ADELFIA LLC
CERTIFIED PUBLIC ACCOUNTANTS
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STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2016

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

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2016

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STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
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University Officials

President	Dr. Jack Thomas
Provost and Academic Vice President	Dr. Kathleen Neumann, Interim
Vice President for Student Services	Dr. Ronald Williams (01/11/16 to Present) Dr. Gary Biller (Through 01/08/16)
Vice President for Administrative Services	Mr. Matthew Bierman, Interim (01/01/16 to Present) Ms. Julie DeWees (Through 12/31/15)
Vice President for Advancement and Public Services	Mr. Brad Bainter
Vice President for Quad Cities and Planning	Dr. Joseph Rives
Director of Business and Financial Services	Mr. Matthew Bierman, Interim
Director of Internal Auditing	Mr. Michael Sartorius (09/08/15 to Present) Vacant (07/01/15 to 09/07/15)

Board of Trustees (as of June 30, 2016)

Chair	Roger D. Clawson, Macomb
Vice Chair	Yvonne S. Savala, Moline
Secretary	Michael W. Quigley, Student Member
Member	Todd V. Lester, Macomb
Member	Carolyn J. Ehlert Fuller, Milan
Member	Lynier R. Cole, Chicago
Member	Cathy E. Early, Macomb
Student Member	Michael W. Quigley

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, 2016

Financial Statement Report

Summary

The audit of the accompanying financial statements of Western Illinois University (University) was performed by Adelfia LLC.

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 material weakness. The material weakness is described in the accompanying Schedule of Finding on pages 53 through 55 of this report as item 2016-001, *Failure to apply accounting and financial reporting standards for impairment of capital assets*.

Exit Conference

The University waived having an exit conference in a letter dated December 7, 2016 from Dr. Jack Thomas, President.

The response to the recommendation was provided by Dr. Jack Thomas, President, in a letter dated December 7, 2016.

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Independent Auditor's Report

Honorable Frank J. Mautino
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, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Western Illinois University and its aggregate discretely presented component unit, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the financial statements, the University's financial statements have been restated as of July 1, 2015 due to the correction of errors in valuation of certain capital assets that were deemed to be impaired and capitalization of demolition costs in prior periods instead of being expensed as incurred. Our opinion is not modified with respect to the matter.

In addition, as discussed in Note 16 to the financial statements, the University received $37,328,112 of Fiscal Year 2017 appropriations as reimbursement for Fiscal Year 2016 expenses paid. In accordance with GASB Statement No. 33, the revenues and receivables were not recognized in Fiscal Year 2016. Our opinion is not modified with respect to this matter.

Finally, as discussed in Note 22 to the financial statements, the State of Illinois has not adopted a complete Fiscal Year 2017 operating budget as of the date of this report, January 20, 2017. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The University's June 30, 2015 financial statements were audited by other auditors whose report thereon dated December 18, 2015, 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 opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived. Certain 2015 amounts have been reclassified to conform to the 2016 presentations.

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, Required Supplementary Information - Pension on page 49, and Notes to the Required Supplementary Information - Pension on page 50 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 January 20, 2017 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.

SIGNED ORIGINAL ON FILE
Chicago, Illinois
January 20, 2017

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, 2016. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis are designed to focus on current activities, resulting change, current known facts, and future outlook. The financial statements, footnotes and this discussion are the responsibility of University management.

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

Using the Financial Report

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

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

Financial Highlights

Statement of Net Position

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

A summary of the condensed Statement of Net Position for the years ended June 30, 2016 and 2015 is as follows. The information below includes certain prior-year partial comparative information, which has been derived from the University's 2015 financial statements. This information should be read in conjunction with Footnote 21 in the notes to the basic financial statements which explain certain prior period adjustments.

Condensed Statement of Net Position

	2016	2015
Assets		
Current assets	$ 56,105,710	$ 86,483,309
Capital assets, net of accumulated depreciation	241,014,063	261,653,910
Other assets	1,587,463	2,136,771
Total assets	298,707,236	350,273,990
Deferred outflows of resources	1,374,100	821,013
Liabilities		
Current liabilities	38,325,710	34,784,411
Noncurrent liabilities	91,846,009	99,587,729
Total liabilities	130,171,719	134,372,140
Net position		
Net investment in capital assets	152,236,859	166,916,855
Restricted - Expendable	1,876,455	1,889,880
Unrestricted	15,796,303	47,916,128
Total net position	$ 169,909,617	$ 216,722,863

A review of the University's Statement of Net Position at June 30, 2016 shows that although the University had a decline in Net Position, its financial foundation remains strong with assets and deferred outflow of resources of $300.1 million and liabilities of $130.2 million. Net position - the difference between total assets and deferred outflow of resources and total liabilities, decreased by approximately $46.8 million or 21.6% over the previous year.

Total assets and deferred outflow of resources decreased $51.0 million or 14.5% during Fiscal Year 2016. Cash and cash equivalents decreased $22.1 million due to a reduction in State appropriations offset in part by a reduction in spending. Capital assets decreased $20.6 million due to depreciation expense of $15.4 million, impairment loss of $719 thousand, and a prior period adjustment to correct an error in the valuation of certain capital assets of $7.6 million offset slightly by asset additions of $3.1 million.

Total liabilities decreased $4.2 million or 3.1% during Fiscal Year 2016. Total long-term debt decreased due to scheduled debt payments and the refunding of the Series 2006 Revenue Bonds and the 2005 and 2011 Certificates of Participation.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position present 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, 2016 and 2015 is as follows:

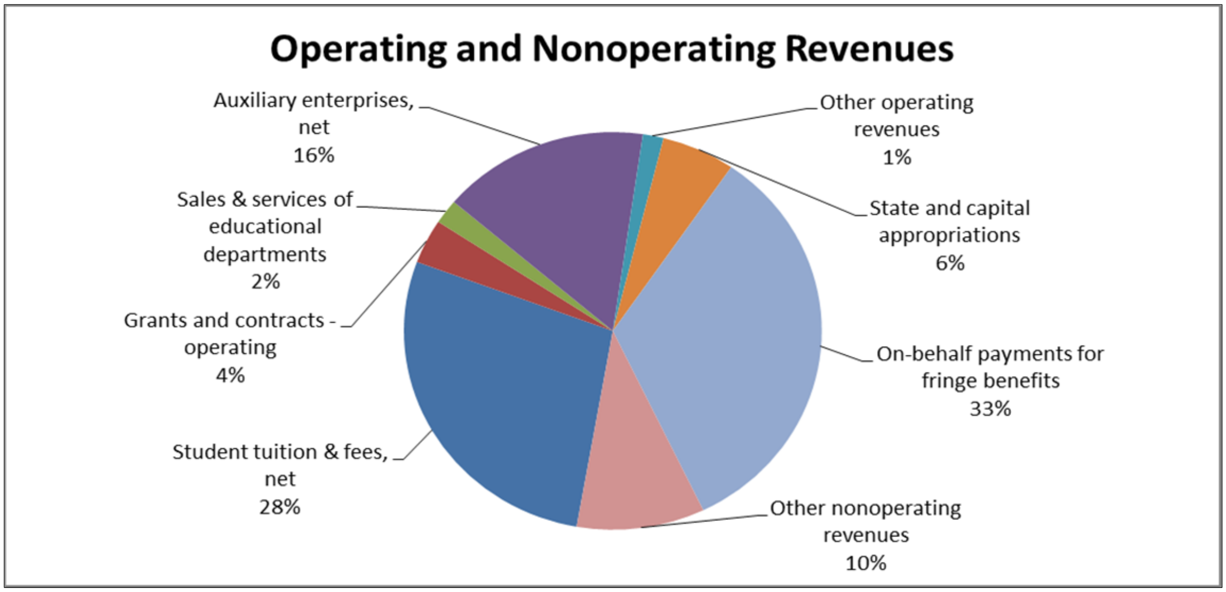
<u>Condensed Statement of Revenues, Expenses and Changes in Net Position</u>

	2016	2015
Total operating revenues	$ 135,293,327	$ 142,149,667
Total operating expenses	(299,311,221)	(309,223,143)
Operating loss	(164,017,894)	(167,073,476)
Nonoperating revenues	129,214,719	167,063,219
Nonoperating expenses	(4,502,405)	(4,522,528)
Loss before capital items	(39,305,580)	(4,532,785)
Capital State appropriations	112,992	7,799,444
Increase (decrease) in net position	(39,192,588)	3,266,659
Net position, beginning of year, as previously reported	216,722,863	215,952,340
Prior period adjustments	(7,620,658)	(2,496,136)
Net position, beginning of year, as restated	209,102,205	213,456,204
Net position, end of year	$ 169,909,617	$ 216,722,863

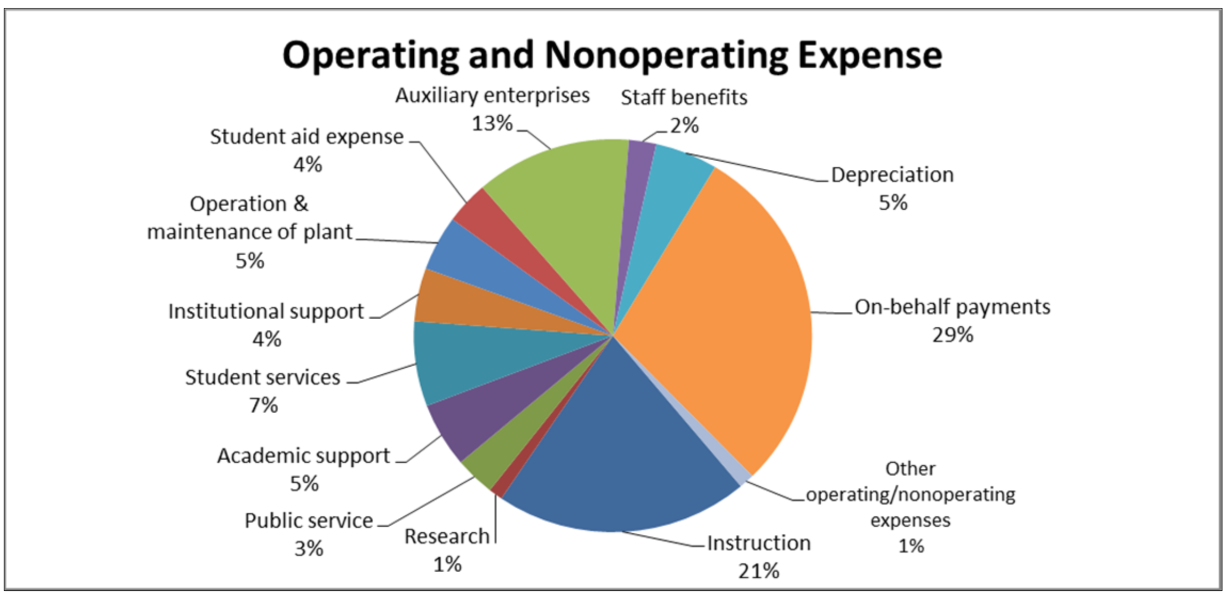
Total revenues decreased $52.4 million or 16.5% to $264.6 million in 2016. Capital State appropriations decreased $7.7 million in funds from the Capital Development Board, as the University completed Phase II of construction on the University's Quad Cities campus.

Total expenses decreased $9.9 million or 3.2% to $303.8 million in 2016. Total operating expenses decreased by $9.9 million in 2016 due to decreases in overall University expenses except for on-behalf payments which increased by approximately $6.6 million.

For the fiscal year ended June 30, 2016, all sources of revenues totaled $264.6 million. The following is a graphical illustration of revenues by source:



For the fiscal year ended June 30, 2016, expenses totaled $303.8 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, 2016 and 2015 is as follows:

Condensed Statement of Cash Flows

	2016	2015
Cash provided by (used in):		
Operating activities	$ (57,292,654)	$ (70,183,985)
Noncapital financing activities	47,347,681	92,968,557
Capital and related financing activities	(12,374,394)	(16,780,612)
Investing activities	266,599	144,469
Net increase (decrease) in cash and cash equivalents	(22,052,768)	6,148,429
Cash and cash equivalents, beginning of year	63,334,014	57,185,585
Cash and cash equivalents, end of year	$ 41,281,246	$ 63,334,014

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 $12.9 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations, Monetary Award Program awards and Pell grant revenues. Cash provided by noncapital financing activities decreased $45.6 million.

Several capital projects were completed in Fiscal Year 2015 contributing to an overall decrease of $4.4 million in cash used in capital and related financing activities.

Cash provided by investing activity increased slightly from the prior year.

Capital Assets and Debt Administration

The University had $510.9 million invested in capital assets at the end of Fiscal Year 2016. Capital assets net of accumulated depreciation totaled $241 million. Depreciation expense for the current year was $15.4 million.

There were no major construction projects during Fiscal Year 2016. For the year ended June 30, 2016 construction in progress included engineering and planning costs associated with a new performing arts center on the Macomb campus with a balance of $4.8 million.

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 pressures on the cost of attendance.

The State of Illinois has not adopted a complete Fiscal Year 2017 operating budget as of the date of this report, January 20, 2017. They have only passed a six-month stop gap measure that provided around 61.0% of Fiscal Year 2015 appropriations.

The University is part of the executive branch of government and operates under a budget approved by the State of Illinois, in which resources are appropriated for the use of the University. On-behalf payments and operating budget are the annual State appropriations provided by the State of Illinois to the University. Fiscal Year 2016 State appropriations' operating budget was $14.9 million. This is a decrease in appropriations of $36.5 million, or 71.0% from Fiscal Year 2015. Additionally, the appropriation for the Fiscal Year 2017 Monetary Assistance Program (MAP) has not yet been approved. The University has applied MAP funding to student accounts in anticipation of this appropriation. The expected MAP funds for Fiscal Year 2017 total $11.2 million.

The University projects tuition and miscellaneous revenues to fall by approximately $2.2 million as compared with Fiscal Year 2016. In December of 2015, the Board of Trustees passed a 3.0% reduction in the tuition rate for new students, those enrolling for the first time in Fall 2016. The University offers guaranteed tuition and fees, as well as guaranteed room and board rates for each new class of entering students. The University's recommended expenditure budget for income fund and State appropriations for Fiscal Year 2017 is $126.0 million.

The University's Auxiliary Enterprises funds budget for Fiscal Year 2017 as approved by the Board of Trustees reflects a level less than Fiscal Year 2016 of approximately $1.3 million. Other institutional funds include revenues from sponsored projects and departmental activity revenues. The 2017 budget for these funds as approved by the Board of Trustees reflects a $900 thousand decrease in spending over Fiscal Year 2016.

Private gifts are an important supplement to the University's sources of funding for operating costs. In Fiscal Year 2016, alumni, friends, staff, corporations, and other organizations contributed nearly $5.8 million to the Foundation in support of the University. These contributions include gifts and additions to permanent endowments. The Foundation distributed nearly $7.6 million in Fiscal Year 2016 to support academic enhancement and instructional initiatives, student scholarships, capital improvements, cultural activities, athletics, regional outreach efforts, and alumni and Foundation-sponsored programs at Western Illinois University.

The University is committed to pursuing its goal in developing the Quad Cities campus while strategically adding, and when appropriate, eliminating programs. Cost containment and revenue initiatives are challenges the University continues to encounter. Management has historically made the necessary decisions to ensure the strength of the University.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION
For the Year Ended June 30, 2016
(With Partial Financial Information for the Year Ended June 30, 2015)

	University		Component Unit	
	2016	**2015**	**2016**	**2015**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 41,140,832	$ 63,207,905	$ 2,346,154	$ 3,331,851
Cash and cash equivalents, restricted	140,414	126,109	-	-
Investments	-	-	3,576,152	5,191,351
Accounts receivable, net	10,750,762	10,574,095	966,077	966,537
Student loans receivable, net	389,081	390,748	-	-
Due from component unit	178,231	174,954	-	-
Due from primary government	1,057,369	9,044,265	-	-
Inventories	2,253,572	2,899,045	-	6,162
Prepaid expenses	169,547	50,904	345,761	70,269
Other assets	25,902	15,284	-	-
Total current assets	56,105,710	86,483,309	7,234,144	9,566,170
Noncurrent assets:				
Investments	-	-	7,941,601	2,610,694
Endowment investments	-	-	3,361,149	6,095,173
Endowment investments, restricted	-	-	38,027,028	36,953,431
Charitable remainder trusts, restricted	-	-	4,712,599	4,895,478
Accounts receivable, net	-	-	545,533	538,942
Student loans receivable, net	1,285,417	1,335,080	84,778	82,309
Capital assets, net of accumulated depreciation	241,014,063	261,653,910	658,304	388,304
Other assets	302,046	801,691	523,257	515,445
Total noncurrent assets	242,601,526	263,790,681	55,854,249	52,079,776
TOTAL ASSETS	298,707,236	350,273,990	63,088,393	61,645,946
DEFERRED OUTFLOW OF RESOURCES				
Unamortized losses on debt refunding	1,013,323	491,758	-	-
Pension	360,777	329,255	-	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	1,374,100	821,013	-	-
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	4,819,231	3,672,512	131,132	167,268
Accrued payroll	15,623,256	16,636,706	-	-
Due to primary government	1,943,375	110,034	178,231	174,954
Unearned revenue	5,008,790	5,183,253	267,847	324,767
Charitable remainder trust distributions payable	-	-	195,731	189,935
Other liabilities	2,146,117	1,165,283	49,991	45,896
Notes payable	147,521	145,175	19,381	-
Capital leases payable	5,526	9,275	-	-
Revenue bonds payable	4,563,107	4,377,649	-	-
Certificates of participation	2,333,599	1,666,177	-	-
Compensated absences	1,735,188	1,818,347	-	-
Total current liabilities	38,325,710	34,784,411	842,313	902,820
Noncurrent liabilities:				
Notes payable	-	147,521	197,225	-
Capital leases payable	16,369	11,982	-	-
Revenue bonds payable	60,524,955	64,776,575	-	-
Certificates of participation	22,199,454	24,103,013	-	-
Other liabilities	-	150,000	275,393	269,268
Compensated absences	9,105,231	10,398,638	-	-
Total noncurrent liabilities	91,846,009	99,587,729	472,618	269,268
TOTAL LIABILITIES	130,171,719	134,372,140	1,314,931	1,172,088
NET POSITION				
Net investment in capital assets	152,236,859	166,916,855	441,698	388,304
Restricted - nonexpendable	-	-	28,260,062	27,260,609
Restricted - expendable				
Loans	1,800,252	1,834,116	-	-
Other	76,203	55,764	13,116,425	12,218,862
Unrestricted	15,796,303	47,916,128	19,955,277	20,606,083
TOTAL NET POSITION	$ 169,909,617	$ 216,722,863	$ 61,773,462	$ 60,473,858

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, 2016
(With Partial Financial Information for the Year Ended June 30, 2015)

	University		Component Unit	
	2016	**2015**	**2016**	**2015**
OPERATING REVENUES				
Tuition and fees, net	$ 73,732,875	$ 75,644,261	$ -	$ -
Grants and contracts	9,547,337	10,684,439	-	-
Sales and services of educational departments	5,244,594	5,009,786	-	-
Auxiliary enterprises, net	42,536,027	46,132,136	-	-
Student loan activities	54,042	72,523	-	-
Other operating revenues	4,178,452	4,606,522	5,746,661	7,436,335
Total operating revenues	135,293,327	142,149,667	5,746,661	7,436,335
OPERATING EXPENSES				
Instruction	62,364,512	63,986,896	1,237,067	1,167,010
Research	3,439,674	3,496,122	61,232	158,235
Public service	9,859,816	10,990,006	1,142,344	1,129,495
Academic support	16,173,314	17,302,049	123,018	198,373
Student services	21,155,352	22,345,473	780,129	845,852
Institutional support	13,285,392	14,403,915	1,323,557	1,273,681
Operation and maintenance of plant	13,720,739	17,855,888	114,661	162,886
Student aid expense	10,668,851	12,255,127	2,825,189	2,677,398
Auxiliary enterprises	38,400,834	40,502,628	-	-
Staff benefits	6,738,577	7,661,259	-	-
Depreciation	15,391,211	16,573,123	-	-
On-behalf payments	88,073,687	81,503,276	-	-
Other operating expenses	39,262	347,381	-	-
Total operating expenses	299,311,221	309,223,143	7,607,197	7,612,930
OPERATING LOSS	(164,017,894)	(167,073,476)	(1,860,536)	(176,595)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	14,931,400	51,465,200	-	-
On-behalf payments for fringe benefits	88,073,687	81,503,276	-	-
Gifts	570,218	923,695	-	-
Nonoperating grants	25,208,764	32,859,506	-	-
Gain/(loss) on disposal of capital assets	1,697	(8,638)	-	-
(Loss) on impairment of capital assets	(719,294)	-	-	
Investment income(loss)	266,599	144,469	(771,752)	94,411
Interest on capital asset - related debt	(3,783,111)	(4,513,890)	-	-
Change in value of charitable remainder trusts	-	-	(236,199)	(91,640)
Change in value of land held for investment	-	-	2,617,460	-
Other nonoperating revenues	162,354	167,073	535,236	284,823
Net nonoperating revenues	124,712,314	162,540,691	2,144,745	287,594
INCOME (LOSS) BEFORE CAPITAL ITEMS	(39,305,580)	(4,532,785)	284,209	110,999
Capital State appropriations	112,992	7,799,444	-	-
Additions to permanent endowments	-	-	1,015,395	1,451,268
Total capital items	112,992	7,799,444	1,015,395	1,451,268
INCREASE (DECREASE) IN NET POSITION	(39,192,588)	3,266,659	1,299,604	1,562,267
NET POSITION, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	216,722,863	215,952,340	60,473,858	58,911,591
PRIOR PERIOD ADJUSTMENT	(7,620,658)	(2,496,136)	-	-
NET POSITION, BEGINNING OF YEAR AS RESTATED	209,102,205	213,456,204	60,473,858	58,911,591
NET POSITION, END OF YEAR	$ 169,909,617	$ 216,722,863	$ 61,773,462	$ 60,473,858

See accompanying notes to the basic financial statements

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016
(With Partial Financial Information for the Year Ended June 30, 2015)

	University		Component Unit	
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees, net	$ 74,074,242	$ 75,347,115	$ -	$ -
Grants and contracts	9,279,331	10,605,750	-	-
Gifts for other than capital and endowment purposes	-	-	4,137,902	5,718,605
Payments for employee salaries and benefits	(135,481,814)	(138,996,657)	-	-
Payments for goods and services	(48,255,541)	(60,162,058)	(4,510,460)	(4,688,705)
Payments to annuitants	-	-	(38,449)	(42,121)
Payments for scholarships and fellowships	(10,638,498)	(12,064,827)	(2,825,189)	(2,677,398)
Student loans issued	(382,288)	(614,252)	-	-
Student loans collected	403,317	567,231	-	-
Student loans interest and fees collected	54,042	72,523	-	-
Auxiliary enterprises charges	42,673,812	45,883,640	-	-
Sales and services of educational departments	6,952,291	4,421,028	-	-
Other receipts	4,028,452	4,756,522	964,200	949,750
Net cash used in operating activities	(57,292,654)	(70,183,985)	(2,271,996)	(739,869)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	21,664,954	56,789,201	-	-
Capital appropriations for operating expenses	3,782	2,641,532	-	-
Gifts	316,756	466,952	1,015,395	1,451,268
Nonoperating grants	25,208,764	32,859,506	-	-
Nonoperating revenues, net	153,425	211,366	533,871	456,458
Cash provided by noncapital financing activities	47,347,681	92,968,557	1,549,266	1,907,726
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(2,647,092)	(6,412,586)	(270,000)	-
Proceeds from sale of land	-	-	-	-
Principal paid on capital debt	(4,889,861)	(5,762,890)	-	-
Interest paid on capital debt	(3,982,753)	(4,680,136)	-	-
Bonds refunded	(25,984,316)	(4,088,410)	-	-
Proceeds from issuance of revenue bonds	10,009,255	4,190,000	-	-
Proceeds from issuance of certificates of participation	15,794,261	-	-	-
Deferred loss from bond refunding	(673,888)	(26,590)	-	-
Proceeds from note payable	-	-	270,606	-
Payments made on note payable	-	-	(54,000)	-
Net cash used in capital and related financing activities	(12,374,394)	(16,780,612)	(53,394)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	-	8,458,736	5,958,368
Earnings on investments	266,599	144,469	1,574,907	1,383,963
Purchase of investments	-	-	(10,243,216)	(8,719,863)
Net cash provided by (used in) investing activities	266,599	144,469	(209,573)	(1,377,532)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,052,768)	6,148,429	(985,697)	(209,675)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	63,334,014	57,185,585	3,331,851	3,541,526
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 41,281,246	$ 63,334,014	$ 2,346,154	$ 3,331,851

See accompanying notes to the basic financial statements

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(With Partial Financial Information for the Year Ended June 30, 2015)

	University		Component Unit	
	2016	**2015**	**2016**	**2015**
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (164,017,894)	$ (167,073,476)	$ (1,860,536)	$ (176,595)
Adjustments to reconcile operating loss to net cash used in operating activities:				
On-behalf payments	88,073,687	81,503,276	-	-
Stock gifts in process	-	-	-	(207)
Charitable remainder trust assets donated	-	-	(53,320)	(926,697)
Depreciation	15,391,211	16,573,123	-	-
Amortization	21,881	20,142	-	-
Actuarial adjustment to annuities payable	-	-	10,220	3,050
Changes in assets, deferred outflows and liabilities:				
Receivables, net	1,072,380	(1,338,237)	(15,047)	236,583
Student loans receivables, net	51,330	49,285	-	-
Inventories	645,473	79,388	6,162	(3,323)
Prepaid expenses and other assets	302,568	43,232	(275,492)	19,768
Pension	(31,522)	(23,296)	-	-
Accounts payable and accrued liabilities	2,905,895	109,231	(36,136)	59,811
Accrued payroll	(1,008,816)	43,690	-	-
Due to primary government, net	-	-	3,277	46,551
Charitable remainder trust distributions payable	-	-	5,796	75,526
Unearned revenue	(174,463)	335,631	-	-
Other liabilities	852,182	(176,277)	(56,920)	(74,335)
Compensated absences	(1,376,566)	(329,697)	-	-
Net cash used in operating activities	$ (57,292,654)	$ (70,183,985)	$ (2,271,996)	$ (739,868)
NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES				
On-behalf payments	88,073,687	81,503,276	-	-
Capital asset acquisition via capital appropriations	109,210	5,157,912	-	-
Capital asset acquisition via support from Foundation	253,004	456,743	-	-
Capital asset changes in accounts payable	(69,531)	1,242,926	-	-
Gifts in kind	-	-	525,434	559,640
Gain/(loss) on disposal of capital assets	1,697	(8,638)	-	-

See accompanying notes to the basic financial statements

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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 discretely presented 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

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities, as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Business Type Activities are those financed in whole or in part by fees charged to external parties for goods and services. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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, 2015, from which the partial information was derived.

D. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The University deferred outflows of resources include a loss on refunding of bonds payable of $477,667 and a loss on refunding of Certificates of Participation payable of $535,656 at June 30, 2016. Also included in deferred outflows of resources is a net pension liability of $360,777 (see Note 13 for more information) at June 30, 2016.

E. Use of Estimates

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

F. Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016, cash equivalents consisted primarily of money market and similar funds. Included in restricted cash and cash equivalents is unspent loan funds.

G. Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application.* Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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.

H. 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.

I. Bonds and Certificates of Participation Issue Costs

The insurance premium on the bonds and certificates of participation issue costs incurred on the revenue bonds and certificates of participation are being amortized over the life of the bonds/certificates of participation using the straight-line method. Total amortization for the year ended June 30, 2016 was $21,881.

J. 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.

K. 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.

L. 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, infrastructure, 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.

M. Unearned Revenue

Unearned revenue represents unearned student tuition and fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements.

N. 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.

O. 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 – net position restricted by externally imposed stipulations.

Restricted net position - expendable – net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

Unrestricted – net position not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees.

P. 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, (3) most Federal, State and local grants and contracts except for certain student financial aid classified as nonoperating revenues and (4) 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.

Q. 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, 2016 were $21,713,715 and $7,191,255, respectively.

R. 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.

S. 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 1.15% 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, 2016, the Foundation had a total of $4,437,783 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.

T. 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 $53,320 of new contribution income during Fiscal Year 2016. Any outstanding liabilities relating to the annual distributions required by the trust agreements are recorded in the Statement of Net Position.

U. 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(1) of the Internal Revenue Code and a similar provision of state law. However, some activities may be subject to taxation as unrelated business income under the Internal Revenue Code and certain activities are subject to State sales tax.

V. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan net position of the State Universities Retirement System (SURS or the System) and additions to/deductions from SURS' plan net position has been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For the purposes of financial reporting, the State of Illinois and participating employers are considered to be under a special funding situation. A special funding situation is defined as a circumstance in which a non-employer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either (1) the amount of the contributions for which the non-employer entity is legally responsible is not dependent upon one or more events unrelated to pensions or (2) the non-employer is the only entity with a legal obligation to make contributions directly to a pension plan. The State of Illinois is considered a non-employer contributing entity. Participating employers are considered employer contributing entities.

W. Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the 2016 presentation.

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, 2016, the book balance of various University bank accounts and certificates of deposit was $361,258, while the bank balance was $345,075. The difference between these amounts represents deposits in transit as of June 30, 2016. In addition, the University had cash on hand in various petty cash and change funds in the amount of $59,091 as of June 30, 2016.

Foundation

At June 30, 2016, the book balance of the Foundation's various bank accounts was $2,188,680, while the bank balance was $2,260,625. 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, 2016.

Reconciliation of cash and cash equivalents to deposits:

	University	Foundation
Cash and cash equivalents	$ 41,140,832	$ 2,346,154
Cash and cash equivalents, restricted	140,414	-
Less: Money market funds classified as cash and cash equivalents	(40,860,897)	(157,474)
Cash on hand	(59,091)	-
Carrying amount of deposits	$ 361,258	$ 2,188,680

NOTE 3 – INVESTMENTS

University

The University held no investments as of June 30, 2016.

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, 2016, the Foundation held investments with the following maturities:

		Maturities in Years			
Type	2016	Less Than One Year or No Maturity	1-5 Years	6-10 Years	Over 10 Years
U.S. agency obligations (FHLM, FNMA)	$ 83,867	$ -	$ 83,867	$ -	$ -
Municipal bonds	1,654,132	123,854	1,274,568	255,710	-
Corporate debt securities	6,971,168	1,640,877	4,409,259	870,364	50,668
Corporate equity securities	66,152	65,552	600	-	-
International equity securities	1,317,197	1,317,197	-	-	-
Cash equivalents held in investment pools	637,182	637,182	-	-	-
Real asset tax-exempt	2,728,944	-	786,791	793,903	1,148,250
Real assets exchange traded funds	1,323,921	1,323,921	-	-	-
Absolute return	8,026,017	8,026,017	-	-	-
Mutual funds, international equity	7,045,033	7,045,033	-	-	-
Mutual funds, domestic equity	9,229,254	9,229,254	-	-	-
Mutual funds, international debt	1,835,153	1,835,153	-	-	-
Mutual funds, U.S. debt	2,229,200	2,229,200			
Private equity	3,906,492	-	107,394	1,897,666	1,901,432
Certificates of deposit	2,517,958	-	2,517,958	-	-
Farm Land	3,334,260	3,334,260	-	-	-
Total investments	$ 52,905,930	$ 36,807,500	$ 9,180,437	$ 3,817,643	$ 3,100,350

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

Custodial Credit Risk

Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the Foundation would not be able to recover the value of deposits, investments, or collateral securities that are in the possession of an outside party. The Federal Deposit Insurance Corporation and Security Investor Protection Corporation insured account balance of $2,420,999 as of June 30, 2016. 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

Concentration risk exists when a significant portion of the portfolio is invested in items with similar characteristics or subject to similar economic, political, or other conditions. As of June 30, 2016, the Foundation has three single user investments that each represents over 5% of the total assets of the Foundation. Foundation management believes these concentration risks represented below are not excessive when considering the overall diversification of the entire investment portfolio. The following issuers hold more than 5% of total Foundation assets as of June 30, 2016:

Mercer Hedge Fund Investors SPC	$8,026,017	15.4%
Vanguard Total Stock Market Index	$5,110,044	9.8%
Mid America National Bank Fixed	$3,447,865	6.6%

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, 2016:

U.S. agency obligations (FHLM, FNMA)	$ 83,867
Municipal bonds	1,654,132
Corporate debt securities	6,971,168
Cash equivalents held in investment pools	637,182
Mutual funds, international debt	1,835,153
Mutual funds, U. S. debt	2,229,200
Certificates of Deposit	2,517,958
Sub-total investments	15,928,660
Demand Deposit Interest Bearing Funds	2,222,725
Sub-Total cash and cash equivalents	2,222,725
Total assets subject to interest rate risk	$18,151,385

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 18.4% of the total Foundation investments as of June 30, 2016. 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, 2016 are listed below.

Currency	*United States Dollar Equivalent*
Euro	$ 1,575,703
United Kingdom British Pound	1,501,386
Japanese Yen	1,305,535
Swiss Franc	778,937
Yuan Renminbi (China)	577,371
Other currencies, individually less than 1% of fund portfolio	4,013,452
Total	$ 9,752,384

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, 2016, the Foundation had the following investments and their ratings:

Credit Rating per Standard and Poor's

	Total Fair Value	U.S. Agency Obligations (FHLM, FNMA)	Corporate Debt Securities	Municipal Bonds
BBB+	$ 71,000	$ -	$ 71,000	$ -
Not Rated	8,638,167	83,867	6,900,168	1,654,132
	$ 8,709,167	$ 83,867	$ 6,971,168	$ 1,654,132

Credit Rating per Moody's

	Total Fair Value	U.S. Agency Obligations (FHLM, FNMA)	Corporate Debt Securities	Municipal Bonds
Aaa	$ 185,207	$ 83,867	$ 80,260	$ 21,080
Aa1	150,086	-	96,090	53,996
Aa2	368,931	-	107,026	261,905
Aa3	491,576	-	129,540	362,036
A1	408,278	-	408,278	-
A2	558,511	-	434,657	123,854
A3	516,796	-	-	516,796
B3	361,103	-	361,103	-
Baa1	294,885	-	294,885	-
Baa2	89,408	-	89,408	-
Baa3	693,153	-	423,152	270,001
Not Rated	4,591,233	-	4,546,769	44,464
	$ 8,709,167	$ 83,867	$ 6,971,168	$ 1,654,132

Fair Value Measurements

The Foundation measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1 - Quoted prices for identical investments in active markets
Level 2 - Observable inputs other than quoted market prices
Level 3 - Unobservable inputs

At June 30, 2016, the Foundation had the following recurring fair value measurements.

		Fair Value Measurements Using		
	2016	Level 1	Level 2	Level 3
Debt securities				
U.S. agency obligations				
(FHLM, FNMA)	$ 83,867	$ 83,867	$ -	$ -
Municipal bonds	1,654,132	-	1,654,132	-
Corporate debt securities	6,971,168	-	6,971,168	-
Mutual funds, international debt	1,835,153	1,835,153	-	-
Mutual funds, U.S. debt	2,229,200	2,229,200	-	-
Total debt securities	12,773,520	4,148,220	8,625,300	-
Equity securities				
Corporate equity securities	66,152	66,152	-	-
International equity securities	1,317,197	1,317,197	-	-
Mutual funds, international equity	7,045,033	7,045,033	-	-
Mutual funds, domestic equity	9,229,254	9,229,254	-	-
Total equity securities	17,657,636	17,657,636	-	-
Real assets exchange traded funds	1,323,921	1,323,921	-	-
Real estate (farm land)	3,334,260	-	3,334,260	-
Charitable remainder trusts	4,712,599	-	-	4,712,599
Total investments by fair value level	39,801,936	$23,129,777	$11,959,560	$ 4,712,599
Investments measured at net asset value				
Real assets tax-exempt	2,728,944			
Absolute return (hedge funds)	8,026,017			
Private equity	3,906,492			
Total other	14,661,453			
Total	54,463,389			
Plus cash equivalents held in				
investment pools	637,182			
Plus certificates of deposit	2,517,958			
Less charitable remainder trusts	(4,712,599)			
Total investments	$52,905,930			

Debt and equity securities and real estate exchange traded funds classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 are valued using quoted prices for identical securities in markets that are not active, quoted prices for similar securities in active markets, and matrix pricing based on securities' relationship to benchmark quoted prices. Real estate classified in Level 2 is valued using recent appraisals of the real estate's value. Charitable remainder trusts classified in Level 3 are valued at the present value of the estimated future cash receipts from the trust assets. Such present values are generally assumed to be the fair market value of the percentage interest of the underlying assets of the trust.

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The Foundation values these investments based on the partnerships' audited financial statements, when available, or internal interim financial statements.

Summary of Carrying Values

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

	University	Foundation
Cash and cash equivalents	$ 41,140,832	$ 2,346,154
Cash and cash equivalents, restricted	140,414	-
Total	$ 41,281,246	$ 2,346,154

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

	University	Foundation
Current:		
Investments	$ -	$ 3,576,152
Noncurrent:		
Endowment Investments	-	3,361,149
Endowment Investments, restricted	-	38,027,028
Investments	-	7,941,601
Total Noncurrent	$ -	$ 49,329,778
Total investments	$ -	$ 52,905,930

Investment income (loss) for the year ended June 30, 2016 consisted of:

	University	Foundation
Interest, dividends, realized gains (losses) and market value changes	$ 266,599	$ (771,752)

NOTE 4 - ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable are reported net of allowances for uncollectible accounts. Accounts receivable consisted of the following as of June 30, 2016:

Receivable from students	$ 13,085,990
Receivable from third parties	1,442,320
Receivables from funding agencies	1,897,944
Total gross receivables	16,426,254
Allowance for doubtful accounts	(5,675,492)
Total net receivables	$ 10,750,762

Student loans receivable totaling $2,165,698 is reported net of allowance for uncollectible loans of $491,200 at June 30, 2016.

NOTE 5 - CAPITAL ASSETS

Capital asset activities for the University for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Retirements/ Adjustments	Transfers	Balance June 30, 2016
Non-depreciable capital assets:					
Land and land improvements	$ 3,256,432	$ 287,249	$ -	$ 59,319	$ 3,603,000
Works of art and historical treasures	618,821	-	(27,254)	-	591,567
Construction in progress	7,243,677	1,139,386	(2,006,050)	(883,232)	5,493,781
Total non-depreciable capital assets	11,118,930	1,426,635	(2,033,304)	(823,913)	9,688,348
Depreciable capital assets					
Site improvements	49,574,399	77,206	(3,051,647)	250,415	46,850,373
Buildings and building improvements	375,364,905	377,818	-	573,498	376,316,221
Equipment	80,057,683	1,281,933	(3,299,927)	11,928	78,051,617
Capital lease equipment	31,928	10,325	-	(11,928)	30,325
Total depreciable capital assets	505,028,915	1,747,282	(6,351,574)	823,913	501,248,536
Less accumulated depreciation:					
Site improvements	20,553,653	1,749,573	(301,166)	-	22,002,060
Buildings and building improvements	161,747,078	14,764,004	-	-	176,511,082
Equipment	72,183,240	2,454,472	(3,244,578)	5,964	71,399,098
Capital lease equipment	9,964	6,581	-	(5,964)	10,581
Total accumulated depreciation	254,493,935	18,974,630	(3,545,744)	-	269,922,821
Total depreciable capital assets, net	250,534,980	(17,227,348)	(2,805,830)	823,913	231,325,715
Capital assets, net	$ 261,653,910	$ (15,800,713)	$ (4,839,134)	$ -	$ 241,014,063

The Fiscal Year 2016 capital asset activities for site improvements and buildings and building improvements included prior period adjustments for impaired assets totaling $2,864,127. The impaired assets included three residential buildings that were taken offline in prior periods as part of the University's master plan. The University reduced their reported balance to zero as the buildings are being prepared for demolition. Also as a part of the prior period adjustments, construction in progress (CIP) and site improvements were reduced in the amount of $4,756,531 for demolition costs that were capitalized in a prior period instead of being expensed as incurred. See Note 21 for further information related to the prior period adjustment.

In addition to the impaired assets above, the University has a vacant administrative building with a net book value of $1,138,101 as of June 30, 2016 that is properly being carried at the lower of carrying value or fair market value.

An additional residential building was taken offline in July 2015. The University reduced the carrying value to zero as it is being prepared for demolition resulting in an impairment loss of $719,294 during Fiscal Year 2016 which is included as a non-operating expense on the Statement of Revenue, Expenditures and Changes in Net Position.

Capital asset activities for the Foundation for the year ended June 30, 2016 were as follows:

	Balance (As restated) June 30, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
Land and land improvements	$ 388,304	$ 270,000	$ -	$ -	$ 658,304

As discussed in Note 21, the Foundation's Fiscal Year 2015 financial statements have been restated to incorporate GASB No. 72 guidance for comparability. Thus, the June 30, 2015 capital asset balance of $1,105,104 has been restated to $388,304.

NOTE 6 - LOSSES ON DEBT REFUNDINGS

Deferred outflow of resources included losses on bond refunding which resulted from the difference between the reacquisition price and the net carrying amount of the old debt. Total amortization for the year ended June 30, 2016 was $152,323.

NOTE 7 - UNEARNED REVENUE

Unearned revenues consist of the following as of June 30, 2016:

Tuition and fees	$ 3,288,077
Grants and contracts	1,219,158
Sales and services of educational departments	245,449
Auxiliary enterprises	256,106
Total	$ 5,008,790

NOTE 8 - NOTES PAYABLE

During the year ended June 30, 2014, the University entered into an installment purchase agreement for networking equipment with an original cost of $392,786. As of June 30, 2016, the related notes payable obligation was recorded at the present value of the future minimum installment payments, discounted using an applicable discount rate of 1.62%.

Notes payable activities for the year ended June 30, 2016 were as follows:

Balance, beginning of year	$ 292,696
Payments	(145,175)
Balance, end of year	$ 147,521
Current portion	$ 147,521

NOTE 9 - CAPITAL LEASES PAYABLE

The University leases equipment under capital lease purchase contracts with an imputed rate of .78% to 22.84%. The capital leases payable are secured by the equipment being financed. The scheduled maturities of the capital leases are as follows:

	Principal	Interest	Total Payments
2017	$ 5,526	$ 1,807	$ 7,333
2018	6,346	1,221	7,567
2019	7,082	484	7,566
2020	2,941	10	2,951
Total	$ 21,895	$ 3,522	$ 25,417

NOTE 10 - REVENUE BONDS PAYABLE AND SUBSEQUENT EVENT

General

At June 30, 2016, revenue bonds payable consists of Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2016, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2015, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2012, and Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2010.

Series 2016 Bonds

On February 4, 2016, the Series 2016 Revenue Bonds were issued in the principal amount of $8,990,000. The Series 2016 bonds are due April 1, 2027, with annual principal payments ranging from $450,000 to $1,125,000 commencing on April 1, 2017 and semi-annual interest payments beginning October 1, 2016 at 5.00%.

Proceeds from the sale of the Series 2015 Bonds were used to provide for the current refunding of the outstanding Series 2006 Bonds in the principal amount of $9,660,000 and to pay certain expenses related to the issuance of the bonds. The total principal amount was deposited into the Series 2006 Bond Account to redeem all of the Refunded Series 2006 bonds on their redemption date at a price equal to the principal amount thereof. As a result, the Series 2006 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 $75,649 for the year ended June 30, 2016, the University in effect reduced its aggregate debt service payments by $597,298 over the next five years and obtained an economic gain of $493,966.

Series 2015 Bonds

On May 8, 2015, the Series 2015 Revenue Bonds were issued in the principal amount of $4,190,000. The Series 2015 bonds are due April 1, 2020, with annual principal payments ranging from $600,000 to $1,710,000 commencing on April 1, 2016 and semi-annual interest payments beginning October 1, 2015 at 1.39% to 2.03%.

Proceeds from the sale of the Series 2015 Bonds were used to provide for the current refunding of the outstanding Series 2005 Bonds in the principal amount of $4,115,000 and to pay certain expenses related to the issuance of the bonds. The total principal amount was deposited into the Series 2005 Bond Account to redeem all of the Refunded Series 2005 bonds on their redemption date at a price equal to the principal amount thereof. As a result, the Series 2005 Bonds are considered defeased and the liability for that portion of the bonds has been removed from the University's Statement of Net Position.

Series 2012 Bonds

On April 19, 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 $2,140,000 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.

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.

Subsequent Event

On July 26, 2016, Standard & Poor's downgraded the University's ratings to "BBB-" from "BBB+" on the University's Auxiliary Facilities System Revenue Bonds. On June 9, 2016, Standard & Poor's downgraded the State of Illinois one notch to BBB+. As a result of the downgrades to the State of Illinois, both Moody's and Standard & Poor's took rating actions on all of the Illinois public universities they respectively rate.

Advance Refunded Bonds

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

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Revenue Bonds Payable activities for the year ended June 30, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2006 Bonds	10,505,000	-	(10,505,000)	-	-
Series 2010 Bonds	25,510,000	-	-	25,510,000	1,120,000
Series 2012 Bonds	28,685,000	-	(1,705,000)	26,980,000	1,770,000
Series 2015 Bonds	4,190,000	-	(1,710,000)	2,480,000	600,000
Series 2016 Bonds	-	8,990,000		8,990,000	770,000
Unamortized premium	325,012	1,019,255	(216,205)	1,128,062	303,107
Unamortized discount	(60,788)	-	60,788	-	-
	$ 69,154,224	$ 10,009,255	$ (14,075,417)	$ 65,088,062	$ 4,563,107

Aggregate maturities of the bonds outstanding as of June 30, 2016 are as follows:

	Principal	**Interest**
2017	$ 4,260,000	$ 3,074,425
2018	4,455,000	2,838,750
2019	4,600,000	2,657,189
2020	4,775,000	2,465,743
2021	4,305,000	2,263,965
2022-2026	18,765,000	8,579,130
2027-2031	17,060,000	4,369,898
2032-2033	5,740,000	468,300
	63,960,000	26,717,400
Unamortized premium	1,128,062	-
	$ 65,088,062	$ 26,717,400

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 $7,334,425. The estimated debt service coverage ratio based on revenues generated from operations is 1.67. The future pledged revenues for principal and interest in Fiscal Year 2016 are $90,677,399. Pledged revenue coverage is 12.88 in Fiscal Year 2016. Pledged revenues have a term of commitment through 2033.

NOTE 11 - CERTIFICATES OF PARTICIPATION PAYABLE AND SUBSEQUENT EVENT

General

At June 30, 2016, certificates of participation consist of Western Illinois University Series 2015 Certificates of Participation and Western Illinois University Series 2010 Certificates of Participation.

Series 2015 Certificates of Participation

On July 14, 2015, the Series 2015 Certificates of Participation were issued in the principal amount of $15,100,000. The Series 2015 Certificates of Participation are due October 1, 2024 with annual principal payments ranging from $1,470,000 to $1,890,000 commencing October 1, 2016 and semi-annual interest payments beginning October 1, 2016 at 3.00% to 5.00%.

Proceeds from the sale of the Series 2015 Certificates of Participation were used to provide for the current refunding of the outstanding Series 2005 Certificates of Participation in the principal amount of $7,160,000, the advance refunding of the outstanding Series 2011 Certificates of Participation in the principal amount of $9,265,000, and to pay certain expenses related to the issuance of the bonds. The net proceeds plus funds provided by the University were deposited into the Series 2005 Installment Payment Fund and the 2011 Installment Payment Fund to redeem all of the Refunded Series 2005 and 2011 Certificates of Participation on their redemption date at a price equal to the principal amount thereof. As a result, the Series 2005 and 2011 Certificates of Participation are considered defeased and the liability for that portion of the certificates has been removed from the University's Statement of Net Position.

Although the refunding resulted in the recognition of an accounting loss of $598,240, the University in effect reduced it aggregate debt service payments by $1,474,172 over the next 10 years and obtained an economic gain of $935,187.

Series 2010 Certificates of Participation

On March 11, 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 6.37%.

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 were used to reimburse the University for a portion of the cost of the sprinkler system installation in Thompson and Tanner Halls.

Subsequent Event

On July 26, 2016, Standard & Poor's downgraded the University's ratings to "BBB-" from "BBB+" on the University's Certificates of Participation. On June 9, 2016, Standard & Poor's downgraded the State of Illinois one notch to BBB+. As a result of the downgrades to the State of Illinois, both Moody's and Standard & Poor's took rating actions on all of the Illinois public universities they respectively rate.

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Certificates of Participation activities for the year ended June 30, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2005	$ 7,160,000	$ -	$ (7,160,000)	$ -	$ -
Series 2010	9,365,000	-	(475,000)	8,890,000	490,000
Series 2011	9,265,000	-	(9,265,000)	-	-
Series 2015	-	15,100,000	-	15,100,000	1,730,000
Unamortized premium	-	694,262	(134,222)	560,040	117,289
Unamortized discount	(20,810)	-	3,823	(16,987)	(3,690)
	$ 25,769,190	$ 15,794,262	$ (17,030,399)	$ 24,533,053	$ 2,333,599

Aggregate maturities of the certificates of participation outstanding as of June 30, 2016 are as follows:

	Principal	**Interest**
2017	$ 2,220,000	$ 977,944
2018	2,290,000	904,688
2019	2,360,000	827,516
2020	2,435,000	745,875
2021	2,035,000	667,301
2022-2026	9,570,000	2,037,058
2027-2031	3,080,000	402,000
	$ 23,990,000	$ 6,562,382
Unamortized premium	560,040	
Unamortized discount	(16,987)	
	$ 24,533,053	$ 6,562,382

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 12 - 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, 2016, such accumulated benefits totaled $7,721,827.

Administrative and faculty unused sick leave may be accumulated up to a specified maximum, generally 360 calendar days. Unused and unpaid sick leave can be applied toward the service time requirements for computing retirement benefits. Civil service exempt and nonexempt employees have no specified maximum accumulation of unused sick leave days. One-half of any unused sick leave earned from January 1, 1984 and prior to January 1, 1998 can be received as a lump sum payment upon termination. At June 30, 2016, such accumulated benefits totaled $3,118,592. Compensated absences activity for the year ended June 30, 2016 was as follows:

Balance, beginning of year	$ 12,216,985
Deductions	(1,376,566)
Balance, end of year	10,840,419
Less: current portion	(1,735,188)
Balance, end of year - noncurrent portion	$ 9,105,231

NOTE 13 – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

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

Benefits Provided

A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2015 can be found in the System's comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Contributions

The State of Illinois is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for Fiscal Year 2015 and 2016 respectively, was 11.71% and 12.69% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15.139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15.155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Net Pension Liability

At June 30, 2015, SURS reported a net pension liability (NPL) of $23,756,361,087. The net pension liability was measured as of June 30, 2014.

Employer Proportionate Share of Net Pension Liability

The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $628,376,573 or 2.6451%. This amount should not be recognized in the financial statement. The net pension liability was measured as of June 30, 2015, and the total pension used to calculate the net pension liability was determined based on the June 30, 2014 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during Fiscal Year 2015.

Pension Expense

At June 30, 2015 SURS reported a collective net pension expense of $1,994,587,170.

Employer Proportionate Share of Pension Expense

The employer proportionate share of collective pension expense should be recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during Fiscal Year 2015. As a result, the University recognized on-behalf revenue and pension expense of $52,758,579 for the fiscal year ended June 30, 2016, and is reported as part of nonoperating revenues (on-behalf payments for fringe benefits) and operating expenses (on-behalf payments).

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Deferred outflows of resources are the consumption of net position by the system that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 27,312,043	$ -
Changes in assumption	609,393,909	-
Net difference between projected and actual earnings on pension plan investments	593,840,642	953,329,464
Total	$ 1,230,546,594	$ 953,329,464

SURS Collective Net Deferred Outflows by Year to be recognized in Future Pension Expenses:

Year Ending June 30	Net Deferred Outflows of Resources
2016	$ 154,951,326
2017	118,957,720
2018	(145,152,075)
2019	148,460,159
2020	-
Thereafter	-
Total	$ 277,217,130

Employer Deferral of Fiscal Year 2016 Pension Expense

The University paid $360,777 in federal, trust or grant contributions for the fiscal year ended June 30, 2016. These contributions were made subsequent to the pension liability measurement date of June 30, 2015 and are recognized as Deferred Outflows of Resources as of June 30, 2016.

Assumptions and Other Inputs

Actuarial assumptions

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 12.00 percent, including flation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rates were based on the RP2000 Combined Mortality Table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan’s trustees after considering input from the plan’s investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan’s target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

Asset class	Target allocation	Weighted average long-term expected real rate of return
U.S. equity	23%	5.77%
Private equity	6%	9.23%
Non-U.S. equity	19%	6.69%
Global equity	8%	6.51%
Fixed Income	19%	1.12%
Treasury-inflation protected securities	4%	1.22%
Emerging market debt	3%	4.61%
REITS	4%	5.85%
Direct real estate	6%	4.37%
Commodities	2%	4.06%
Hedged strategies	5%	3.99%
Opportunity fund	1%	6.80%
Total	100%	5.02%
Inflation		3.00%
Expected arithmetic returns		8.02%

Discount Rate

A single discount rate of 7.12% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.80% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the System’s funding policy. Based on these assumptions, the pension plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the System’s Net Pension Liability to Changes in the Discount Rate

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan’s net pension liability, calculated using a single discount rate of 7.12%, as well as what the plan’s net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.12%	Current Single Discount Rate Assumption 7.12%	1% Increase 8.12%
$ 28,929,333,917	$ 23,756,361,087	$ 19,470,982,362

Additional information regarding the SURS basic financial statements including the Plan Net Position can be found in the SURS comprehensive annual financial report by accessing the website at www.SURS.org.

NOTE 14 – ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported payments made to the State Universities Retirement System on behalf of the University for its proportional share of the State's pension expense of $52,758,579 as described in Note 13. Substantially all employees participate in group health insurance plans administered by the State. The employer contributions to these plans for a majority of the University's employees are paid by Central Management Services (CMS) on behalf of the University. The University reported group insurance on-behalf payments made to Central Management Services of $35,315,108 for the year ended June 30, 2016. The on-behalf payments amount that relates to State group health insurance is an allocation of estimated costs incurred by CMS on behalf of the University. The total on-behalf payments of $88,073,687 are reported as nonoperating revenues and operating expenses.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

NOTE 16 – STATE OF ILLINOIS APPROPRIATIONS

On June 30, 2016, the General Assembly passed SB 2047, Public Act 99-524 that included a six-month stop gap budget for universities. The University received Fiscal Year 2017 appropriations of $31,389,000 from the Education Assistance Fund. The Public Act states that Fiscal Year 2017 appropriations may be used to pay prior year costs through December 31, 2016. The University fully spent the Fiscal Year 2017 appropriation for Fiscal Year 2016 costs. In addition, the spring semester awards made for Fiscal Year 2016 scholarships totaling $5,939,112 from the Illinois Student Assistance Commission were reimbursed to the University from the Fiscal Year 2017 Fund for the Advancement of Education appropriation. In accordance with GASB Statement No. 33, the revenues paid from Fiscal Year 2017 appropriations totaling $37,328,112 were not recognized as revenues and receivables at June 30, 2016 even though they were used to pay for Fiscal Year 2016 costs.

NOTE 17 - INSURANCE

Through its participation in the Illinois Public Higher Education Cooperative (IPHEC), 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. 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 18 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2016, for the University are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 60,536,244	$ 1,828,268	$ -	$ -	$ 62,364,512
Research	2,816,726	622,948	-	-	3,439,674
Public service	6,378,455	3,481,361	-	-	9,859,816
Academic support	12,948,671	3,224,643	-	-	16,173,314
Student services	10,904,119	10,251,233	-	-	21,155,352
Institutional support	9,677,156	3,608,236	-	-	13,285,392
Operation and maintenance of plant	8,360,817	5,359,922	-	-	13,720,739
Student aid expense	-	-	10,668,851	-	10,668,851
Auxiliary enterprises	14,714,326	23,686,508	-	-	38,400,834
Staff benefits	6,738,577	-	-	-	6,738,577
Depreciation	-	-	-	15,391,211	15,391,211
On-behalf payments	88,073,687	-	-	-	88,073,687
Other operating expenses	-	39,262	-	-	39,262
Total	$ 221,148,778	$ 52,102,381	$ 10,668,851	$ 15,391,211	$ 299,311,221

NOTE 19 - 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 2016, the Foundation did not specifically reimburse the University for $1,859,935 of personal service costs, facility use and other costs provided by the University. However, the Foundation gave the University $4,106,729 for Fiscal Year 2016, in totally unrestricted funds or funds restricted as to department but generally available for ongoing University operations.

NOTE 20 - 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 21 – PRIOR PERIOD ADJUSTMENT

University

As discussed in Note 5, the University restated its net position balance at July 1, 2015 from $216.7 to $209.1 due to the following:

A. To correct an error in valuation of certain capital assets that were deemed to be impaired prior to July 1, 2015. This adjustment decreased net position (Net investment in capital assets) by $2,864,127.

B. To correct an error in capitalizing demolition costs in prior periods instead of being expensed as incurred. This adjustment decreased net position (Net investment in capital assets) by $4,756,531.

A reconciliation of net position reported in the prior period financial statements and as restated follows:

Net position, beginning of year, as previously reported	$ 216,722,863
Cumulative effect of correction of errors	(7,620,658)
Net position, beginning of year, as restated	$ 209,102,205

Foundation

During Fiscal Year 2016, the Foundation adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72), which provides guidance for determining fair value measurements for financial reporting purposes and disclosure requirements for all fair value measurements.

The adoption of GASB No. 72 required that certain Foundation real estate property held for investment purposes be carried at its current fair value (based on appraisal). This was a change from the historical approach of using the fair value at the date of donation.

The Fiscal Year 2015 financial statements have been restated to incorporate GASB No. 72 guidance for comparability.

The following changes were made to the statement of net position as of June 30, 2015:

	As Previously Reported	Adjustment	As Restated
ASSETS			
Other investments	$ 1,893,894	$ 716,800	$ 2,610,694
Capital assets, net of accumulated depreciation	1,105,104	(716,800)	388,304
		$ -	
NET POSITION			
Net investment in capital assets	$ 1,105,104	$ (716,800)	$ 388,304
Unrestricted	19,889,283	716,800	20,606,083
		$ -	

The adoption of GASB No. 72 had no effect on the statement of revenues, expenses and changes in net position for the year ended June 30, 2015.

NOTE 22 – SUBSEQUENT EVENTS

The State of Illinois has not adopted a complete Fiscal Year 2017 operating budget as of the date of this report, January 20, 2017. They have only passed a six-month stop gap measure that provided around 61.0% of Fiscal Year 2015 appropriations. The University is part of the executive branch of the government and operates under a budget approved by the State of Illinois, in which resources are appropriated for the use of the University. The amount and timing of final appropriations may necessitate spending reductions in the future.

On November 23, 2016, the Illinois Board of Higher Education allocated $8,397,900 of the lump sum appropriation of Public Act 99-0524 to the University to provide financial support for essential operations.

The U.S. Department of Labor announced changes to the Fair Labor Standards Act effective December 1, 2016 in regards to the salary threshold for which most employees are considered exempt from overtime. On November 22, 2016, a federal judge issued a preliminary injunction temporarily suspending the revised rules. The expected financial impact to the University is immaterial.

The Federal Perkins Loan Extension Act prohibits any further extensions of the Perkins Loan Program under section 422(a) of the General Education Provisions Act (GEPA). Schools may not make Perkins Loans to any student on or after October 1, 2017. The University is currently assessing the implications of the expiration of the Perkins Loan Program.

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION – PENSION (UNAUDITED)
For the Year Ended June 30, 2016

Schedule of Share of Net Pension Liability

	2014	2015
(a) Proportion percentage of the collective net pension liability	0%	0%
(b) Proportion amount of the collective net pension liability	$ -	$ -
(c) Portion of nonemployer contributing entities' total proportion of collective net pension liability associated with employer	586,649,047	628,376,573
Total (b) + (c)	586,649,047	628,376,573
Employer DB covered-employee payroll	$ 97,810,421	$ 96,318,804
Proportion of collective net pension liability associated with employer as a percentage of DB covered-employee payroll	599.78%	652.39%
SURS plan net position as a percentage of total pension liability	44.39%	42.37%

Schedule of Contributions

	2014	2015	2016
Federal, trust, grant, and other contribution	$ 305,959	$ 329,255	$ 360,777
Contribution in relation to required contribution	305,959	329,255	360,777
Contribution deficiency (excess)	-	-	-
Employer covered payroll	$ 121,080,877	$ 120,107,278	$ 115,835,988
Contributions as a percentage of covered payroll	0.25%	0.27%	0.31%

*Note: SURS implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. This schedule is intended to show information for 10 years.

NOTE 1 - SUMMARY OF SIGNIFICANT CHANGES

A. Changes of Benefit Terms

There were no benefit changes recognized in the Total Pension Liability as of June 30, 2015.

B. Changes of Assumptions

In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every five years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

- Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
- Salary increase. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.
- Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences
- Early retirement rates. Change to a slight increase to the rates at ages 55 and 56.
- Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
- Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
- Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.

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

Honorable Frank J. Mautino
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 Western Illinois University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 20, 2017. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2016-001 that we consider to be a material weakness.

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 the Finding

The University's response to the finding identified in our audit is described in the accompanying schedule of findings. 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.

SIGNED ORIGINAL ON FILE
Chicago, Illinois
January 20, 2017

SCHEDULE OF FINDINGS

CURRENT FINDING
(*GOVERNMENT AUDITING STANDARDS*)

2016-001 FINDING: (Failure to apply accounting and financial reporting standards for impairment of capital assets)

Western Illinois University (University) did not evaluate changes in circumstances affecting capital assets to determine whether impairment occurred and did not properly account for and report capital asset impairments in the financial statements.

We noted the following issues in our audit of financial statements originally submitted by the University to the Office of the State Comptroller:

- The University identified three residential buildings to be demolished in current and prior years, but did not subject these buildings to tests of impairment. The buildings were still being depreciated and maintained on the books as of June 30, 2016 instead of being analyzed for impairment and adjusted to the lower of carrying value or fair value on the date management made the decision to change the manner of use of the buildings. The net book value of the two buildings impaired as of June 30, 2015 totaled $2,864,127 and the net book value of the other building impaired as of July 1, 2015 amounted to $719,294. Depreciation charged for Fiscal Year 2016 for these three buildings totaled $259,792.

- Deconstruction and demolition costs related to these three buildings were capitalized as construction in progress (CIP) instead of being expensed as incurred. Total CIP costs as of June 30, 2015 totaled $2,006,050 and total CIP costs incurred for Fiscal Year 2016 amounted to $414,620.

- Three other buildings demolished in prior periods were written off, but the demolition costs of these buildings were capitalized as site improvements. The site improvements were being depreciated instead of being expensed as incurred. The net book value of the site improvements as of June 30, 2015 amounted to $2,750,481 and the current year depreciation amounted to $122,065.

- The notes to the financial statements did not include disclosure of idle capital assets or impairment losses. In addition to impairments noted above, another building vacated and listed for sale during Fiscal Year 2016 was properly valued; however, the carrying amount of this impaired capital asset idle at year-end was not disclosed.

Subsequent to audit testing, the University revised the financial statements and footnotes and submitted revised accounting reports to the Office of State Comptroller to include the adjustments and information necessary to apply the appropriate generally accepted accounting principles (GAAP).

Governmental Accounting Standards Board (GASB) Statement No. 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* requires entities to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred by identifying potential impairments and testing for impairment. Impaired capital assets that will no longer be used should be reported at the lower of carrying value or fair value. The Statement also states the loss should be recognized when the impairment event or change in circumstance occurs.

GASB Statement No. 42 also requires that the amount of the impairment loss, a general description, and the financial statement classification should all be disclosed in the financial statement notes if not readily apparent on the face of the statements. The carrying amount of impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is considered permanent or temporary.

The University Capital Asset Financial Reporting Policy also states that if the University acquired land and buildings with the intent to use the building and the building is subsequently demolished, the asset will be removed from the University's books and demolition costs will be expensed.

According to University personnel, the University misinterpreted GASB Statement No. 42 to mean that impairment happens at the time of demolition rather than at the time of vacancy. Furthermore, the University's practice to capitalize all deconstruction expenses rather than expensing them was incorrect. The University deemed these expenses as capitalizable as they were mistakenly considered part of clearing the land for site improvements rather than as expenses of demolishing the buildings. Required disclosures were omitted due to lack of awareness that a disclosure should be included when an impairment occurred, as well as misinterpretation of the applicability of the standard.

Failure to apply the applicable generally accepted accounting principles resulted in an overstatement of prior year net position balances by $7,620,658 and an understatement of current year expenses by $752,057. This caused inaccurate and incomplete financial statements to be submitted with the original financial reporting package submitted to the State Comptroller. Improper application of accounting and financial reporting standards can result in a material misstatement of financial statements and inadequate disclosure of significant events. (Finding Code No. 2016-001)

RECOMMENDATION:

We recommend that the University establish procedures to ensure that transactions which include special considerations and reporting be carefully reviewed for proper accounting and disclosure. As necessary, accounting and reporting guidance should be obtained from technical resources to ensure conformity with GAAP.

UNIVERSITY RESPONSE:

The University agrees with the finding. The University will modify its capital asset procedures to ensure proper capitalization and as necessary, obtain guidance to ensure conformity with GAAP.

SCHEDULE OF FINDINGS

PRIOR FINDING NOT REPEATED

A. FINDING: Inadequate Controls Over Journal Entries

During the previous audit, the University did not have adequate controls over its journal entries. Effective policies and procedures were not in place to ensure that all journal entries were appropriate, properly prepared, and timely approved. (Finding Code No. 2015-001, 2014-001, and 2013-001)

During the current audit, we noted in our testing that effective for fiscal year 2016, the University amended its policy to ensure approval for all non-recurring entries, regardless of magnitude. For all recurring entries, the University documented internal controls with regards to these types of entries and performed a formal risk assessment. Our review of current year journal entries noted internal controls had been implemented.