

**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2009**

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



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

**State of Illinois
Western Illinois University
Financial Audit
For the Year Ended June 30, 2009**

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Western Illinois University
Compliance Examination (In Accordance with the Single Audit Act
and OMB Circular A-133) for the year ended June 30, 2009

**State of Illinois
Western Illinois University**

University Officials

President	Dr. Alvin Goldfarb
Vice President for Administrative Services	Mrs. Jacqueline K. Thompson
Director of Business Services	Mr. Ronald G. Ward
Director of Internal Auditing	Ms. Rita M. Moore

University offices are located at:

Macomb Campus
1 University Circle
Macomb, Illinois 61455-1390

Quad Cities Campus
3561 60th Street
Moline, Illinois 61265

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

Summary

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

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

Exit Conference

This report was discussed with University personnel at an exit conference on February 2, 2010. Attending were:

Western Illinois University

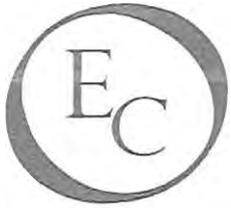
Dr. Alvin Goldfarb, President
Jacqueline K. Thompson, VP - Administrative Services
Dr. Kenneth S. Hawkinson, Associate Provost for Budget, Planning & Personnel
Rita M. Moore, Director - Internal Auditing
Michael A. Rodriguez, Chief Technology Security Officer
Theresa D. Roegge, Director - Purchasing
Colby C. Sellers, Sr., Director - Financial Aid
Ronald G. Ward, Director - Business Services
Cheryl L. Webster, Accountant - Business Services
Barbara A. Thompson, Accountant - Business Services
Michael R. Sartorius, Internal Auditor - Internal Auditing
Shannon M. Sutton, Grants and Contracts Administrator - Business Services
Joan M. Brenner, Accountant - Financial Aid
Becca Roberts, Intern - Internal Auditing

Office of the Auditor General

Lisa Warden, Audit Manager

E. C. Ortiz & Co., LLP

Edilberto C. Ortiz, Partner
Leilani N. Rodrigo, Partner
Cecilia F. Lazaro, Manager
Annabelle S. Abueg, IS Audit Manager



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

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Western Illinois University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2008 financial statements and, in our report dated January 28, 2009, we expressed an unqualified opinions on the respective financial statements of the business-type activities and the discretely presented component unit prior to their restatement. We did not audit the financial statements of the discretely presented component unit, as described in Note 1 of the financial statements. Those statements were audited by other auditors whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based 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 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 and the reports of other auditors provide a reasonable basis for our 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 and the discretely presented component unit of the University as

of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The fiscal year 2008 summarized comparative information of the component unit has been restated by other auditors as discussed in Note 18, and our opinion, insofar as it relates to the amounts of the restatements, is based solely on the report of the other auditors.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

C. C. G. L. & C. C. P.
Chicago, Illinois
March 8, 2010

**State of Illinois
Western Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2009**

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, 2009. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis are designed to focus on current activities, resulting change and current known facts. The financial statements, footnotes and this discussion are the responsibility of University management.

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

Using the Financial Report

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

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

Financial Highlights

Statement of Net Assets

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

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Western Illinois University
Management's Discussion and Analysis
For the Year Ended June 30, 2009**

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

A comparative summary of the condensed Statement of Net Assets for the years ended June 30, 2009 and 2008 is as follows:

Condensed Statement of Net Assets

	<u>2009</u>	<u>2008</u>
Assets		
Current assets	\$ 62,962,184	\$ 67,189,579
Capital assets, net of accumulated depreciation	151,834,213	146,357,402
Other assets	<u>2,203,584</u>	<u>2,292,536</u>
Total assets	<u>216,999,981</u>	<u>215,839,517</u>
Liabilities		
Current liabilities	31,509,075	31,001,807
Noncurrent liabilities	<u>59,886,162</u>	<u>65,623,371</u>
Total liabilities	<u>91,395,237</u>	<u>96,625,178</u>
Net assets		
Invested in capital assets, net of related debt	101,558,444	95,334,312
Restricted	1,931,125	1,965,769
Unrestricted	<u>22,115,175</u>	<u>21,914,258</u>
Total net assets	<u>\$ 125,604,744</u>	<u>\$ 119,214,339</u>

The University's financial position continues to remain strong at June 30, 2009 with assets of \$217.0 million and liabilities of \$91.4 million. Net assets, the difference between total assets and total liabilities, increased by \$6.4 million or 5.4% over the previous year.

Total assets increased by \$1.2 million or 0.5% during fiscal year 2009. The largest components of this change include increases in capital assets of \$5.5 million and receivables from State of Illinois of \$4.6 million offset by a decrease of \$11.1 million in investments. Capital assets increased due to several projects that were completed or in progress. The

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Management's Discussion and Analysis
For the Year Ended June 30, 2009**

increase in receivables from the State of Illinois was attributable to appropriation reimbursements. University investments decreased as proceeds were needed to support operations. An increase of \$0.8 million in accounts receivable was primarily due to the increase in receivables from student tuition. Inventories increased by \$0.8 million.

Total liabilities decreased by \$5.2 million or 5.4% during fiscal year 2009. Included in this change was a decrease in long-term debt of \$4.9 million from principal payments for debt service. Accounts payable decreased by \$0.7 million and deferred revenue increased by \$0.6 million. The residual change included an increase in accrued payroll and a decrease in compensated absences.

Statement of Revenues, Expenses and Changes in Net Assets

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

A comparative summary of the condensed Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2009 and 2008 is as follows:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

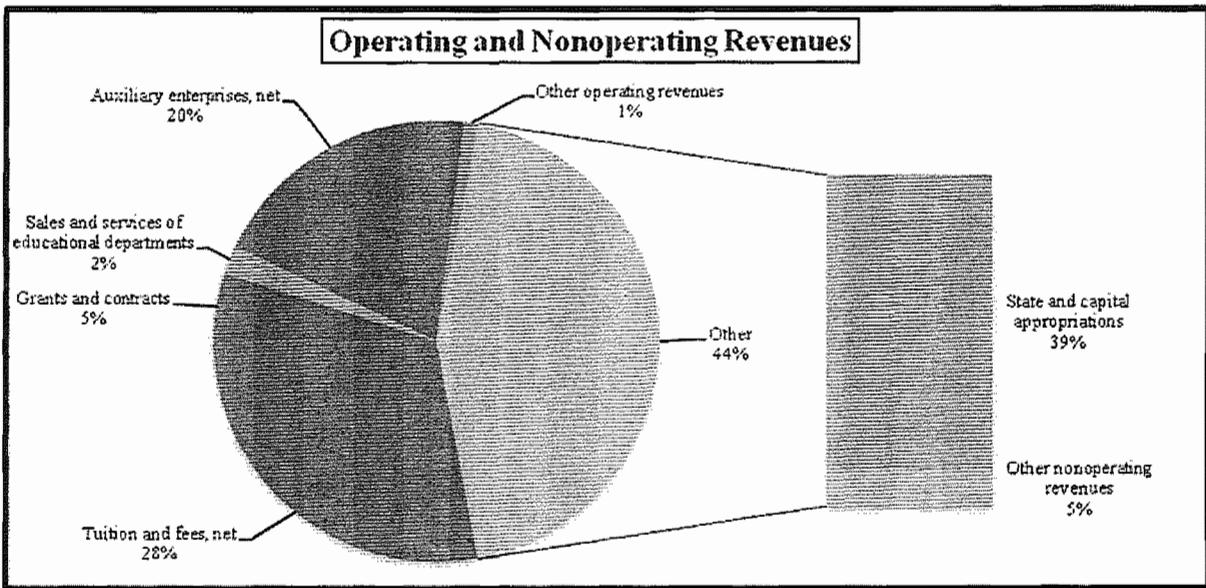
	2009	2008
Total operating revenues	\$143,404,216	\$138,707,813
Total operating expenses	(246,661,968)	(237,066,357)
Operating loss	(103,257,752)	(98,358,544)
Nonoperating revenues	108,209,615	105,566,127
Nonoperating expenses	(1,551,478)	(2,100,451)
Income before other revenues, expenses, gains and losses	3,400,385	5,107,132
Capital State appropriations	2,990,020	1,118,833
Increase in net assets	6,390,405	6,225,965
Net assets, beginning of year	119,214,339	112,988,374
Net assets, end of year	\$125,604,744	\$119,214,339

Total revenues increased by \$9.2 million or 3.8% to \$254.6 million. The primary sources of funding for academic programs are student tuition and State appropriations. In fiscal year 2009, tuition revenues increased by \$3.2 million due in part to an annual increase for tuition and fee rates as approved by the Board of Trustees. State appropriations for on-behalf payments related to employee benefits increased by \$3.2 million in fiscal year 2009.

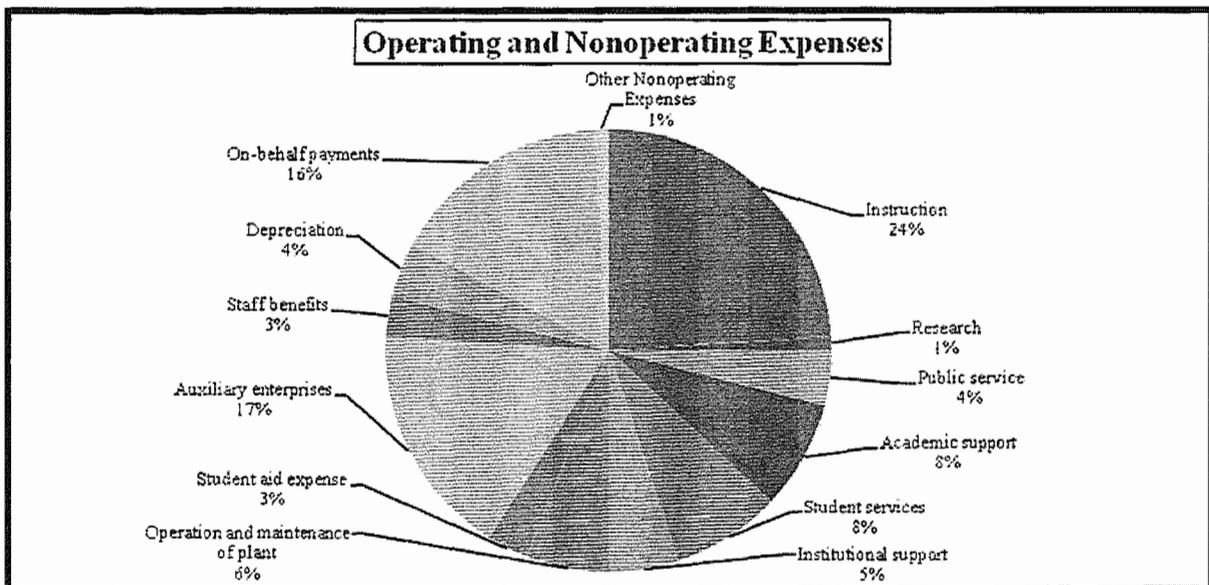
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 Western Illinois University
 Management's Discussion and Analysis
 For the Year Ended June 30, 2009**

Total expenses increased by \$9.0 million (3.8%) to \$248.2 million. Most functional areas experienced increased expenses during fiscal year 2009.

For the fiscal year ended June 30, 2009, all sources of revenues totaled \$254.6 million. The following is a graphical illustration of revenues by source:



For the fiscal ended June 30, 2009, expenses totaled \$248.2 million. The following is a graphical illustration of expenses:



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Management's Discussion and Analysis
For the Year Ended June 30, 2009**

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, 2009 and 2008 is as follows:

Condensed Statement of Cash Flows

	<u>2009</u>	<u>2008</u>
Cash provided by (used in):		
Operating activities	\$(55,701,031)	\$(46,767,185)
Noncapital financing activities	64,488,822	67,098,787
Capital and related financing activities	(20,048,164)	(25,135,842)
Investing activities	<u>11,941,021</u>	<u>8,820,966</u>
Net increase in cash and cash equivalents	680,648	4,016,726
Cash and cash equivalents - beginning of year	<u>43,480,525</u>	<u>39,463,799</u>
Cash and cash equivalents - end of year	<u>\$ 44,161,173</u>	<u>\$ 43,480,525</u>

Major sources for operating activities were tuition and fees, grants and contracts and auxiliary enterprises. Payments for employee salaries and benefits, goods and services and scholarships and fellowships continue to comprise the major use of operating funds. Cash used in operating activities increased by \$8.9 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations and Pell grant revenues. Cash provided from noncapital financing activities decreased by \$2.6 million.

Funds allocated for the acquisition and construction of capital assets decreased by \$5.6 million leading to a significant decrease in outflows from capital financing activities.

Cash provided by investing activities increased by \$3.1 million as more funds were held in cash and cash equivalents throughout the fiscal year.

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Management's Discussion and Analysis
For the Year Ended June 30, 2009**

Capital Assets and Debt Administration

The University had \$341.5 million invested in capital assets at the end of fiscal year 2009. Capital assets net of accumulated depreciation totaled \$151.8 million. Depreciation expense for the current year was \$10.3 million.

Several major construction projects were completed during fiscal year 2009. Construction in progress at June 30, 2009 decreased \$8.5 million over the prior year. The construction of a new multicultural center was completed during the year. The multicultural center is the last project to be partially funded by the Series 2005 Certificates of Participation proceeds of \$10.3 million. An expansion to the Donald S. Spencer Student Recreation Center was completed in fiscal year 2009. This project was partially funded by the Series 2006 Revenue Bonds proceeds of \$15.3 million. In addition, the issue funded the partial advance refunding of the Series 1999 Revenue Bonds in the amount of \$7.6 million. The remaining proceeds were used to fund the installation of fire sprinkler systems. Several of the fire sprinkler systems were complete at June 30, 2009.

University's Economic Outlook

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

A crucial element to the University's future will continue to be our relationship with the State of Illinois, as we work to manage tuition to make it competitive while providing an outstanding college education for our students. There is a direct relationship between the growth of State support and the University's ability to control tuition growth, as declines in State appropriations generally result in increased tuition levels. On January 15, 2010, Standard & Poor's Rating Services revised the outlook on all outstanding Illinois public university long-term ratings and underlying ratings (SPURs) to negative from stable. The outlook change reflects the expectation of downward credit actions due to continued cash flow stress at all public universities in Illinois and significant related financial uncertainty. The cash flow stress is caused by delays in the expected State of Illinois support for the universities during fiscal year 2010. The rating outlooks could return to stable with the resolution of the State's cash flow issues and resumption of predictable State payments and reimbursements to its public universities.

State appropriations represent operating support provided by the Governor and General Assembly for University programs. The fiscal year 2010 budget of \$59.9 million, as approved by the Governor, did not increase over the 2009 approved budget.

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Management's Discussion and Analysis
For the Year Ended June 30, 2009**

The University projects an increase in tuition and miscellaneous revenues. The recommended \$64.0 million fiscal year 2010 tuition and miscellaneous revenues budget represents a \$2.0 million or 3.2% increase from fiscal year 2009. The estimated increase in tuition revenues is the result of a 5.0% tuition rate increase approved by the Board of Trustees. Western Illinois University offers guaranteed tuition and fees, as well as guaranteed room and board rates for each new class of entering students. The tuition increase is only for new students, those enrolling for the first time in Fall 2009.

The University's Auxiliary Enterprises funds budget for fiscal year 2010 as approved by the Board of Trustees reflects a \$1.4 million or 2.7% decrease in spending over fiscal year 2009. Other institutional funds include revenues from sponsored projects and departmental activity revenues. The 2010 budget for these funds as approved by the Board of Trustees reflects a \$2.0 million or 4.5% increase in spending over fiscal year 2009.

In addition to the above, private gifts are an important supplement to the University's sources of funding for operating costs. In fiscal year 2009, alumni, friends, staff, corporations, and other organizations contributed nearly \$4.8 million to the Foundation in support of the University. The Foundation distributed \$4.7 million in fiscal year 2009 to support academic enhancement and instructional initiatives, student scholarships, capital improvements, cultural activities, athletics, regional outreach efforts, and alumni and Foundation-sponsored programs at Western Illinois University.

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

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2009
(With Partial Financial Information as of June 30, 2008)

	University		Component Unit	
	2009	2008	2009	2008
ASSETS				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 44,047,618	\$ 43,394,269	\$ 2,970,453	\$ 1,572,560
Cash and cash equivalents, restricted	113,555	86,256	-	-
Investments	4,017,604	15,103,871	1,091,405	810,912
Accounts receivable, net	6,321,958	5,496,686	738,794	485,690
Student loans receivable, net	413,727	446,698	-	-
Due from component unit	12,982	38,242	-	-
Due from primary government	5,344,561	751,201	-	-
Inventories	2,580,279	1,792,852	-	18,076
Prepaid expenses	48,746	18,350	32,093	45,470
Other assets	61,154	61,154	-	-
Total current assets	62,962,184	67,189,579	4,832,745	2,932,708
<i>Noncurrent assets:</i>				
Investments	-	-	1,812,934	2,373,663
Endowment investments	-	-	857,151	1,643,546
Endowment investments, restricted	-	-	19,677,294	23,316,072
Charitable remainder trusts, restricted	-	-	1,113,268	1,484,993
Accounts receivable, net	-	-	987,198	76,367
Student loans receivable, net	1,419,493	1,447,290	-	-
Capital assets, net of accumulated depreciation	151,834,213	146,357,402	1,105,206	1,129,620
Other assets	784,091	845,246	-	-
Total noncurrent assets	154,037,797	148,649,938	25,553,051	30,024,261
TOTAL ASSETS	216,999,981	215,839,517	30,385,796	32,956,969
LIABILITIES				
<i>Current liabilities:</i>				
Accounts payable and accrued liabilities	3,893,034	4,578,198	109,806	62,487
Accrued payroll	14,863,419	14,249,027	-	-
Due to primary government	51,926	92,027	12,982	38,242
Deferred revenues	5,234,412	4,648,203	133,215	177,887
Charitable remainder trust distributions payable	-	-	27,268	47,776
Other liabilities	664,911	801,474	28,459	28,459
Notes payable	707,116	746,325	-	-
Revenue bonds payable	3,945,216	3,758,220	-	-
Certificates of participation	415,000	400,000	-	-
Leases payable	387	5,265	-	-
Compensated absences	1,733,654	1,723,068	-	-
Total current liabilities	31,509,075	31,001,807	311,730	354,851
<i>Noncurrent liabilities:</i>				
Notes payable	423,749	1,173,096	-	-
Revenue bonds payable	35,552,575	39,497,791	-	-
Certificates of participation	9,475,000	9,890,000	-	-
Leases payable	-	386	-	-
Other obligations	228,225	238,700	182,149	189,737
Compensated absences	14,206,613	14,823,398	-	-
Total noncurrent liabilities	59,886,162	65,623,371	182,149	189,737
TOTAL LIABILITIES	91,395,237	96,625,178	493,879	544,588
NET ASSETS				
Invested in capital assets, net of related debt	101,558,444	95,334,312	1,105,206	1,129,640
Restricted - nonexpendable	-	-	12,406,807	14,656,063
Restricted - expendable				
Loans	1,931,125	1,965,769	-	-
Other	-	-	5,181,723	5,925,874
Unrestricted	22,115,175	21,914,258	11,198,181	10,700,804
TOTAL NET ASSETS	\$ 125,604,744	\$ 119,214,339	\$ 29,891,917	\$ 32,412,381

See accompanying notes to financial statements.

**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009
(With Partial Financial Information for the Year Ended June 30, 2008)**

	University		Component Unit	
	2009	2008	2009	2008
OPERATING REVENUES				
Tuition and fees, net	\$ 71,645,549	\$ 68,440,030	\$ -	\$ -
Grants and contracts	11,147,740	11,381,652	-	-
Sales and services of educational departments	5,809,837	4,378,319	-	-
Auxiliary enterprises, net	51,487,965	50,936,746	-	-
Student loan activities	49,379	43,259	-	-
Other operating revenues	3,263,746	3,527,807	4,659,473	4,323,950
Total operating revenues	<u>143,404,216</u>	<u>138,707,813</u>	<u>4,659,473</u>	<u>4,323,950</u>
OPERATING EXPENSES				
Instruction	59,986,814	57,646,549	804,458	1,149,443
Research	2,715,724	2,965,570	48,450	124,627
Public service	10,208,306	10,164,585	126,010	91,446
Academic support	18,567,686	16,542,407	172,857	97,850
Student services	20,630,049	19,871,281	548,894	723,316
Institutional support	12,716,467	12,600,302	1,088,010	1,053,413
Operation and maintenance of plant	15,905,527	15,969,509	82,973	154,103
Student aid expense	6,278,300	5,693,687	1,832,506	1,749,101
Auxiliary enterprises	43,258,058	43,242,917	-	-
Staff benefits	7,551,745	7,012,001	-	-
Depreciation	10,254,593	9,961,891	7,836	7,238
On-behalf payments	38,584,926	35,394,969	-	-
Other operating expenses	3,773	689	-	-
Total operating expenses	<u>246,661,968</u>	<u>237,066,357</u>	<u>4,711,994</u>	<u>5,150,537</u>
OPERATING LOSSES	<u>(103,257,752)</u>	<u>(98,358,544)</u>	<u>(52,521)</u>	<u>(826,587)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	97,016,514	93,692,465	-	-
Gifts	595,448	573,221	-	-
Gain (loss) on disposal of capital assets	1,763	(28,583)	(61,259)	(1,460)
Investment income (losses)	749,341	2,700,753	(3,333,992)	(5,565)
Interest on capital asset - related debt	(1,551,478)	(2,071,868)	-	(447)
Change in value of charitable remainder trusts	-	-	(351,217)	(141,045)
Other nonoperating revenues	9,846,549	8,599,688	768,526	917,371
Net nonoperating revenues (expenses)	<u>106,658,137</u>	<u>103,465,676</u>	<u>(2,977,942)</u>	<u>768,854</u>
INCOME (LOSSES) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	3,400,385	5,107,132	(3,030,463)	(57,733)
Capital State appropriations	2,990,020	1,118,833	-	-
Additions to permanent endowments	-	-	509,999	1,148,403
INCREASE (DECREASE) IN NET ASSETS	<u>6,390,405</u>	<u>6,225,965</u>	<u>(2,520,464)</u>	<u>1,090,670</u>
NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	119,214,339	112,988,374	32,412,381	29,743,449
PRIOR PERIOD ADJUSTMENT	-	-	-	1,578,262
NET ASSETS, BEGINNING OF YEAR AS RESTATED	<u>119,214,339</u>	<u>112,988,374</u>	<u>32,412,381</u>	<u>31,321,711</u>
NET ASSETS, END OF YEAR	<u>\$ 125,604,744</u>	<u>\$ 119,214,339</u>	<u>\$ 29,891,917</u>	<u>\$ 32,412,381</u>

See accompanying notes to financial statements.

**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
(With Partial Financial Information for the Year Ended June 30, 2008)**

	University		Component Unit	
	2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 71,360,071	\$ 68,070,806	\$ -	\$ -
Grants and contracts	11,737,908	10,523,198	-	-
Gifts for other than capital and endowment purposes	-	-	3,099,169	3,534,761
Payments for employee salaries and benefits	(130,619,040)	(118,930,854)	-	-
Payments for goods and services	(60,718,906)	(58,841,828)	(2,789,681)	(3,377,099)
Payments to annuitants	-	-	(36,047)	(36,096)
Payments for scholarships and fellowships	(6,861,675)	(5,854,590)	(1,832,506)	(1,749,101)
Student loans issued	(338,743)	(613,345)	-	-
Student loans collected	360,520	399,108	-	-
Student loans interest and fees collected	46,091	41,384	-	-
Auxiliary enterprises charges	50,634,342	50,856,413	-	-
Sales and services of educational departments	5,521,829	4,175,502	-	-
Other receipts	3,176,572	3,407,021	373,227	522,306
Net cash used in operating activities	<u>(55,701,031)</u>	<u>(46,767,185)</u>	<u>(1,185,838)</u>	<u>(1,105,229)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	54,245,021	58,297,496	-	-
Gifts	371,237	211,963	509,999	1,148,403
Nonoperating revenues, net	9,872,564	8,589,328	706,402	943,460
Net cash provided by noncapital financing activities	<u>64,488,822</u>	<u>67,098,787</u>	<u>1,216,401</u>	<u>2,091,863</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(12,789,595)	(18,387,320)	(44,681)	(21,744)
Principal paid on capital debt	(4,974,715)	(4,331,528)	-	-
Interest paid on capital debt	(2,283,854)	(2,416,994)	-	(447)
Net cash used in capital and related financing activities	<u>(20,048,164)</u>	<u>(25,135,842)</u>	<u>(44,681)</u>	<u>(22,191)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	23,122,460	21,699,053	24,415,554	9,440,665
Earnings (losses) on investments	834,743	2,509,335	1,416,943	(1,475,886)
Purchase of investments	(12,016,182)	(15,387,422)	(24,420,486)	(8,061,460)
Net cash provided by (used in) investing activities	<u>11,941,021</u>	<u>8,820,966</u>	<u>1,412,011</u>	<u>(96,681)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	680,648	4,016,726	1,397,893	867,762
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	43,480,525	39,463,799	1,572,560	704,798
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 44,161,173</u>	<u>\$ 43,480,525</u>	<u>\$ 2,970,453</u>	<u>\$ 1,572,560</u>
Reconciliation of operating losses to net cash used in operating activities:				
Operating losses	\$ (103,257,752)	\$ (98,358,544)	\$ (52,521)	\$ (826,587)
Adjustments to reconcile operating losses to net cash used in operating activities:				
On-behalf payments	38,584,926	35,394,969	-	-
Depreciation expense	10,254,593	9,961,891	7,836	7,238
Actuarial adjustment to annuities payable	-	-	(7,588)	(7,637)
Changes in assets and liabilities:				
Receivables, net	(1,308,193)	(752,057)	-	-
Pledges receivable, net	-	-	(1,142,405)	(70,062)
Student loans receivables, net	60,768	(137,623)	-	-
Inventories	(787,427)	401,879	18,076	2,031
Capital assets donated	-	-	-	(193,903)
Prepaid expenses and other assets	26,067	115,702	13,377	(18,642)
Accounts payable and accrued liabilities	275,088	(112,038)	47,319	44,558
Accrued payroll	614,392	7,645,470	-	-
Due to University	-	-	(25,260)	(39,307)
Other liabilities	442,706	(575,643)	(44,672)	(2,918)
Compensated absences	(606,199)	(351,191)	-	-
Net cash used in operating activities	<u>\$ (55,701,031)</u>	<u>\$ (46,767,185)</u>	<u>\$ (1,185,838)</u>	<u>\$ (1,105,229)</u>

See accompanying notes to financial statements.

**STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
(With Partial Financial Information for the Year Ended June 30, 2008)**

	<u>University</u>		<u>Component Unit</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES				
On-behalf payments	\$ 38,584,926	\$ 35,394,969	\$ -	\$ -
Capital asset acquisition via notes and leases payable	-	1,109,199	-	-
Capital asset acquisition via capital appropriations	2,990,020	1,118,833	-	-
Capital asset acquisition via support from Foundation	224,212	283,733	-	-
Capitalized interest	725,278	444,264	-	-
Capital asset changes in accounts payable	(1,004,156)	(28,792)	-	-
Other capital asset adjustments	63,433	54,504	-	-
Gifts in kind	-	-	63,396	508,247
Gain (loss) on disposal of equipment	1,763	(28,583)	(61,259)	(1,460)

See accompanying notes to financial statements.

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Notes to Financial Statements
June 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

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

B. Basis of Accounting and Presentation

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University follows all applicable GASB Pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB)

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Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

C. Prior-Year Information

The basic financial statements include certain prior-year partial comparative information. Such information does not include full comparative footnote disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2008, from which the partial information was derived. Certain 2008 amounts have been reclassified to conform to the 2009 presentation. However, as more fully discussed in Note 18, the prior year partial comparative information of the component unit reflects the correction of errors in the 2008 financial statements.

D. Use of Estimates

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

E. Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009, cash equivalents consisted primarily of money market and similar funds.

F. Investments

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

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

G. Accounts Receivable

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

H. Deferred Bond and Certificates of Participation Issue Costs

Bond and certificates of participation issue costs incurred on the revenue bond and certificates of participation issues have been deferred and are being amortized over the life of the bonds/certificates of participation using the straight-line method. Total amortization for the years ended June 30, 2009 and 2008 was \$61,154 each year.

I. Student Loans Receivable

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

J. Inventories

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

K. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. The University's capitalization policy for capital assets is as follows: equipment - \$5,000 or greater; land or buildings - \$100,000 or greater; and, site or building improvements - \$25,000 or greater. 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:

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

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

L. Deferred Revenues

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

M. Compensated Absences

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

N. Net Assets

Net assets of the University are classified in four components:

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

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

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

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

O. Classification of Revenues

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

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

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

P. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition

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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, 2009 were \$5,942,867 and \$2,542,514, respectively.

Q. Collections

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

R. Endowments

On June 30, 2009, the Illinois Governor signed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) into law. UPMIFA replaced the Uniform Management of Institutional Funds Act and eliminates the historic dollar value rule with respect to endowment fund spending. UPMIFA also updates the prudence standard for the management and investment of charitable funds. The Foundation Board will utilize UPMIFA's provisions in future years' 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 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. 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 1.25% 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 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, 2009, the Foundation had a total of \$1,578,312 of net appreciation from investment of donor-restricted endowments and Foundation designated endowments available for expenditure. This amount is allocated between restricted expendable net assets, restricted non-expendable net assets, and unrestricted net assets on the Statement of Net Assets based on the classification (restricted non-expendable vs.

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restricted expendable vs. unrestricted) of the underlying asset upon which the income was earned.

S. Split Interest Agreements

The Foundation's split-interest agreements with donors consist of irrevocable charitable remainder trusts for which the Foundation is a beneficiary. The fair value of the trust assets is reflected in the Statement of Net Assets and changes in the fair value of the assets are recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. The 2008 financial statements have been restated (see Note 18) to reflect the recognition of contribution revenue at the date the trusts were established based on fair market value of the Foundation's interest in the trust assets. Any outstanding liabilities relating to the annual distributions required by the trust agreements are recorded in the Statement of Net Assets.

T. Income Taxes

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

U. New Accounting Pronouncements

Effective July 1, 2008, the University adopted GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which establishes standards on the measurement and reporting of pollution remediation - related obligations.

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, 2009, the book balance of various University bank accounts and certificates of deposit was \$8,747,289, while the bank balance was \$8,711,637. The difference between these amounts primarily represents checks that have been issued but have not yet cleared the

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Notes to Financial Statements
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bank as of June 30, 2009. At June 30, 2009, \$438,009 was exposed to custodial credit risk as uninsured and uncollateralized.

Foundation

At June 30, 2009, the book balance of the Foundation's various bank accounts was \$322,213 while the bank balance was \$320,424. 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, 2009.

Reconciliation of cash and cash equivalents to deposits:

	<u>University</u>	<u>Foundation</u>
Cash and cash equivalents	\$ 44,047,618	\$ 2,970,453
Cash and cash equivalents, restricted	113,555	-
Less: Money market funds classified as cash and cash equivalents	(39,366,076)	(2,648,240)
Cash on hand	(65,412)	-
Add: Certificates of deposit	4,017,604	-
Carrying amount of deposits	<u>\$ 8,747,289</u>	<u>\$ 322,213</u>

NOTE 3 - INVESTMENTS

University

At June 30, 2009, the University held investments with the following maturities and ratings:

<u>Type</u>	<u>Total Fair Value</u>	<u>Maturities Less Than One Year</u>	<u>Standard and Poor's AAA</u>	<u>Not Rated</u>
Illinois Funds investment pool	\$ 39,366,023	\$ 39,366,023	\$ 39,366,023	\$ -
US Bank Trust money market account	53	53	-	53
Total investments	<u>\$ 39,366,076</u>	<u>\$39,366,076</u>	<u>\$39,366,023</u>	<u>\$ 53</u>

Custodial Credit Risk

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

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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, 2009, the Foundation held investments with the following maturities:

Type	Total Fair Value	Maturities in Years			
		Less Than One Year or No Maturity	1-5 years	6-10 years	Over 10 Years
U.S. Treasury notes	\$ 486,260	\$ -	\$ 486,260	\$ -	\$ -
U.S. Treasury bonds	221,551	-	-	-	221,551
U.S. agency obligations (FHLM, FNMA)	2,556,764	-	1,431,431	1,072,160	53,173
Global bonds	4,262	-	4,262	-	-
Corporate debt securities	948,820	-	593,201	265,779	89,840
Corporate equity securities	4,091,054	4,091,054	-	-	-
International equity securities	6,133,827	6,133,827	-	-	-
Cash equivalents held in investment pools	998,718	998,718	-	-	-
Real assets limited partnership	129,732	129,732	-	-	-
Absolute return funds	3,849,343	3,849,343	-	-	-
Equity mutual funds	1,038,193	1,038,193	-	-	-
Open-ended mutual funds	1,097,958	1,097,958	-	-	-
Private equity	661,328	661,328	-	-	-
Real estate exchange traded fund	1,220,974	1,220,974	-	-	-
Bank money market funds	1,094,556	1,094,556	-	-	-
Illinois Funds investment pool	1,553,684	1,553,684	-	-	-
Total investments	\$ 26,087,024	\$ 21,869,367	\$2,515,154	\$1,337,939	\$364,564

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

Custodial Credit Risk

Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the Foundation would not be able to recover the value of deposits, investments, or collateral securities that are in the possession of an outside party. The Federal Deposit Insurance Corporation and Security Investor Protection Corporation insured account balances of \$70,138 as of June 30, 2009. The account balances of 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). See <http://www.treasurer.il.gov/programs/illinois-funds/about-illinois-funds.aspx>. The Foundation's deposits in other institutions' money market funds are subject to the Funds' collateralization and investment policies.

Concentration Risk

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

Interest Rate Risk

Interest rate risk is the risk when there is a possibility that changes in interest rates will adversely affect the fair value of an investment. The Foundation does not have a policy that specifically addresses interest rate risk. The Foundation has the following assets, at fair values, exposed to interest rate risk at June 30, 2009:

U.S. Treasury notes	\$ 486,260
U.S. Treasury bonds	221,551
U.S. agency obligations (FHLM, FNMA)	2,556,764
Global bonds	4,262
Corporate debt securities	948,820
Sub-total investments	<u>4,217,657</u>
Bank money market funds	1,094,556
Illinois Funds money market funds	<u>1,553,684</u>
Sub-total cash and cash equivalents	<u>2,648,240</u>
Total assets subject to interest rate risk	<u>\$ 6,865,897</u>

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Notes to Financial Statements
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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 24% of the total Foundation investments as of June 30, 2009. The Foundation does not have a policy on foreign currency risk. The U.S. dollar balances of the Foundation's investments exposed to foreign currency risk as of June 30, 2009 are listed below.

<u>Currency</u>	<u>United States Dollar Equivalent</u>
Euro	\$ 1,364,647
United Kingdom British Pound	923,889
Japanese Yen	1,058,453
Swiss Franc	332,159
Brazilian Real	254,647
Australian Dollar	318,260
Russian Ruble	102,344
South Korean Won	214,971
South Africa Rand	130,211
Yuan Renminbi (China)	295,334
Indian Rupee	130,953
New Taiwan Dollar	203,670
Other currencies, individually less than 5% of fund portfolio	<u>804,289</u>
Total	<u>\$ 6,133,827</u>

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 Bank and Charles Schwab.

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June 30, 2009**

At June 30, 2009, the Foundation had the following investments and their ratings:

Type	Total Fair Value	Credit Rating per Standard and Poor's						
		AAA	AA-	A	A+	BBB+	BB+	Not Rated
U.S. Treasury notes	\$ 486,260	\$ 486,260	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury bonds	221,551	221,551	-	-	-	-	-	-
U.S. agency obligations (FHLM, FNMA)	2,556,764	2,556,764	-	-	-	-	-	-
Global bonds	4,262	-	-	-	-	-	-	4,262
Corporate debt securities	948,820	233,982	29,539	84,668	326,802	58,310	22,480	193,039
Corporate equity securities	4,091,054	-	-	-	-	-	-	4,091,054
International equity securities	6,133,827	-	-	-	-	-	-	6,133,827
Cash equivalents held in investment pools	998,718	-	-	-	-	-	-	998,718
Real assets limited partnership	129,732	-	-	-	-	-	-	129,732
Absolute return funds	3,849,343	-	-	-	-	-	-	3,849,343
Equity mutual funds	1,038,193	-	-	-	-	-	-	1,038,193
Open-ended mutual funds	1,097,958	-	-	-	-	-	-	1,097,958
Private equity	661,328	-	-	-	-	-	-	661,328
Real estate exchange traded funds	1,220,974	-	-	-	-	-	-	1,220,974
Bank money market funds	1,094,556	-	-	-	-	-	-	1,094,556
Illinois Funds investment pool	1,553,684	1,553,684	-	-	-	-	-	-
Total investments	\$26,087,024	\$ 5,052,241	\$ 29,539	\$ 84,668	\$326,802	\$ 58,310	\$ 22,480	\$20,512,984

Summary of Carrying Values

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

	University	Foundation
Cash and cash equivalents	\$ 44,047,618	\$ 322,213
Cash and cash equivalents, restricted	113,555	-
Investments	4,017,604	26,087,024
Total	\$ 48,178,777	\$ 26,409,237

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Investments at June 30, 2009 are as follows:

	<u>University</u>	<u>Foundation</u>
Current:		
Investments	\$ 4,017,604	\$ 1,091,405
Noncurrent:		
Endowment investments	-	857,151
Endowment investments, restricted	-	19,592,091
Donor advised funds, restricted	-	85,203
Other investments	-	1,812,934
Sub-total	<u>4,017,604</u>	<u>23,438,784</u>
Money market funds classified as cash and cash equivalents	<u>39,366,076</u>	<u>2,648,240</u>
Total investments	<u>\$ 43,383,680</u>	<u>\$ 26,087,024</u>

Investment income (loss) for the year ended June 30, 2009 consisted of:

	<u>University</u>	<u>Foundation</u>
Interest and dividend income	\$ 776,331	\$ 1,393,057
Net decrease in fair value of investments	<u>(26,990)</u>	<u>(4,727,049)</u>
Net investment income (loss)	<u>\$ 749,341</u>	<u>\$ (3,333,992)</u>

NOTE 4 - ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable are reported net of allowances for uncollectible accounts of \$3,525,100 at June 30, 2009. Accounts receivable consisted of the following as of June 30, 2009:

Receivables from students	\$ 6,712,621
Receivables from funding agencies	1,647,209
Receivables from third parties	<u>1,487,228</u>
Total gross receivables	9,847,058
Allowance for doubtful accounts	<u>(3,525,100)</u>
Total net receivables	<u>\$ 6,321,958</u>

Student loans receivable totaling \$2,447,720 are reported net of allowance for uncollectible loans of \$614,500 at June 30, 2009.

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NOTE 5 - CAPITAL ASSETS

The University capitalizes net interest costs incurred on borrowed funds during the construction of capital assets. Net interest of \$725,278 was capitalized during fiscal year 2009.

Capital asset activities for the University for the year ended June 30, 2009 were as follows:

	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Non-depreciable capital assets:					
Land and land improvements	\$ 3,221,432	\$ -	\$ -	\$ -	\$ 3,221,432
Works of art and historical treasures	471,569	-	-	-	471,569
Construction in progress	17,910,603	11,514,449	-	(19,975,669)	9,449,383
Total non-depreciable capital assets	<u>21,603,604</u>	<u>11,514,449</u>	<u>-</u>	<u>(19,975,669)</u>	<u>13,142,384</u>
Depreciable capital assets:					
Site improvements	27,921,410	30,874	-	107,136	28,059,420
Buildings and building improvements	208,253,444	1,837,751	-	19,868,533	229,959,728
Equipment	69,098,831	2,405,308	(1,245,441)	11,282	70,269,980
Capital lease - equipment	32,203	-	-	(11,282)	20,921
Total depreciable capital assets	<u>305,305,888</u>	<u>4,273,933</u>	<u>(1,245,441)</u>	<u>19,975,669</u>	<u>328,310,049</u>
Less accumulated depreciation	<u>(180,552,090)</u>	<u>(10,254,593)</u>	<u>1,188,463</u>	<u>-</u>	<u>(189,618,220)</u>
Total depreciable capital assets, net	<u>124,753,798</u>	<u>(5,980,660)</u>	<u>(56,978)</u>	<u>19,975,669</u>	<u>138,691,829</u>
Capital assets, net	<u>\$ 146,357,402</u>	<u>\$5,533,789</u>	<u>\$ (56,978)</u>	<u>\$ -</u>	<u>\$ 151,834,213</u>

Capital asset activities for the Foundation for the year ended June 30, 2009 were as follows:

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Land and land improvements	\$ 1,103,104	\$ -	\$ -	\$ 1,103,104
Equipment	45,317	44,681	(66,425)	23,573
Total capital assets	<u>1,148,421</u>	<u>44,681</u>	<u>(66,425)</u>	<u>1,126,677</u>
Less accumulated depreciation				
Equipment	(18,801)	(7,836)	5,166	(21,471)
Capital assets, net	<u>\$ 1,129,620</u>	<u>\$ 36,845</u>	<u>\$ (61,259)</u>	<u>\$ 1,105,206</u>

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NOTE 6 - DEFERRED REVENUES

Deferred revenues consist of the following as of June 30, 2009:

Tuition and fees	\$ 2,072,251
Grants and contracts	2,242,827
Sales and services of educational departments	260,068
Auxiliary enterprises	<u>659,266</u>
Total	<u>\$ 5,234,412</u>

NOTE 7 - NOTES PAYABLE

The University has entered into installment purchase agreements for telecommunications equipment, storage area network equipment, computer equipment, and copy equipment with an original cost of \$4,684,445. The related notes payable obligations were recorded at the present value of the future minimum installment payments, discounted using applicable discount rates, which range from 1.20% to 4.45%. Notes payable activity for the year ended June 30, 2009 was as follows:

Balance, beginning of year	\$ 1,919,421
Payments	<u>(788,556)</u>
Balance, end of year	<u>\$ 1,130,865</u>

Following is a schedule by years of the total future minimum note payments under these agreements together with the present value of the net minimum note payments as of June 30, 2009.

2010	\$ 739,406
2011	242,840
2012	123,956
2013	<u>76,553</u>
Total minimum note payments	1,182,755
Less: amount representing interest	<u>(51,890)</u>
Present value of net minimum note payments	<u>\$ 1,130,865</u>

NOTE 8 - REVENUE BONDS PAYABLE

General

At June 30, 2009, revenue bonds payable consists of Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2006, Western Illinois University Auxiliary

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Facilities System Revenue Bonds, Series 2005, and Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2002. On September 11, 2008, Standard & Poor's Rating Services raised its underlying rating from A- to A on the Western Illinois University Board of Trustees' outstanding bonds payable issued on behalf of Western Illinois University. On May 21, 2009, Moody's Investor Services affirmed Western Illinois University's A2 debt rating on outstanding bonds payable.

Series 2006 Bonds

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

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

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

Series 2005 Bonds

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

Proceeds from the sale of the Series 2005 Bonds, together with other funds of the University, were used to provide for the advance refunding of a portion of the Series 1993 Bonds and the Series 1995 Bonds and to pay certain expenses related to the issuance of the bonds. The net proceeds plus funds provided by the University were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 and 1995 Series

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Bonds. As a result, the 1993 and 1995 Series Bonds are considered defeased and the liability for those bonds has been removed from the University's Statement of Net Assets.

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

Series 2002 Bonds

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

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

Advance Refunded Bonds

Certain revenue bonds of the University have been defeased in prior years through advance refunding and, accordingly, have been accounted for as if they were retired. The principal amount of advance refunded bonds outstanding at June 30, 2009 was \$7,940,000.

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Revenue Bonds Payable activity for the year ended June 30, 2009:

	Beginning Balance	Deletions	Ending Balance	Current Portion
Series 1999 Bonds	\$ 330,000	\$ 330,000	\$ -	\$ -
Series 2002 Bonds	10,185,000	540,000	9,645,000	560,000
Series 2005 Bonds	18,380,000	2,655,000	15,725,000	2,755,000
Series 2006 Bonds	15,250,000	265,000	14,985,000	680,000
Unamortized premium	121,011	45,146	75,865	28,132
Unamortized discount	(140,371)	(7,613)	(132,758)	(8,603)
Deferred loss of refunding	(869,629)	(69,313)	(800,316)	(69,313)
	<u>\$ 43,256,011</u>	<u>\$ 3,758,220</u>	<u>\$ 39,497,791</u>	<u>\$ 3,945,216</u>

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Aggregate maturities of the bonds outstanding as of June 30, 2009 are as follows:

	Principal	Interest
2010	\$ 3,995,000	\$ 1,657,559
2011	4,140,000	1,512,834
2012	2,765,000	1,361,040
2013	2,870,000	1,257,102
2014	2,975,000	1,146,820
2015-2019	13,265,000	3,918,443
2020-2024	8,810,000	1,363,437
2025-2027	1,535,000	139,563
	<u>40,355,000</u>	<u>12,356,798</u>
Unamortized premium	75,865	-
Unamortized discount	(132,758)	-
Deferred loss of refunding	<u>(800,316)</u>	<u>-</u>
	<u>\$ 39,497,791</u>	<u>\$ 12,356,798</u>

None of the bonds described above constitute obligations of either the State of Illinois or the Board of Trustees of Western Illinois University, but together with interest thereon, are payable solely from and are collateralized by: a) the net revenues of the Western Illinois University Auxiliary Facilities System, b) certain pledged student fees, and c) a pledge of student tuition. Maximum annual debt service as defined for all outstanding revenue bonds is \$5,652,834. The estimated debt service coverage ratio based on revenues generated from operations is 1.80. The future pledged revenues for principal and interest in fiscal year 2009 are \$52,711,798. Pledged revenue coverage is 13.92 in fiscal year 2009. Pledged revenues have a term of commitment through 2027.

NOTE 9 - CERTIFICATES OF PARTICIPATION PAYABLE

On December 7, 2005, the Series 2005 Certificates of Participation (Capital Improvement Projects) were issued in the principal amount of \$10,290,000. The Series 2005 Certificates of Participation are due October 1, 2025 with annual principal payments ranging from \$400,000 to \$805,000 commencing October 1, 2008 and semi-annual interest payments beginning April 1, 2006 at 3.3% to 4.5%. On September 11, 2008, Standard & Poor's Rating Services raised its underlying rating from A- to A on the Western Illinois University Board of Trustees' outstanding certificates of participation issued on behalf of Western Illinois University. On May 21, 2009, Moody's Investor Services affirmed Western Illinois University's A2 debt rating on outstanding certificates of participation.

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

Debt Service Activity Requirements and Collateral

Aggregate maturities of the certificates of participation outstanding as of June 30, 2009 are as follows:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 415,000	\$ 410,125
2011	430,000	395,173
2012	445,000	379,035
2013	460,000	361,779
2014	480,000	343,266
2015-2019	2,715,000	1,396,273
2020-2024	3,370,000	742,420
2025	1,575,000	71,662
	<u>\$ 9,890,000</u>	<u>\$ 4,099,733</u>

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

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

NOTE 10 - CAPITAL LEASE OBLIGATIONS

The University has entered into several lease purchase contracts for duplicating equipment. Assets under capital leases at June 30, 2009, totaled \$20,921, net of accumulated depreciation of \$20,560. The related lease obligations were recorded at the present value of the future minimum lease payments discounted using applicable discount rates, which range from 4.25% to 16.54%. Capital lease activity for the year ended June 30, 2009 was as follows:

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Balance, beginning of year	\$ 5,651
Payments/terminations	<u>(5,264)</u>
Balance, end of year	<u>\$ 387</u>

Following is a schedule by years of the total future minimum lease payments under these leases together with the present value of the net minimum lease payments as of June 30, 2009:

Total minimum lease payments - 2010	\$ 389
Less: amount representing interest	<u>(2)</u>
Present value of net minimum lease payments	<u>\$ 387</u>

NOTE 11 - ACCRUED COMPENSATED ABSENCES

Vacation pay earned but not taken may be accumulated up to a specified maximum from 24 to 56 work days, and received as a lump sum payment upon termination. At June 30, 2009, such accumulated benefits totaled \$7,575,447.

Administrative and faculty unused sick leave may be accumulated up to a specified maximum, generally 300 calendar days. Unused and unpaid sick leave can be applied toward the service time requirements for computing retirement benefits. Civil service exempt and nonexempt employees have no specified maximum accumulation of unused sick leave days. One-half of any unused sick leave earned from January 1, 1984 through January 1, 1998 can be received as a lump sum payment upon termination. At June 30, 2009, such accumulated benefits totaled \$8,364,820. Compensated absences activity for the year ended June 30, 2009 was as follows:

Balance, beginning of year	\$ 16,546,466
Deductions	<u>(606,199)</u>
Balance, end of year	15,940,267
Less: current portion	<u>(1,733,654)</u>
Balance, end of year - noncurrent portion	<u>\$ 14,206,613</u>

NOTE 12 - RETIREMENT PLAN

Plan Description

The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation

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whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the *Illinois Compiled Statutes*.

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

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

SURS provides retirement, disability and death benefits. Members are eligible for normal retirement at any age after 35 years of service, at age 60 after eight years of service or at age 62 after five years of service. There are also provisions for early retirement. Retirement benefits are based on certain formulas that generally are a function of years of service and the average salary based on the highest earnings of any four consecutive years. Disability benefits are paid to disabled members with two years of covered service, generally at 50% of basic compensation until the total benefits paid equal 50% of the total earnings in covered service.

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

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 18.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer

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contributions to SURS for the years ending June 30, 2009, 2008, and 2007 were \$12,794,632, \$9,845,270, \$7,353,832, respectively, equal to the required contributions for each year.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

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

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

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NOTE 14 - INSURANCE

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

NOTE 15 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2009, for the University are summarized as follows:

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 56,022,066	\$ 3,929,381	\$ 35,367	\$ -	\$ 59,986,814
Research	2,155,442	560,282	-	-	2,715,724
Public service	6,533,715	3,620,978	53,613	-	10,208,306
Academic support	12,755,060	5,807,809	4,817	-	18,567,686
Student services	10,774,369	9,849,729	5,951	-	20,630,049
Institutional support	10,541,248	2,169,394	5,825	-	12,716,467
Operation and maintenance of plant	9,039,588	6,865,939	-	-	15,905,527
Student aid	-	-	6,278,300	-	6,278,300
Auxiliary enterprises	15,187,476	27,550,122	520,460	-	43,258,058
Staff benefits	7,551,745	-	-	-	7,551,745
Depreciation expense	-	-	-	10,254,593	10,254,593
On-behalf payment	38,584,926	-	-	-	38,584,926
Other operating expenses	-	3,773	-	-	3,773
Total	<u>\$ 169,145,635</u>	<u>\$ 60,357,407</u>	<u>\$ 6,904,333</u>	<u>\$ 10,254,593</u>	<u>\$246,661,968</u>

NOTE 16 - CONTRACT WITH WESTERN ILLINOIS UNIVERSITY FOUNDATION

The University has a contract with the Western Illinois University Foundation in which the Foundation has agreed to aid and assist the University in achieving its educational, research, and service goals by developing and administering its gifts. These gifts received by the Foundation are to be used for the benefit of the University in its scholarship, loan, grant and

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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 2009, the Foundation did not specifically reimburse the University for \$687,034 of personal service costs or for facility use provided by the University. However, the Foundation gave the University \$2,072,896 for fiscal year 2009, in totally unrestricted funds or funds restricted as to department but generally available for on-going University operations.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Claims and Litigation

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

Government Grants

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

NOTE 18 - PRIOR PERIOD ADJUSTMENTS

The Foundation restated the beginning net assets balance in fiscal year 2008 from \$31.0 million to \$32.4 million, see details as follows:

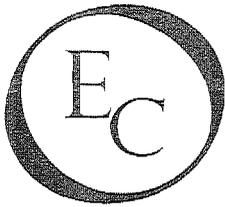
- Certain endowment funds had been incorrectly reported as restricted nonexpendable during fiscal year 2008. The restricted nonexpendable net assets were restated and decreased by \$9.1 million to reclassify \$3.4 million to restricted expendable net assets and \$5.7 million to unrestricted net assets.

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- Certain charitable remainder trusts were not reported as income in the year it became known to the Foundation that the trusts were irrevocable. As a result, restricted nonexpendable net assets were restated and increased by \$1.4 million due to correction of errors in reporting prior charitable remainder trusts.

NOTE 19 - SUBSEQUENT EVENTS

- On February 9, 2010, Moody's Investors Service downgraded the University's long-term debt rating to A3 from A2 and maintained the University's rating on Watchlist for possible downgrade. The downgrade and continued Watchlist status reflect concerns regarding the extensive State appropriation payment delays experienced by Illinois public universities. The State appropriation payment delays have placed material pressure on the University's liquidity position as well as the long-term stability of State funding given the University's significant dependence on the State for operations.
- On February 23, 2010, the University issued the Certificates of Participation, Series 2010, in the principal amount of \$11,585,000. The proceeds from these Series 2010 Certificates of Participation will be used for issuance costs and to finance capital improvement projects in the heating plant and Phase 1 of the campus steamline replacement plan. Additionally, the proceeds will be used to reimburse the University for expenditures for a portion of the sprinkler system installation in Tanner Hall and the entire sprinkler system installation in Thompson Hall.



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

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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Western Illinois University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 8, 2010. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A 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.

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

Compliance and Other Matters

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

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

E. C. G. & C. C. P.
Chicago, Illinois
March 8, 2010