STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

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Related Report Issued Under a Separate Cover

Western Illinois University
Compliance Examination (In accordance with the Single Audit Act and OMB Circular A-133) for the Year Ended June 30, 2013

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University Officials

President	Dr. Jack Thomas
Provost and Academic Vice President	Dr. Kenneth Hawkinson
Vice President for Student Services	Dr. Gary Biller
Vice President for Administrative Services	Ms. Julie DeWees
Vice President for Advancement and Public Services	Mr. Brad Bainter
Vice President for Quad Cities and Planning	Dr. Joseph Rives
Assistant Vice President for Administrative Services	Vacant (09/07/13 to Present) Ms. Dana Biernbaum (Through 09/06/13)
Director of Business Services	Vacant (09/07/13 to Present) Ms. Dana Biernbaum, Interim (Through 09/06/13)
Director of Internal Auditing	Ms. Rita M. Moore
Assistant Comptroller	Ms. Barbara Thompson
Assistant Comptroller	Ms. Cheryl Webster
Assistant Comptroller	Ms. Lisa Hinman

University offices are located at:

Macomb Campus
1 University Circle
Macomb, Illinois 61455-1390

Quad Cities Campus
3300 River Drive
Moline, Illinois 61265-5881

State of Illinois
Western Illinois University
Financial Audit
For the Year Ended June 30, 2013

Financial Statement Report Summary

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

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

Summary of Finding

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Finding on pages 43 through 44 of this report as item 2013-001, *Inadequate Controls Over Journal Entries*.

Exit Conference

The University waived having an exit conference in a letter dated December 10, 2013 from Barbara Thompson, Assistant Comptroller.

The response to the recommendation was provided by Barbara Thompson, Assistant Comptroller, in a letter dated December 10, 2013.

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

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of Western Illinois University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University and its aggregate discretely presented component unit, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component unit of the University in our report dated March 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

E. C. Ortiz & Co., LLP

Chicago Illinois
December 20, 2013

State of Illinois
Western Illinois University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2013

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, 2013. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis are designed to focus on current activities, resulting change, current known facts, and future outlook. The financial statements, footnotes and this discussion are the responsibility of University management.

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

Using the Financial Report

The University's annual report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) which require that financial statements be presented on a consolidated basis to focus on the University as a whole.

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

Financial Highlights

Statement of Net Position

The Statement of Net Position 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 position, is one indicator of the financial condition of the University, while the change in net position that occurs over time indicates improvement or deterioration in the University's financial condition. Non-financial factors such as enrollment levels and the condition of facilities are relevant when assessing the overall health of the University. Net position is divided into three major categories, as follows: net investment in capital assets reflects the University's equity in capital assets; restricted net position are available for expenditure by the institution, but must be spent for purposes as determined by law, donors and/or external entities that have placed time or purpose restrictions on the use of the assets; and unrestricted net position are available to the University for any lawful purpose of the institution.

A comparative summary of the condensed Statement of Net Position for the years ended June 30, 2013 and 2012 is as follows:

Condensed Statement of Net Position

	2013	2012
Assets		
Current assets	$ 98,571,023	$ 124,385,381
Capital assets, net of accumulated depreciation	244,022,963	210,480,188
Other assets	4,054,626	4,239,550
Total assets	346,648,612	339,105,119
Liabilities		
Current liabilities	40,574,652	33,891,389
Noncurrent liabilities	111,332,162	115,675,637
Total liabilities	151,906,814	149,567,026
Net position		
Net investment in capital assets	141,876,327	136,055,293
Restricted	1,921,875	1,986,908
Unrestricted	50,943,596	51,495,892
Total net position	$ 194,741,798	$ 189,538,093

A review of the University's Statement of Net Position at June 30, 2013 shows that the University continues to build upon its strong financial foundation with assets of $346.6 million and liabilities of $151.9 million. Net position, the difference between total assets and total liabilities, increased $5.2 million or 2.7% over the previous year.

Total assets increased $7.5 million or 2.2% during Fiscal Year 2013. Cash and cash equivalents decreased $14.1 million as funds were expended for capital projects, deferred maintenance and operations. Investments decreased $13.0 million as the University liquidated investments from unspent debt proceeds to fund scheduled capital projects. The University continued to experience delays in reimbursement for State-funded expenditures. Capital assets increased $33.5 million.

Total liabilities increased $2.3 million or 1.6% during Fiscal Year 2013. Total long-term debt decreased $5.6 million from scheduled debt payments. Accounts payable decreased $1.3 million and accrued payroll increased $8.1 million due to the timing of payrolls at year end.

Statement of Revenues, Expenses and Changes in Net Position

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

A comparative summary of the condensed Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2013 and 2012 is as follows:

Condensed Statement of Revenues, Expenses and Changes in Net Position

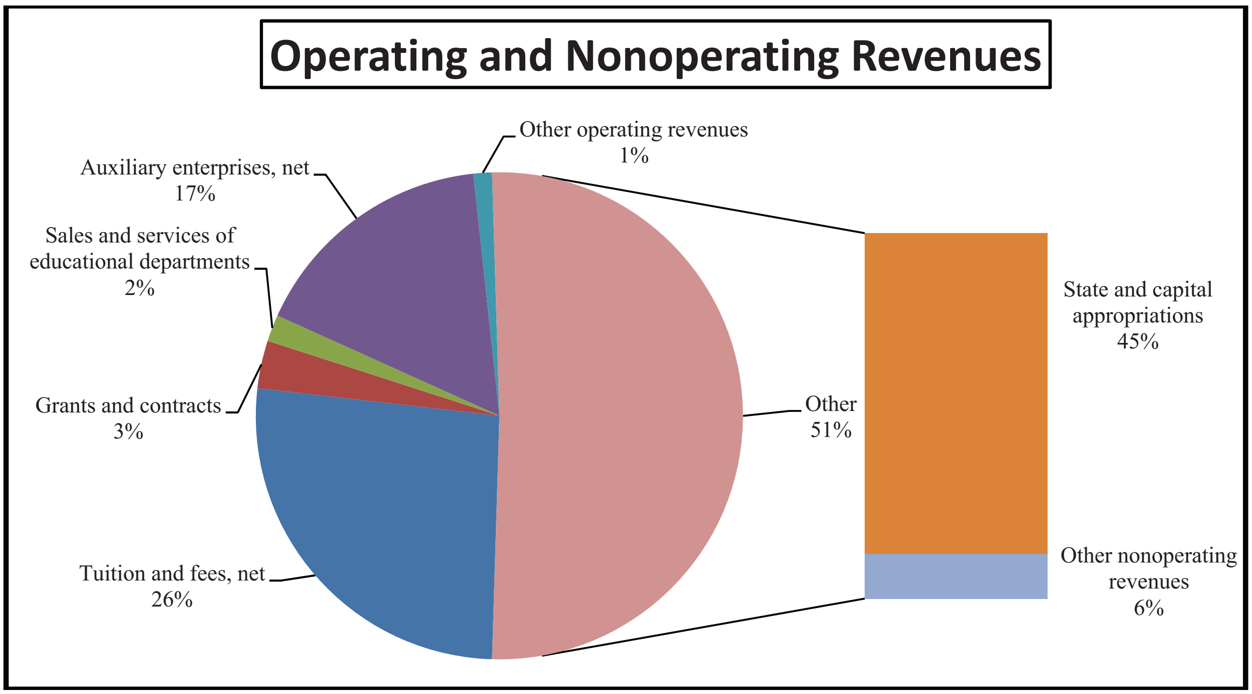
	2013	2012
Total operating revenues	$ 152,179,623	$156,821,053
Total operating expenses	(301,303,008)	(277,524,571)
Operating loss	(149,123,385)	(120,703,518)
Nonoperating revenues	152,209,629	138,449,816
Nonoperating expenses	(4,070,039)	(2,097,697)
Income (loss) before capital items	(983,795)	15,648,601
Capital State appropriations	6,187,500	8,963,918
Increase in net position	5,203,705	24,612,519
Net position, beginning of year	189,538,093	164,925,574
Net position, end of year	$ 194,741,798	$189,538,093

Total revenues increased $6.3 million or 2.1% to $310.6 million. The primary sources of funding for academic programs are student tuition and State appropriations. In Fiscal Year

2013, tuition revenues increased due in part to an annual increase for tuition and fee rates as approved by the Board of Trustees.

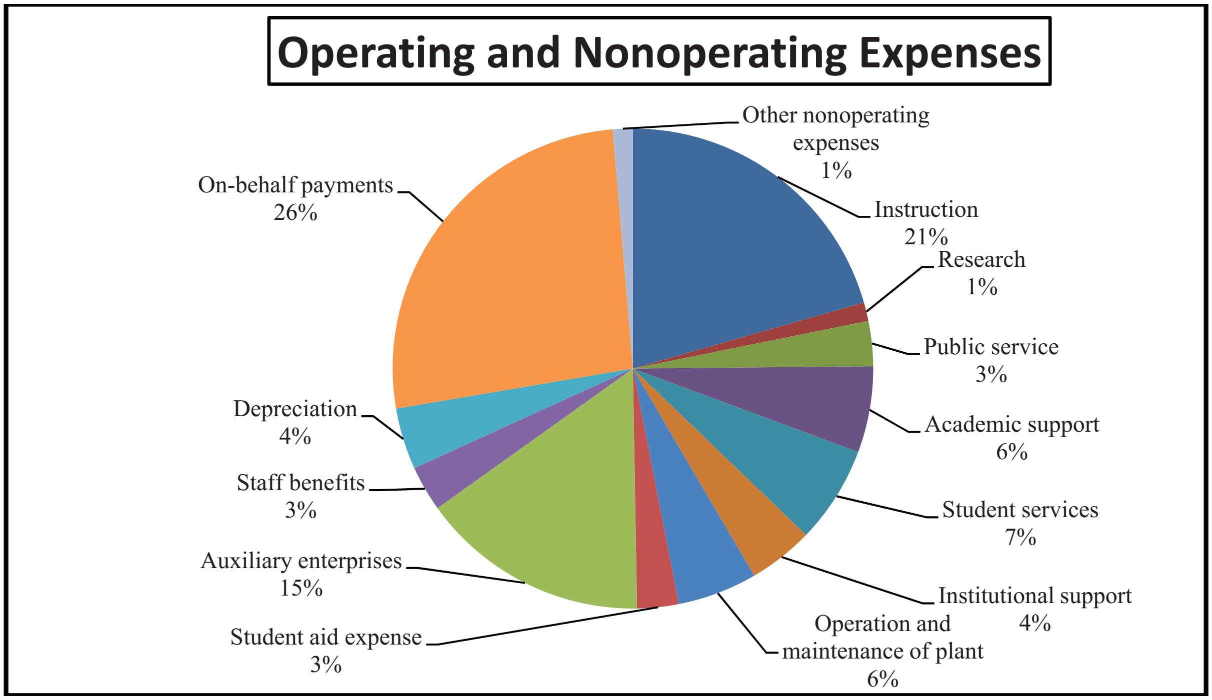
Total expenses increased $25.8 million or 9.2% to $305.4 million. Overall functional expenses increased during Fiscal Year 2013. Contributions by the State for on-behalf payments related to employee benefits increased $17.5 million. Annual depreciation expense increased $1.6 million.

For the fiscal year ended June 30, 2013, all sources of revenues totaled $310.6 million. The following is a graphical illustration of revenues by source:



State of Illinois
Western Illinois University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2013

For the fiscal year ended June 30, 2013, expenses totaled $305.4 million. The following is a graphical illustration of expenses:



Statement of Cash Flows

The Statement of Cash Flows presents information related to the University's cash receipts and disbursements during the fiscal year. This provides an assessment of the University's ability to generate future cash flows and meet obligations as they come due.

A comparative summary of the condensed Statement of Cash Flows for the years ended June 30, 2013 and 2012 is as follows:

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

	2013	2012
Cash provided by (used in):		
Operating activities	$ (43,059,138)	$ (59,895,936)
Noncapital financing activities	70,554,193	87,144,489
Capital and related financing activities	(54,893,356)	(13,033,570)
Investing activities	13,275,989	15,357,957
Net increase (decrease) in cash and cash equivalents	(14,122,312)	29,572,940
Cash and cash equivalents, beginning of year	84,475,117	54,902,177
Cash and cash equivalents, end of year	$ 70,352,805	$ 84,475,117

Major sources of funds included in operating activity are student tuition and fees, grants and contracts and auxiliary enterprises. Payment for employee salaries and benefits, goods and services and scholarships and fellowships continue to comprise the major use of operating funds. Cash used in operating activities decreased $16.8 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations and Pell grant revenues. Cash provided by noncapital financing activities decreased $16.6 million.

Funds allocated for capital asset acquisition and construction increased $13.3 million as several projects were completed in Fiscal Year 2013. The University did not issue new debt during the fiscal year which contributed to an overall increase of $41.9 million in cash used in capital and related financing activities.

Cash provided by investing activity decreased by $2.1 million as investments were liquidated to fund capital projects.

Capital Assets and Debt Administration

The University had $471.4 million invested in capital assets at the end of Fiscal Year 2013. Capital assets net of accumulated depreciation totaled $244.0 million. Depreciation expense for the current year was $12.6 million.

The University continues to renovate its campus facilities. Residence Hall renovations to Corbin/Olson $26.6 million and Lincoln/Washington $5.5 million were completed in Fiscal Year 2013. Wetzel Hall, placed in service in 1971 with an original cost of $5.9 million, was decommissioned in July 2012. Steam line and tunnel upgrades of $6.2 million were completed during the fiscal year. Capital projects in progress at the end of the fiscal year include renovations to Thompson Hall and Heating Plant upgrades.

University's Economic Outlook

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

A crucial element to the University's future will continue to be our relationship with the State of Illinois, as we work to manage tuition to make it competitive while providing an outstanding college education for our students. There is a direct relationship between the growth or decline of State support, the impact of state regulations and the University's ability to control tuition growth. The trend of declining State support, the lack of capital investment, declining student assistance and the increase in regulations have and will continue to create more financial burden for our students through increased tuition and fees.

State appropriations represent operating support provided by the Governor and General Assembly for University programs. A Fiscal Year 2014 budget of $52.8 million was passed by the General Assembly and signed by the Governor. This is essentially a level appropriation from Fiscal Year 2013.

The University projects an increase in tuition and miscellaneous revenues. The approved Fiscal Year 2014 budget projects a $1.2 million increase in tuition and miscellaneous revenues. The estimated increase in tuition revenues is the result of a 4.9% tuition rate increase approved by the Board of Trustees in June 2013. With the Fiscal Year 2014 State appropriation, the University's recommended income fund expenditure budget is $74.8 million. The University offers guaranteed tuition and fees, as well as guaranteed room and board rates for each new class of entering students. The tuition increase is only for new students, those enrolling for the first time in Fall 2013.

The University's Auxiliary Enterprises funds budget for Fiscal Year 2014 as approved by the Board of Trustees reflects level spending over Fiscal Year 2013. Other institutional funds include revenues from sponsored projects and departmental activity revenues. The 2014 budget for these funds as approved by the Board of Trustees reflects a decrease in spending over Fiscal Year 2013.

Private gifts are an important supplement to the University's sources of funding for operating costs. In Fiscal Year 2013, alumni, friends, staff, corporations, and other organizations contributed nearly $5.8 million to the Foundation in support of the University. The Foundation distributed nearly $6.2 million in Fiscal Year 2013 to support academic enhancement and instructional initiatives, student scholarships, capital improvements, cultural activities, athletics, regional outreach efforts, and alumni and Foundation-sponsored programs at Western Illinois University.

The University is committed to pursuing its goal in developing the Quad Cities campus while strategically adding, and when appropriate, eliminating programs. Cost containment and revenue initiatives are challenges the University continues to encounter. Management has historically made the necessary decisions to ensure the strength of the University. However, going forward the University's management team will find the cost containment decisions to have increased complexity should reductions continue, regulations increase, or if decisions are made that require the shift of expenses to the University.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2013
(With Partial Financial Information as of June 30, 2012)

	University		Component Unit	
	2013	**2012**	**2013**	**2012**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 70,251,817	$ 84,334,052	$ 3,562,469	$ 3,096,836
Cash and cash equivalents, restricted	100,988	141,065	-	-
Investments	-	13,021,405	4,390,180	4,436,371
Accounts receivable, net	10,553,007	9,301,799	1,245,545	1,121,713
Student loans receivable, net	395,246	377,736	-	-
Due from component unit	120,997	146,343	-	-
Due from primary government	14,270,508	14,477,971	-	-
Inventories	2,668,280	2,411,091	61,085	28,445
Prepaid expenses	67,831	31,571	101,968	80,680
Other assets	142,349	142,348	3,000,000	-
Total current assets	98,571,023	124,385,381	12,361,247	8,764,045
Noncurrent assets:				
Investments	-	-	473,486	874,663
Endowment investments	-	-	5,802,420	5,706,807
Endowment investments, restricted	-	-	26,331,829	22,715,917
Charitable remainder trusts, restricted	-	-	2,692,991	2,478,421
Accounts receivable, net	-	-	730,986	886,492
Student loans receivable, net	1,473,984	1,507,309	77,556	-
Capital assets, net of accumulated depreciation	244,022,963	210,480,188	1,105,104	4,140,104
Other assets	2,580,642	2,732,241	675,754	646,645
Total noncurrent assets	248,077,589	214,719,738	37,890,126	37,449,049
TOTAL ASSETS	346,648,612	339,105,119	50,251,373	46,213,094
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	10,108,992	11,437,188	80,825	103,043
Accrued payroll	16,313,865	8,258,300	-	-
Due to primary government	121,880	222,579	120,997	146,343
Deferred revenues	5,172,684	4,976,637	120,352	121,379
Charitable remainder trust distributions payable	-	-	44,335	41,730
Other liabilities	1,355,581	1,253,894	41,190	33,690
Notes payable	34,649	108,331	-	-
Revenue bonds payable	4,013,878	3,988,862	-	-
Certificates of participation	1,564,808	1,520,611	-	-
Compensated absences	1,888,315	2,124,987	-	-
Total current liabilities	40,574,652	33,891,389	407,699	446,185
Noncurrent liabilities:				
Notes payable	-	34,649	-	-
Revenue bonds payable	72,732,939	76,746,817	-	-
Certificates of participation	27,384,752	28,949,560	-	-
Other liabilities	-	-	259,142	222,321
Compensated absences	11,214,471	9,944,611	-	-
Total noncurrent liabilities	111,332,162	115,675,637	259,142	222,321
TOTAL LIABILITIES	151,906,814	149,567,026	666,841	668,506
NET POSITION				
Net investment in capital assets	141,876,327	136,055,293	1,105,104	4,140,104
Restricted - nonexpendable	-	-	21,765,670	17,464,101
Restricted - expendable				
Loans	1,921,875	1,986,908	-	-
Other	-	-	9,330,375	8,984,008
Unrestricted	50,943,596	51,495,892	17,383,383	14,956,375
TOTAL NET POSITION	$ 194,741,798	$ 189,538,093	$ 49,584,532	$ 45,544,588

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013
(With Partial Financial Information for the Year Ended June 30, 2012)

	University		Component Unit	
	2013	2012	2013	2012
OPERATING REVENUES				
Tuition and fees, net	$ 81,704,247	$ 81,496,306	$ -	$ -
Grants and contracts	9,833,111	14,043,801	-	-
Sales and services of educational departments	5,474,752	5,158,900	-	-
Auxiliary enterprises, net	51,346,784	52,496,824	-	-
Student loan activities	58,445	65,476	-	-
Other operating revenues	3,762,284	3,559,746	5,203,551	5,368,635
Total operating revenues	152,179,623	156,821,053	5,203,551	5,368,635
OPERATING EXPENSES				
Instruction	62,803,873	62,972,278	938,398	1,141,038
Research	3,835,902	6,234,015	75,592	167,462
Public service	9,250,223	10,462,920	927,737	818,957
Academic support	17,712,701	17,793,589	147,121	233,795
Student services	19,997,584	19,713,883	546,989	520,542
Institutional support	13,321,350	12,988,188	1,163,223	1,060,664
Operation and maintenance of plant	16,437,591	16,621,072	162,490	576,102
Student aid expense	8,486,440	8,829,374	2,215,815	2,130,977
Auxiliary enterprises	47,031,298	41,013,799	-	-
Staff benefits	9,357,808	7,000,880	-	-
Depreciation	12,633,211	10,986,216	-	-
On-behalf payments	80,402,307	62,873,406	-	-
Other operating expenses	32,720	34,951	-	-
Total operating expenses	301,303,008	277,524,571	6,177,365	6,649,537
OPERATING LOSS	(149,123,385)	(120,703,518)	(973,814)	(1,280,902)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	132,570,103	118,421,706	-	-
Gifts	434,795	1,170,607	-	-
Nonoperating grants	18,780,540	18,403,556	-	-
Loss on disposal of capital assets	(2,641,282)	(255,246)	-	-
Investment income	243,606	262,272	3,163,011	41,086
Interest on capital asset - related debt	(1,428,757)	(1,842,451)	-	-
Change in value of charitable remainder trusts	-	-	194,765	(75,601)
Other nonoperating revenues	180,585	191,675	398,653	526,799
Net nonoperating revenues	148,139,590	136,352,119	3,756,429	492,284
INCOME (LOSS) BEFORE CAPITAL ITEMS	(983,795)	15,648,601	2,782,615	(788,618)
Capital State appropriations	6,187,500	8,963,918	-	-
Additions to permanent endowments	-	-	1,257,329	1,792,500
Total capital items	6,187,500	8,963,918	1,257,329	1,792,500
INCREASE IN NET POSITION	5,203,705	24,612,519	4,039,944	1,003,882
NET POSITION, BEGINNING OF YEAR	189,538,093	164,925,574	45,544,588	44,540,706
NET POSITION, END OF YEAR	$ 194,741,798	$189,538,093	$ 49,584,532	$ 45,544,588

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(With Partial Financial Information for the Year Ended June 30, 2012)

	University		Component Unit	
	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$ 81,776,311	$ 80,465,110	$ -	$ -
Grants and contracts	10,157,371	13,141,311	-	-
Gifts for other than capital and endowment purposes	-	-	4,052,285	7,414,103
Payments for employee salaries and benefits	(128,571,418)	(145,905,714)	-	-
Payments for goods and services	(58,018,957)	(58,765,519)	(3,356,761)	(6,829,399)
Payments to annuitants	-	-	(206,085)	(188,472)
Payments for scholarships and fellowships	(8,657,039)	(9,340,944)	(2,215,815)	(2,130,977)
Student loans issued	(487,855)	(380,320)	-	-
Student loans collected	453,376	448,324	-	-
Student loans interest and fees collected	72,720	82,237	-	-
Auxiliary enterprises charges	51,077,805	51,990,174	-	-
Sales and services of educational departments	5,376,264	4,809,659	-	-
Other receipts	3,762,284	3,559,746	689,460	639,312
Net cash used in operating activities	(43,059,138)	(59,895,936)	(1,036,916)	(1,095,433)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	51,279,933	67,564,900	-	-
Capital appropriations for operating expenses	110,127	801,099	-	-
Gifts	244,131	227,805	1,257,329	1,792,500
Nonoperating grants	18,780,540	18,403,556	-	-
Nonoperating revenues, net	139,462	147,129	395,280	344,980
Cash provided by noncapital financing activities	70,554,193	87,144,489	1,652,609	2,137,480
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital appropriations	64,259	923,209	-	-
Acquisition of capital assets	(44,526,869)	(31,272,500)	-	-
Proceeds from issuance of revenue bonds	-	34,051,855	-	-
Payments of bond issuance costs	(1,360)	(130,847)	-	-
Bonds refunded/defeased	-	(7,768,728)	-	-
Deferred loss on bond refunding	-	(121,273)	-	-
Principal paid on capital debt	(5,473,331)	(4,399,848)	-	-
Interest paid on capital debt	(4,956,055)	(4,315,438)	-	-
Net cash used in capital and related financing activities	(54,893,356)	(13,033,570)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	13,021,405	34,000,986	5,972,819	7,397,320
Earnings on investments	254,584	356,971	1,860,378	1,686,541
Purchase of investments	-	(19,000,000)	(7,983,257)	(10,569,171)
Net cash provided by (used in) investing activities	13,275,989	15,357,957	(150,060)	(1,485,310)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,122,312)	29,572,940	465,633	(443,263)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	84,475,117	54,902,177	3,096,836	3,540,099
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 70,352,805	$ 84,475,117	$ 3,562,469	$ 3,096,836

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(With Partial Financial Information for the Year Ended June 30, 2012)

	University		Component Unit	
	2013	**2012**	**2013**	**2012**
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (149,123,385)	$ (120,703,518)	$ (973,814)	$(1,280,902)
Adjustments to reconcile operating loss to net cash used in operating activities:				
On-behalf payments	80,402,307	62,873,406	-	-
Capital assets donated	-	-	35,000	(3,000,000)
Depreciation	12,633,211	10,986,216	-	-
Actuarial adjustment to annuities payable	-	-	44,321	30,967
Changes in assets and liabilities:				
Receivables, net	(142,814)	(2,538,456)	(42,509)	3,158,009
Student loans receivables, net	15,815	108,069	-	-
Inventories	(257,189)	(185,987)	(32,640)	(28,445)
Prepaid expenses and other assets	(160,005)	(478,882)	(21,288)	(46,100)
Accounts payable and accrued liabilities	4,162,878	284,929	(22,218)	21,415
Accrued payroll	8,055,565	(7,947,885)	-	-
Due to primary government, net	-	-	(25,346)	48,312
Charitable remainder trust distributions payable	-	-	2,605	(1,983)
Other liabilities	321,291	(409,309)	(1,027)	3,294
Compensated absences	1,033,188	(1,884,519)	-	-
Net cash used in operating activities	$ (43,059,138)	$ (59,895,936)	$ (1,036,916)	$(1,095,433)
NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES				
On-behalf payments	$ 80,402,307	$ 62,873,406	$ -	$ -
Capital asset acquisition via capital appropriations	6,013,114	7,239,610	-	-
Capital asset acquisition via support from Foundation	190,664	569,813	-	-
Capitalized interest	3,401,692	2,618,048	-	-
Capital asset changes in accounts payable	(5,591,773)	6,098,912	-	-
Other capital asset adjustments	263,505	372,939	-	-
Gifts in kind	-	-	418,270	476,523
Loss on disposal of equipment	(2,641,282)	(255,246)	-	-

See accompanying notes to the basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Western Illinois University (University), a component unit of the State of Illinois (State), with a primary focus on instruction and an additional commitment to research and public service, has campuses located in Macomb and Moline, Illinois. The governing body of the University is the Board of Trustees of Western Illinois University (Board). As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University and its component unit, the Western Illinois University Foundation (Foundation). The Foundation is included in the University's reporting entity because of the significance of its financial relationship with the University. Complete financial statements for the Foundation may be obtained by contacting the WIU Foundation, 1 University Circle, Macomb, IL 61455-1390.

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

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

B. Basis of Accounting and Presentation

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

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

C. Prior-Year Information

The basic financial statements include certain prior-year partial comparative information. Such information does not include full comparative footnote disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2012, from which the partial information was derived. Certain 2012 amounts have been reclassified to conform to the 2013 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 position, and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

E. Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013, cash equivalents consisted primarily of money market and similar funds.

F. Investments

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

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

G. Accounts Receivable

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

H. Deferred Bond and Certificates of Participation Issue Costs

Bond and certificates of participation issue costs incurred on the revenue bond and certificates of participation issues have been deferred and are being amortized over the life of the bonds/certificates of participation using the straight-line method. Total amortization for the year ended June 30, 2013 was $142,348.

I. Student Loans Receivable

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

J. Inventories

Inventories are carried at the lower of cost (determined by first-in, first-out or average cost method, depending on the nature of the inventory item) or market.

K. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The University's capitalization policy for capital assets is as follows: equipment - $5,000 or greater; land or buildings - $100,000 or greater; and site or building improvements - $25,000 or greater. Intangible assets which are purchased are capitalized at $100,000 or greater. Internally-generated intangible assets which are primarily software are capitalized at $1,000,000 or greater. Renovations to buildings and land improvements that increase the value or extend the useful life are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the class of assets. The following estimated useful lives are being used by the University:

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

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

L. Deferred Revenues

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

M. Compensated Absences

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

N. Net Position

The University's net position is classified as follows:

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

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

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

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

O. Classification of Revenues

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

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

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

P. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, State or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30, 2013 were $11,556,970 and $4,099,801, respectively.

Q. Collections

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

R. Endowments

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

For donor restricted endowments, the UPMIFA permits the Board of Directors of the Foundation to appropriate an amount of donor restricted endowments. The Board of Directors has established an investment policy with the objectives of protecting the principal of these funds and maximizing total investment return without assuming extraordinary risks. A similar strategy has been implemented for Foundation designated endowments.

For both donor restricted endowments and Foundation designated endowments, it is the goal of the Foundation to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 4.25% for endowment purposes and 1.40% for operational purposes, of a 36-month moving average of endowment market value, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings. The Foundation's policy is to retain the endowments' unrealized appreciation with the endowment (either donor restricted or Foundation designated) after spending rule distributions. As of June 30, 2013, the Foundation had a total of $5,662,252 of net cumulative appreciation from investment of donor-restricted endowments and Foundation designated endowments available for expenditure. This amount is allocated between expendable restricted net position and unrestricted net position in the Statement of Net Position based on the classification of the underlying asset upon which the income was earned.

S. Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of irrevocable charitable remainder trusts and irrevocable charitable trusts for which the Foundation is a beneficiary. The fair value of the trust assets are reported in the Statement of Net Position and changes in the fair value of the assets are recognized in the Statement of Revenues, Expenses, and Changes in Net Position. It is management's intent to record the contribution income from these agreements in the fiscal year the Foundation becomes the irrevocable beneficiary. The Foundation received $19,805 of new contribution income during Fiscal Year 2013. Any outstanding liabilities relating to the annual distributions required by the trust agreements are recorded in the Statement of Net Position.

T. Income Taxes

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

U. New Accounting Pronouncements

Effective July 1, 2012, the University adopted the following accounting pronouncements:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, which improves financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure that were issued on before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

The implementation of these statements had no significant impact on the University's financial statements.

NOTE 2 - DEPOSITS

University

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Illinois; bonds of any city, county, school district or special road district of the State of Illinois; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2013, the book balance of various University bank accounts and certificates of deposit was $145,906, while the bank balance was $221,955. The difference between these amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2013.

Foundation

At June 30, 2013, the book balance of the Foundation's various bank accounts was $326,795, while the bank balance was $352,070. The difference between these amounts primarily represents checks that have been issued, but have not yet cleared the bank, and deposits in transit as of June 30, 2013.

Reconciliation of cash and cash equivalents to deposits:

	University	Foundation
Cash and cash equivalents	$ 70,251,817	$ 3,562,469
Cash and cash equivalents, restricted	100,988	–
Less: Money market funds classified as cash and cash equivalents	(70,124,592)	(3,235,674)
Cash on hand	(82,307)	–
Carrying amount of deposits	$ 145,906	$ 326,795

NOTE 3 - INVESTMENTS

University

The University held no investments as of June 30, 2013.

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, 2013, the Foundation held investments with the following maturities:

		Maturities in Years			
Type	Total Fair Value	Less Than One Year or No Maturity	1-5 Years	6-10 Years	Over 10 Years
U.S. Treasury notes	$ 207,478	$ –	$ 90,147	$ 117,331	$ –
U.S. Treasury bonds	100,566	–	–	–	100,566
U.S. agency obligations (FHLM, FNMA)	154,250	–	59,486	94,764	–
Municipal bonds	503,608	41,400	74,498	317,527	70,183
Corporate debt securities	2,160,762	506,534	896,734	709,331	48,163
Corporate equity securities	22,519	22,519	–	–	–
International equity securities	1,851,147	1,851,147	–	–	–
Cash equivalents held in investment pools	1,472,870	1,472,870	–	–	–
Real asset tax-exempt	1,648,757	–	551,025	825,090	272,642
Real assets exchange traded funds	1,960,573	1,960,573	–	–	–
Absolute return	5,652,847	5,652,847	–	–	–
Mutual funds, international equity	6,115,453	6,115,453	–	–	–
Mutual funds, domestic equity	6,073,240	6,073,240	–	–	–
Mutual funds, international debt	1,568,103	1,568,103	–	–	–
Open ended mutual funds, U.S. debt	5,863,677	5,863,677	–	–	–
Private equity	1,642,065	–	–	1,279,597	362,468
Total investments	$ 36,997,915	$ 31,128,363	$ 1,671,890	$ 3,343,640	$ 854,022

The Foundation adheres to the total return concepts of investment management. Total return is defined as the aggregate sum of current income and changes in the market value of the assets under management.

Custodial Credit Risk

Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the Foundation would not be able to recover the value of deposits, investments, or collateral securities that are in the possession of an outside party. The Federal Deposit Insurance Corporation and Security Investor Protection Corporation insured account balances were $3,397,191 as of June 30, 2013. Illinois Funds are in the custody of the State Treasurer and are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). See http://www.treasurer.il.gov/programs/illinois-funds/about-illinois-funds.aspx for information on the Illinois Funds. The Foundation's deposits in other institutions' money market funds are subject to the Funds' collateralization and investment policies.

Concentration Risk

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

Interest Rate Risk

Interest rate risk is the risk when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation does not have a policy that specifically addresses interest rate risk. The Foundation had the following assets, at fair values, exposed to interest rate risk at June 30, 2013:

U.S. Treasury notes	$ 207,478
U.S. Treasury bonds	100,566
U.S. agency obligations (FHLM, FNMA)	154,250
Municipal bonds	503,608
Corporate debt securities	2,160,762
Cash equivalents held in investment pools	1,472,870
Mutual funds, international debt	1,568,103
Open ended mutual funds, U. S. debt	5,863,677
Sub-total investments	12,031,314
Bank money market funds	3,082,750
Illinois Funds money market funds	152,924
Sub-total cash and cash equivalents	3,235,674
Total assets subject to interest rate risk	$ 15,266,988

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 21.5% of the total Foundation investments as of June 30, 2013. 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, 2013 are listed below.

Currency	*United States Dollar Equivalent*
Euro	$ 1,403,523
United Kingdom British Pound	1,393,896
Japanese Yen	1,254,299
Swiss Franc	608,063
Yuan Renminbi (China)	411,426
Australian Dollar	349,211
Brazilian Real	295,559
Mexican Peso	205,757
Indian Rupee	187,348
Korean Won	301,370
Other currencies, individually less than 1% of fund portfolio	1,555,638
Total	$ 7,966,090

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. Credit quality ratings are not required for U.S. government securities that are explicitly guaranteed by the U.S. government.

At June 30, 2013, the Foundation had the following investments and their ratings:

Credit Rating per Standard and Poor's

	Total Fair Value	U.S. Treasury Notes	U.S. Treasury Bonds	U.S. Agency Obligations (FHLM, FNMA)	Corporate Debt Securities	Other
AAA	$ 308,044	$ 207,478	$ 100,566	$ –	$ –	$ –
BBB+	70,451	–	–	–	70,451	–
Not Rated	36,619,420	–	–	154,250	2,090,311	34,374,859
	$ 36,997,915	$ 207,478	$ 100,566	$ 154,250	$ 2,160,762	$ 34,374,859

				Credit Rating per Moody's		
	Total Fair Value	U.S. Treasury Notes	U.S. Treasury Bonds	U.S. Agency Obligations (FHLM, FNMA)	Corporate Debt Securities	Other
Aaa	$ 462,294	$ 207,478	$ 100,566	$ 154,250	$ –	$ –
Aa1	21,455	–	–	–	–	21,455
Aa2	129,623	–	–	–	87,694	41,929
Aa3	184,743	–	–	–	95,020	89,723
A1	201,161	–	–	–	138,004	63,157
A2	265,450	–	–	–	233,537	31,913
A3	381,541	–	–	–	381,541	–
Baa1	70,451	–	–	–	70,451	–
Baa3	59,528	–	–	–	59,528	–
B3	50,578	–	–	–	50,578	–
Not Rated	35,171,091	–	–	–	1,044,409	34,126,682
	$ 36,997,915	$ 207,478	$ 100,566	$ 154,250	$ 2,160,762	$ 34,374,859

Summary of Carrying Values

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

	University	Foundation
Cash and cash equivalents	$ 70,251,817	$ 3,562,469
Cash and cash equivalents, restricted	100,988	–
Investments	–	36,997,915
Total	$ 70,352,805	$ 40,560,384

Investments at June 30, 2013 are as follows:

	University	Foundation
Current:		
Investments	$ –	$ 4,390,180
Noncurrent:		
Endowment investments	–	5,802,420
Endowment investments, restricted	–	26,331,829
Other investments	–	473,486
Sub-total	–	32,607,735
Total investments	$ –	$ 36,997,915

Investment income for the year ended June 30, 2013 consisted of:

	University	Foundation
Interest, dividends, realized gains and market value changes	$ 243,606	$ 3,163,011

NOTE 4 - ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable are reported net of allowances for uncollectible accounts of $3,547,700 at June 30, 2013. Accounts receivable consisted of the following as of June 30, 2013:

Receivables from students	$ 9,398,266
Receivables from third parties	2,093,777
Receivables from funding agencies	2,608,664
Total gross receivables	14,100,707
Allowance for doubtful accounts	(3,547,700)
Total net receivables	$ 10,553,007

Student loans receivable totaling $2,345,030 are reported net of allowance for uncollectible loans of $475,800 at June 30, 2013.

NOTE 5 - CAPITAL ASSETS

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Total interest of $4,951,336 was incurred and net interest of $3,401,692 was capitalized during Fiscal Year 2013.

Capital asset activities for the University for the year ended June 30, 2013 were as follows:

	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Non-depreciable capital assets:					
Land and land improvements	$ 3,236,432	$ –	$ –	$ –	$ 3,236,432
Works of art and historical treasures	486,569	–	–	–	486,569
Construction in progress	53,223,183	41,444,600	–	(44,778,934)	49,888,849
Total non-depreciable capital assets	56,946,184	41,444,600	–	(44,778,934)	53,611,850
Depreciable capital assets:					
Site improvements	34,630,368	1,006,894	–	8,361,874	43,999,136
Buildings and building improvements	262,495,681	4,331,759	(7,219,887)	36,417,060	296,024,613
Equipment	76,632,380	2,154,157	(1,047,426)	–	77,739,111
Total depreciable capital assets	373,758,429	7,492,810	(8,267,313)	44,778,934	417,762,860

	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Less accumulated depreciation:					
Site improvements	15,999,695	1,303,861	–	–	17,303,556
Buildings and building improvements	134,964,420	8,887,119	(4,663,978)	–	139,187,561
Equipment	69,260,310	2,442,231	(841,911)	–	70,860,630
Total accumulated depreciation	220,224,425	12,633,211	(5,505,889)	–	227,351,747
Total depreciable capital assets, net	153,534,004	(5,140,401)	(2,761,424)	44,778,934	190,411,113
Capital assets, net	$ 210,480,188	$ 36,304,199	$ (2,761,424)	$ –	$ 244,022,963

Capital asset activities for the Foundation for the year ended June 30, 2013 were as follows:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Land and land improvements	$ 4,140,104	$ –	$ (3,035,000)	$ 1,105,104

NOTE 6 - DEFERRED REVENUES

Deferred revenues consist of the following as of June 30, 2013:

Tuition and fees	$ 2,736,461
Grants and contracts	1,549,613
Sales and services of educational departments	234,479
Auxiliary enterprises	652,131
Total	$ 5,172,684

NOTE 7 - NOTES PAYABLE

The University has entered into installment purchase agreements for equipment and vehicles with an original cost of $637,901. As of June 30, 2013, the related notes payable obligations were recorded at the present value of the future minimum installment payments, discounted using an applicable discount rate of 5.33%. Notes payable activities for the year ended June 30, 2013 were as follows:

Balance, beginning of year	$ 142,980
Payments	(108,331)
Balance, end of year	$ 34,649
Current Portion	$ 34,649

NOTE 8 - REVENUE BONDS PAYABLE

General

At June 30, 2013, revenue bonds payable consists of Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2012, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2010, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2006, and Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2005.

Series 2012 Bonds

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

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

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

Series 2010 Bonds

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

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

Series 2006 Bonds

On March 9, 2006, the Series 2006 Bonds were issued in the principal amount of $15,250,000. The Series 2006 Bonds are due April 1, 2027, with annual principal payments ranging from $265,000 to $1,170,000 commencing April 1, 2009 and semi-annual interest payments beginning October 1, 2006 at 3.5% to 4.5%.

Proceeds from the sale of the Series 2006 Bonds were used to install fire sprinkler systems in residence hall facilities and graduate and family apartments and to construct an expansion to the Donald S. Spencer Student Recreation Center. In addition, proceeds from the sales of the Series 2006 Bonds, together with other funds of the University, were used to provide for the advance refunding of a portion of the Series 1999 Bonds and to pay certain expenses related to the issuance of the bonds. A portion of bond proceeds plus funds provided by the University were deposited in an irrevocable trust with an escrow agent to provide for a portion of the debt service payments on the 1999 Series Bonds. As a result, a portion of the Series 1999 Bonds are considered defeased and the liability for that portion of the bonds has been removed from the University's Statement of Net Position. The Series 1999 Bonds were retired on April 1, 2009.

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

Series 2005 Bonds

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

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

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

Advance Refunded Bonds

Certain revenue bonds of the University have been defeased in prior years through advance refunding and, accordingly, have been accounted for as if they were retired. The principal amount of advance refunded bonds was fully paid as of June 30, 2013.

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Revenue Bonds Payable activities for the year ended June 30, 2013:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2005 Bonds	$ 8,700,000	$ –	$ 1,475,000	$ 7,225,000	$ 1,525,000
Series 2006 Bonds	12,865,000	–	760,000	12,105,000	785,000
Series 2010 Bonds	25,510,000	–	–	25,510,000	–
Series 2012 Bonds	33,520,000	–	1,605,000	31,915,000	1,590,000
Unamortized premium	939,479	–	238,564	700,915	204,716
Unamortized discount	(88,206)	–	(8,160)	(80,046)	(9,296)
Deferred loss on refunding	(710,594)	–	(81,542)	(629,052)	(81,542)
	$ 80,735,679	$ –	$ 3,988,862	$ 76,746,817	$ 4,013,878

Aggregate maturities of the bonds outstanding as of June 30, 2013 are as follows:

	Principal	Interest
2014	$ 3,900,000	$ 3,507,785
2015	4,040,000	3,367,685
2016	4,190,000	3,206,085
2017	4,350,000	3,038,485
2018	4,515,000	2,860,565
2019-2023	22,210,000	11,382,475
2024-2028	17,480,000	6,915,783
2029-2033	16,070,000	2,587,378
	76,755,000	36,866,241
Unamortized premium	700,915	–
Unamortized discount	(80,046)	–
Deferred loss on refunding	(629,052)	–
	$ 76,746,817	$ 36,866,241

None of the bonds described above constitute obligations of either the State of Illinois or the Board of Trustees of Western Illinois University, but together with interest thereon, are payable solely from and are collateralized by: a) the net revenues of the Western Illinois University Auxiliary Facilities System, b) certain pledged student fees, and c) a pledge of student tuition. Maximum annual debt service as defined for all outstanding revenue bonds is $7,407,785. The estimated debt service coverage ratio based on revenues generated from operations is 1.27. The future pledged revenues for principal and interest in Fiscal Year 2013 are $113,621,241. Pledged revenue coverage is 12.29 in Fiscal Year 2013. Pledged revenues have a term of commitment through 2033.

NOTE 9 - CERTIFICATES OF PARTICIPATION PAYABLE

General

At June 30, 2013, certificates of participation consist of Western Illinois University Series 2011 Certificates of Participation, Western Illinois University Series 2010 Certificates of Participation and Western Illinois University Series 2005 Certificates of Participation.

Series 2011 Certificates of Participation

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

Proceeds from the sale of the Series 2011 Certificates of Participation were used to finance capital improvements projects to several campus buildings as well as Phase II of the campus steam line replacement plan.

Series 2010 Certificates of Participation

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

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

Series 2005 Certificates of Participation

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

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

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Certificates of Participation activities for the year ended June 30, 2013:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2005	$ 8,600,000	$ –	$ 460,000	$ 8,140,000	$ 480,000
Series 2010	10,730,000	–	445,000	10,285,000	455,000
Series 2011	11,175,000	–	620,000	10,555,000	635,000
Unamortized premium	1,289	–	1,289	–	–
Unamortized discount	(36,118)	–	(5,678)	(30,440)	(5,192)
	$ 30,470,171	$ –	$ 1,520,611	$ 28,949,560	$ 1,564,808

Aggregate maturities of the certificates of participation outstanding as of June 30, 2013 are as follows:

	Principal	Interest
2014	$ 1,570,000	$ 1,330,003
2015	1,620,000	1,279,625
2016	1,670,000	1,221,826
2017	1,730,000	1,156,861
2018	1,795,000	1,085,534
2019-2023	10,200,000	4,118,607
2024-2028	8,785,000	1,464,145
2029-2030	1,610,000	103,913
	28,980,000	11,760,514
Unamortized discount	(30,440)	–
	$ 28,949,560	$ 11,760,514

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

NOTE 10 - ACCRUED COMPENSATED ABSENCES

Vacation pay earned but not taken may be accumulated up to a specified maximum from 24 to 56 work days, and received as a lump sum payment upon termination. At June 30, 2013, such accumulated benefits totaled $8,278,585.

Administrative and faculty unused sick leave may be accumulated up to a specified maximum, generally 300 calendar days. Unused and unpaid sick leave can be applied toward the service time requirements for computing retirement benefits. Civil service exempt and nonexempt employees have no specified maximum accumulation of unused sick leave days. One-half of any unused sick leave earned from January 1, 1984 and prior to January 1, 1998 can be received as a lump sum payment upon termination. At June 30, 2013, such accumulated benefits totaled $4,824,201. Compensated absences activity for the year ended June 30, 2013 was as follows:

Balance, beginning of year	$ 12,069,598
Additions	1,033,188
Balance, end of year	13,102,786
Less: current portion	(1,888,315)
Balance, end of year - noncurrent portion	$ 11,214,471

NOTE 11 - RETIREMENT PLAN

Plan Description

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes.* SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org or by calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate for Fiscal Year 2014 is 35.20% 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, 2013, 2012, and 2011 were $38,500,752, $27,890,164 and $22,432,857, respectively, equal to the required contributions for each year.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

However, Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs will be assessed beginning July 1, 2013.

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

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

NOTE 13 - INSURANCE

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

NOTE 14 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2013, for the University are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 59,744,543	$ 3,043,978	$ 15,352	$ –	$ 62,803,873
Research	2,879,520	956,382	–	–	3,835,902
Public service	6,281,345	2,926,751	42,127	–	9,250,223
Academic support	12,617,248	5,091,324	4,129	–	17,712,701
Student services	11,331,181	8,613,146	53,257	–	19,997,584
Institutional support	10,359,528	2,961,822	–	–	13,321,350
Operation and maintenance of plant	8,895,598	7,541,993	–	–	16,437,591
Student aid expense	–	21,000	8,465,440	–	8,486,440
Auxiliary enterprises	16,259,522	30,644,658	127,118	–	47,031,298
Staff benefits	9,357,808	–	–	–	9,357,808
Depreciation	–	–	–	12,633,211	12,633,211
On-behalf payments	80,402,307	–	–	–	80,402,307
Other operating expenses	–	32,720	–	–	32,720
Total	$ 218,128,600	$ 61,833,774	$ 8,707,423	$ 12,633,211	$ 301,303,008

NOTE 15 - CONTRACT WITH WESTERN ILLINOIS UNIVERSITY FOUNDATION

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

For Fiscal Year 2013, the Foundation did not specifically reimburse the University for $1,573,423 of personal service costs, facility use and other costs provided by the University. However, the Foundation gave the University $3,247,873 for Fiscal Year 2013, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Claims and Litigation

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

Government Grants

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

NOTE 17 - SUBSEQUENT EVENTS

On August 9, 2013, Moody’s Investors Service downgraded the University’s ratings to “Baa1” from “A2” on its Auxiliary Facilities System Revenue Bonds Series 2005, 2006 and Certificates of Participation Series 2005 and concluded its review for possible downgrade. The rating action affected approximately $27.0 million of the University's Auxiliary Facilities System Revenue Bonds and Certificates of Participation.

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Western Illinois University and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 20, 2013. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding as item 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

University's Response to Finding

The University's response to the finding identified in our audit is described in the accompanying schedule of finding. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

E. C. Ortiz & Co., LLP

Chicago, Illinois
December 20, 2013

State of Illinois
Western Illinois University
Schedule of Finding
For the Year Ended June 30, 2013

Current Finding - *Government Auditing Standards*

2013-001 - Inadequate Controls Over Journal Entries

Western Illinois University (University) did not have adequate controls over its journal entries. Specifically, the University had no policies and procedures to ensure that journal entry transactions were properly supported and reviewed prior to posting to the general ledger.

The University used the Financial Records System (FRS) to initiate and process financial information and facilitate its financial reporting. The FRS maintains all general ledger and subsidiary ledger accounts and sub-accounts with specific funds and account groups in accordance with the Statewide Accounting Management System (SAMS). A significant number of accounting transactions were recorded into the FRS through the use of journal entries. These entries were initiated and posted by the respective Accountants in-charge of specific accounts in the Business and Financial Services Department. On a periodic basis, Assistant Comptrollers performed a cursory review of material journal entry transactions to ensure entries posted were accurate. However, evidence of this review was not documented. In order to control the journal entry process, Accountants in-charge used standardized journal entry forms which included the name of the preparer, date the entry was prepared, description of the entry (which included the reason for the entry and amount), and a comment box. Support for the journal entries were scanned into laser fiche.

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

- The University had no formal policy on review and approval prior to posting of the journal entries to the general ledger.

- Six of 25 (24%) journal entries totaling nearly $423,000, were not adequately supported. No supporting documentation was attached to three of the 6 (50%) entries and supporting documentation for the rest was insufficient to support the entry. These entries were made to record account reclassification, textbook rental activities and institutional matching.

- No independent review and/or approval was noted for all 25 (100%) journal entries, totaling over $39,500,000. Entries made pertain to adjustments on accounts receivables, reclassification entries, deferred revenues, scholarship discounts, textbook rental activities, institutional matching and interfund receivables. These journal entries were not properly approved prior to the entry being posted in the general ledger.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires agencies establish internal fiscal and administrative controls to provide assurance that obligations and costs are in compliance with applicable law; and that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to

Current Finding - *Government Auditing Standards* (Continued)

2013-001 - Inadequate Controls Over Journal Entries (Continued)

permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

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

University management stated the University did not adopt formal policies and procedures in relation to processing, reviewing and approving journal entries due to limited resources. Due to lack of formal policies and procedures, certain journal entry transactions were processed and posted to the general ledger without adequate documentation, review and approval.

The lack of controls over journal entries increases the risk of incorrect or unauthorized adjustments posted to the general ledger, which may cause material misstatements to the financial statements. (Finding Code No. 2013-001)

Recommendation

We recommend the University establish formal policies and procedures to ensure that all journal entries are adequately supported and properly reviewed by an independent person prior to posting to the general ledger.

University Response

The University agrees with the finding. The University will establish formal policies and procedures for processing, reviewing and approving journal entries.

State of Illinois
Western Illinois University
Prior Findings Not Repeated
For the Year Ended June 30, 2013

A. Inadequate Controls Over University Property and Equipment

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

Status: Not repeated
In the current examination, the University modified its procedures to ensure depreciation expense and book values were correct at year-end. Based on our review of University's capital assets, additions and depreciation of property and equipment tested were adequately supported, properly calculated and accurately recorded. (Finding Code No. 12-1 and 11-1)

B. Inadequate Controls Over Reporting Accrued Compensated Absences

In the prior examination, the University did not have adequate controls in place for identifying and reporting the University's liability for accrued compensated absences. The University either did not record or erroneously recorded sick leave and vacation leave accruals of some employees.

Status: Not repeated
In the current examination, the University implemented internal controls and procedures to ensure accurate financial information on employee vacation and sick leave accruals is complete and accurate. Sick and vacation leave accruals of sampled employees were accrued and properly reported in the University's financial statements. (Finding Code No. 12-2)