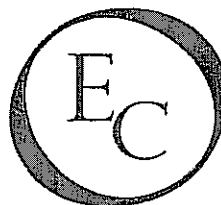


**STATE OF ILLINOIS  
WESTERN ILLINOIS UNIVERSITY FOUNDATION**

**FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2007**

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



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

**State of Illinois  
Western Illinois University Foundation  
Financial Audit  
For the Year Ended June 30, 2007**

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**Related Report Published Under a Separate Cover**

Compliance Examination for the Two Years Ended June 30, 2007

**State of Illinois  
Western Illinois University Foundation**

**Foundation Officials**

President  
Vice President  
Secretary  
Treasurer  
Executive Officer and Vice President for  
Advancement and Public Services

Mr. Arlington N. Seymour  
Ms. Cathy Early  
Ms. Judith W. Kerr  
Mr. Ron Peterson

Dr. Daniel Hendricks

Executive Committee:

Mr. Arthur D. Chown  
Mr. Donald W. Dieke  
Mr. Larry D. Ehmen  
Ms. Diana Irish  
Mr. James Lodico  
Mr. Douglas J. March  
Mr. Richard P. Miller  
Mr. Jack Stites  
Mr. F. Eugene Strode

The Foundation's Office is located at:

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

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

**Summary**

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

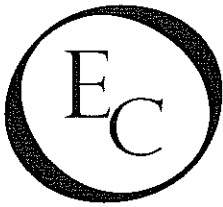
Based on their audit, the auditor expressed an unqualified opinion on the Foundation's financial statements.

**Summary of Findings**

The auditors identified matters involving the Foundation's internal control over financial reporting that they consider to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 25 through 28 of this report, as finding 07-1, Failure to Apply Appropriate Accounting Principles and finding 07-2, Lack of Fraud Prevention and Detection Program. The auditors also consider findings 07-1 and 07-2 to be material weaknesses.

**Exit Conference**

The findings and recommendations appearing in this report were discussed with Foundation personnel at an exit conference on January 23, 2008. Representing the Office of the Auditor General was Karen Appelbaum, Audit Manager. Representing Western Illinois University Foundation were Dr. Daniel Hendricks, Executive Officer and Vice President for Advancement and Public Services, Janet Gabbert, Accountant and Andi Farr, Accountant. Representing E.C. Ortiz & Co., LLP were Stella Marie B. Santos, Partner and Leilani N. Rodrigo, Partner. Responses to the recommendations were provided by Dr. Daniel Hendricks and Janet Gabbert in a letter dated January 11, 2008.



## Independent Auditors' Report

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board of Directors  
Western Illinois University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of Western Illinois University Foundation (Foundation), a component unit of Western Illinois University and the State of Illinois, as of and for the year ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Foundation's 2006 financial statements, which were audited by other independent auditors whose report dated November 2, 2006, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Illinois University Foundation as of June 30, 2007, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2008 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

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

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

*E. C. Ortiz & Co. LLP*

Chicago, Illinois  
February 6, 2008

**State of Illinois  
Western Illinois University Foundation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

**Introduction**

This section of the Western Illinois University Foundation (the Foundation) annual financial report presents an overview of the financial performance and activities of the Foundation during the fiscal year ended June 30, 2007. This discussion should be read in conjunction with the accompanying financial statements and footnotes and is designed to focus on current activities, resulting change, current known facts, and future outlook. The financial statements, footnotes and this discussion are the responsibility of the Foundation management.

**Using the Annual Financial Report**

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

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

**Financial Highlights**

**Statement of Net Assets**

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

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

**State of Illinois  
Western Illinois University Foundation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

During the fiscal year ended June 30, 2007, the net assets of the Foundation increased \$5,101,324 (21%). This increase reflects the impact of the appreciation in fair market value of investments and a 9% decrease in endowment gift flow. Endowment gift flow rate is defined as the total gifts, bequests, and other similar additions to endowment as a percentage of the average of fiscal year beginning and ending endowment market value.

Condensed Statement of Net Assets

<b>Assets</b>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and investments	\$ 1,588,116	\$ 1,485,294
Pledges receivable, net	128,215	173,045
Other receivables	356,570	300,343
Other current assets	46,935	24,988
Noncurrent assets:		
Endowment investments	2,723,159	1,658,572
Endowment investments, restricted	22,066,074	18,508,020
Other investments	2,380,526	2,047,334
Pledges receivable, net	48,491	72,111
Capital assets, net of accumulated depreciation	922,670	933,979
Total assets	<u>30,260,756</u>	<u>25,203,686</u>
<b>Liabilities</b>		
Current liabilities	319,933	341,211
Noncurrent liabilities	197,374	220,350
Total liabilities	<u>517,307</u>	<u>561,561</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	907,480	886,061
Restricted for nonexpendable purposes	21,789,409	18,342,511
Restricted for expendable purposes	2,336,224	1,969,589
Unrestricted	4,710,336	3,443,964
Total net assets	<u>\$ 29,743,449</u>	<u>\$ 24,642,125</u>



**State of Illinois  
Western Illinois University Foundation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

**Statement of Revenues, Expenses, and Changes in Net Assets**

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Total operating revenues	\$ 3,331,032	\$ 2,966,619
Total operating expenses	(3,728,170)	(4,079,468)
Operating loss	(397,138)	(1,112,849)
Net nonoperating revenues	4,271,888	2,281,056
Gain before other revenues, expenses, gains or losses	3,874,750	1,168,207
Additions to permanent endowments	1,226,574	1,343,167
Increase in net assets	5,101,324	2,511,374
Net assets, beginning of year	24,642,125	22,130,751
Net assets, end of year	<u>\$ 29,743,449</u>	<u>\$ 24,642,125</u>

The major component of operating revenues are contributions that support the purpose of the Foundation, which is to enhance the programs, facilities and services of the University. The table below presents contribution revenues for fiscal year 2007 and 2006, including additions to permanent endowment.

	<u>2007</u>	<u>2006</u>
Contributions	\$ 2,887,336	\$ 2,664,493
Additions to permanent endowments	1,226,574	1,343,167
Contribution revenues	<u>\$ 4,113,910</u>	<u>\$ 4,007,660</u>

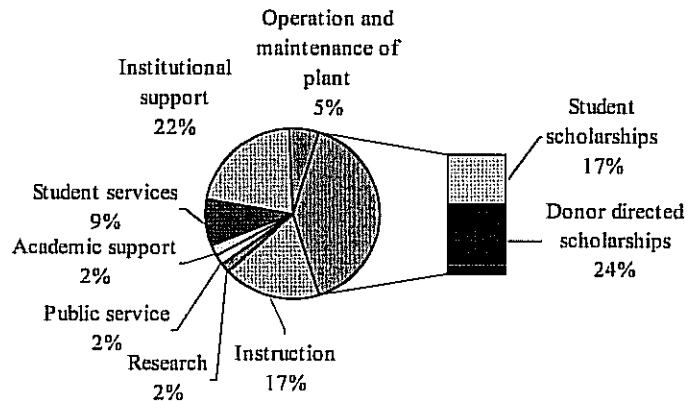
In addition to the nonoperating revenues shown in the condensed statement, the University provided personal services, facility use, and other services valued at \$865,279. The Foundation did not specifically pay for these services; however, the Foundation provided \$1,800,151 to the University in unrestricted funds and funds restricted only as to department and generally available for ongoing University operations.

**State of Illinois  
Western Illinois University Foundation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

Operating expenses by functional category for the years ended June 30, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Instruction	\$ 648,202	\$ 759,280
Research	70,362	61,338
Public service	67,579	33,180
Academic support	81,825	107,091
Student services	338,678	433,192
Institutional support	815,742	710,897
Operation and maintenance of plant	184,038	435,017
Student scholarships	625,930	632,616
Donor directed scholarships	884,505	895,549
Depreciation	11,309	11,308
Total operating expenses	<u>\$ 3,728,170</u>	<u>\$ 4,079,468</u>

Fiscal Year 2007 Analysis of Expenses by Function



**Statement of Cash Flows**

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

**State of Illinois  
Western Illinois University Foundation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

Condensed Statements of Cash Flows

	<u>2007</u>	<u>2006</u>
Cash provided by (used in):		
Operating activities	\$ (382,294)	\$ (1,020,675)
Noncapital financing activities	1,869,416	2,085,306
Capital and related financing activities	(5,999)	(6,017)
Investing activities	<u>(1,064,032)</u>	<u>(1,705,413)</u>
Net increase (decrease) in cash and cash equivalents	417,091	(646,799)
Cash and cash equivalents - beginning of the year	<u>287,707</u>	<u>934,506</u>
Cash and cash equivalents - end of the year	<u>\$ 704,798</u>	<u>\$ 287,707</u>

**Foundation's Economic Outlook**

The mission of the Western Illinois University Foundation is to encourage and manage contribution income directed to the University, especially for purposes of building endowment and addressing through private support the long-term goals and objectives of University. The ability to fulfill this mission is influenced by the following factors: growth in contribution revenue, the University's ability and willingness to underwrite a portion of the Foundation's operating budget, the effective management of contributed funds including investment strategies and spending rates, and strong volunteer leadership from the Foundation's officers and Board of Directors.

Private gifts are an important source of funds to supplement operating costs and capital improvements for WIU. In fiscal year 2007, alumni, friends, corporations and other organizations contributed over \$4.1 million in support of the University. On July 1, 2005 the University began the quiet phase of a campaign to raise \$60 million additional dollars in gifts and pledges by 2012. Two objectives of the campaign are to double annual gift income from a base total of \$4.5 million to \$9 million on or before 2012 as well as double the Foundation endowments from a base total of \$25 million to \$50 million.

The WIU Foundation grew in fiscal year 2007 by over 21% to over \$29.7 million in net assets and spent \$3.7 million to support academic programs, particularly scholarships for needy and meritorious students. Over the last three years ended June 30, 2007, the Foundation endowment has earned 10.1% annualized and net of fees, demonstrating robust philanthropic support and portfolio performance.

**State of Illinois  
Western Illinois University Foundation  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007**

Despite market uncertainties, particularly in the first quarter of fiscal year 2008, the Foundation's financial condition and outlook are strong. Moreover, despite a gradual decline in state appropriations to the University, the institution does not anticipate a significant or serious decline in the provision of academic services. The Foundation's balanced and diverse investment portfolio and its growing income from philanthropic gifts prepare the institution to weather the uncertainties of the immediate future. Indeed, with new fundraising staff and improved structures for accounting in its development operations, the Foundation will provide the necessary support for implementing the University's ambitious plans for the coming years.

**STATE OF ILLINOIS**  
**WESTERN ILLINOIS UNIVERSITY FOUNDATION**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**  
(With Partial Financial Information as of June 30, 2006)

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 704,798	\$ 287,707
Investments	883,318	1,197,587
Pledges receivable, net	128,215	173,045
Other receivables	356,570	300,343
Inventories	20,107	21,489
Prepaid expenses	26,828	3,499
Total current assets	<u>2,119,836</u>	<u>1,983,670</u>
Noncurrent assets:		
Endowment investments	2,723,159	1,658,572
Endowment investments, restricted	22,066,074	18,508,020
Other investments	2,380,526	2,047,334
Pledges receivable, net	48,491	72,111
Capital assets, net of accumulated depreciation	922,670	933,979
Total noncurrent assets	<u>28,140,920</u>	<u>23,220,016</u>
<b>TOTAL ASSETS</b>	<u>30,260,756</u>	<u>25,203,686</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	17,929	106,815
Due to Western Illinois University	77,549	11,808
Annuities payable	28,459	28,459
Leases payable	15,191	4,838
Deferred revenues	180,805	189,291
Total current liabilities	<u>319,933</u>	<u>341,211</u>
Noncurrent liabilities:		
Annuities payable	197,374	205,160
Leases payable	-	15,190
Total noncurrent liabilities	<u>197,374</u>	<u>220,350</u>
<b>TOTAL LIABILITIES</b>	<u>517,307</u>	<u>561,561</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	907,480	886,061
Restricted - nonexpendable	21,789,409	18,342,511
Restricted - expendable	2,336,224	1,969,589
Unrestricted	4,710,336	3,443,964
<b>TOTAL NET ASSETS</b>	<u>\$ 29,743,449</u>	<u>\$ 24,642,125</u>

*See accompanying notes to basic financial statements*

**STATE OF ILLINOIS  
WESTERN ILLINOIS UNIVERSITY FOUNDATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007  
(With Partial Financial Information for the Year Ended June 30, 2006)**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Gifts	\$ 2,887,336	\$ 2,664,493
Sales and services	443,696	302,126
Total operating revenues	<u>3,331,032</u>	<u>2,966,619</u>
 <b>OPERATING EXPENSES</b>		
Instruction	648,202	759,280
Research	70,362	61,338
Public Service	67,579	33,180
Academic support	81,825	107,091
Student services	338,678	433,192
Institutional support	815,742	710,897
Operation and maintenance of plant	184,038	435,017
Student scholarships	625,930	632,616
Donor directed scholarships	884,505	895,549
Depreciation	11,309	11,308
Total operating expenses	<u>3,728,170</u>	<u>4,079,468</u>
<b>OPERATING LOSSES</b>	<u>(397,138)</u>	<u>(1,112,849)</u>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income, net of investment expense	3,585,045	1,497,633
Interest expense	(1,162)	(1,435)
Other nonoperating revenues	688,005	784,858
Net nonoperating revenues	<u>4,271,888</u>	<u>2,281,056</u>
 <b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	 3,874,750	 1,168,207
Additions to permanent endowments	<u>1,226,574</u>	<u>1,343,167</u>
<b>INCREASE IN NET ASSETS</b>	5,101,324	2,511,374
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>24,642,125</u>	<u>22,130,751</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 29,743,449</u>	<u>\$ 24,642,125</u>

*See accompanying notes to basic financial statements*

**STATE OF ILLINOIS  
WESTERN ILLINOIS UNIVERSITY FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007  
(With Partial Financial Information for the Year Ended June 30, 2006)**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Gifts for other than capital and endowment purposes	\$ 2,931,480	\$ 2,699,598
Sales and services	450,670	310,735
Payments for goods and services	(2,225,550)	(2,470,166)
Payment for scholarships and fellowships	(1,510,435)	(1,528,165)
Payments to annuitants	(28,459)	(32,677)
Net cash used in operating activities	(382,294)	(1,020,675)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Private contributions for endowment purposes	1,226,574	1,343,167
Nonoperating revenues, net	642,842	742,139
Net cash provided by noncapital financing activities	1,869,416	2,085,306
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital lease	(4,837)	(4,581)
Interest paid on capital lease	(1,162)	(1,436)
Net cash used in capital and related financing activities	(5,999)	(6,017)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	3,399,252	1,452,339
Earnings on investments	1,657,410	808,547
Purchase of investments	(6,120,694)	(3,966,299)
Net cash used in investing activities	(1,064,032)	(1,705,413)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	417,091	(646,799)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	287,707	934,506
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 704,798	\$ 287,707
<b>Reconciliation of operating losses to net cash used in operating activities:</b>		
Operating losses	\$ (397,138)	\$ (1,112,849)
Adjustments to reconcile operating losses to net cash used in operating activities:		
Depreciation expense	11,309	11,308
Actuarial adjustment to values of split-interest agreements	(7,786)	(4,218)
Effects of changes in assets and liabilities:		
Other receivables	(3,551)	500
Pledges receivable, net	68,450	35,105
Prepaid expenses	(23,329)	24,350
Inventories	1,382	2,559
Accounts payable and accrued liabilities	(88,886)	53,685
Deferred revenues	(8,486)	8,609
Due to Western Illinois University	65,741	(39,724)
Net cash used in operating activities	\$ (382,294)	\$ (1,020,675)

*See accompanying notes to basic financial statements*

**State of Illinois  
Western Illinois University Foundation  
Notes to Financial Statements  
June 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Nature of Institution

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

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

B. Measurement Focus and Basis of Accounting

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

The financial statement presentation required by GASB Statement No.'s 35, 37 and 38 provides a comprehensive perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

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



**State of Illinois**  
**Western Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2007**

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

C. Prior-Year Information

The basic financial statements include certain prior year partial comparative information, which has been derived from the Foundation's 2006 financial statements, which were audited by other independent auditors. Such information does not include all disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2006. Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

D. Use of Estimates

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

E. Classification of Revenues

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

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

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

**State of Illinois**  
**Western Illinois University Foundation**  
**Notes to Financial Statements**  
**June 30, 2007**

F. Cash and Cash Equivalents

The Foundation considers highly liquid investments with original maturities of ninety days or less to be cash equivalents. At June 30, 2007, cash equivalents consisted primarily of money market and similar funds.

G. Investments and Investment Income

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

H. Capital Assets

Land and equipment purchased by the Foundation are recorded at cost. Donated assets are capitalized at fair value at the date of contribution. The Foundation capitalizes all equipment items that cost \$5,000 or more, and have an estimated useful life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense was incurred.

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

I. Deferred Revenues

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

J. Net Assets

The Foundation's net assets are classified as follows:

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

*Restricted net assets - nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in

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perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

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

**K. Donor Restricted Endowments**

For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Illinois, permits the Board of Directors of the Foundation to appropriate an amount of realized and unrealized endowment appreciation as they determine to be prudent. The Board of Directors has established an investment policy with the objectives of protecting the principal of these funds and maximizing total investment return without assuming extraordinary risks. It is the goal of the Foundation to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 4.25% for endowment purposes and 1.25% for operational purposes, of a 36-month moving average of endowment market value, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings. The Foundation's policy is to retain the endowment's unrealized appreciation with the endowment after spending rule distributions. As of June 30, 2007, the Foundation had a total of \$2,107,112 of net appreciation from investment of donor-restricted endowments available for expenditure. This amount is reported in expendable restricted net assets on the Statement of Net Assets.

**L. Tax-exempt Status**

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**NOTE 2 - TRANSACTIONS WITH WESTERN ILLINOIS UNIVERSITY**

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

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For fiscal year 2007, the University provided for the Foundation personal service costs, facility use, and other costs, totaling \$865,279. The Foundation did not specifically pay for these services; however, for fiscal year 2007, the Foundation gave the University \$1,800,151, in unrestricted funds or funds restricted only as to department and generally available for ongoing University operations.

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

**Deposits**

The Foundation's investment policy requires collateralization of all deposits with federal depository insurance. At June 30, 2007, the Foundation's bank balances were \$84,002. None of the Foundation's bank balances are exposed to custodial credit risk.

**Investments**

At June 30, 2007, the Foundation had the following investments and maturities:

Type	Total Fair Value	Maturities in Years			
		Less than one year	1-5 years	6-10 years	Over 10 Years
U.S. Treasury notes	\$ 2,157,112	\$ 644,218	\$ 688,128	\$ 824,766	\$ -
U.S. Treasury bonds	197,496	-	-	-	197,496
U.S. Agency obligations (FHLM, FNMA)	4,581,802	1,030,239	2,144,625	1,368,407	38,531
Corporate debt securities	371,439	-	280,812	27,379	63,248
Corporate equity securities	10,993,220	10,993,220	-	-	-
International equity securities	2,823,153	2,823,153	-	-	-
Cash equivalents held in investment pools	1,029,952	1,029,952	-	-	-
Real assets	721,952	721,952	-	-	-
Absolute return	1,072,235	1,072,235	-	-	-
Open-ended mutual funds	3,281,352	3,281,352	-	-	-
Private equity	308,502	308,502	-	-	-
Real estate exchange traded fund	514,862	514,862	-	-	-
<b>Total investments</b>	<b>\$ 28,053,077</b>	<b>\$ 22,419,685</b>	<b>\$3,113,565</b>	<b>\$2,220,552</b>	<b>\$299,275</b>

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

The Illinois Funds are in the custody of the State Treasurer and are pooled and invested with other state funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). At June 30, 2007, the Foundation had \$545,615 invested in the Illinois Funds. The Illinois Funds

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investments are rated “AAA”. Details on the nature of these investments are available within the State of Illinois’ Comprehensive Annual Financial Report.

*Summary of Carrying Values*

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

Deposits	\$ 704,798
Investments	<u>28,053,077</u>
Total	<u>\$ 28,757,875</u>

A reconciliation of cash and investments as shown on the June 30, 2007 Statement of Net Assets is as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash and cash equivalents	\$ 704,798	\$ —	\$ 704,798
Investments - current	883,318	—	883,318
Endowment investments - noncurrent	—	2,723,159	2,723,159
Endowment investments, restricted - noncurrent	—	22,066,074	22,066,074
Other investments	—	2,380,526	2,380,526
Total cash and investments	<u>\$ 1,588,116</u>	<u>\$ 27,169,759</u>	<u>\$ 28,757,875</u>

*Custodial Credit Risk*

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

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

*Concentration Risk*

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

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

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation does not have a policy that specifically addresses interest rate risk.

*Credit Risk*

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

At June 30, 2007, the Foundation had the following investments and their ratings:

Type	Total Fair Value	Credit Rating per Standard and Poor's				
		AAA	A	A-	BBB	Not Rated
U.S. Treasury notes	\$ 2,157,112	\$2,157,112	\$ -	\$ -	\$ -	\$ -
U.S. Treasury bonds	197,496	197,496	-	-	-	-
U.S. Agency obligations (FHLM, FNMA)	4,581,802	4,581,802	-	-	-	-
Corporate debt securities	371,439	200,662	27,379	30,111	63,248	50,039
Corporate equity securities	10,993,220	-	-	-	-	10,993,220
International equity securities	2,823,153	-	-	-	-	2,823,153
Cash equivalents held in investment pools	1,029,952	-	-	-	-	1,029,952
Real assets	721,952	-	-	-	-	721,952
Absolute return	1,072,235	-	-	-	-	1,072,235
Private equity	308,502	-	-	-	-	308,502
Real estate exchange traded fund	514,862	-	-	-	-	514,862
Total investments rated by Standard and Poor's	<u>\$24,771,725</u>	<u>\$7,137,072</u>	<u>\$ 27,379</u>	<u>\$ 30,111</u>	<u>\$ 63,248</u>	<u>\$17,513,915</u>
		Credit Rating per Morning Star				
		5	4	Not Rated		
Open-ended mutual funds	<u>\$ 3,281,352</u>	<u>\$1,310,358</u>	<u>\$1,944,977</u>	<u>\$ 26,017</u>		
Total investments	<u>\$28,053,077</u>					

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Investment income for the year ended June 30, 2007 consisted of:

Interest and dividend income	\$ 1,198,573
Net increase in fair value of investments	<u>2,386,472</u>
Total	<u>\$ 3,585,045</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activities for the year ended June 30, 2007 was as follows:

	Balance 6/30/2006	Additions	Retirements	Balance 6/30/2007
Land and land improvements	\$ 909,200	\$ -	\$ -	\$ 909,200
Equipment	23,573	-	-	23,573
Capital leases - equipment	31,763	-	-	31,763
Total capital assets	<u>964,536</u>	<u>-</u>	<u>-</u>	<u>964,536</u>
Less accumulated depreciation:				
Equipment	11,367	3,368	-	14,735
Capital leases - equipment	19,190	7,941	-	27,131
Total accumulated depreciation	<u>30,557</u>	<u>11,309</u>	<u>-</u>	<u>41,866</u>
Capital assets, net	<u>\$ 933,979</u>	<u>(\$ 11,309)</u>	<u>\$ -</u>	<u>\$ 922,670</u>

**NOTE 5 - ASSETS HELD IN TRUST**

The Foundation is the beneficiary of the Seymour Charitable Remainder Trust, Betty J. Collins Charitable Remainder Trust, Marian Harvey Charitable Remainder Trust, Charles R. O'Brien Charitable Remainder Trust, and William G. Hoover Charitable Remainder Trust. The assets of the Trusts are held and administered by others in perpetuity; thus the principal is not reported in the Foundation's financial statements. On June 30, 2007, the fair value of the assets totaled \$1,626,337.

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**NOTE 6 - LONG-TERM LIABILITIES**

The following is a summary of long-term obligation transactions for the Foundation for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Annuities payable	\$ 233,619	\$ 20,672	\$ 28,458	\$ 225,833	\$ 28,459
Capital lease obligations	20,028	-	4,837	15,191	15,191
Total	<u>\$ 253,647</u>	<u>\$ 20,672</u>	<u>\$ 33,295</u>	<u>\$ 241,024</u>	<u>\$ 43,650</u>

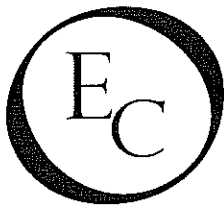
**NOTE 7 - ROYALTY INCOME**

The Foundation extended the Affinity Group Bankcard agreement effective September 24, 2003 with FirstUSA. The total contract amount is \$2,100,000, prorated over a seven-year period. For fiscal year 2007, the Foundation received \$300,000 in addition to \$89,156 from other sources which was recognized as royalty income and reported as other nonoperating revenues in the Statement of Revenues, Expenses and Changes in Net Assets.

**NOTE 8 - RISK MANAGEMENT**

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





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

Honorable William G. Holland  
Auditor General  
State of Illinois

and

The Board of Directors  
Western Illinois University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of Western Illinois University Foundation (Foundation), a component unit of Western Illinois University and the State of Illinois, as of and for the year ended June 30, 2007, and have issued our report thereon dated February 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (07-1 and 07-2).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 and 07-2 to be material weaknesses.

### **Compliance and Other Matters**

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

We have conducted a State compliance examination of the Foundation as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

The Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Foundation's responses and, accordingly, we express no opinion on them.

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

*E. C. Buttz & Co. LLP*

Chicago, Illinois  
February 6, 2008

**State of Illinois  
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Schedule of Findings  
June 30, 2007**

**CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS**

**Finding No. 07-1 - Failure to Apply Appropriate Accounting Principles**

The Western Illinois University Foundation (Foundation) did not properly record several transactions and, as a result, did not properly apply the appropriate generally accepted accounting principles (GAAP).

- Cash equivalents as of June 30, 2007 reported in the original financial statements submitted to the auditors included investments held in one bank maturing beyond ninety days from the date of purchase totaling \$3,182,466. The Foundation subsequently revised the financial statements to include the adjustment to reclassify the cash equivalents to current and noncurrent investments.
- The Foundation did not have a written policy for recording gifts in kind. Gifts in kind received in fiscal year 2007 totaling \$479,622 were not recorded in the Foundation's books. Some of these items received were auctioned during the year and the proceeds from the auction were recorded as sales. The Foundation did not record gifts in kind in the financial statements because a formal gift recording policy was not established.

Governmental Accounting Standards Board (GASB) Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, defines cash equivalents as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires assets received as donations be recorded as revenues. GASB 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, states that if these donated items are noncapitalizable, the governmental entity must simultaneously record a program expense equal to the amount of the donation recorded as revenue.

Statewide Accounting Management System (SAMS) Procedure 27.10.10 requires that in-kind goods and services received shall be recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Contributions received shall be measured at their fair values.

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**CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS* (CONTINUED)**

**Finding No. 07-1 - Failure to Apply Appropriate Accounting Principles (Continued)**

Foundation management stated that they have always classified the amounts in that bank account as cash equivalents and thought that the classification was proper. The majority of the gifts in kind were for contributed services and other items that were not reportable contributions under Internal Revenue Service (IRS) regulations. Some items were subsequently auctioned. It has been their practice to record only the proceeds from the auctioned items.

Failure to apply the applicable generally accepted accounting principles may result in inaccurate and incomplete financial statements. The lack of a written policy for recording gifts in kind increases the risk that contributions in kind will not be fully accounted for in the financial statements. (Finding Code No. 07-1)

*Recommendation*

We recommend that the Foundation establish procedures to ensure that transactions are properly accounted for and reported in accordance with generally accepted accounting principles. If necessary, accounting and reporting guidance should be obtained from technical resources to be in conformity with GAAP. Also, a policy for recording gifts in kind should be adopted for proper gift recording and accountability.

*Foundation Response*

We agree with the finding. The Foundation has held cash and publicly-traded government securities in a non-endowment trust account since February 1, 2002. The trust account has been reflected as cash and cash equivalents on the Foundation financial statements since the inception of the fund, due to the government securities being publicly-traded which would make them highly liquid investments at a stated interest rate. The financial statements were revised during the audit to reflect the reclassification of \$3,182,466 from cash and cash equivalents to investments.

The Foundation receives gifts-in-kind on behalf of the University, with the exception of items which are auctioned at fundraising events and a house that was received and retained in the Foundation in FY2007. Gifts-in-kind have been recorded at fair market value in the gift and pledge processing system since the mid-1980's. Those items which were capitalizable were then recorded on the books of the University. A policy for recording in-kind gifts will be established.

**State of Illinois  
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**CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS* (CONTINUED)**

**Finding No. 07-2 - Lack of Fraud Prevention and Detection Program**

The Foundation does not have a fraud risk assessment program in place. According to Foundation management, the Foundation has established internal controls in order to prevent and detect fraud as well as errors that may occur, however, these controls and associated risks are not monitored on an on-going basis.

The Foundation relies on current internal controls that have been put in place to prevent and detect fraud. Additionally, Foundation management has relied on the external audits for identification of control weakness.

Accounting industry trends have increased agencies awareness of the prevalence of fraud. Many agencies rely in part on their auditors to uncover any internal fraud, but audits even those of the highest quality, are not a substitute for management establishing good internal control.

The Foundation is responsible for the development of internal controls and the monitoring of their operating effectiveness. In addition, it is management's responsibility to prevent and detect fraud. Therefore, the Foundation should implement a formal policy regarding evaluation of fraud risk and a system of controls to help prevent and detect fraudulent activity within the agency. Preparing a written policy will serve to document the Foundation's awareness and responsibility for fraud prevention and detection.

Foundation management stated that they have relied on the Fiscal Control and Internal Auditing Act (FCIAA) certification process to assess their internal controls and identify fraud risk areas and deemed it as a sufficient fraud prevention and detection program.

The Foundation does not have a fraud prevention and detection program which could result in fraud risks facing the Foundation not to be recognized and addressed by Foundation management. (Finding Code No. 07-2)

*Recommendation*

We recommend the Foundation management establish a continuous fraud prevention, deterrence, and detection program. This program should include evaluating whether appropriate internal controls have been implemented in any areas identified as posing a higher risk of fraudulent activity, as well as controls over the financial reporting process. In addition, the Board of Directors should evaluate management's identification of fraud risks and implementation of anti-fraud measures.

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**CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS* (CONTINUED)**

**Finding No. 07-2 - Lack of Fraud Prevention and Detection Program (Continued)**

*Foundation Response*

We agree with the finding. The University and Foundation will work together to develop a continuous fraud prevention, deterrence and detection program. This will include input and guidance from management with oversight provided by the Board of Trustees.