Information

The basic financial statements include certain prior-year partial comparative information. Such information does not include full comparative footnote disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2007, from which the partial information was derived. Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

D. Use of Estimates

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

E. Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2008, cash equivalents consisted primarily of money market and similar funds.

F. Investments

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

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Illinois statutes and Board policy authorize the University to invest in certificates of deposit, The Illinois Funds, United States Government Securities, securities guaranteed by the full faith and credit of the United States government, and any other security permitted by law and approved by the Board.

G. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students, amounts receivable from funding agencies for grants, amounts receivable from third parties and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable is presented net of estimated uncollectible amounts.

H. Deferred Bond and Certificates of Participation Issue Costs

Bond and certificates of participation issue costs incurred on the revenue bond and certificates of participation issues have been deferred and are being amortized over the life of the bonds/certificates of participation using the straight-line method. Total amortization for the years ended June 30, 2008 and 2007 was \$61,154 each year.

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 (first-in, first-out method) or market.

K. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The University's capitalization policy for capital assets is as follows: equipment - \$5,000 or greater; land or buildings - \$100,000 or greater; and, site or building improvements - \$25,000 or greater. Renovations to buildings and land improvements that increase the value or extend the useful life are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the class of assets. The following estimated useful lives are being used by the University:

Site improvements	25 years
Buildings	60 years

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

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

L. Deferred Revenues

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

M. Compensated Absences

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absences liabilities are computed using the regular pay and termination pay rates in effect at the Statement of Net Assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

N. Net Assets

Net assets of the University are classified in four components:

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

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

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Restricted net assets - expendable - are noncapital assets that must be used for a particular purpose as specified by laws, creditors, grantors or donors external to the University, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.

Unrestricted net assets - are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, restricted nonexpendable or restricted expendable.

O. Classification of Revenues

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

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises and (3) interest on student loans.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources, such as State appropriations and investment income, that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The State of Illinois General Revenue Fund appropriations are reported as non-operating revenues to the extent that they are expended during the current fiscal year. The University relies on these appropriations to provide funding for operations.

P. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30, 2008 were \$5,274,683 and \$2,307,853, respectively.

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Notes to Financial Statements
June 30, 2008

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. Donor Restricted Endowments

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Illinois, permits the Board of Directors of the Foundation to appropriate an amount of realized and unrealized endowment appreciation as they determine to be prudent. The Board of Directors has established an investment policy with the objectives of protecting the principal of these funds and maximizing total investment return without assuming extraordinary risks. It is the goal of the Foundation to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 4.25% for endowment purposes and 1.25% for operational purposes, of a 36-month moving average of endowment market value, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings. The Foundation's policy is to retain the endowment's unrealized appreciation with the endowment after spending rule distributions. As of June 30, 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.

S. Income Taxes

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

T. New Accounting Pronouncements

Effective July 1, 2007, the University adopted the following accounting pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, which establishes standards for the measurement and recognition of OPEB. (See Note 13)

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Western Illinois University
Notes to Financial Statements
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- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes criteria to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. (See Note 8)

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, 2008, the book balance of various University bank accounts was \$7,438,907, while the bank balance was \$7,280,230. 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 University's bank balances are exposed to custodial credit risk.

At June 30, 2008, the University's certificates of deposit totaled \$9,080,121.

Foundation

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.

Reconciliation of cash and cash equivalents to deposits:

	<u>University</u>	<u>Foundation</u>
Cash and cash equivalents	\$ 43,480,525	\$ 1,572,560
Less: Money market funds classified as cash and cash equivalents	(35,886,678)	(1,395,575)
Cash on hand	<u>(154,940)</u>	<u>(100)</u>
Carrying amount of deposits	<u>\$ 7,438,907</u>	<u>\$ 176,885</u>

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Notes to Financial Statements
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NOTE 3 - INVESTMENTS

University

At June 30, 2008, the University held investments with the following maturities and ratings:

Type	Total Fair Value	Maturities Less Than One Year	Credit Rating Per		
			Standard and Poor's AAA	Moody's Aaa	Not Rated
Illinois Funds investment pool	\$ 35,862,481	\$35,862,481	\$35,862,481	\$ —	\$ —
US Bank Trust money market account	24,197	24,197	—	—	24,197
Federal Home Loan Banks	5,018,440	5,018,440	—	5,018,440	—
Federal Farm Credit Banks	1,005,310	1,005,310	—	1,005,310	—
Total Investments	<u>\$ 41,910,428</u>	<u>\$41,910,428</u>	<u>\$35,862,481</u>	<u>\$ 6,023,750</u>	<u>\$ 24,197</u>

Custodial Credit Risk

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the University's investment policy limits maturity of its investments to five years or less from the date of purchase.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The University's policy limits its investments to the Illinois Funds investment pool, United States Treasury bills, United States Treasury notes, United 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, 2008, the Foundation held investments with the following maturities:

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Notes to Financial Statements
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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	\$ 29,539,768	\$ 23,082,048	\$2,227,357	\$3,250,903	\$979,460

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).

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.

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

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.

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 investments. The Foundation does not have a policy on foreign currency risk. The U.S. dollar balances of the Foundation's investments exposed to foreign currency risk as of June 30, 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
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 held investments with the following ratings:

Type	Total Fair Value	Credit Rating per Standard and Poor's					
		AAA	AA-	A+	A	BBB	Not Rated
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
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	\$29,539,768	\$8,184,957	\$128,488	\$248,538	\$30,112	\$60,277	\$20,887,396

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:

	University	Foundation
Cash and cash equivalents	\$ 43,480,525	\$ 1,572,560
Investments	15,103,871	28,144,193
Total	\$ 58,584,396	\$ 29,716,753

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

Investments at June 30, 2008 are as follows:

	<u>University</u>	<u>Foundation</u>
Current:		
Investments	\$ 6,023,750	\$ 810,912
Noncurrent:		
Endowment investments	-	1,643,546
Endowment investments, restricted	-	23,316,072
Other investments	-	2,373,663
Sub-total	<u>6,023,750</u>	<u>28,144,193</u>
Money market funds classified as cash and cash equivalents	<u>35,886,678</u>	<u>1,395,575</u>
Total investments	<u>\$ 41,910,428</u>	<u>\$ 29,539,768</u>

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

	<u>University</u>	<u>Foundation</u>
Interest and dividend income	\$ 2,747,675	\$ 1,364,965
Net decrease in fair value of investments	<u>(46,922)</u>	<u>(1,370,530)</u>
Net investment income (loss)	<u>\$ 2,700,753</u>	<u>\$ (5,565)</u>

NOTE 4 - ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable are reported net of allowances for uncollectible accounts of \$3,516,060 at June 30, 2008. Accounts receivable consisted of the following as of June 30, 2008:

Receivables from students	\$ 5,902,251
Receivables from funding agencies	1,853,736
Receivables from third parties	<u>1,256,759</u>
Total gross receivables	9,012,746
Allowance for doubtful accounts	<u>(3,516,060)</u>
Total net receivables	<u>\$ 5,496,686</u>

Student loans receivable totaling \$2,513,288 are reported net of allowance for uncollectible loans of \$619,300 at June 30, 2008.

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

NOTE 5 - CAPITAL ASSETS

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Net interest of \$444,264 was capitalized during fiscal year 2008.

Capital asset activities for the University for the year ended June 30, 2008 were as follows:

	Balance 6/30/2007	Additions	Retirements	Transfers	Balance 6/30/2008
Non-depreciable capital assets:					
Land and land improvements	\$ 3,217,457	\$ 3,975	\$ -	\$ -	\$ 3,221,432
Works of art and historical treasures	471,569	-	-	-	471,569
Construction in progress	11,052,363	15,877,573	-	(9,019,333)	17,910,603
Total non-depreciable capital assets	<u>14,741,389</u>	<u>15,881,548</u>	<u>-</u>	<u>(9,019,333)</u>	<u>21,603,604</u>
Depreciable capital assets:					
Site improvements	26,791,124	759,151	-	371,135	27,921,410
Buildings and building improvements	198,360,635	1,244,611	-	8,648,198	208,253,444
Equipment	66,228,246	3,483,751	(695,988)	82,822	69,098,831
Capital lease - equipment	137,525	-	(22,500)	(82,822)	32,203
Total depreciable capital assets	<u>291,517,530</u>	<u>5,487,513</u>	<u>(718,488)</u>	<u>9,019,333</u>	<u>305,305,888</u>
Less accumulated depreciation	<u>171,230,226</u>	<u>9,964,289</u>	<u>(642,425)</u>	<u>-</u>	<u>180,552,090</u>
Total depreciable capital assets, net	<u>120,287,304</u>	<u>(4,476,776)</u>	<u>(76,063)</u>	<u>9,019,333</u>	<u>124,753,798</u>
Capital assets, net	<u>\$ 135,028,693</u>	<u>\$ 11,404,772</u>	<u>\$ (76,063)</u>	<u>\$ -</u>	<u>\$ 146,357,402</u>

Capital asset activities for the Foundation for the year ended June 30, 2008 were as follows:

	Balance 6/30/2007	Additions	Retirements	Balance 6/30/2008
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>

**State of Illinois
Western Illinois University
Notes to Financial Statements
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NOTE 6 - DEFERRED REVENUES

Deferred revenues consist of the following as of June 30, 2008:

Tuition and fees	\$ 1,979,354
Grants and contracts	1,586,866
Sales and services of educational departments	318,594
Auxiliary enterprises	<u>763,389</u>
Total	<u>\$ 4,648,203</u>

NOTE 7 - NOTES PAYABLE

The University has entered into installment purchase agreements for telecommunications equipment, storage area network equipment, computer equipment, and copy equipment with an original cost of \$4,938,423. The related notes payable obligations were recorded at the present value of the future minimum installment payments, discounted using applicable discount rates, which range from 1.20% to 4.45%. Notes payable activity for the year ended June 30, 2008 was as follows:

Balance, beginning of year	\$ 1,758,115
New notes	1,109,848
Payments	<u>(948,542)</u>
Balance, end of year	<u>\$ 1,919,421</u>
Current portion	<u>\$ 746,325</u>

Following is a schedule by years of the total future minimum note payments under these agreements together with the present value of the net minimum note payments as of June 30, 2008.

2009	\$ 806,223
2010	772,093
2011	275,525
2012	102,071
2013	<u>76,553</u>
Total minimum note payments	2,032,465
Less: amount representing interest	<u>113,044</u>
Present value of net minimum note payments	<u>\$ 1,919,421</u>

State of Illinois
Western Illinois University
Notes to Financial Statements
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NOTE 8 - REVENUE BONDS PAYABLE

General

At June 30, 2008, revenue bonds payable consists of Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2006, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2005, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2002, and Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 1999.

Series 2006 Bonds

On March 9, 2006, the Series 2006 Bonds were issued in the principal amount of \$15,250,000. The Series 2006 Bonds are due April 1, 2027, with annual principal payments ranging from \$265,000 to \$1,170,000 commencing April 1, 2009 and semi-annual interest payments beginning October 1, 2006 at 3.5% to 4.5%. On February 7, 2008, Moody's Insured Rating on the Series 2006 Bonds was downgraded from Aaa to A3. At the same time, the Standard & Poor's (S&P) Insured Rating was downgraded from AAA to A-.

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

Although the advance refunding resulted in the recognition of an accounting loss of \$249,562, for the year ended June 30, 2006, the University in effect reduced its aggregate debt service payments by \$401,922 over the next 19 years and obtained an economic gain of \$365,626.

Series 2005 Bonds

On February 16, 2005, the Series 2005 Bonds were issued in the principal amount of \$25,715,000. The Series 2005 Bonds are due April 1, 2020, with annual principal payments ranging from \$580,000 to \$2,845,000 commencing April 1, 2006 and semi-annual interest payments beginning October 1, 2005 at 3.00% to 4.25%.

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Proceeds from the sale of the Series 2005 Bonds, together with other funds of the University, were used to provide for the advance refunding of a portion of the Series 1993 Bonds and the Series 1995 Bonds and to pay certain expenses related to the issuance of the bonds. The net proceeds plus funds provided by the University were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 and 1995 Series Bonds. As a result, the 1993 and 1995 Series Bonds are considered defeased and the liability for those bonds has been removed from the University's Statement of Net Assets.

Although the advance refunding resulted in the recognition of an accounting loss of \$1,345,010, for the year ended June 30, 2005, the University in effect reduced its aggregate debt service payments by \$7,682,725 over the next 15 years and obtained an economic gain of \$2,548,409.

Series 2002 Bonds

On February 6, 2002, the Series 2002 Bonds were issued in the principal amount of \$12,605,000. The Series 2002 Bonds are due April 1, 2022, with annual principal payments ranging from \$450,000 to \$970,000 commencing April 1, 2004 and semi-annual interest payments beginning April 1, 2002 at 3.50% to 5.00%.

Proceeds from the sale of the Series 2002 Bonds were used to construct a new residence hall, to renovate existing residence halls, to renovate married student and family housing apartments, and to purchase property adjacent to the University. In addition, Series 2002 Bonds proceeds were used to pay interest on the Series 2002 Bonds through October 1, 2003, to fund a deposit to the Debt Service Reserve Account and to pay the costs of issuing the Series 2002 Bonds.

Series 1999 Bonds

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

Proceeds from the sale of the Series 1999 Bonds were used to construct a new dining center, to renovate an existing dining center, to construct an addition to Western Hall, to make fire safety improvements and to refurbish student housing facilities. In addition, Series 1999 proceeds were used to pay interest on a portion of the Series 1999 Bonds through April 1, 2001, to fund a deposit to the Debt Service Reserve Account and to pay the costs of issuing the Series 1999 Bonds.

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

Advance Refunded Bonds

Certain revenue bonds of the University have been defeased in prior years through advance refunding and, accordingly, have been accounted for as if they were retired. The principal amount of advance refunded bonds outstanding at June 30, 2008 was \$11,475,000.

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Revenue Bonds Payable activity for the year ended June 30, 2008:

	Beginning Balance	Deletions	Ending Balance	Current Portion
Series 1999 Bonds	\$ 580,000	\$ 250,000	\$ 330,000	\$ 330,000
Series 2002 Bonds	10,705,000	520,000	10,185,000	540,000
Series 2005 Bonds	20,950,000	2,570,000	18,380,000	2,655,000
Series 2006 Bonds	15,250,000	-	15,250,000	265,000
Unamortized premium	187,107	66,096	121,011	45,147
Unamortized discount	(147,819)	(7,448)	(140,371)	(7,614)
Deferred loss of refunding	(1,058,091)	(188,462)	(869,629)	(69,313)
	<u>\$ 46,466,197</u>	<u>\$3,210,186</u>	<u>\$43,256,011</u>	<u>\$ 3,758,220</u>

Aggregate maturities of the bonds outstanding as of June 30, 2008 are as follows:

	Principal	Interest
2009	\$ 3,790,000	\$ 1,799,869
2010	3,995,000	1,657,559
2011	4,140,000	1,512,834
2012	2,765,000	1,361,040
2013	2,870,000	1,257,102
2014-2018	13,825,000	4,497,260
2019-2023	10,055,000	1,811,790
2024-2027	2,705,000	259,212
	<u>44,145,000</u>	<u>14,156,666</u>
Unamortized premium	121,011	-
Unamortized discount	(140,371)	-
Deferred loss of refunding	(869,629)	-
	<u>\$ 43,256,011</u>	<u>\$ 14,156,666</u>

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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 \$5,652,834. The estimated debt service coverage ratio based on revenues generated from operations is 1.79. The future pledged revenues for principal and interest in fiscal year 2008 are \$58,301,666. Pledged revenue coverage is 13.34 in fiscal year 2008. Pledged revenues have a term of commitment through 2027.

NOTE 9 - CERTIFICATES OF PARTICIPATION PAYABLE

On December 7, 2005, the Series 2005 Certificates of Participation (Capital Improvement Projects) were issued in the principal amount of \$10,290,000. The Series 2005 Certificates of Participation are due October 1, 2025 with annual principal payments ranging from \$400,000 to \$805,000 commencing October 1, 2008 and semi-annual interest payments beginning April 1, 2006 at 3.3% to 4.5%.

Proceeds from the sale of the Series 2005 Certificates of Participation are being used to renovate the student section of the football stadium, to construct a new multicultural center, and to construct a combination Document and Publication Services and Property Accounting and Redistribution Center. In addition, Series 2005 proceeds were used to pay the costs of issuing the Series 2005 Certificates of Participation.

Debt Service Activity Requirements and Collateral

Aggregate maturities of the certificates of participation outstanding as of June 30, 2008 are as follows:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 400,000	\$ 423,884
2010	415,000	410,125
2011	430,000	395,173
2012	445,000	379,035
2013	460,000	361,779
2014-2018	2,605,000	1,507,080
2019-2023	3,225,000	887,467
2024-2025	2,310,000	159,075
	<u>\$ 10,290,000</u>	<u>\$ 4,523,618</u>

Maximum Annual Debt Service as defined for outstanding Certificates of Participation is \$825,173.

State of Illinois
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Notes to Financial Statements
June 30, 2008

The Certificates of Participation described above do not constitute obligations of either the State of Illinois or the Board of Trustees of Western Illinois University, but together with interest thereon, are payable solely from and are collateralized by lawful appropriations by the General Assembly for such purposes and legally available nonappropriated funds.

NOTE 10 - CAPITAL LEASE OBLIGATIONS

The University has entered into several lease purchase contracts for duplicating equipment. Assets under capital leases at June 30, 2008, totaled \$32,203, net of accumulated depreciation of \$26,863. The related lease obligations were recorded at the present value of the future minimum lease payments discounted using applicable discount rates, which range from 4.25% to 16.54%. Capital lease activity for the year ended June 30, 2008 was as follows:

Balance, beginning of year	\$ 48,637
New leases	—
Payments/terminations	<u>(42,986)</u>
Balance, end of year	<u>\$ 5,651</u>
Current portion	<u>\$ 5,265</u>

Following is a schedule by years of the total future minimum lease payments under these leases together with the present value of the net minimum lease payments as of June 30, 2008:

2009	\$ 5,532
2010	<u>388</u>
Total minimum lease payments	5,920
Less: amount representing interest	<u>269</u>
Present value of net minimum lease payments	<u>\$ 5,651</u>

NOTE 11 - ACCRUED COMPENSATED ABSENCES

Vacation pay earned but not taken may be accumulated up to a specified maximum from 24 to 56 work days, and received as a lump sum payment upon termination. At June 30, 2008, such accumulated benefits totaled \$7,456,486.

Administrative and faculty unused sick leave may be accumulated up to a specified maximum, generally 300 calendar days. Unused and unpaid sick leave can be applied toward

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

the service time requirements for computing retirement benefits. Civil service exempt and nonexempt employees have no specified maximum accumulation of unused sick leave days. One-half of any unused sick leave earned from January 1, 1984 through January 1, 1998 can be received as a lump sum payment upon termination. At June 30, 2008, such accumulated benefits totaled \$9,089,980. Compensated absences activity for the year ended June 30, 2008 was as follows:

Balance, beginning of year	\$ 16,897,657
Additions	1,266,319
Deductions	<u>(1,617,510)</u>
Balance, end of year	<u>\$ 16,546,466</u>
Current portion	<u>\$ 1,723,068</u>

NOTE 12 - RETIREMENT PLAN

Plan Description

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

SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org or by calling 1-800-275-7877.

Eligible employees must participate upon initial employment. Employees are ineligible to participate if a) employed after having attained age 68; or b) employed less than 50% of full time. Of these University employees ineligible to participate, the majority are students at the University.

SURS provides retirement, disability and death benefits. Members are eligible for normal retirement at any age after 35 years of service, at age 60 after eight years of service or at age 62 after five years of service. There are also provisions for early retirement. Retirement benefits are based on certain formulas that generally are a function of years of service and the

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

average salary based on the highest earnings of any four consecutive years. Disability benefits are paid to disabled members with two years of covered service, generally at 50% of basic compensation until the total benefits paid equal 50% of the total earnings in covered service.

Death benefits are payable to survivors of an active member with one and one half years of covered service or of a former member with 10 years of covered service. These benefits are payable until children attain the age of 18, to a spouse after age 50 and to a dependent parent after age 55. Benefits are equal to the retirement contributions and interest, a lump sum payment of \$1,000, and a monthly annuity equal to a portion of the accrued normal retirement benefit based on specified formulas.

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 12.88% 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, 2008, 2007, and 2006 were \$9,845,270, \$7,353,832, \$4,983,711, respectively, equal to the required contributions for each year.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

State of Illinois
Western Illinois University
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June 30, 2008

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

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

NOTE 14 - INSURANCE

The University participates in the State University Risk Management Association (SURMA), a self-insurance pool. Through its participation in the Illinois Public Higher Education Cooperative (IPHC), the University has contracted with commercial carriers to provide various insurance coverages, including educators' legal and other general liability insurance. The University's liability coverages have a \$250,000 to \$350,000 deductible per occurrence. SURMA member schools may request reimbursement for claim related expenses from SURMA funds. Additionally, the University purchases property insurance coverage for the replacement value of University real property and contents. Settled claims have not exceeded commercial coverage in any of the three preceding years.

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

NOTE 15 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2008, for the University are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 53,812,455	\$ 3,783,465	\$ 50,629	\$ -	\$ 57,646,549
Research	2,405,639	559,931	-	-	2,965,570
Public service	6,629,465	3,677,841	13,005	-	10,320,311
Academic support	11,690,309	4,696,287	85	-	16,386,681
Student services	10,278,728	9,592,553	-	-	19,871,281
Institutional support	10,610,309	1,989,657	336	-	12,600,302
Operation and maintenance of plant	8,972,811	6,996,698	-	-	15,969,509
Student aid	-	29,300	5,664,387	-	5,693,687
Auxiliary enterprises	14,879,383	28,159,246	204,288	-	43,242,917
Staff benefits	7,012,001	-	-	-	7,012,001
Depreciation expense	-	-	-	9,961,891	9,961,891
On-behalf payment	35,394,969	-	-	-	35,394,969
Other operating expenses	-	689	-	-	689
Total	\$ 161,686,069	\$ 59,485,667	\$ 5,932,730	\$ 9,961,891	\$237,066,357

Operating expenses by natural classification for the year ended June 30, 2008 for the Foundation are summarized as follows:

	Institutional Support	Scholarships and Fellowships	Depreciation	Total
Advertising and promotions	\$ 89,434	\$ -	\$ -	\$ 89,434
Contractual services	1,203,757	-	-	1,203,757
Copying/photo sales	110,533	-	-	110,533
Cost of sales	444,443	-	-	444,443
Assets purchased/donated to University	408,091	-	-	408,091
Food/food supplies/catering	295,072	-	-	295,072
Operating supplies/commodities	255,767	-	-	255,767
Operation of automotive equipment	1,358	-	-	1,358
Postage	110,456	-	-	110,456
Registration fees/conference expense and dues	37,066	-	-	37,066
Scholarships returned to donors	48,100	-	-	48,100
Scholarships	-	1,784,048	-	1,784,048
Telecommunications	15,647	-	-	15,647
Change in annuities payable/annuity payments	20,536	-	-	20,536
Donation of restricted funds to University	197,349	-	-	197,349
Donation of unrestricted funds to University	121,642	-	-	121,642
Depreciation	-	-	7,238	7,238
Total	\$ 3,359,251	\$ 1,784,048	\$ 7,238	\$ 5,150,537

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

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 2008, the Foundation did not specifically reimburse the University for \$644,390 of personal service costs or for facility use provided by the University. However, the Foundation gave the University \$2,479,361 for fiscal year 2008, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

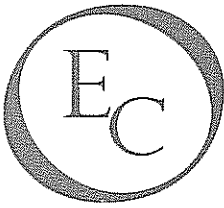
NOTE 17 - COMMITMENTS AND CONTINGENCIES

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.



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

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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the Western Illinois University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 28, 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 University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness as defined above.

Compliance and Other Matters

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

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

E. C. Ontig & Co., LLP

Chicago, Illinois
January 28, 2009

**State of Illinois
Western Illinois University
Schedule of Finding
June 30, 2008**

There are no current examination findings.

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

A. Contract Retainage Liabilities Not Recorded

In the prior examination, contract retainage payable of the Western Illinois University (University) totaling \$570,934 was not recorded in the University's financial statements. (Finding Code No. 07-1)

Status: Not repeated

In the current examination, yearend closing procedures include the recording of retainage liabilities in the financial statements. Our current testing did not disclose any unrecorded retainage payable.