ADELFIA LLC
CERTIFIED PUBLIC ACCOUNTANTS
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STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2017

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

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2017

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STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
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University Officials

President	Dr. Jack Thomas
Provost and Academic Vice President	Dr. Kathleen Neumann, Interim
Vice President for Student Services	Dr. Ronald Williams
Vice President for Administrative Services	Mr. Matthew Bierman
Vice President for Advancement and Public Services	Mr. Brad Bainter
Vice President for Quad Cities and Planning	Dr. Joseph Rives
Director of Business and Financial Services	Mr. Matthew Bierman, Interim
Director of Internal Auditing	Mr. Michael Sartorius

University offices are located at:

Macomb Campus 1 University Circle Macomb, Illinois 61455-1390	Quad Cities Campus 3300 River Drive Moline, Illinois 61265-5881

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2017

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying Schedule of Findings on pages 53 through 55 of this report as item 2017-001, *Inadequate Control over Reporting Restricted Accounts*.

Exit Conference

The finding and recommendation appearing in this report were discussed with University personnel at an exit conference on January 30, 2018.

Participating were:

<u>Western Illinois University</u>

Dr. Jack Thomas, President
Lyneir Cole, Audit Committee Chair – Board of Trustees
Roger Clawson, Secretary – Board of Trustees
Matthew Bierman, Vice President for Administrative Services
Kathleen Neumann, Interim Provost and Academic Vice President
Jessica Dunn, Assistant Comptroller
Brittany Troline, Accounting Associate
Michael Sartorius, Director of Internal Auditing
Megan Newlon, Internal Audit Assistant
Stephen Frazier, Executive Director of University Technology (CIO)
Robert Emmert, Director of University Technology
William Oster, Director of Insurance, Risk Management and Compliance

<u>Office of the Auditor General</u>

Lisa Warden, Senior Audit Manager

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
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Adelfia LLC
Stella Marie Santos, Partner
Ana Lisa Ausan, Manager
Charlene Baccay, Senior

The response to the recommendation was provided by Dr. Jack Thomas, President, in a letter dated January 30, 2018.

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Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of Western Illinois University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Western Illinois University and its aggregate discretely presented component unit, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component unit of the University in our report dated January 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived. Certain 2016 amounts have been reclassified to conform to the 2017 presentations.

Emphasis of Matter

As discussed in Note 21 to the financial statements, the University's financial statements have been restated as of July 1, 2016 due to the correction of errors in reporting restricted assets and restricted net position related to its Auxiliary Facilities System revenue bond accounts. Our opinion is not modified with respect to this matter.

As discussed in Note 16 to the financial statements, the University received $37,328,112 of Fiscal Year 2017 appropriations as reimbursement for Fiscal Year 2016 expenses paid. In accordance with

GASB Statement No. 33, the revenues were recognized in Fiscal Year 2017 even though they were used to pay for Fiscal Year 2016 costs. Our opinion is not modified with respect to this matter.

In addition, as discussed in Note 16 to the financial statements, the University received $30,996,935 of Fiscal Year 2017 appropriations on July 6, 2017 as reimbursement for Fiscal Year 2017 expenses paid. In accordance with GASB Statement No. 33, the revenues and receivables were not recognized in Fiscal Year 2017 even though they were used to pay for Fiscal Year 2017 costs. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7-13, Required Supplementary Information - Pension on page 49, and Notes to the Required Supplementary Information - Pension on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018 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 solely 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 effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE
Chicago, Illinois
February 20, 2018

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, 2017. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis are designed to focus on current activities, resulting change, current known facts, and future outlook. The financial statements, footnotes and this discussion are the responsibility of University management.

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

Using the Financial Report

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

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

Financial Highlights

Statement of Net Position

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

A summary of the condensed Statement of Net Position for the years ended June 30, 2017 and 2016 is as follows.

Condensed Statement of Net Position

	2017	2016
Assets		
Current assets	$ 45,733,348	$ 56,105,710
Capital assets, net of accumulated depreciation	228,561,518	241,014,063
Other noncurrent assets	1,499,063	1,587,463
Total assets	275,793,929	298,707,236
Deferred outflows of resources	1,222,965	1,374,100
Liabilities		
Current liabilities	32,812,198	38,325,710
Noncurrent liabilities	84,411,123	91,846,009
Total liabilities	117,223,321	130,171,719
Net position		
Net investment in capital assets	146,523,057	152,236,859
Restricted - Expendable	29,012,569	25,574,627
Unrestricted	(15,742,053)	(7,901,869)
Total net position	$ 159,793,573	$169,909,617

A review of the University's Statement of Net Position at June 30, 2017 shows that although the University had a decline in Net Position, its financial foundation remains strong with assets and deferred outflow of resources of $277.0 million and liabilities of $117.2 million. Net position, the difference between total assets and deferred outflow of resources and total liabilities, decreased by approximately $10.1 million or 6.0% over the previous year.

Total assets and deferred outflow of resources decreased $23.1 million or 7.7% during Fiscal Year 2017. Cash and cash equivalents decreased $9.3 million primarily due to a reduction in operating revenues as a result of decreased enrollment and an increase in capital debt payments. Capital assets decreased $12.4 million due to depreciation expense of $15.0 million offset slightly by asset additions of $2.6 million.

Total liabilities decreased $12.9 million or 9.9% during Fiscal Year 2017. Total long-term debt decreased due to scheduled debt payments.

Statement of Revenues, Expenses and Changes in Net Position

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

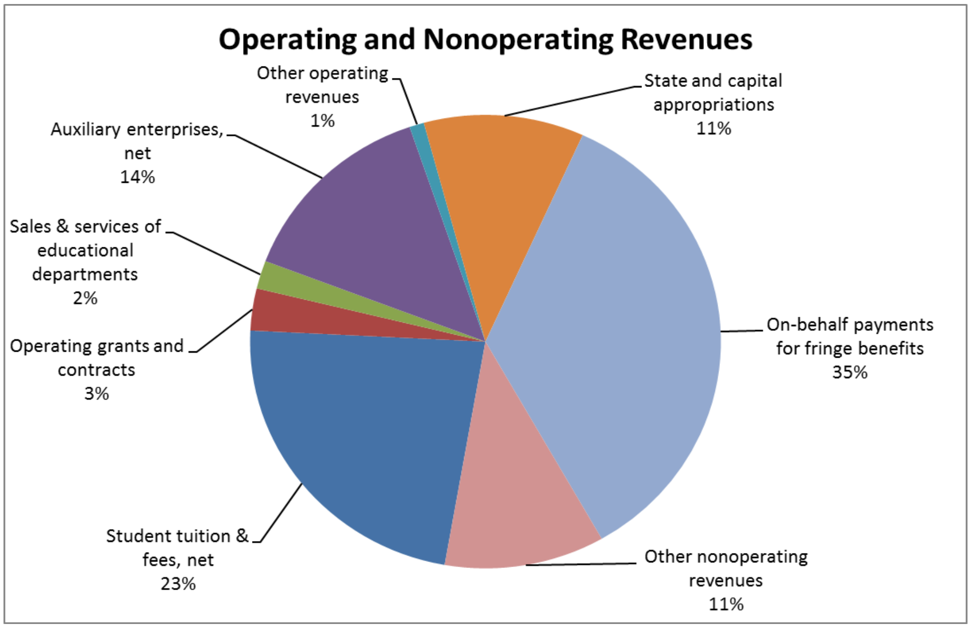
A comparative summary of the condensed Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2017 and 2016 is as follows:

Condensed Statement of Revenues, Expenses and Changes in Net Position

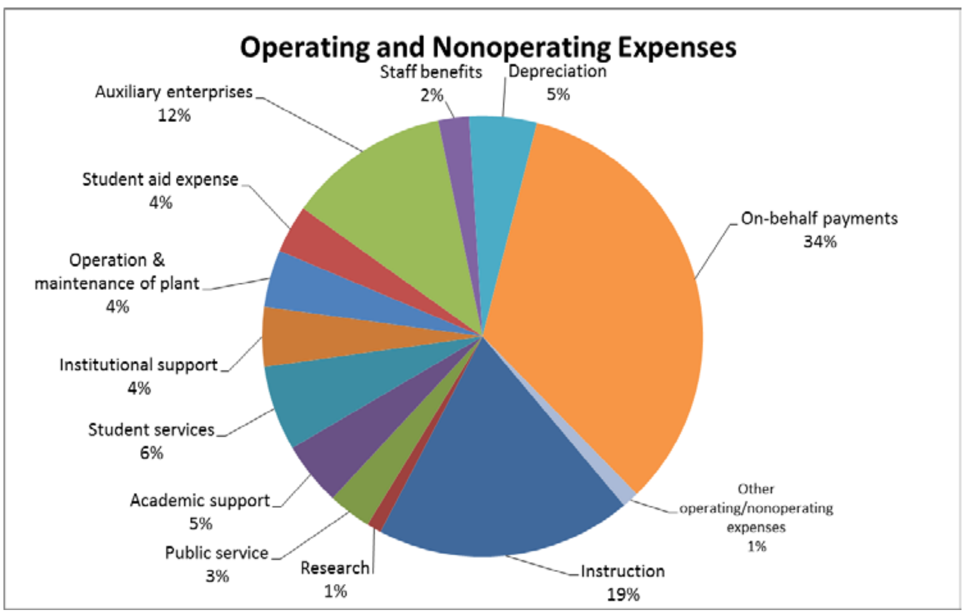
	2017	2016
Total operating revenues	$ 126,668,413	$ 135,293,327
Total operating expenses	(299,642,819)	(299,311,221)
Operating loss	(172,974,406)	(164,017,894)
Nonoperating revenues	166,544,811	129,214,719
Nonoperating expenses	(3,686,449)	(4,502,405)
Loss before capital items	(10,116,044)	(39,305,580)
Capital State appropriations	-	112,992
Decrease in net position	(10,116,044)	(39,192,588)
Net position, beginning of year	169,909,617	209,102,205
Net position, end of year	$ 159,793,573	$ 169,909,617

Total revenues increased $28.7 million or 10.8% to $293.2 million in 2017 primarily due to an increase in State appropriations of $16.5 million, on-behalf payments of $14.1 million, and nonoperating grants of $6.7 million offset partly by a decrease in operating revenues. Total expenses decreased slightly by $484 thousand or 0.2% to $303.3 million in 2017. Total operating expenses increased slightly by $332 thousand in 2017 due to an increase in on-behalf payments of approximately $14.1 million offset by a decrease in University operating expenses.

For the fiscal year ended June 30, 2017, all sources of revenues totaled $293.2 million. The following is a graphical illustration of revenues by source:



For the fiscal year ended June 30, 2017, expenses totaled $303.3 million. The following is a graphical illustration of expenses:



Statement of Cash Flows

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

A comparative summary of the condensed Statement of Cash Flows for the years ended June 30, 2017 and 2016 is as follows:

Condensed Statement of Cash Flows

	2017	2016
Cash provided by (used in):		
Operating activities	$ (60,017,319)	$ (57,292,654)
Noncapital financing activities	63,531,750	47,347,681
Capital and related financing activities	(13,085,373)	(12,374,394)
Investing activities	296,644	266,599
Net decrease in cash and cash equivalents	(9,274,298)	(22,052,768)
Cash and cash equivalents, beginning of year	41,281,246	63,334,014
Cash and cash equivalents, end of year	$ 32,006,948	$ 41,281,246

Major sources of funds included in operating activity are student tuition and fees, grants and contracts, and auxiliary enterprises. Payment for employee salaries and benefits, goods and services, and scholarships and fellowships continue to comprise the major use of operating funds. Cash used in operating activities increased $2.7 million.

Cash inflows from noncapital financing activities consist primarily of State appropriations, Monetary Award Program awards and Pell grant revenues. Cash provided by noncapital financing activities increased $16.2 million primarily due to an increase in state appropriations and nonoperating grants.

An increase in principal paid on capital debt contributed to the slight increase of $711 thousand in cash used in capital and related financing activities.

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

Capital Assets and Debt Administration

The University had $510.1 million invested in capital assets at the end of Fiscal Year 2017. Capital assets net of accumulated depreciation totaled $228.6 million. Depreciation expense for the current year was $15.0 million.

There were no major construction projects during Fiscal Year 2017. For the year ended June 30, 2017 construction in progress included engineering and planning costs associated with a new performing arts center on the Macomb campus with a balance of $4.8 million.

University's Economic Outlook

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

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

State appropriations represent operating support provided by the Governor and General Assembly for University programs. A Fiscal Year 2018 budget of $46.3 million was passed into law by the General Assembly. This appropriation is a 10% reduction over Fiscal Year 2015 appropriations provided from the State of Illinois to Western Illinois University.

The University is part of the executive branch of government and operates under a budget approved by the State of Illinois, in which resources are appropriated for the use of the University. On-behalf payments and operating budget are the annual State appropriations provided by the State of Illinois to the University. The stop-gap budgets during the two-year State budget impasse make it difficult to compare fiscal year appropriations. Reportable receipts from the State in Fiscal Year 2017 total $31.4 million. This is compared to $21.7 million in Fiscal Year 2016 and $56.8 million in Fiscal Year 2015. Expected reportable receipts for Fiscal Year 2018 total $66.4 million. Additionally, the appropriation for the Fiscal Year 2017 Monetary Assistance Program (MAP) was received in July of 2017. The expected MAP funds for Fiscal Year 2018 total $10.5 million.

The University projects tuition and miscellaneous revenues to fall by approximately $6.5 million as compared with Fiscal Year 2017. In December of 2016, the Board of Trustees passed a resolution keeping the Fiscal Year 2018 tuition rate level for new students, those enrolling for the first time in Fall 2017. The University offers guaranteed tuition and fees, as well as guaranteed room and board rates for each new class of entering students. The University's recommended expenditure budget for income fund and State appropriations for Fiscal Year 2018 is $127.4 million.

The University's Auxiliary Enterprises funds budget for Fiscal Year 2018 as approved by the Board of Trustees reflects a level less than Fiscal Year 2017 of approximately $4.5 million. Other institutional funds include revenues from sponsored projects and departmental activity revenues. The 2018 budget for these funds as approved by the Board of Trustees reflects a $1.0 million decrease in spending over Fiscal Year 2017.

Private gifts are an important supplement to the University's sources of funding for operating costs. In Fiscal Year 2017, alumni, friends, staff, corporations, and other organizations contributed nearly $6.6 million to the Foundation in support of the University. These contributions include gifts and additions to permanent endowments. The Foundation distributed nearly $7.8 million in Fiscal Year 2017 to support academic enhancement and instructional initiatives, student scholarships, capital improvements, cultural activities, athletics, regional outreach efforts, and alumni and Foundation-sponsored programs at Western Illinois University.

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

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF NET POSITION
June 30, 2017
(With Partial Financial Information as of June 30, 2016)

	University		Component Unit	
	2017	**2016**	**2017**	**2016**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,843,281	$ 16,540,511	$ 2,022,447	$ 2,188,680
Cash and cash equivalents, restricted	29,163,667	24,740,735	-	-
Investments	-	-	3,367,615	3,733,626
Accounts receivable, net	7,432,196	8,322,498	1,560,094	966,077
Accounts receivable, net, restricted	2,517,718	2,428,264	-	-
Student loans receivable, net	376,683	389,081	-	-
Due from component unit	200,418	175,577	-	-
Due from component unit, restricted	5,372	2,654	-	-
Due from primary government	1,200,220	1,057,369	-	-
Inventories	1,017,058	1,145,865	38,837	-
Inventories, restricted	920,507	1,107,707	-	-
Prepaid expenses	30,326	169,547	415,273	345,761
Other assets	6,501	6,501	-	-
Other assets, restricted	19,401	19,401	-	-
Total current assets	45,733,348	56,105,710	7,404,266	7,234,144
Noncurrent assets:				
Investments	-	-	5,081,772	7,941,601
Endowment investments	-	-	12,116,028	3,361,149
Endowment investments, restricted	-	-	37,180,579	38,027,028
Charitable remainder trusts, restricted	-	-	4,296,745	4,516,868
Accounts receivable, net	-	-	508,541	545,533
Student loans receivable, net	1,222,919	1,285,417	87,322	84,778
Capital assets, net of accumulated depreciation	228,561,518	241,014,063	658,304	658,304
Other assets	40,632	47,133	548,556	523,257
Other assets, restricted	235,512	254,913	-	-
Total noncurrent assets	230,060,581	242,601,526	60,477,847	55,658,518
TOTAL ASSETS	275,793,929	298,707,236	67,882,113	62,892,662
DEFERRED OUTFLOW OF RESOURCES				
Unamortized losses on debt refunding	854,644	1,013,323	-	-
Pension	368,321	360,777	-	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	1,222,965	1,374,100	-	-
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	7,675,660	4,819,231	206,741	131,132
Accrued payroll	7,005,588	15,623,256	-	-
Due to primary government	2,169,380	1,943,375	205,790	178,231
Unearned revenue	5,416,953	5,008,790	294,074	267,847
Other liabilities	1,987,489	2,146,117	49,534	49,991
Notes payable	-	147,521	18,471	19,381
Capital leases payable	28,766	5,526	-	-
Revenue bonds payable	4,697,266	4,563,107	-	-
Certificates of participation	2,380,162	2,333,599	-	-
Compensated absences	1,450,934	1,735,188	-	-
Total current liabilities	32,812,198	38,325,710	774,610	646,582
Noncurrent liabilities:				
Notes payable	-	-	180,293	197,225
Capital leases payable	139,930	16,369	-	-
Revenue bonds payable	55,827,689	60,524,955	-	-
Certificates of participation	19,819,292	22,199,454	-	-
Other liabilities	-	-	258,320	275,393
Compensated absences	8,624,212	9,105,231	-	-
Total noncurrent liabilities	84,411,123	91,846,009	438,613	472,618
TOTAL LIABILITIES	117,223,321	130,171,719	1,213,223	1,119,200
NET POSITION				
Net investment in capital assets	146,523,057	152,236,859	459,540	441,698
Restricted - nonexpendable	-	-	29,364,285	28,260,062
Restricted - expendable	29,012,569	25,574,627	13,570,429	13,116,425
Unrestricted	(15,742,053)	(7,901,869)	23,274,636	19,955,277
TOTAL NET POSITION	$ 159,793,573	$ 169,909,617	$ 66,668,890	$ 61,773,462

See accompanying notes to the basic financial statements

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017
(With Partial Financial Information for the Year Ended June 30, 2016)

	University		Component Unit	
	2017	2016	2017	2016
OPERATING REVENUES				
Tuition and fees, net	$ 67,567,759	$ 73,732,875	$ -	$ -
Grants and contracts	10,471,894	9,547,337	-	-
Sales and services of educational departments	4,894,119	5,244,594	-	-
Auxiliary enterprises, net	39,895,099	42,536,027	-	-
Student loan activities	41,146	54,042	-	-
Other operating revenues	3,798,396	4,178,452	6,145,729	5,746,661
Total operating revenues	126,668,413	135,293,327	6,145,729	5,746,661
OPERATING EXPENSES				
Instruction	56,973,379	62,364,512	1,379,963	1,237,067
Research	3,252,347	3,439,674	174,576	61,232
Public service	9,601,469	9,859,816	1,205,322	1,142,344
Academic support	14,142,558	16,173,314	150,069	123,018
Student services	18,893,407	21,155,352	699,508	780,129
Institutional support	13,211,002	13,285,392	1,115,766	1,323,557
Operation and maintenance of plant	12,712,675	13,720,739	306,938	114,661
Student aid expense	10,688,107	10,668,851	2,937,954	2,825,189
Auxiliary enterprises	36,078,220	38,400,834	-	-
Staff benefits	6,854,422	6,738,577	-	-
Depreciation	15,023,275	15,391,211	-	-
On-behalf payments	102,187,436	88,073,687	-	-
Other operating expenses	24,522	39,262	-	-
Total operating expenses	299,642,819	299,311,221	7,970,096	7,607,197
OPERATING LOSS	(172,974,406)	(164,017,894)	(1,824,367)	(1,860,536)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	31,409,000	14,931,400	-	-
On-behalf payments for fringe benefits	102,187,436	88,073,687	-	-
Gifts	630,327	570,218	-	-
Nonoperating grants	31,865,150	25,208,764	-	-
Gain (loss) on disposal of capital assets	(10,174)	1,697	-	-
Loss on impairment of capital assets	-	(719,294)	-	-
Investment income	296,644	266,599	4,908,325	1,845,708
Interest on capital asset related debt	(3,676,275)	(3,783,111)	(9,515)	-
Change in value of charitable remainder trusts	-	-	232,050	(236,199)
Other nonoperating revenues	156,254	162,354	317,872	535,236
Net nonoperating revenues	162,858,362	124,712,314	5,448,732	2,144,745
INCOME (LOSS) BEFORE CAPITAL ITEMS	(10,116,044)	(39,305,580)	3,624,365	284,209
Capital State appropriations	-	112,992	-	-
Additions to permanent endowments	-	-	1,271,063	1,015,395
Total capital items	-	112,992	1,271,063	1,015,395
INCREASE (DECREASE) IN NET POSITION	(10,116,044)	(39,192,588)	4,895,428	1,299,604
NET POSITION, BEGINNING OF YEAR	169,909,617	209,102,205	61,773,462	60,473,858
NET POSITION, END OF YEAR	$ 159,793,573	$ 169,909,617	$ 66,668,890	$ 61,773,462

See accompanying notes to the basic financial statements

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017
(With Partial Financial Information for the Year Ended June 30, 2016)

	University		Component Unit	
	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees, net	$ 68,047,378	$ 74,074,242	$ -	$ -
Grants and contracts	10,925,054	9,279,331	-	-
Gifts for other than capital and endowment purposes	-	-	4,284,139	4,137,902
Payments for employee salaries and benefits	(131,557,482)	(135,481,814)	-	-
Payments for goods and services	(45,553,365)	(48,255,541)	(4,530,870)	(4,516,256)
Payments to annuitants	-	-	(49,534)	(48,669)
Payments for scholarships and fellowships	(10,598,521)	(10,638,498)	(2,937,954)	(2,814,969)
Student loans issued	(390,875)	(382,288)	-	-
Student loans collected	376,255	403,317	-	-
Student loans interest and fees collected	41,146	54,042	-	-
Auxiliary enterprises charges	39,838,786	42,673,812	-	-
Sales and services of educational departments	5,055,909	6,952,291	-	-
Other receipts	3,798,396	4,028,452	762,325	964,200
Net cash used in operating activities	(60,017,319)	(57,292,654)	(2,471,894)	(2,277,792)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	31,409,000	21,664,954	-	-
Capital appropriations for operating expenses	-	3,782	-	-
Gifts	86,054	316,756	1,271,063	1,015,395
Nonoperating grants	31,865,150	25,208,764	-	-
Nonoperating revenues, net	171,546	153,425	286,867	539,667
Cash provided by noncapital financing activities	63,531,750	47,347,681	1,557,930	1,555,062
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(2,385,849)	(2,647,092)	-	(270,000)
Principal paid on capital asset related debt	(6,638,537)	(4,889,861)	-	-
Interest paid on capital asset related debt	(4,060,987)	(3,982,753)	(9,396)	-
Bonds refunded	-	(25,984,316)	-	-
Proceeds from issuance of revenue bonds	-	10,009,255	-	-
Proceeds from issuance of certificates of participation	-	15,794,261	-	-
Deferred loss from bond refunding	-	(673,888)	-	-
Proceeds from note payable	-	-	-	270,606
Payments made on note payable	-	-	(17,842)	(54,000)
Net cash used in capital and related financing activities	(13,085,373)	(12,374,394)	(27,238)	(53,394)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	-	9,420,992	8,458,736
Earnings on investments	296,644	266,599	1,471,558	1,574,907
Purchase of investments	-	-	(10,117,581)	(10,302,950)
Net cash provided by (used in) investing activities	296,644	266,599	774,969	(269,307)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,274,298)	(22,052,768)	(166,233)	(1,045,431)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41,281,246	63,334,014	2,188,680	3,234,111
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 32,006,948	$ 41,281,246	$ 2,022,447	$ 2,188,680

See accompanying notes to the basic financial statements

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017
(With Partial Financial Information for the Year Ended June 30, 2016)

	University		Component Unit	
	2017	**2016**	**2017**	**2016**
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (172,974,406)	$ (164,017,894)	$ (1,824,367)	$(1,860,536)
Adjustments to reconcile operating loss to net cash used in operating activities:				
On-behalf payments	102,187,436	88,073,687	-	-
Stock gifts in process	-	-	(41,788)	-
Charitable remainder trust assets donated	-	-	(55,273)	(53,320)
Depreciation	15,023,275	15,391,211	-	-
Amortization	25,902	21,881	-	-
Actuarial adjustment to annuities payable	-	-	(17,530)	10,220
Changes in assets, deferred outflows and liabilities:				
Receivables, net	642,901	1,072,380	(553,863)	(15,047)
Student loans receivables, net	74,896	51,330	-	-
Inventories	316,007	645,473	(38,837)	6,162
Prepaid expenses and other assets	139,221	302,568	(69,512)	(275,492)
Pension	(7,544)	(31,522)	-	-
Accounts payable and accrued liabilities	3,676,018	2,905,895	75,490	(36,136)
Accrued payroll	(8,719,002)	(1,008,816)	-	-
Due to primary government, net	-	-	27,559	3,277
Unearned revenue	408,163	(174,463)	-	-
Other liabilities	(44,913)	852,182	26,227	(56,920)
Compensated absences	(765,273)	(1,376,566)	-	-
Net cash used in operating activities	$ (60,017,319)	$ (57,292,654)	$ (2,471,894)	$(2,277,792)
NONCASH OPERATING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES				
On-behalf payments	102,187,436	88,073,687	-	-
Capital asset acquisition via capital appropriations	-	109,210	-	-
Capital asset acquisition via support from Foundation	529,488	253,004	-	-
Capital asset changes in accounts payable	492,250	(69,531)	-	-
Gifts in kind	-	-	435,731	525,434
Gain (loss) on disposal of capital assets	(10,174)	1,697	-	-

See accompanying notes to the basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

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

B. Basis of Accounting and Presentation

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

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

C. Prior-Year Information

The basic financial statements include certain prior-year partial comparative information. Such information does not include full comparative footnote disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2016, from which the partial information was derived.

D. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The University deferred outflows of resources includes a loss on refunding of bonds payable of $383,916 and a loss on refunding of Certificates of Participation payable of $470,728 at June 30, 2017. The loss on refunding resulted from the difference between the reacquisition price and the net carrying amount of the old debt. Total amortization included in interest on capital asset related debt for the year ended June 30, 2017 was $158,679. Also included in deferred outflows of resources is a net pension liability of $368,321 (see Note 13 for more information) at June 30, 2017.

E. Use of Estimates

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

F. Restricted Assets

The University's Auxiliary Facilities System (System) is a "closed system" in accordance with revenue bond covenants where resources within the System are unavailable for use by the University outside of the System and therefore are classified as restricted assets on the statement of net position. The System's restricted assets consist of cash and cash equivalents, accounts receivable, due from component unit, inventories, and other assets.

G. Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017, cash equivalents consisted primarily of money market and similar funds. Included in restricted cash and cash equivalents is unspent loan funds.

H. Investments

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

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

I. 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.

J. Bonds and Certificates of Participation Issue Costs

The insurance premium on the bonds and certificates of participation issue costs incurred on the revenue bonds and certificates of participation are being amortized over the life of the bonds/certificates of participation using the straight-line method. Total amortization for the year ended June 30, 2017 was $25,902.

K. 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.

L. 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.

M. Capital Assets

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

The following estimated useful lives are being used by the University:

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

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

N. Unearned Revenue

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

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

Medicare taxes computed using rates in effect at that date.

P. Net Position

The University's net position is classified as follows:

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

Restricted net position - nonexpendable – represents endowed funds where the donors have stipulated, as a condition of the gift instrument, that the principal be maintained in perpetuity and invested for the purpose of producing income, which may either be expended or added to the principal.

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

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

Q. Classification of Revenues

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

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) most federal, State and local grants and contracts except for certain student financial aid classified as nonoperating revenues, and (4) interest on student loans.

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

R. Scholarship Discounts and Allowances

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

The scholarship allowances on tuition and fees and housing for the year ended June 30, 2017 were $21,907,093 and $7,516,438, respectively.

S. 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.

T. Endowments

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

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

For both donor restricted endowments and Foundation designated endowments, it is the goal of the Foundation to provide spendable income levels that are reasonably stable and sufficient to meet budgetary requirements and to maintain a spending rate, currently established at 4.25% for endowment purposes and 1.10% for operational purposes, of a

36-month moving average of endowment market value, which ensures a proper balance between the preservation of corpus and enhancement of the purchasing power of investment earnings. The Foundation's policy is to retain the endowments' unrealized appreciation with the endowment (either donor restricted or Foundation designated) after spending rule distributions. As of June 30, 2017, the Foundation had a total of $7,360,150 of net cumulative appreciation from investment of donor-restricted endowments and Foundation designated endowments available for expenditure. This amount is allocated between expendable restricted net position and unrestricted net position in the Statement of Net Position based on the classification of the underlying asset upon which the income was earned.

U. Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of irrevocable charitable remainder trusts and irrevocable charitable trusts for which the Foundation is a beneficiary. The fair value of the trust assets are reported in the Statement of Net Position and changes in the fair value of the assets are recognized in the Statement of Revenues, Expenses, and Changes in Net Position. It is management's intent to record the contribution income from these agreements in the fiscal year the Foundation becomes the irrevocable beneficiary. The Foundation received $55,273 of new contribution income during Fiscal Year 2017. Any outstanding liabilities relating to the annual distributions required by the trust agreements are recorded in the Statement of Net Position.

V. Taxes

As a State institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code and a similar provision of state law. However, some activities may be subject to taxation as unrelated business income under the Internal Revenue Code and certain activities are subject to State sales tax.

The U.S. Treasury Department issued a determination letter dated January of 1948 that the Foundation is exempt from Federal income taxes under what is now Section 501 (c)(3) of the Internal Revenue Code.

W. Pensions

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

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

X. Reclassifications

Certain reclassifications have been made to the component unit's (Foundation) prior year amounts to conform to the 2017 presentation.

NOTE 2 - DEPOSITS

University

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

At June 30, 2017, the book balance of various University bank accounts and certificates of deposit was $256,932, while the bank balance was $222,966. The difference between these amounts represents deposits in transit as of June 30, 2017. In addition, the University had cash on hand in various petty cash and change funds in the amount of $60,729 as of June 30, 2017.

Foundation

At June 30, 2017, the book balance of the Foundation's various bank accounts was $2,022,447, while the bank balance was $2,076,823. 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, 2017.

Reconciliation of cash and cash equivalents to deposits:

	University	Foundation
Cash and cash equivalents	$ 2,843,281	$ 2,022,447
Cash and cash equivalents, restricted	29,163,667	-
Less: Money market funds classified as cash and cash equivalents	(31,689,287)	-
Cash on hand	(60,729)	-
Carrying amount of deposits	$ 256,932	$ 2,022,447

NOTE 3 - INVESTMENTS

University

As of June 30, 2017, the University held investments in the Illinois Funds Investment Pool of $28,592,196 which are classified as cash and cash equivalents on the University's Statement of Net Position. The Illinois Funds is an external investment pool administered by the State Treasurer. The fair value of the University's investment fund is the same as the value of pool shares and the investments are reported by the State Treasurer at amortized cost. The fund is administered in accordance with the provisions of the Public Funds Investment Act (30 ILCS 235). The Illinois Funds is rated AAAm by Standard & Poor's.

Custodial Credit Risk

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

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The University's policy limits its investments to the Illinois Funds investment pool, United States Treasury bills, United States Treasury notes, United States Treasury bonds, Federal Farm Credit Banks bonds, Federal Home Loan Banks notes, Federal National Mortgage Association, Federal Land Bank bonds, Government National Mortgage Association, and Federal Home Loan Mortgage Corporation.

Foundation

At June 30, 2017, the Foundation held investments with the following maturities:

		Maturities in Years			
Type	Total	Less Than One Year or No Maturity	1-5 Years	6-10 Years	Over 10 Years
Cash equivalents held in investment accounts	$ 484,366	$ 484,366	$ -	$ -	$ -
Certificates of deposit	2,533,968	2,533,968	-	-	-
U.S. agency obligations (FHLM, FNMA)	111,079	51,329	59,750	-	-
Municipal bonds	1,433,195	-	1,280,910	152,285	-
Corporate debt securities	6,825,259	1,649,717	4,557,528	568,364	49,650
Corporate equity securities	91,952	91,352	600	-	-
Mutual funds, domestic equity	12,403,378	12,403,378	-	-	-
Mutual funds, international equity	9,101,625	9,101,625	-	-	-
Mutual funds, domestic debt	1,465,918	1,465,918	-	-	-
Mutual funds, international debt	1,483,949	1,483,949	-	-	-
Real assets funds	3,287,824	-	836,799	1,223,365	1,227,660
Private equity	6,628,845	1,622,598	243,262	4,174,227	588,758
Absolute return (hedge funds)	8,686,038	8,686,038	-	-	-
Real Estate (farm land)	3,208,598	3,208,598	-	-	-
Total investments	$ 57,745,994	$ 42,782,836	$ 6,978,849	$ 6,118,241	$ 1,866,068

The Foundation adheres to the total return concept 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 insured account balances of $2,076,823 as of June 30, 2017.

Concentration Risk

Concentration risk exists when a significant portion of the portfolio is invested in items with similar characteristics or subject to similar economic, political, or other conditions. As of June 30, 2017, the Foundation has two single issuer investments that each represents over 5% of the total assets of the Foundation. Foundation management believes these concentration risks represented below are not excessive when considering the overall diversification of the entire investment portfolio. The following issuers hold more than 5% of total Foundation assets as of June 30, 2017:

Vanguard Total Stock Market Index	$9,029,783	13.3%
Mercer Hedge Fund Investors SPC	$8,686,038	12.8%

Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation does not have a policy that specifically addresses interest rate risk. The Foundation had the following assets, at fair values, exposed to interest rate risk at June 30, 2017:

Cash equivalents held in investment accounts	$ 484,366
Certificates of deposits	2,533,968
U.S. agency obligations (FHLM, FNMA)	111,079
Municipal bonds	1,433,195
Corporate debt securities	6,825,259
Mutual funds, domestic debt	1,465,918
Mutual funds, international debt	1,483,949
Sub-total investments	14,337,734
Demand Deposit Interest Bearing Funds	2,022,347
Total assets subject to interest rate risk	$ 16,360,081

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 15.9% of the total Foundation investments as of June 30, 2017. The Foundation does not have a policy on foreign currency risk. The U.S. dollar balances of the Foundation's investment exposed to foreign currency risk as of June 30, 2017 are listed below.

Currency	*United States Dollar Equivalent*
Euro	$ 2,144,678
United Kingdom British Pound	1,443,265
Japanese Yen	1,315,803
Swiss Franc	692,995
Other currencies, individually less than 1% of fund portfolio	3,532,483
Total	$ 9,129,224

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Credit Risk

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

At June 30, 2017, the Foundation had the following investments and their ratings:

Credit Rating per Standard and Poor's	Total Fair Value	U.S. Agency Obligations (FHLM, FNMA)	Corporate Debt Securities	Municipal Bonds
AA	$ 506,023	$ -	$ -	$ 506,023
AA-	497,457	-	244,069	253,388
A-	249,950	-	249,950	-
BBB+	319,237	-	319,237	-
Not Rated	6,796,866	111,079	6,012,003	673,784
	$ 8,369,533	$ 111,079	$ 6,825,259	$ 1,433,195

Credit Rating per Moody's	Total Fair Value	U.S. Agency Obligations (FHLM, FNMA)	Corporate Debt Securities	Municipal Bonds
Aaa	$ 93,896	$ 51,329	$ -	$ 42,567
Aa1	40,598	-	20,308	20,290
Aa2	306,241	-	-	306,241
Aa3	255,210	-	-	255,210
A1	163,902	-	67,563	96,339
A2	266,497	-	266,497	-
A3	791,393	-	791,393	-
Baa1	252,060	-	252,060	-
Baa2	159,359	-	159,359	-
Baa3	20,233	-	20,233	-
Not Rated	6,020,144	59,750	5,247,846	712,548
	$ 8,369,533	$ 111,079	$ 6,825,259	$ 1,433,195

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Fair Value Measurements

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

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

At June 30, 2017, the Foundation had the following recurring fair value measurements.

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Debt securities				
U.S. agency obligations (FHLM, FNMA)	$ 111,079	$ -	$ 111,079	$ -
Municipal bonds	1,433,195	-	1,433,195	-
Corporate debt securities	6,825,259	-	6,825,259	-
Mutual funds, domestic debt	1,465,918	1,465,918	-	-
Mutual funds, international debt	1,483,949	1,483,949	-	-
Total debt securities	11,319,400	2,949,867	8,369,533	-
Equity securities				
Corporate equity securities	91,952	91,952	-	-
Mutual funds, domestic equity	12,403,378	12,403,378	-	-
Mutual funds, international equity	9,101,625	9,101,625	-	-
Total equity securities	21,596,955	21,596,955	-	-
Real estate (farm land)	3,208,598	-	3,208,598	-
Charitable remainder trusts	4,296,745	-	-	4,296,745
Total investments by fair value level	$40,421,698	$24,546,822	$11,578,131	$ 4,296,745
Investments measured at net asset value				
Real assets funds	3,287,824			
Private equity funds	6,628,845			
Absolute return (hedge funds)	8,686,038			
Total other	18,602,707			
Total	59,024,405			
Plus cash equivalents held in investment pools	484,366			
Plus certificates of deposit	2,533,968			
Less charitable remainder trusts	(4,296,745)			
Total investments	$57,745,994			

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

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The following provides additional information related to investments measured at NAV as of June 30, 2017:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real assets funds	$ 3,287,824	$ 1,743,611	-	-
Private equity funds	6,628,845	4,202,215	-	-
Absolute return (hedge funds)	8,686,038	-	Quaterly	100 Days
Total	$ 18,602,707	$ 5,945,826		

Real asset funds – This type includes seven real asset funds that invest in global real estate, natural resources, and infrastructure. The fair values of the investments in this type have been determined using the NAV per share (or is equivalent) of the Foundation's ownership interest in partners' capital. The fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments. These investments can never be redeemed with the funds, with the exception of Prudential Real Estate Investors. Distribution from each fund will be received as underlying assets of the funds are liquidated. Each fund is expected to have an approximate ten-year life.

Private equity funds – This type includes ten private equity funds that invest in global buyouts, venture capital, special situations, and secondaries and co-investments. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Foundation's ownership interest in partners' capital. The fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments. These investments can never be redeemed with the funds. Distributions from each fund will be received as underlying assets of the funds are liquidated. Each fund is expected to have an approximate ten-year life.

Absolute return (hedge funds) – This type includes one hedge fund that pursues multiple strategies to diversify risks and reduce volatility. The strategy mix includes investments in long/short equity, long/short credit, relative value arbitrage, merger arbitrage, convertible arbitrage, capital structure arbitrage, fixed income arbitrage, short credit, distressed debt, global macro, special situations, and private investments. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. This type allows for quarterly redemptions with 100 days notice.

Summary of Carrying Values

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

	University	Foundation
Cash and cash equivalents	$ 2,843,281	$ 2,022,447
Cash and cash equivalents, restricted	29,163,667	-
Total	$ 32,006,948	$ 2,022,447

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

	University	Foundation
Current:		
Investments	$ -	$ 3,367,615
Noncurrent:		
Endowment Investments	-	12,116,028
Endowment Investments, restricted	-	37,180,579
Investments	-	5,081,772
Total Noncurrent	$ -	$ 54,378,379
Total investments	$ -	$ 57,745,994

Investment income for the year ended June 30, 2017 consisted of:

	University	Foundation
Interest, dividends, realized gains (losses) and market value changes	$ 296,644	$ 4,908,325

NOTE 4 - ACCOUNTS AND STUDENT LOANS RECEIVABLE

Accounts receivable are reported net of allowances for uncollectible accounts. Accounts receivable consisted of the following as of June 30, 2017:

Receivable from students	$ 12,854,232
Receivable from third parties	1,636,923
Receivables from funding agencies	1,803,559
Total gross receivables	16,294,714
Allowance for doubtful accounts	(6,344,800)
Total net receivables	$ 9,949,914

Student loans receivable totaling $2,157,002 is reported net of allowance for uncollectible loans of $557,400 at June 30, 2017.

NOTE 5 - CAPITAL ASSETS

Capital asset activities for the University for the year ended June 30, 2017 were as follows:

	Balance June 30, 2016	Additions	Retirements/ Adjustments	Transfers	Balance June 30, 2017
Non-depreciable capital assets:					
Land and land improvements	$ 3,603,000	$ -	$ -	$ -	$ 3,603,000
Works of art and historical treasures	591,567	-	-	-	591,567
Construction in progress	5,493,781	401,096	-	(865,309)	5,029,568
Total non-depreciable capital assets	9,688,348	401,096	-	(865,309)	9,224,135
Depreciable capital assets					
Site improvements	46,850,373	92,638	(195,816)	-	46,747,195
Buildings and building improvements	376,316,221	1,252,043	(1,902,961)	865,309	376,530,612
Equipment	78,051,617	671,811	(1,341,723)	-	77,381,705
Capital lease equipment	30,325	174,457	(20,000)	-	184,782
Total depreciable capital assets	501,248,536	2,190,949	(3,460,500)	865,309	500,844,294
Less accumulated depreciation:					
Site improvements	22,002,060	1,624,871	(195,816)	-	23,431,115
Buildings and building improvements	176,511,082	11,250,107	(1,902,961)	-	185,858,228
Equipment	71,399,098	2,133,314	(1,328,729)	-	72,203,683
Capital lease equipment	10,581	14,984	(11,680)	-	13,885
Total accumulated depreciation	269,922,821	15,023,276	(3,439,186)	-	281,506,911
Total depreciable capital assets, net	231,325,715	(12,832,327)	(21,314)	865,309	219,337,383
Capital assets, net	$ 241,014,063	$ (12,431,231)	$ (21,314)	$ -	$ 228,561,518

The University has a vacant administrative building with a net book value of $1,027,910 as of June 30, 2017 that is properly being carried at the lower of carrying value or fair market value.

Capital asset activities for the Foundation for the year ended June 30, 2017 were as follows:

	Balance June 30, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
Land and land improvements	$ 658,304	$ -	$ -	$ -	$ 658,304

NOTE 6 - UNEARNED REVENUE

Unearned revenues consist of the following as of June 30, 2017:

Tuition and fees	$ 3,093,527
Grants and contracts	1,870,658
Sales and services of educational departments	214,813
Auxiliary enterprises	237,955
Total	$ 5,416,953

NOTE 7 - NOTES PAYABLE

During the year ended June 30, 2014, the University entered into an installment purchase agreement for networking equipment with an original cost of $392,786. The related notes payable obligation was recorded at the present value of the future minimum installment payments, discounted using an applicable discount rate of 1.62%. The note was fully paid during Fiscal Year 2017.

NOTE 8 - CAPITAL LEASES PAYABLE

The University leases equipment under capital lease purchase contracts with an imputed rate of 10.67% to 22.84%. The capital leases payable are secured by the equipment being financed. The scheduled maturities of the capital leases are as follows:

	Principal	Interest	Total Payments
2018	$ 28,766	$ 17,243	$ 46,009
2019	32,387	13,622	46,009
2020	32,114	9,935	42,049
2021	35,713	6,336	42,049
2022	39,716	2,333	42,049
Total	$ 168,696	$ 49,469	$ 218,165

NOTE 9 - REVENUE BONDS PAYABLE

General

At June 30, 2017, revenue bonds payable consists of Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2016, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2015, Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2012, and Western Illinois University Auxiliary Facilities System Revenue Bonds, Series 2010.

Series 2016 Bonds

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

Proceeds from the sale of the Series 2015 Bonds were used to provide for the current refunding of the outstanding Series 2006 Bonds in the principal amount of $9,660,000 and to pay certain expenses related to the issuance of the bonds. The total principal amount was deposited into the Series 2006 Bond Account to redeem all of the Refunded Series 2006 bonds on their redemption date at a price equal to the principal amount thereof. As a result, the Series 2006 Bonds are considered defeased and the liability for that portion of the bonds has been removed from the University's Statement of Net Position.

Series 2015 Bonds

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

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

Series 2012 Bonds

On April 19, 2012, the Series 2012 Revenue Bonds were issued in the principal amount of $33,520,000. The Series 2012 bonds are due April 1, 2032, with annual principal payments ranging from $1,290,000 to $2,140,000 commencing on April 1, 2013 and semi-annual interest payments beginning April 1, 2013 at 3.00% to 4.20%.

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

Series 2010 Bonds

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

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

Advance Refunded Bonds

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

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Revenue Bonds Payable activities for the year ended June 30, 2017:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2010 Bonds	25,510,000	-	(1,120,000)	24,390,000	1,150,000
Series 2012 Bonds	26,980,000	-	(1,770,000)	25,210,000	1,845,000
Series 2015 Bonds	2,480,000	-	(600,000)	1,880,000	615,000
Series 2016 Bonds	8,990,000	-	(770,000)	8,220,000	845,000
Unamortized premium	1,128,062	-	(303,107)	824,955	242,266
	$ 65,088,062	$ -	$ (4,563,107)	$ 60,524,955	$ 4,697,266

Aggregate maturities of the bonds outstanding as of June 30, 2017 are as follows:

	Principal	Interest
2018	$ 4,455,000	$ 2,838,750
2019	4,600,000	2,657,189
2020	4,775,000	2,465,743
2021	4,305,000	2,263,965
2022	4,465,000	2,082,448
2023-2027	17,850,000	7,705,753
2028-2032	17,240,000	3,496,468
2033	2,010,000	132,660
	59,700,000	23,642,976
Unamortized premium	824,955	-
	$ 60,524,955	$ 23,642,976

None of the bonds described above constitute obligations of either the State of Illinois or the Board of Trustees of Western Illinois University, but together with interest thereon, are payable solely from and are collateralized by: a) the net revenues of the Western Illinois University Auxiliary Facilities System, b) certain pledged student fees, and c) a pledge of student tuition. Maximum annual debt service as defined for all outstanding revenue bonds is $7,293,750. The estimated debt service coverage ratio based on revenues generated from operations is 1.66. The future pledged revenues for principal and interest in Fiscal Year 2017 are $83,342,974. Pledged revenue coverage is 12.23 in Fiscal Year 2017. Pledged revenues have a term of commitment through 2033.

NOTE 10 - CERTIFICATES OF PARTICIPATION PAYABLE

General

At June 30, 2017, certificates of participation consist of Western Illinois University Series 2015 Certificates of Participation and Western Illinois University Series 2010 Certificates of Participation.

Series 2015 Certificates of Participation

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

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

Series 2010 Certificates of Participation

On March 11, 2010, the Series 2010 Certificates of Participation were issued in the principal amount of $11,585,000. The Series 2010 Certificates of Participation are due October 1, 2029 with annual principal payments ranging from $415,000 to $825,000 commencing October 1, 2010 and semi-annual interest payments beginning October 1, 2010 at 1.30% to 6.37%.

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

Debt Service Activity Requirements and Collateral

Following is a schedule depicting Certificates of Participation activities for the year ended June 30, 2017:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Series 2010	$ 8,890,000	$ -	$ (490,000)	$ 8,400,000	$ 505,000
Series 2015	15,100,000	-	(1,730,000)	13,370,000	1,785,000
Unamortized premium	560,040	-	(117,288)	442,752	93,451
Unamortized discount	(16,987)	-	3,689	(13,298)	(3,289)
	$ 24,533,053	$ -	$ (2,333,599)	$ 22,199,454	$ 2,380,162

Aggregate maturities of the certificates of participation outstanding as of June 30, 2017 are as follows:

	Principal	**Interest**
2018	$ 2,290,000	$ 904,688
2019	2,360,000	827,516
2020	2,435,000	745,875
2021	2,035,000	667,301
2022	2,090,000	592,625
2023-2027	8,200,000	1,616,445
2028-2030	2,360,000	229,988
	$ 21,770,000	$ 5,584,438
Unamortized premium	442,752	-
Unamortized discount	(13,298)	-
	$ 22,199,454	$ 5,584,438

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

NOTE 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, 2017, such accumulated benefits totaled $7,684,422.

Administrative and faculty unused sick leave may be accumulated up to a specified maximum, generally 360 calendar days. Unused and unpaid sick leave can be applied toward the service time requirements for computing retirement benefits. Civil service exempt and nonexempt employees have no specified maximum accumulation of unused sick leave days. One-half of any unused sick leave earned from January 1, 1984 and prior to January 1, 1998 can be received as a lump sum payment upon termination. At June 30, 2017, such accumulated benefits totaled $2,390,724. Compensated absences activity for the year ended June 30, 2017 was as follows:

Balance, beginning of year	$ 10,840,419
Deductions	(765,273)
Balance, end of year	10,075,146
Less: current portion	(1,450,934)
Balance, end of year - noncurrent portion	$ 8,624,212

NOTE 12 – NET POSITION

Net position balances by major categories at June 30, 2017 are as follows:

	University	Foundation
Net investment in capital assets	$ 146,523,057	$ 459,540
Restricted for:		
Nonexpendable	-	29,364,285
Expendable		
Auxiliary Facilities System		
Operations	3,562,549	-
Retirement of indebtedness	254,913	-
Renewals and replacements	23,405,367	-
Loans	1,690,061	-
Grants and contracts	99,679	-
Scholarships, research, instruction and other		13,570,429
Total expendable	29,012,569	13,570,429
Unrestricted	(15,742,053)	23,274,636
Total net position	$ 159,793,573	$ 66,668,890

NOTE 13 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

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

Benefits Provided

A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2016 can be found in the System's comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Contributions

The State of Illinois is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for Fiscal Year 2016 and 2017 respectively, was 12.69% and 12.53% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15.139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

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

Net Pension Liability

The net pension liability (NPL) was measured as of June 30, 2016. At June 30, 2016, SURS reported an NPL of $25,965,271,744.

Employer Proportionate Share of Net Pension Liability

The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $665,077,569 or 2.5614%. This amount should not be recognized in the financial statement. The net pension liability and total pension liability as of June 30, 2016 was determined based on the June 30, 2015 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during Fiscal Year 2016.

Pension Expense

At June 30, 2016 SURS reported a collective net pension expense of $2,566,164,865.

Employer Proportionate Share of Pension Expense

The employer proportionate share of collective pension expense should be recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during Fiscal Year 2016. As a result, the University recognized on-behalf revenue and pension expense of $65,730,053 for the fiscal year ended June 30, 2017, and is reported as part of nonoperating revenues (on-behalf payments for fringe benefits) and operating expenses (on-behalf payments).

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

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

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

	Deferred Outflow of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 14,215,882	$ 2,298,574
Changes in assumption	655,463,758	-
Net difference between projected and actual earnings on pension plan investments	795,528,330	-
Total	$ 1,465,207,970	$ 2,298,574

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future Pension Expenses:

Year Ending June 30	Net Deferred Outflows of Resources
2017	$ 539,536,680
2018	275,426,885
2019	401,520,624
2020	246,425,207
2021	-
Thereafter	-
Total	$ 1,462,909,396

Employer Deferral of Fiscal Year 2017 Pension Expense

The University paid $368,321 in federal, trust or grant contributions for the fiscal year ended June 30, 2017. These contributions were made subsequent to the pension liability date of June 30, 2016 and are recognized as Deferred Outflows of Resources as of June 30, 2017.

Assumptions and Other Inputs

Actuarial assumptions

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 15.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rates were based on the RP2014 Combined Mortality Table with projected generational mortality and a separate mortality assumption for disabled participants.

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

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2016, these best estimates are summarized in the following table:

Asset class	Target allocation	Weighted average long-term expected real rate of return
U.S. equity	23%	6.08%
Private equity	6%	8.73%
Non-U.S. equity	19%	6.95%
Global equity	8%	6.78%
Fixed Income	19%	1.17%
Treasury-inflation protected securities	4%	1.41%
Emerging markt debt	3%	4.44%
Direct real estate	4%	5.75%
REITS	6%	4.62%
Commodities	2%	4.23%
Hedged strategies	5%	4.00%
Opportunity fund	1%	6.54%
Total	100%	5.09%
Inflation		2.75%
Expected arithmetic returns		7.84%

Discount Rate

A single discount rate of 7.01% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 2.85% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the System's funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

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

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.01%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.01%	Current Single Discount Rate Assumption 7.01%	1% Increase 8.01%
$ 31,348,831,631	$ 25,965,271,744	$ 21,502,421,700

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

NOTE 14 - ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported payments made to the State Universities Retirement System on behalf of the University for its proportional share of the State's pension expense of $65,730,053 as described in Note 13. Substantially all employees participate in group health insurance plans administered by the State. The employer contributions to these plans for a majority of the University's employees are paid by the Department of Central Management Services on behalf of the University. The University reported group insurance on-behalf payments made to the Department of Central Management Services of $36,457,383 for the year ended June 30, 2017. The on-behalf payments amount that relates to State group health insurance is an allocation of estimated costs incurred by the Department of Central Management Services on behalf of the University. The total on-behalf payments of $102,187,436 are reported as nonoperating revenues and operating expenses.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

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

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

NOTE 16 - STATE OF ILLINOIS APPROPRIATIONS

On June 30, 2016, the General Assembly passed SB 2047, Public Act 99-524 that included a six-month stop gap budget for universities. The University received Fiscal Year 2017 appropriations of $31,389,000 from the Education Assistance Fund. The Public Act states that Fiscal Year 2017 appropriations may be used to pay prior year costs through December 31, 2016. The University fully spent the Fiscal Year 2017 appropriation for Fiscal Year 2016 costs. In addition, the spring semester awards made for Fiscal Year 2016 scholarships totaling $5,939,112 from the Illinois Student Assistance Commission were reimbursed to the University from the Fiscal Year 2017 Fund for the Advancement of Education appropriation. In accordance with GASB Statement No. 33, the revenues paid from Fiscal Year 2017 appropriations totaling $37,328,112 were recognized as revenues in Fiscal Year 2017 even though they were used to pay for Fiscal Year 2016 costs.

On July 6, 2017, the General Assembly passed SB 0006, Public Act 100-0021 that included an appropriation budget for universities. The University received Fiscal Year 2017 appropriations of $13,262,300 from the General Revenue Fund and $6,793,900 from the Education Assistance Fund. In addition, the awards made for Fiscal Year 2017 scholarships totaling $10,940,735 from the Illinois Student Assistance Commission were reimbursed to the University from the Fiscal Year 2017 Fund for the Advancement of Education appropriation. The effective date of Public Act 100-0021 was July 6, 2017, therefore, in accordance with GASB Statement No. 33, the revenues paid from Fiscal Year 2017 appropriations totaling $30,996,935 were not recognized as revenues and receivables at June 30, 2017 even though they were used to pay for Fiscal Year

2017 costs.

NOTE 17 - INSURANCE

Through its participation in the Illinois Public Higher Education Cooperative (IPHEC), the University has contracted with commercial carriers to provide various insurance coverages, including educators' legal and other general liability insurance. The University's liability coverages have a $250,000 to $350,000 deductible per occurrence. Additionally, the University purchases property insurance coverage for the replacement value of University real property and contents. Settled claims have not exceeded commercial coverage in any of the three preceding years.

NOTE 18 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2017 for the University are summarized as follows:

	Compensation & Benefits	Supplies & Services	Scholarships & Fellowships	Depreciation	Total
Instruction	$ 55,115,010	$ 1,858,369	$ -	$ -	$ 56,973,379
Research	2,485,148	767,199	-	-	3,252,347
Public service	6,205,345	3,396,124	-	-	9,601,469
Academic support	11,489,126	2,653,432	-	-	14,142,558
Student services	9,646,546	9,246,861	-	-	18,893,407
Institutional support	9,349,717	3,861,285	-	-	13,211,002
Operation and maintenance of plant	7,412,563	5,300,112	-	-	12,712,675
Student aid expense	-	-	10,688,107	-	10,688,107
Auxiliary enterprises	13,485,935	22,592,285	-	-	36,078,220
Staff benefits	6,854,422	-	-	-	6,854,422
Depreciation	-	-	-	15,023,275	15,023,275
On-behalf payments	102,187,436	-	-	-	102,187,436
Other operating expenses	-	24,522	-	-	24,522
Total	$ 224,231,248	$ 49,700,189	$ 10,688,107	$ 15,023,275	$ 299,642,819

NOTE 19 - CONTRACT WITH WESTERN ILLINOIS UNIVERSITY FOUNDATION

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

For Fiscal Year 2017, the Foundation did not specifically reimburse the University for $1,322,227 of personal service costs, facility use and other costs provided by the University. However, the Foundation gave the University $4,469,714 for Fiscal Year 2017, in totally unrestricted funds or funds restricted as to department but generally available for ongoing University operations.

During the year ended June 30, 2017, the University and Foundation had the following inter-entity transactions:

	University	Foundation
Nonoperating Revenues - Gifts	$ 600,664	-
Operating Expenses:		
Instruction	-	$ 309,271
Research	-	49,998
Academic support	-	44,552
Student services	-	54,102
Institutional support	-	112,250
Operation and maintenance of plant	-	15,706
Student aid expense	-	14,785
	$ 600,664	$ 600,664

NOTE 20 - COMMITMENTS AND CONTINGENCIES

Claims and Litigation

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

Government Grants

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

NOTE 21 – PRIOR PERIOD ADJUSTMENT

The University corrected its accounting presentation in its final financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* to show all non-capital assets associated with the University's Auxiliary Facilities System (System) as restricted assets and reclassified the System's portion of the University's net position to expendable restricted net position. The University restated the classification of its net position balance at July 1, 2016 between Unrestricted and Restricted Expendable Net Position as follows:

NET POSITION	As Previously Reported	Adjustment	As Restated
Restricted – Expendable	$ 1,876,455	$23,698,172	$25,574,627
Unrestricted	$15,796,303	($23,698,172)	($ 7,901,869)

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION – PENSION (UNAUDITED)
For the Year Ended June 30, 2017

State Universities Retirement System of Illinois
Schedule of Share of Net Pension Liability

	2014	2015	2016
(a) Proportion percentage of the collective net pension liability	0%	0%	0%
(b) Proportion amount of the collective net pension liability	$ -	$ -	$ -
(c) Portion of nonemployer contributing entities' total proportion of collective net pension liability associated with employer	586,649,047	628,376,573	665,077,569
Total (b) + (c)	586,649,047	628,376,573	665,077,569
Employer DB covered-employee payroll	$ 97,810,421	$ 96,318,804	$ 92,521,052
Proportion of collective net pension liability associated with employer as a percentage of DB covered-employee payroll	599.78%	652.39%	718.84%
SURS plan net position as a percentage of total pension liability	44.39%	42.37%	39.57%

Schedule of Contributions

	2014	2015	2016	2017
Federal, trust, grant, and other contribution	$ 305,959	$ 329,255	$ 360,777	$ 368,321
Contribution in relation to required contribution	305,959	329,255	360,777	368,321
Contribution deficiency (excess)	-	-	-	-
Employer covered payroll	$ 121,080,877	$ 120,107,278	$ 115,835,988	$ 106,343,389
Contributions as a percentage of covered payroll	0.25%	0.27%	0.31%	0.35%

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

STATE OF ILLINOIS
WESTERN ILLINOIS UNIVERSITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
PENSION (UNAUDITED)
For the Year Ended June 30, 2017

1. Changes of Benefit Terms
   There were no benefit changes recognized in the Total Pension Liability as of June 30, 2016.

2. Changes of Assumptions
   In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.
   - Mortality rates. Change from the RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
   - Salary increase. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.
   - Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
   - Early retirement rates. Change to a slight increase to the rates at ages 55 and 56.
   - Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
   - Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
   - Dependent assumption. Maintain the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouse.

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Western Illinois University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Illinois University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 20, 2018. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

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

University's Response to the Finding

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

Purpose of this Report

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

SIGNED ORIGINAL ON FILE
Chicago, Illinois
February 20, 2018

Current Finding – *Government Auditing Standards*

2017-001 – Inadequate Control over Reporting Restricted Accounts

The Western Illinois University (University) did not ensure restrictions from revenue bond covenants were properly reflected within the University's financial statements.

As of June 30, 2017, the University's Auxiliary Facilities System (System) consisted of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- multi-purpose facilities, such as Western Hall and the University Student Union building;
- recreation-related facilities, such as the Spencer Student Recreation Center and the WIU Harry Mussatto golf course; and
- residence halls

As of June 30, 2017, the University had outstanding revenue bond issues (Series 2010, Series 2012, Series 2015, and Series 2016) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" where the revenues generated by the System could only be used for the following purposes:

1) expenses necessary for the operation and reasonable upkeep and repair of the System;
2) payment of principal and/or interest amounts when due;
3) amounts set aside limited to and used for financing the costs of renovating or replacing capital assets of the System beyond ordinary maintenance and operation of the System;
4) amounts set aside limited to and used for constructing new space or additions to existing facilities within the System; and
5) amounts set aside limited to acquiring movable equipment to be installed in the facilities constituting the System;

with any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to either fund the redemption of previously issued bonds when callable or the purchase of the University's bonds on the open market. Notably, resources within the System are unavailable for use by the University outside of the System.

During testing, we noted the University had controls to segregate the System's assets and include its net position with the University's financial statements; however, the University had not designed its internal controls to ensure accurate reporting of restricted assets and restricted net position under generally accepted accounting principles. The University originally designed the control due to the implementation of Governmental Accounting Standards Board Statement No. 34 by drawing inferences from the implementation guidance published by the Governmental

Current Finding – *Government Auditing Standards* (Continued)

2017-001 – Inadequate Control over Reporting Restricted Accounts (Continued)

Accounting Standards Board that was not necessarily on point with the University's unique "closed system" situation and from discussions with other universities with closed systems.

Historically, auditors did not take exception to the design flaw until the current year. After this issue was noted during the current year, the Auditor General's Office and the Office of the State Comptroller consulted with staff of the Governmental Accounting Standards Board. After this consultation, the University (and all universities with closed systems) changed its accounting presentation in its final financial statements to show all non-capital assets associated with the System, totaling $32,776,955 as restricted assets and reclassified the System's portion of the University's net position to expendable restricted net position, totaling $27,222,829.

Governmental Accounting Standards Board Statement No. 34, Paragraph 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires net position should be reported as restricted when constraints imposed upon the use of the net position are externally imposed by creditors, such as through debt covenants. Further, Governmental Accounting Standards Board Statement No. 34, Paragraph 99, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires the reporting of restricted assets when constraints imposed upon the use of the net position are externally imposed by creditors which changes the nature or normal understanding of the availability of the asset, such as assets that cannot be used to extinguish liabilities outside of those allowed by the bond covenants.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance that revenues, expenses, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources.

University officials stated they thought they were properly reporting the Auxiliary Facilities System net position and asset balances in accordance with generally accepted accounting principles.

Failure to report the non-capital assets and net position related to the System as restricted resulted in a material misstatement of the University's financial statements and reduced the overall reliability of Statewide financial reporting. (Finding Code No. 2017-001)

Current Finding – *Government Auditing Standards* (Continued)

2017-001 – Inadequate Control over Reporting Restricted Accounts (Continued)

RECOMMENDATION

We recommend the University periodically review its internal controls over financial reporting to provide assurance accounts are properly classified under generally accepted accounting principles.

UNIVERSITY RESPONSE

The University agrees with the finding. The University will periodically review its internal controls over financial reporting to ensure accounts are properly classified in conformity with generally accepted accounting principles.

A. FINDING Failure to apply accounting and financial reporting standards for impairment of capital assets

During the previous audit, the University did not evaluate changes in circumstances affecting capital assets to determine whether impairment occurred and did not properly account for and report capital asset impairments in the financial statements.

During the current audit, we noted that effective February 2017, the University amended its capital asset policy to include evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred by identifying potential impairments and testing for impairment. Our current year testing identified the University properly accounted for and disclosed capital asset impairments in the financial statements.