

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2007**

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

STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
FINANCIAL AUDIT

For the Year Ended June 30, 2007

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**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
FINANCIAL AUDIT**

**For the Year Ended June 30, 2007**

**AGENCY OFFICIALS**

President	Dr. Elnora D. Daniel
Vice President Administration and Financial Affairs	Vacant (1/1/08 to present)
Vice President Administration and Financial Affairs	Mr. Alan D. Robertson, CPA (07/01/06 to 12/31/07)
Director of Accounting	Mr. Jamshaid Nasim
Director of Internal Audit	Mr. John C. Meehan

Agency offices are located at:

9501 South Martin Luther King Drive  
Chicago, IL 60628

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
FINANCIAL STATEMENT REPORT  
SUMMARY**

The audit of the accompanying basic financial statements of Chicago State University and its discretely presented component unit was performed by De Raimo Hillger & Ripp.

Based on their audit, the auditors expressed unqualified opinions on Chicago State University's basic financial statements.

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 41 to 44 of this report, as finding 07-1, (Financial Statement Adjustments), finding 07-2, (Generally Accepted Accounting Principles Not Properly Applied to Voluntary Nonexchange Transactions), and finding 07-3 (Uncollateralized Deposit Accounts and Untimely Bank Reconciliations). The auditors also consider finding 07-1 and 07-2 to be material weaknesses.

**EXIT CONFERENCE**

Chicago State University waived a formal exit conference in a letter dated March 19, 2008.

University officials provided responses to the recommendations in a fax dated March 21, 2008.

## DE RAIMO HILLGER & RIPP

Certified Public Accountants & Business Consultants

655 N. La Grange Road • Suite 102 • Frankfort, IL 60423-2912 • Telephone (815) 469-7500 • Facsimile: (815) 469-6970

JOHN J. DE RAIMO  
FERNE M. HILLGER  
ROBERT J. RIPP

### INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Chicago State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of Chicago State University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from Chicago State University's basic financial statements as of and for the year ended June 30, 2006, which were audited by other auditors, whose report dated December 18, 2006, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chicago State University and its discretely presented component unit as of June 30, 2007 and the respective changes in net assets and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 21, 2008 on our consideration of Chicago State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago State University's basic financial statements. The accompanying supplementary information, as listed in the Table of Contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The University Auxiliary Facilities Revenue Bond Fund, Series 1998 financial statements on pages 34 – 36 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in relation to the basic financial statement taken as a whole. The "Unaudited" supplementary information on pages 37 and 38 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

*De Raimo Hillger & Ripp*

March 21, 2008

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Introduction**

This section of the Chicago State 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, 2007, with fiscal year 2006 prior year data presented for comparative purposes. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

This MD&A focuses on the University and excludes the discretely presented Chicago State University Foundation, a component unit of the University. MD&A for the component unit is included in its separately issued financial statements. Refer to footnote 1 for information on how to obtain the financial statements of the component unit.

**Background**

Chicago State University, a public, comprehensive, urban institution of higher learning, strives for excellence in teaching, research, creative expression and community service. The University is located in a residential community on the south side of Chicago, approximately 12 miles south of downtown Chicago. The 161-acre campus has contemporary buildings attractively placed in a carefully preserved woodland setting. The mission of the University is to: 1) provide access to higher education for residents of the region, the state and beyond, with an emphasis on meeting the educational needs, undergraduate through doctoral levels, of promising graduates from outstanding secondary schools as well as educating students where academic and personal growth may have been inhibited by lack of economic, social, or educational opportunity; and 2) produce graduates who are responsible, discerning, and informed global citizens with a commitment to lifelong-learning and service.

The University enrolled approximately 6,500 doctorate, graduate and undergraduate students during Spring 2007 and employs approximately 900 employees consisting of faculty, civil service and administrators. The University offers a diverse range of degree programs from baccalaureate to graduate levels. The University confers approximately 900 graduate and undergraduate degrees per annum

**Financial Highlights**

The University's financial position remained strong at June 30, 2007, with assets of \$175.5 million and liabilities of \$47.3 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by \$15.9 million in fiscal 2007 to \$128.1 million at June 30, 2007. The increase in net assets is primarily attributable to investments in capital assets and increased liquidity compared to the prior year.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Financial Highlights (continued)**

Changes in net assets represent the operating activities of the University, which results from revenues, expenses, gains and losses, and is summarized for the years ended June 30 as follows:

	<u>2007</u>	<u>2006</u>
Total revenues	\$ 133,068,662	\$ 141,242,683
Total expenses	117,131,377	107,611,929
Increase in net assets	<u>\$ 15,937,285</u>	<u>\$ 33,630,754</u>

Fiscal 2007 revenues decreased \$8.2 million or 6% to \$133.1 million and total expenditures increased \$9.5 million or 9% to \$117.1 million, compared to the prior year. The decline in total revenue reflects \$16.9 million of state capital appropriations and grants revenue in 2007 compared to \$28.3 million in 2006, an \$11.4 million difference, due to the completion of the Library and substantial completion of the Convocation Center. Overall, the University experienced an increase in net assets of \$15.9 million to \$128.1 million primarily the result of capital appropriation revenue received for the construction of the Convocation Center.

**Using the Financial Statements**

The University's basic financial statements include three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows; as well as the Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35. The financial statements encompass the University and its discretely presented component unit.

**Statement of Net Assets**

The Statement of Net Assets presents the assets and liabilities of the University using the accrual basis of accounting and reflects the financial position of the University at the end of the fiscal year. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the University, while the change in net assets that occurs over time is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost, less an allowance for depreciation. Net Assets has been further categorized as (i) Invested in capital assets, net of related debt, (ii) Restricted nonexpendable – net assets that are permanently restricted by externally imposed stipulations, (iii) Restricted expendable – net assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Statement of Net Assets (continued)**

stipulations or that expire by the passage of time and (iv) Unrestricted -- net assets that are not subject to externally imposed stipulations and may be used at the discretion of the governing board to meet current expenses for any purpose.

A summary of the University's assets, liabilities and net assets for the year ended June 30, 2007 in comparison with June 30, 2006 is as follows:

	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Current assets	\$ 28,739,725	\$ 19,559,388
Noncurrent assets:		
Capital assets, net	145,793,617	136,396,279
Other	921,409	873,037
<b>Total Assets</b>	<u>175,454,751</u>	<u>156,828,704</u>
<b>Liabilities:</b>		
Current liabilities	18,974,710	14,732,513
Noncurrent liabilities	28,353,199	29,906,634
<b>Total Liabilities</b>	<u>47,327,909</u>	<u>44,639,147</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	122,794,951	112,468,827
Restricted - expendable	11,865,806	4,156,022
Unrestricted	(6,533,915)	(4,435,292)
<b>Total Net Assets</b>	<u>\$ 128,126,842</u>	<u>\$ 112,189,557</u>

A review of the University's Statement of Net Assets at June 30, 2007 and 2006 shows that the University maintains a strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, and conservative use of debt.

Current assets increased by \$9.2 million to \$28.7 million chiefly due to the \$7.7 million increase in cash and cash equivalents, a \$1.5 million increase in the receivable balance of the State General Revenue Fund Appropriation and the \$947 thousand increase in prepaid expenses and other assets. Cash and cash equivalents were up due to the timing of payment of \$5.0 million of accounts payable and accrued liabilities between year-ends and reflect the increase in Truth-in-tuition reserves. The balance in State appropriations increased \$1.5 million to \$1.8 million, due to the timing of expenditures processing. Prepaid expenses and other assets increased by \$947 thousand due to a grant funds advanced funding for completion of the University Convocation Center.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The University's total assets increased \$18.7 million to \$175.5 million at June 30, 2007 due to the increase in Capital Assets, net of depreciation, which increased by \$9.4 million for the construction of the new Convocation Center.

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's revenue and expense as operating or non-operating. Changes in total net assets as reflected in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues and expenses incurred by the University, both operating and non-operating.

Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value. The major sources of the operating revenues of the University are student tuition and fees, grants, and auxiliary revenues.

Non-operating revenues result from non-exchange transactions and are revenues received for which goods and services are not provided in return. The significant source of non-operating revenues that the University relies on to provide funding for operations is State appropriations and on-behalf payments.

A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2007 in comparison with the year ended June 30, 2006 is as follows:

	<b><u>2007</u></b>	<b><u>2006</u></b>
Operating revenues	\$ 59,760,949	\$ 60,869,158
Operating expenses	(115,748,480)	(106,102,036)
Operating loss	(55,987,531)	(45,232,878)
Net non-operating revenues	55,040,031	50,647,950
Income before other revenues, expenses, gains or losses	(947,500)	5,415,072
Other revenues, expenses, gains or losses	16,884,785	28,215,682
Increase in net assets	15,937,285	33,630,754
Net assets, beginning of year	112,189,557	78,558,803
Net Assets, end of year	\$ <u>128,126,842</u>	\$ <u>112,189,557</u>

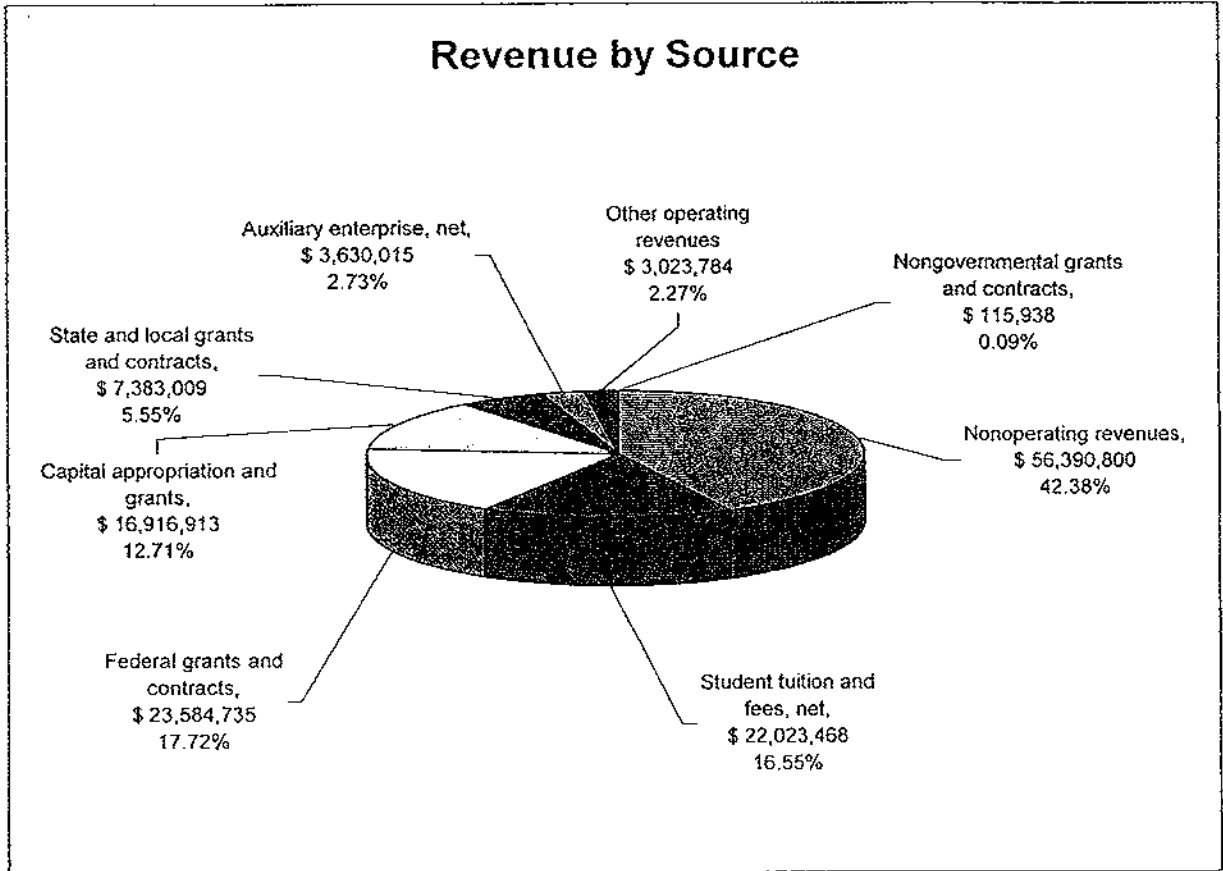
The following is a graphic illustration of revenues by source, which were used to fund the University's operations for the year ended June 30, 2007. The most significant source of revenue was the State of Illinois, totaling \$73,253,669 which included State appropriations of \$41,160,000, State fringe benefits of \$15,176,756, and capital appropriations and grants expended of \$16,916,913 or combined 55% percent of total revenue.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2007

Statement of Revenues, Expenses and Changes in Net Assets (continued)



**STATE OF ILLINOIS  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

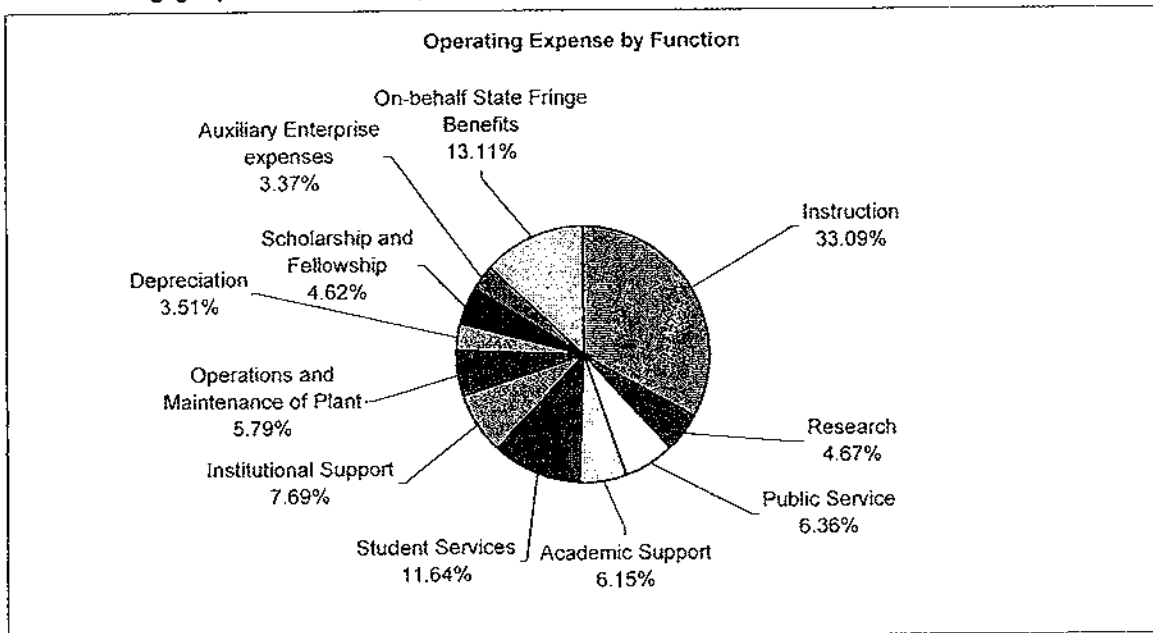
**FOR THE YEAR ENDED JUNE 30, 2007**

**Statement of Revenues, Expenses and Changes in Net Assets (continued)**

A summary of the University's operating expenses for the year ended June 30, 2007 in comparison with the year ended June 30, 2006 is as follows:

	<u>2007</u>	<u>2006</u>
<b>Operating Expenses:</b>		
Educational and General		
Instruction	\$ 38,298,566	\$ 36,655,375
Research	5,405,867	3,863,448
Public Service	7,359,554	6,192,057
Academic Support	7,118,467	6,491,124
Student Services	13,468,500	11,056,396
Institutional Support	8,903,062	9,336,983
Operations and Maintenance of Plant	6,701,614	6,402,239
Depreciation	4,067,182	3,348,005
Scholarship and Fellowship	5,346,202	5,075,461
Auxiliary Enterprise Expenses	3,902,710	4,278,278
On-behalf State Fringe Benefits	15,176,756	13,402,670
<b>Total Operating Expenses</b>	<b>\$ 115,748,480</b>	<b>\$ 106,102,036</b>

The following graphic illustration presents the operating expenses by function.



STATE OF ILLINOIS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2007

**Statement of Revenues, Expenses and Changes in Net Assets (continued)**

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

Student tuition and fee revenue decreased by \$414 thousand to \$22.0 million due to a decrease in graduate and undergraduate credit hours taken in fiscal 2007. State and local grant revenues were up \$1.2 million due to increases in various grants received from several state sources for the construction of the Convocation Center. Private grants decreased \$360 thousand mainly in the Research grants area by \$270 thousand. Other income decreased by \$126 thousand mainly in Continuing Education revenues.

Total operating expenses, increased \$9.6 million or 9% to \$115.7 million. Expenses associated with instructional support increased by \$1.6 million or 4% due to increases in equipment expenses, particularly library books. Research increased \$1.5 million or 40% to \$5.4 million due to increased funding of the MBRS grant, as well as other new scientific grants such as the new Fuel Cell research grant. Academic Support increased \$627 thousand or 10% due to cost in Library Services for Library Books, Equipment, \$272 thousand, and Contractual, \$112 thousand. Student services expenditures increased \$2.4 million or 22% to \$13.5 million due to additional expenses of the Chicagoland Regional College Program grant. Institutional Support expenses decreased 5% to \$8.9 million compared to the prior year because of a new \$250 thousand disaster recovery grant. Operation and Maintenance of Plant expenditures increased by \$299 thousand or 5% to \$6.7 million due to the acquisition of real estate. Scholarship and Fellowship expenses were up \$271 thousand to \$5.3 million due to higher state and federal awards. Auxiliary enterprise expenditures decreased 9% to \$3.9 million due to higher than normal spending related to the bookstore relocation, parking improvements and central stores activity the prior year.

Net non-operating revenue increased \$4.4 million to \$55.0 million because the state appropriation increased \$2.5 million to \$41.2 million, and fringe benefits paid on behalf of the university increased by \$1.8 to \$15.2 million. Revenues from Capital appropriations and grants decreased by \$11.3 million to \$16.9 million. The decrease is associated primarily with the construction of the convocation center and the completion of the new academic Library.

The University chooses to report expenses by functional classification in the Statement of Revenues, Expenses and Changes to Net Assets. The expenses are also reported by natural classification in Note 7, on page 29.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Statement of Cash Flows**

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. This statement classifies sources and uses of cash into the categories defined in GASB No. 9. The statement is divided into six parts. The first part reports operating cash flows and shows the net cash used by operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section shows cash flows from capital and related financing activities. This section lists the cash used for the acquisition and construction of capital projects and related items. The fourth section reflects the cash flows from investing and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used in operations to the net operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets. The sixth section discloses the noncash investing, capital and noncapital financing activities.

A summary of the statement of cash flows for the years ended June 30 is as follows:

	<u>2007</u>	<u>2006</u>
Cash provided by (used in):		
Operating activities	\$ (33,627,577)	\$ (25,123,987)
Noncapital financing activities	39,680,074	41,965,930
Capital and related financing activities	1,577,353	(9,950,126)
Investing activities	54,044	57,071
Net change in cash	7,683,894	6,948,888
Cash, beginning of year	10,305,846	3,356,958
Cash, end of year	<u>\$ 17,989,740</u>	<u>\$ 10,305,846</u>
	<u>2007</u>	<u>2006</u>
Operating loss	\$ (55,987,531)	\$ (45,232,878)
Noncash expenses included in operating loss	19,243,938	16,750,675
Net change in assets and liabilities	3,116,016	3,358,216
Net cash used in operating activities	<u>\$ (33,627,577)</u>	<u>\$ (25,123,987)</u>

**Economic Factors that will affect the Future**

Looking forward into the future, the management of the University believes it is well positioned to continue its strong financial condition and level of excellence in service to its constituents. A crucial element to the University's future will continue to be its relationship with the State of Illinois as the University relies on State appropriations to finance its higher education mission. The University's overall financial situation is strong and reflects prudent use of financial resources, including careful cost control, management of appropriated operating and capital resources. While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather all known economic uncertainties.

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2007**

**(With Comparative Totals as of June 30, 2006)**

	2007		2006	
	University	Component Unit	University	Component Unit
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents (Note 2)	\$ 17,989,740	\$ 681,740	10,305,846	\$ 614,533
Cash and cash equivalents-restricted	-	1,821,451	-	2,771,389
Certificate of deposit	-	177,689	-	-
Balance in State Appropriation	1,774,527	-	294,601	-
Accounts receivable, net (Note 3)	7,753,547	-	8,658,800	378,538
Inventories (Note 1)	34,718	244,798	59,592	-
Loans and notes receivable, net	17,587	-	17,523	-
Prepaid expenses and other assets	1,169,606	-	223,026	-
<b>Total Current Assets</b>	<b>28,739,725</b>	<b>2,925,678</b>	<b>19,559,388</b>	<b>3,764,460</b>
<b>Non-current Assets</b>				
Pledges receivable	-	916,082	-	139,698
Certificate of deposits - restricted	-	696,969	-	-
Endowment investments	-	1,977,048	-	1,774,769
Loans and notes receivable, net	921,409	-	873,037	-
Capital assets, net (Note 4)	145,793,617	-	136,396,279	-
<b>Total Non-current Assets</b>	<b>146,715,026</b>	<b>3,590,099</b>	<b>137,269,316</b>	<b>1,914,467</b>
<b>Total Assets</b>	<b>175,454,751</b>	<b>6,515,777</b>	<b>156,828,704</b>	<b>5,678,927</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	11,461,964	1,107,182	6,879,017	2,471,390
Accrued wages	1,872,121	-	2,085,177	-
Deferred revenue (Note 5)	889,906	5,000	1,617,160	-
Long-term liabilities-current portion (Note 6)	4,750,719	6,058	4,151,159	-
<b>Total Current Liabilities</b>	<b>18,974,710</b>	<b>1,118,240</b>	<b>14,732,513</b>	<b>2,471,390</b>
<b>Non-current Liabilities</b>				
Accrued compensated absences (Note 6)	6,170,378	-	6,459,426	-
Performance bonds notes payable (Note 6)	1,514,714	-	2,216,677	-
Bonds payable (Note 6)	20,040,000	-	20,860,000	-
Premium on bonds (Note 6)	348,075	-	370,531	-
Capital leases payable	280,032	9,242	-	-
<b>Total Non-current Liabilities</b>	<b>28,353,199</b>	<b>9,242</b>	<b>29,906,634</b>	<b>-</b>
<b>Total Liabilities</b>	<b>47,327,909</b>	<b>1,127,482</b>	<b>44,639,147</b>	<b>2,471,390</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	122,794,951	-	112,468,827	-
<b>Restricted for:</b>				
<b>Nonexpendable</b>				
Endowments	-	2,117,156	-	1,871,390
<b>Expendable</b>				
Direct Programs and Scholarships	-	2,825,653	883,000	886,367
Research and instructional department uses	1,597,714	-	115,099	-
Loans	890,181	-	840,778	-
Capital projects	6,310,911	-	-	-
Debt service	3,067,000	-	2,317,145	-
<b>Unrestricted</b>	<b>(6,533,915)</b>	<b>445,486</b>	<b>(4,435,292)</b>	<b>449,780</b>
<b>Total Net Assets</b>	<b>\$ 128,126,842</b>	<b>\$ 5,388,295</b>	<b>\$ 112,189,557</b>	<b>\$ 3,207,537</b>

The accompanying notes are an integral part of these financial statements.

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2007**  
**(With Comparative Totals for the Year Ended June 30, 2006)**

	2007		2006	
	University	Component Unit	University	Component Unit
<b>OPERATING REVENUES:</b>				
Student tuition and fees (net of scholarship allowances of \$ 7,573,293 )	\$ 22,023,468	\$ -	\$ 22,437,090	\$ -
Federal grants and contracts	23,584,735	-	24,538,317	-
State and local grants and contracts	7,383,009	-	6,168,150	-
Nongovernmental grants and contracts	115,938	-	475,457	-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ 13,664)	3,630,015	-	4,100,582	-
Other operating revenues	3,023,784	430,998	3,149,562	429,857
Total operating revenues	59,760,949	430,998	60,869,158	429,857
<b>OPERATING EXPENSES:</b>				
Educational and General				
Instruction	38,298,566	-	36,655,375	-
Research	5,405,867	-	3,863,448	-
Public service	7,359,554	-	6,192,057	-
Academic support	7,118,467	-	6,491,124	-
Student services	13,468,500	-	11,056,396	-
Institutional support	8,903,062	1,235,529	9,336,983	725,671
Operations and maintenance of plant	6,701,614	-	6,402,239	-
Depreciation	4,067,182	-	3,348,005	-
Scholarship and fellowship	5,346,202	211,965	5,075,461	410,913
Auxiliary enterprise expenses	3,902,710	-	4,278,278	-
On-behalf State fringe benefits (See Note 8)	15,176,756	-	13,402,670	-
Total operating expenses	115,748,480	1,447,494	106,102,036	1,136,584
Operating loss	(55,987,531)	(1,016,496)	(45,232,878)	(706,727)
<b>NONOPERATING REVENUES (EXPENSES):</b>				
State appropriations	41,160,000	-	38,660,300	-
State fringe benefits	15,176,756	-	13,402,670	-
Gifts, contributions and grants	-	2,934,204	-	990,097
Investment income	54,044	300,140	57,071	100,973
Interest on capital asset - related debt	(1,350,769)	-	(1,472,091)	-
Other nonoperating revenues (expenses)	-	(41,408)	-	(14,611)
Net nonoperating revenues	55,040,031	3,192,936	50,647,950	1,076,459
Income (loss) before other revenues, expenses, gains, or losses	(947,500)	2,176,440	5,415,072	369,732
<b>OTHER REVENUES, EXPENSES, GAINS OR LOSSES:</b>				
Capital appropriations and grants	16,916,913	-	28,253,484	-
Endowment contributions	-	4,318	-	17,198
Loss on disposal of capital assets	(32,128)	-	(37,802)	-
Total other revenues, expenses, gains and losses	16,884,785	4,318	28,215,682	17,198
Increase in net assets	15,937,285	2,180,758	33,630,754	386,930
<b>NET ASSETS</b>				
Net assets-beginning of year	112,189,557	3,207,537	78,558,803	2,820,607
Net assets-end of year	\$ 128,126,842	\$ 5,388,295	\$ 112,189,557	\$ 3,207,537

The accompanying notes are an integral part of these financial statements.



**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2007**  
**(With Comparative Totals for the Year Ended 2006)**

	2007		2006	
	University	Component Unit	University	Component Unit
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Tuition and fees	\$ 21,290,176	\$ -	\$ 22,200,727	\$ -
Grants and contracts	31,994,973	-	30,432,087	-
Payment to suppliers for goods and services	(24,837,750)	(3,247,607)	(18,975,620)	(1,309,134)
Payments to employees for services	(60,293,408)	-	(56,922,372)	-
Payments for scholarships and fellowships	(6,179,983)	(211,965)	(6,992,343)	(264,017)
Loans issued to students and employees	(48,436)	-	(96,568)	-
Sales and service of auxiliary enterprises	3,630,015	-	4,100,582	-
Other receipts	816,836	88,498	1,129,520	99,582
Net cash used in operating activities	<u>(33,627,577)</u>	<u>(3,371,074)</u>	<u>(25,123,987)</u>	<u>(1,473,569)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State appropriations	39,680,074	-	41,965,930	-
Gifts, contributions and grants	-	8,645,315	-	7,794,042
Other noncapital financing activities	-	(5,500,914)	-	(4,162,920)
Net cash provided by noncapital financing activities	<u>39,680,074</u>	<u>3,144,401</u>	<u>41,965,930</u>	<u>3,631,122</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Purchases of capital assets	(8,842,984)	(5,008)	(15,070,688)	-
Capital Grants	12,556,400	-	7,000,000	-
Principal paid on capital debt and leases	(469,687)	-	(785,079)	-
Interest paid on capital debt and leases	(1,666,376)	-	(1,094,359)	-
Net cash provided (used) by capital financing activities	<u>1,577,353</u>	<u>(5,008)</u>	<u>(9,950,126)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and/or dividends on investments	54,044	79,656	57,071	74,966
Proceeds from sales and maturities of investments	-	1,365,251	-	2,045,846
Net decrease (increase) in certificates of deposit investments	-	(734,960)	-	305,199
Purchase of investments and other	-	(1,360,997)	-	(2,048,979)
Net cash provided (used) by investing activities	<u>54,044</u>	<u>(651,050)</u>	<u>57,071</u>	<u>377,032</u>
<b>NET INCREASE (DECREASE) IN CASH and CASH EQUIVALENTS</b>				
Cash and Cash Equivalents-beginning of the year	7,683,894	(882,731)	6,948,888	2,534,585
Cash and Cash Equivalents-end of the year	<u>\$ 17,989,740</u>	<u>\$ 2,503,191</u>	<u>\$ 10,305,846</u>	<u>\$ 3,385,922</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>				
Operating loss	\$ (55,987,531)	\$ (1,016,496)	\$ (45,232,878)	\$ (706,727)
Capital lease payments	-	5,008	-	-
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation expense	4,087,182	-	3,348,005	-
State fringe benefits	15,176,756	-	13,402,670	-
Other income transferred from fiscal agent account	-	(342,500)	-	(330,275)
Net changes in assets and liabilities:				
Accounts receivables, net	905,253	353,060	(1,306,378)	(292,688)
Inventories	24,874	-	6,901	-
Prepaid expenses and other assets	(946,580)	-	4,205,843	-
Loans to students and employees	(48,436)	-	(96,568)	-
Accounts payable	4,582,947	(2,375,146)	536,937	(143,879)
Accrued wages	(213,056)	5,000	212,635	-
Deferred revenues	(727,254)	-	320,178	-
Compensated absences	(461,732)	-	(521,332)	-
Net cash used by operating activities	<u>\$ (33,627,577)</u>	<u>\$ (3,371,074)</u>	<u>\$ (25,123,987)</u>	<u>\$ (1,473,569)</u>
<b>NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES</b>				
Capital appropriations	\$ 15,402,178	\$ -	\$ 21,253,484	\$ -
Unrealized gains (losses) on investments	-	99,608	-	(12,771)
State fringe benefits	15,176,756	-	13,402,670	-
Total noncash investing, capital and noncapital financing activities	<u>\$ 30,578,934</u>	<u>\$ 99,608</u>	<u>\$ 34,656,154</u>	<u>\$ (12,771)</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1 – Summary of Significant Accounting Policies**

**Nature of Operations** – Chicago State University (the “University”) is a public, comprehensive, urban institution of higher learning located on the south side of Chicago. The University serves the State, national and international communities by providing its students with academic instruction, by conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to residents of the region, the State of Illinois and beyond.

Chicago State University was established in 1867 as an experimental teacher-training school. The Chicago State University Board of Trustees, established in January 1996 by an act of the Illinois General Assembly, governs the University. The Board consists of seven members appointed by the Governor and one student member elected by the student population.

**Reporting Entity** – The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity* and amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of all agencies of Chicago State University, as the primary government, the accounts of the Chicago State University Foundation, Inc. (the “Foundation”), and the accounts of the System Revenue Bond Fund, Series of 1998.

The Chicago State University Foundation was incorporated in December, 1968, as an independent, charitable, educational, non-profit 501(c)(3) corporation with the sole purpose of raising funds, for the University, to support programs and initiatives for which State general operating funds are not available. In addition, University employees and facilities are used for virtually all activities of the Foundation. Accordingly, the Foundation is reported as a discretely presented component unit in the University’s financial statements. Separate financial statements for the Foundation may be obtained at the Foundation’s administrative office: Executive Director, Chicago State University Foundation, Cook Administration Building, 9501 South Martin Luther King Drive, Chicago, Illinois, 60628.

The University (including the Foundation) 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 (CAFR).

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Financial Statement Presentation** – The University follows the financial statement presentation requirements prescribed by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. This statement requires the University's resources be classified into net asset categories and reported in the Statement of Net Assets. These categories are defined as (a) Invested in capital assets, net of related debt (b) Restricted nonexpendable – net assets restricted by externally imposed stipulations (c) Restricted expendable – net assets 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 and (d) Unrestricted – net assets not subject to externally imposed stipulations but may be designated for specific purposes by action of the Board of Trustees. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

**Basis of Accounting** – For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. 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, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition the University applies all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

**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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable** – Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of which reside in the State of Illinois. Accounts receivable also include amounts due from federal, state and local governments, or private sources, in connection with the reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are presented net of estimated uncollectible accounts.

**Inventories** – Inventories are determined on the first in, first out (FIFO) method and stated at the lower of cost or market. The cost is recorded as an expense as the inventory is consumed.

**Prepaid Expenses and Other Assets** – These assets consist of \$1,169,606, which includes deposits and prepaid expenses.

**Capital Assets** – Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 60 years for buildings, 5 to 50 years for infrastructure and site improvements, 5 to 7 years for library books, and 3 to 15 years for equipment.

**Deferred Revenues** – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been recognized because eligibility requirements have yet to be met.

**Compensated Absences** – Employee sick and vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued sick and vacation payable in the Statement of Net Assets and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Continued) –**

Total accrued compensated absences decreased in the current year as follows:

Vacation Leave	\$	279,431
Sick Leave		<u>(741,163)</u>
<b>Total Decrease in Compensated Absences</b>	<b>\$</b>	<b><u>(461,732)</u></b>

**Noncurrent Liabilities** – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, and notes payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; (3) the premium on the revenue bonds payable (which are being amortized over the term of the bonds using the straight line method); and (4) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

**Scholarship Allowances and Student Aid** – Financial aid to students is reported in the financial statements calculated by the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans and funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of the aid provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a university basis by allocating the cash payments to students, excluding payments for the services, calculated by a ratio of total aid to the aid not considered to be third party aid.

**Net Assets** – GASB Statement No. 35 reports equity as "Net Assets" rather than "fund balance". The University's net assets are classified as follows:

**Invested in capital assets, net of related debt** – This represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Net Assets (Continued) –**

**Restricted net assets – nonexpendable** – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

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

**Unrestricted net assets** – Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and service of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

**Income Taxes** – The University, as a political subdivision of the State of Illinois, is excluded from Federal income taxes under Section 115(l) of the Internal Revenue code, as amended. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue code.

**Classification of Revenues** – The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

**Operating revenues** – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on institutional student loans.

**Nonoperating revenues** – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 35, such as State appropriations and investment income.

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 2 – Deposits and Investments**

GASB Statement No. 40, *Deposit and Investment Risk Disclosures* was implemented in fiscal year 2005. In summary, GASB Statement No. 40 requires general disclosures by investment type with disclosures of the specific risks exposures of those investments. Investments exposed to credit risk, custodial credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk must be disclosed, and the deposit and investment policies (or the lack of a policy) that relate to these risks must be described if the reporting entity is exposed to them.

The Public Funds Investment Act (30 ILCS 235) authorized the University and its Board of Trustees to invest in bonds, notes, certificates of indebtedness, treasury bills, or other securities guaranteed by the United States; interest-bearing savings accounts, certificates of deposit, interest-bearing deposits, or any other investment that constitutes direct obligations of any bank; short-term discount obligations of the Federal National Mortgage Association; shares or other securities legally issued by certain state or federal savings and loan associations; insured dividend-bearing share accounts and certain other accounts of chartered credit unions; certain money market mutual funds; the Illinois Funds Money Market Funds (formerly known as IPTIP); and repurchase agreements that meet certain instrument and transaction requirements. The Foundation is not subject to such restrictions.

**Deposits** – At June 30, 2007, the carrying amount of the University and the Foundation’s deposits with private financial institutions were \$17,989,740 and \$2,503,191, respectively. This amount consisted of cash and certificates of deposit deposited with the financial institutions. For financial reporting purposes, these deposits have been classified as cash and cash equivalents or investments, depending upon the original maturity of the financial instrument.

Carrying amounts at year-end of the above deposits, pooled investments and cash on hand consisted of:

<u>Deposit Type</u>	<u>University</u>		<u>Foundation</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in Bank	\$ 3,002,454	\$ 5,360,274	\$ 2,487,089	\$ 2,629,413
Money Markets	-	-	4,173	4,173
Certificates of Deposit	-	-	886,587	886,587
Total deposit accounts	3,002,454	5,360,274	3,377,849	3,520,173
Add: Investments classified as cash equivalents (maturity < 90 days)	14,987,286		-	
Less: Certificates of deposit classified as investments (maturity > 90 days)	-		(874,658)	
Total Cash and Cash Equivalents	<u>\$ 17,989,740</u>		<u>\$ 2,503,191</u>	

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 2 – Deposits and Investments (Continued)**

**Deposits (Continued) –**

The University requires that balances on deposit with financial institutions be either insured by Federal Deposit Insurance, collateralized by securities held by the Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name.

The University maintains cash deposits at certain Chicago-area financial institutions. Bank balances at year-end have been categorized and consisted of:

	<u>University</u>	<u>Foundation</u>
No Custodial Credit Risk	\$ 363,718	\$ 1,051,763
Custodial Credit Risk		
Collateral held by pledging financial institution	4,956,311	2,467,148
Custodial Credit Risk		
Uncollateralized	<u>40,245</u>	<u>1,262</u>
Total Deposits	<u>\$ 5,360,274</u>	<u>\$ 3,520,173</u>

**Foreign currency risk** – The University does not have a policy limiting its exposure to foreign currency risk.

The University's exposure to foreign currency risk (valued in U.S. dollars) is as follows at June 30, 2007:

<u>Deposits</u>	<u>Currency</u>	<u>Fair Value</u>
Standard Chartered Bank	Ghana Cedi	\$ 5,726
Total		<u>\$ 5,726</u>

**Investments** - Investments in the Illinois Funds have not been classified as to credit risk because the investments are not evidenced by securities that exist in physical or book entry form.

All investments held by the Foundation, a component unit of the University, are insured or registered and held by the Foundation or its agent in the Foundation's name. The carrying value (and market value) of the investment portfolio of the Foundation and University at June 30, 2007 consisted of the following:



**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 2 – Deposits and Investments (Continued)**

**Investments (Continued) --**

	<u>University</u>	<u>Foundation</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Money Funds and Other	\$ -	\$ 101,266
US Treasury and Agency Obligations	-	549,566
Common Stock	-	1,162,719
Foreign debt securities	-	5,255
Corporate and International Bonds	-	158,242
Public Treasurer's Investment Pool (IL Funds)	14,987,286	-
Total	14,987,286	1,977,048
Add: Certificates of Deposit (maturity > 90 days)	-	874,658
Less: Investments classified as cash equivalents (maturity < 90 days)	(14,987,286)	-
Total Investments	<u>\$ -</u>	<u>\$ 2,851,706</u>

**Interest rate risk and credit risk** - The Foundation's statement of investment objectives and guidelines states that investments in non-convertible fixed-income securities other than short-term securities will be restricted to issues within a maximum fixed or expected average maturity of ten years and will be made primarily in (1) securities issued or guaranteed by the U.S. government or its agencies, (2) marketable issues of non-nuclear utility companies rated at the time of purchase within the three highest grades assigned by Moody's Investor Services, Inc (Aaa, Aa or A) or by Standard & Poors (AAA, AA or A) and (3) bond mutual funds which invest primarily in bonds with rating of A and higher. The University's funds expected to be used within one year are invested in the Illinois Public Treasurer's Investment Pool, which is fully collateralized and has Standard & Poor credit rating of AAAM.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2007 are as follows:

<u>Debt Security</u>	<u>Maturity</u>			<u>Total</u>
	<u>Less than</u> <u>1 year</u>	<u>1 - 5</u> <u>years</u>	<u>6 - 10</u> <u>years</u>	
US Treasury Obligations	\$ -	\$ 77,367	\$ 113,324	\$ 190,691
US Agency/Guaranteed Obligations	24,805	222,076	111,994	358,875
Total US Treasury/Agency	24,805	299,443	225,318	549,566
Corporate & Int'l Bonds	21,671	108,257	33,569	163,497
Total Debt Security Investments	<u>\$ 46,476</u>	<u>\$ 407,700</u>	<u>\$ 258,887</u>	<u>\$ 713,063</u>

**STATE OF ILLINOIS  
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**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 2 -- Deposits and Investments (Continued)**

**Investments (Continued) –**

The Standard & Poor's and Moody's Investor Service credit rating of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2007 is as follows:

<u>Credit Rating</u>	<u>Total Debt Securities</u>
US Treasury Notes – no rating	\$ 549,566
AAA/AAA	16,949
A1/A+	9,063
A1/A-	4,124
AA1/AA	15,920
AA1/AA+	16,708
A2/A-	5,165
AA2/AA	11,364
AA2/AA-	15,321
A3/A	4,216
AA3/A+	15,447
AA3/AA-	34,769
BAA1/BBB	5,255
BAA2/BBB+	9,196
Total	<u>\$ 713,063</u>

**Foreign currency risk** – The Foundation does not have a policy limiting its exposure to foreign currency risk.

The Foundation's exposure to foreign currency risk (valued in U.S. dollars) is as follows at June 30, 2007:

<u>Investment</u>	<u>Currency</u>	<u>Maturity</u>	<u>Fair Value</u>
United Mexican States Rating: BAA1/BBB	Pesos	03/03/2015	\$ 5,255
Total			<u>\$ 5,255</u>

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 3 – Accounts and Loans Receivable**

Accounts receivable consisted of the following at June 30, 2007:

Student tuition and fees	\$ 5,578,624
Federal, state, and private grants and contracts	3,362,532
Third party and other receivables	761,089
Total Gross Receivable	<u>9,702,245</u>
Less allowance for doubtful accounts	<u>(1,948,698)</u>
<b>Net Accounts Receivable</b>	<b><u>\$ 7,753,547</u></b>

Loans receivable consisted of the following at June 30, 2007:

Loans receivable	1,757,158
Less allowance for doubtful accounts	<u>(818,162)</u>
<b>Net Loans Receivable</b>	<b><u>\$ 938,996</u></b>

**Note 4 – Capital Assets**

Following are the changes in capital assets for the year ended June 30, 2007:

	Amount in '000s			Balance June 30, 2007
	Balance June 30, 2006	Additions	Retirements	
Capital assets not being depreciated:				
Land	\$ 9,268	\$ 344	\$ -	\$ 9,612
Construction in-progress	<u>50,466</u>	<u>9,780</u>	<u>-</u>	<u>60,246</u>
Total capital assets not being depreciated	<u>59,734</u>	<u>10,124</u>	<u>-</u>	<u>69,858</u>
Other capital assets:				
Site improvements	9,802	-	-	9,802
Buildings and building improvements	98,569	-	-	98,569
Equipment	24,232	2,891	(237)	26,886
Library books	<u>9,757</u>	<u>582</u>	<u>-</u>	<u>10,339</u>
Total other capital assets	<u>142,360</u>	<u>3,473</u>	<u>(237)</u>	<u>145,596</u>
Total	202,094	13,597	(237)	215,454
Less accumulated depreciation	<u>(65,698)</u>	<u>(4,067)</u>	<u>105</u>	<u>(69,660)</u>
<b>Capital Assets, net</b>	<b><u>\$ 136,396</u></b>	<b><u>\$ 9,530</u></b>	<b><u>\$ (132)</u></b>	<b><u>\$ 145,794</u></b>

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 5 -- Deferred Revenue**

Deferred revenue consists of the following at June 30, 2007:

Tuition and fees	\$ 808,566
Grants and contracts	81,340
<b>Total Deferred Revenue</b>	<b>\$ 889,906</b>

**Note 6 -- Long Term Liabilities**

Long-term liabilities as of June 30, 2007 consist of the following:

	<u>June 30, 2007</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Accrued compensated absences	\$ 6,832,668	\$ 662,290	\$ 6,170,378
Performance contract notes payable	4,695,869	3,181,155	1,514,714
Revenue bonds payable	20,860,000	820,000	20,040,000
Premium on bonds	370,531	22,456	348,075
Capital leases payable	344,850	64,818	280,032
<b>Total Long Term Liabilities</b>	<b>\$ 33,103,918</b>	<b>\$ 4,750,719</b>	<b>\$ 28,353,199</b>

**Revenue Bonds Payable**

On December 23, 1998, the University issued \$25,650,000 of Auxiliary Facilities Revenue Bonds with an average interest rate of 4.84% to advance refund \$22,620,000 of outstanding 1994 Series Bonds.

**Optional Redemption** - The Series 1998 Bonds maturing on December 1, 2009 through December 1, 2018 are subject to redemption at the option of the Board, on or after December 1, 2008. The Series 1998 Bonds maturing after December 1, 2018 are not subject to optional redemption prior to maturity.

**Mandatory Redemption** - The Series 1998 Term Bonds maturing on December 1, 2018 and December 1, 2023 are subject to mandatory redemption through the application of sinking payments, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, in the following principal amounts on December 1, in each of the years as follows:

**STATE OF ILLINOIS**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 6 -- Long Term Liabilities (Continued)**

**Revenue Bonds Payable (Continued) -**

<b><u>Bonds Maturing December 1, 2018</u></b>		<b><u>Bonds Maturing December 1, 2023</u></b>	
<b><u>Year</u></b>	<b><u>Principal Amount</u></b>	<b><u>Year</u></b>	<b><u>Principal Amount</u></b>
2014	\$ 1,120,000	2019	\$ 1,445,000
2015	1,180,000	2020	1,525,000
2016	1,240,000	2021	1,610,000
2017	1,305,000	2022	1,705,000
2018	1,370,000	2023	1,800,000

**Performance Contract Notes Payable**

The remaining notes payable of \$4,695,869 are collateralized by physical properties with a cost of \$6,287,288 and are payable in annual payments ranging from \$573,731 to \$776,444 through August 1, 2009, at an interest rate of 5.17%.

On July 1, 1997, the "Public University Energy Conservation Act" (110 ILCS 62/1 et seq.) (the "Act") became effective in Illinois. Pursuant to the Act, on March 23, 1999, the Board of Trustees of Chicago State University entered a "Performance Services Agreement" (the "Performance Agreement") with Siemens Building Technologies, Inc. ("SBT"). The Performance Agreement is a "guaranteed energy savings contract" as defined under section 5-15 of the Act. On June 1, 1999, the University entered a "Master Lease Agreement" with Siemens Credit Corporation ("SCC"), which provided financing to the University for its purchase of the "energy conservation measures" ("ECMs") from SBT. In 2001, SCC changed its name to Siemens Financial Services, Inc. After June 1, 1999, SCC assigned all of its rights, title and interest under the Master Lease Agreement to Sutro & Co., Inc. Subsequently, Sutro & Co., Inc. assigned all of its rights, title and interest under the Master Lease Agreement to MBIA Capital Corporation ("MBIA").

Pursuant to the Performance Agreement, SBT sold and CSU purchased, certain ECMs. SBT installed the ECMs at the University and guaranteed that savings would result from the installation of the ECMs. The construction period for the Performance Agreement ended on January 31, 2001. The installation of the ECMs under the Performance Agreement guaranteed energy savings to the University. The Performance Agreement set forth guaranteed annual savings of \$2,135,371 during fiscal years 2002 and 2003.

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**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 6 – Long Term Liabilities – (Continued)**

**Performance Contract Notes Payable (Continued)**

On August 8, 2003, the Office of the Illinois Attorney General on behalf of Chicago State University and its Board of Trustees filed litigation against Siemens Building Technologies, Inc., Siemens Financial Services, Inc., Siemens Credit Corporation, and MBIA Capital Corporation. This action was taken with respect to the "Performance Service Agreement." As a result of the litigation action that was filed by the Attorney General's Office on behalf of the University, the University withheld payment of the annual lease payment obligation that was due to the leaseholder, MBIA Capital Corporation on August 1, 2003, August 2, 2004 and August 1, 2005, August 1, 2006, and August 1, 2007. In addition, the University also did not pay the Technical Support Program ("TSP") payment due to SBT during fiscal years 2007, 2006, 2005, 2004 and 2003 based upon a prior agreed upon forbearance agreement. A counter-suit has been filed against the University. The original lawsuit and the counter-suit are in the discovery phase of litigation. A portion of the circuit court case has been referred to arbitration.

**Maturity Information**

The scheduled maturities of the revenue bonds and notes payable are as follows:

<u>Fiscal Year</u>	<u>Revenue Bonds</u>	<u>Notes Payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2008	\$ 820,000	\$ 3,181,154	\$ 4,001,154	\$ 1,932,374	\$ 5,933,528
2009	855,000	738,270	1,593,270	1,073,612	2,666,882
2010	890,000	776,445	1,666,445	997,900	2,664,345
2011	930,000	-	930,000	917,690	1,847,690
2012	975,000	-	975,000	874,816	1,849,816
2013-2017	5,630,000	-	5,630,000	3,616,520	9,246,520
2018-2022	7,255,000	-	7,255,000	1,989,975	9,244,975
2023-2024	3,505,000	-	3,505,000	195,388	3,700,388
<b>Totals</b>	<b><u>\$20,860,000</u></b>	<b><u>\$ 4,695,869</u></b>	<b><u>\$ 25,555,869</u></b>	<b><u>\$11,598,275</u></b>	<b><u>\$ 37,154,144</u></b>

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 7 – Natural Classifications**

The University's operating expenses by natural classification were as follows:

Compensation and benefits	\$ 74,795,375
Contractual services	20,131,117
Commodities	4,044,111
Awards and grants	6,179,983
Telecommunications	915,633
Other operating expenses	5,615,079
Depreciation	4,067,182
<b>Total Operating Expenses</b>	<b><u>\$ 115,748,480</u></b>

**Note 8 - State Fringe Benefits**

Governmental Accounting Standards Board Statement No. 24 "*Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*" requires the University report "on behalf payments" for fringe benefits and salaries for legally separate entities as revenue and expenditures by the employer government. The University reported on behalf payments of \$15,176,756 for the year ended June 30, 2007: consisting of group insurance in the amount of \$11,571,062 and pension contributions of \$3,605,694.

**State Universities Retirement System**

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

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 8 – State Fringe Benefits (Continued)**

**Funding Policy** – Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the years ended June 30, 2007, 2006, and 2005 were \$3,914,344, \$2,744,168, and \$4,283,529, respectively, and is equal to the required contributions for each year.

**Note 9 – Post employment Benefits**

In addition to providing the above benefits, the State provides certain health, dental, and life insurance benefits to the University's annuitants who participate in the SURS. Substantially all University employees become eligible for post employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under the age of 60 are equal to the annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to five thousand dollars per annuitant.

For annuitants retiring January 1, 1998 and after, the State allows a 5% credit for each full-year of service toward the monthly premium. The monthly premium is determined for annuitants as a separate group. The cost of health, dental, and life insurance benefits is recognized by the State on a pay-as-you-go basis except for annuitants under the Traditional Plan with 20 or more years service (benefits provided at no cost) and those retirees who elect the lump sum option under the Portable Plan (they are eligible for COBRA only). These costs are funded by the State except for certain non-appropriated fund payments by the University.

**Note 10 – Liability Insurance**

The University's liability coverage consists of two parts. The first layer of coverage is a \$1 million self insurance plan administered through the State University Risk Management Association (SURMA), a cooperative pool of certain State universities. The second layer is a \$5 million excess liability insurance policy purchased by the Illinois Public Higher Education Cooperative (IPHEC) through a commercial insurance carrier, and it covers all State universities. Total coverage for Chicago State University for both layers is \$6 million.



**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 11 – Related Party Transactions**

A summary of related party transactions during the year ended June 30, 2007, is as follows:

**The Chicago State University Foundation**

The University and Foundation agreed to a master contract, effective June 30, 1983 and revised February 1, 1989, which specified the relationship between the two organizations, as required by the University Guidelines adopted on November 30, 1982 and amended September 10, 1997 by the Legislative Audit Commission. Under the terms of the contract, the Foundation is provided administrative support services by the University, such as maintenance, telephone, personnel, and property control. The Foundation does not directly pay the University for these services, which were valued at \$323,487 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at \$1,038,851 for the year ended June 30, 2007.

Scholarships provided by the Foundation which benefited the University totaled \$211,965 for the year ended June 30, 2007.

The Foundation's liabilities include a payable to the University of \$518,361, which consists primarily of a liability to the University for \$456,322 in Chicago Regional College Program (CRCP) project costs and payroll reimbursements.

**Note 12 – Segment Information**

A segment is an identifiable activity for which one or more revenue bonds or other revenue-backed debt instruments, is outstanding. A segment has a specific, identifiable revenue stream pledged in support of the revenue bonds and has related expenses, gains and losses, assets and liabilities that can be identified.

The Chicago State University, University Auxiliary Facilities System Revenue, Bond Fund, Series 1998 (Revenue Bond Fund), an integral part of Chicago State University, has replaced the Revenue Fund Series of 1971 and includes all operations of the University Center Union Building. Its revenues are principally University Center fees, rental and use fees, leased food services, bookstore commissions, and parking fees.

Condensed financial statement information for the University Auxiliary Facilities System Revenue Bond Series 1998 follows:

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 12 -- Segment Information - (Continued)**

<b>Condensed Statement of Net Assets (Deficit)</b>	<b>As of June 30, 2007</b>
Assets:	
Current assets	\$ 5,893,194
Capital assets - net	15,302,890
Total Assets	21,196,084
Liabilities	
Current liabilities	1,428,348
Noncurrent liabilities	20,540,587
Total Liabilities	21,968,935
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(5,927,641)
Unrestricted	5,154,790
Total Net Assets (Deficit)	\$ (772,851)

<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets (Deficit)</b>	<b>Year Ended June 30, 2007</b>
Operating revenues	\$ 5,960,709
Operating expenses	5,380,136
Operating income	580,573
Non-operating revenues and expenses -- net	(984,211)
Decrease in net assets	(403,638)
Net assets (deficit) -- beginning of the year	(369,213)
Net assets (deficit) -- end of the year	\$ (772,851)

**STATE OF ILLINOIS**  
**CHICAGO STATE UNIVERSITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 12 – Segment Information - (Continued)**

<b>Condensed Statement of Cash Flows</b>	<b>Year Ended June 30, 2007</b>
Cash provided by (used in):	
Operating activities	\$ 1,428,936
Capital financing activities	(1,959,473)
Investing activities	54,044
	<hr/>
Net decrease in cash	(476,493)
Cash – beginning of the year	6,026,793
Cash – end of the year	<hr/> <b>\$ 5,550,300</b> <hr/>

**Note 13 – Contingent Liabilities**

There are nine (9) pending matters wherein the University is named as a party, which involve alleged discriminatory or negligent charges. Zero (0) matters are pending before the United States District Court, one (1) currently pending before the Circuit Court of Cook County, and eight (8) are pending before the Illinois Court of Claims. The assessment of any contingent liability is not determinable at this time. The University believes that none of the above matters will result in any significant liabilities to the University.

**Note 14 – Deficit Net Asset**

The unrestricted net asset deficit balance of \$6,533,915 on the Statement of Net Assets is due primarily to the accrued compensated absence liability of \$6,832,668. This liability will be funded from future state appropriations and tuition and fee revenue.

**Note 15 – Endowments**

The Foundation Board resolved that endowments' dividend and interest income be used for scholarships and that a reasonable amount of dividends and interest be added back to the endowment principal. The portion of dividends and interest available for scholarships is transferred to the Expendable Restricted Funds.

Gains or losses on sales of investments are retained or absorbed by the endowment fund principal.

**SUPPLEMENTARY INFORMATION**

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**University Auxiliary Facilities System Revenue Bond Fund, Series 1998  
Statement of Net Assets (Deficit)**

**As of June 30, 2007**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 5,550,300
Accounts receivable, net	247,569
Other assets	95,325
<b>Total Current Assets</b>	<b>5,893,194</b>

**Noncurrent Assets**

Land improvements	228,055
Buildings and improvements	19,710,762
Furniture and equipment	415,750
Less: accumulated depreciation	(5,051,677)
<b>Total Noncurrent Assets</b>	<b>15,302,890</b>

**Total Assets**

**21,196,084**

**LIABILITIES**

**Current Liabilities**

Accounts payable and accrued liabilities	558,423
Long-term liabilities-current portion	869,925
<b>Total Current Liabilities</b>	<b>1,428,348</b>

**Noncurrent Liabilities**

Accrued compensated absences	152,512
Bonds payable	20,040,000
Premium on bonds	348,075
<b>Total Noncurrent Liabilities</b>	<b>20,540,587</b>

**Total Liabilities**

**21,968,935**

**NET ASSETS (DEFICIT)**

Invested in capital assets, net of related debt	(5,927,641)
Unrestricted	5,154,790
<b>Total Net Assets (Deficit)</b>	<b>\$ (772,851)</b>

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**University Auxiliary Facilities System Revenue Bond Fund, Series 1998  
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)**

**For the year ended June 30, 2007**

<b>OPERATING REVENUES</b>	
Room and board, (net of scholarship allowances of \$25,968)	\$ 1,731,308
Bookstore commissions	272,397
Vending commissions	184,440
Child care center fees	297,326
Parking fees	1,059,457
University center fees	2,336,921
Grants and contributions	<u>78,860</u>
Total Operating Revenues	<u>5,960,709</u>
<b>OPERATING EXPENSES</b>	
Personal services	1,708,358
Expended for plant	44,843
Commodities	146,201
Contractual services	2,875,031
Depreciation	487,377
Miscellaneous	<u>118,326</u>
Total Operating Expenses	<u>5,380,136</u>
Operating income	<u>580,573</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income	54,044
Interest on capital asset - related debt	<u>(1,038,255)</u>
Net Nonoperating Revenues (Expenses)	<u>(984,211)</u>
Decrease in net assets	(403,638)
<b>NET ASSETS</b>	
Net assets (deficit)-beginning of the year	<u>(369,213)</u>
Net assets (deficit)-end of the year	<u>\$ (772,851)</u>

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**University Auxiliary Facilities System Revenue Bond Fund, Series 1998  
Statement of Cash Flows**

**For the year ended June 30, 2007**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Room and board	\$ 1,815,578
Bookstore commissions	272,397
Vending commissions	184,440
Child care center fees	297,326
Parking fees	1,059,457
University center fees	2,336,921
Grants and contributions	78,860
Payment to suppliers for goods and services	(2,875,934)
Payments to employees for services	(1,745,688)
	<u>1,423,357</u>
Net cash provided by operating activities	
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Purchases of capital assets	(111,112)
Principal paid on capital debt	(785,000)
Interest paid on capital debt	(1,057,782)
	<u>(1,953,894)</u>
Net cash used by capital financing activities	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	54,044
	<u>54,044</u>
Net cash provided by investing activities	
<b>NET DECREASE IN CASH</b>	(476,493)
Cash-beginning of the year	6,026,793
Cash-end of the year	<u>\$ 5,550,300</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 580,573
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	487,377
Changes in assets and liabilities:	
Increase in accounts receivables, net	84,270
Increase in accounts payable and accrued liabilities	308,467
Decrease in compensated absences	(37,330)
Net cash provided by operating activities:	<u>\$ 1,423,357</u>

STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY

University Auxiliary Facilities System Revenue Bond Fund, Series 1998

For the Year Ended June 30, 2007

**Student Enrollment by Term (Unaudited)**

	<u>Total Enrollment</u>	<u>Unduplicated Full-Time Equivalent</u>
Fall session, 2006	6,810	4,681
Spring session, 2007	6,548	4,325
Summer session, 2007	2,641	2,006

**University Center Fee (Unaudited)**

For each term, the University Center Fee is assessed based upon enrollment status:

	<u>Full-Time Student</u>	<u>Part-Time Student</u>
Fall session, 2006	\$ 176.00	\$ 113.00
Spring session, 2007	176.00	113.00
Summer session, 2007	117.00	85.00



**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**University Auxiliary Facilities System Revenue Bond Fund, Series 1998**

**As of June 30, 2007**

**RENTAL DISCLOSURES (Unaudited)**

On July 1, 1995, the Revenue Bond Fund renewed an annual rental agreement to provide the University with office space and meeting rooms to conduct certain University activities in the University Center for \$272,000. This rental was funded by State appropriations.

**SCHEDULE OF INSURANCE IN FORCE (Unaudited)**

The Auxiliary System is insured under a master policy covering universities. The following insurance coverage applicable to the System was effective during the current fiscal year:

Fire and extended coverage (\$25,000 deductible) of:	
Building	\$ 26,900,000
Contents	\$ 1,810,220
Business interruption	\$ 6,334,200
EDP	\$ 4,035,785
Boiler and Machinery (Included in blanket coverage limit)	\$ 100,000,000
Earthquake	\$ 100,000,000
Flood	\$ 100,000,000
Basic General Liability (SURMA)	\$ 350,000
Excess General Liability	\$ 5,650,000

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JOHN J. DE RAIMO  
FERNE M. HILLGER  
ROBERT J. RIPP

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the business-type activities of the Chicago State University as of and for the year ended June 30, 2007, which collectively comprise Chicago State University's basic financial statements and have issued our report thereon dated March 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in findings 07-1, 07-2, and 07-3 in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

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

#### Compliance and Other Matters

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

We are currently conducting State and Federal compliance examinations of the University as required by the Illinois State Auditing Act. The results of those examinations will be reported to management under separate cover.

Chicago State University's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Chicago State University's response and, accordingly, we express no opinion on it.

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

*De Raimo Hillger & Ripp*

March 21, 2008

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
SCHEDULE OF FINDINGS**

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

**07-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS**

Chicago State University (University) did not properly perform reconciliations of certain grant receivables and revenues at the end of the accounting period. The University also did not properly perform reconciliations of property control records.

We noted the following financial statement matters:

- The accounts receivable for one state grant was overstated by \$468,837. A duplicate entry into the accounting system caused the overstatement in revenues and receivables. This grant was from the Illinois State Board of Pharmacy. A proposed auditor adjustment to the financial statement was made by the University to correct this error.
- The accounts receivable for one federal contract was overstated by \$419,942. Invoices for a subcontractor were recorded as fiscal year 2007 expenses, however, they were for services performed under the contract during fiscal year 2008. A proposed auditor adjustment to the financial statement was made by the University to correct this error.
- One federal grant program was charged for another federal grant program's expenses. Therefore, accounts receivable for one federal grant in the amount of \$37,050 was recorded into the wrong federal account resulting in the grant receivable being understated and another grant receivable being overstated. The receivable was understated for the National Science and Mathematics Access to Retain Talent (SMART) Grant and was overstated for the Federal Academic Competitiveness (ACG) Grant. The University corrected the financial statements after we brought the matter to their attention.
- The accounts receivable for one private grant was overstated by \$85,134, as unused grant funds that were refunded back to the grantor were not recorded properly. An auditor adjustment to the financial statement was made by the University to correct this error.
- One item was listed on the property control records for financial reporting purposes for a value of \$521,089 greater than the original cost. This resulted in an adjustment of \$521,089 to assets, and \$264,887 to depreciation expense. The University recorded this proposed auditor adjustment.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 35 *Basic Financial Statements- and Management's Discussion and Analysis-for Public Colleges and Universities*, requires the accrual basis of accounting for business type activities. The accrual basis of accounting requires revenues to be recognized when earned. Accounts receivable should only include amounts due related to grants or contracts in connection with the reimbursement of allowable expenditures made pursuant to the grants or contracts.

Good business practice and internal controls would require that reconciliations be performed to ensure that the property control records are reconciled to the financial statements for amounts above the capitalization threshold.

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
SCHEDULE OF FINDINGS**

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

**07-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS (Continued)**

University management stated that these exceptions were due to significant staff turnover in the grants fiscal department and new employees' attempts to surmount the usual learning curve.

Failure to perform these reconciliations resulted in inaccurate accounts receivable and equipment balances at year end and inaccurate GAAP Package reporting and financial statements. (Finding Code No. 07-1)

**RECOMMENDATION**

We recommend that the University review its procedures and internal controls for accounting of grant revenues and receivables to ensure accurate financial reporting. We further recommend that the property control records are reconciled to the financial statements for amounts above the capitalization threshold.

**UNIVERSITY RESPONSE**

We agree with the recommendations. The University will adopt measures for the University's Comptrollers' Office to review all journals to accrue grant revenue for accuracy and will reconcile grant receivables on a monthly basis. The University will begin reconciling the property control records to the financial statements each quarter. The University believes that these new procedures will correct the situation and this finding will not occur.

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
SCHEDULE OF FINDINGS**

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

**07-2 FINDING: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) NOT PROPERLY APPLIED TO VOLUNTARY NONEXCHANGE TRANSACTIONS**

Chicago State University (University) did not properly interpret and apply Government Accounting Standards Board (GASB) Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*.

During our audit, we requested documentation to support the 6 grant revenue deferrals in excess of \$30,000 and one other randomly selected deferral included in the University's financial statements. Upon review of the grant agreements provided along with related documentation, we noted that 6 of these agreements did not stipulate an eligibility requirement. Therefore, revenue should have been recognized and not deferred for these voluntary nonexchange transactions. The actual error identified was \$329,857. A proposed auditor adjustment to the originally submitted financial statements was made by the University to correct this error.

Of the six grants in excess of \$30,000 reviewed, three were executed 36 days after the beginning of the grant term.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by GASB. GASB Statement No. 33 requires revenue recognition for voluntary nonexchange transactions when all applicable eligibility requirements have been met, and the remaining resources are reported as restricted net assets until consumed.

Good business practices dictate that the grant agreement should be signed prior to the start of the grant term.

University management stated that these exceptions were due to misinterpretation of the proper accounting treatment for these transactions.

Failure to maintain accounting records and present financial reports in accordance with generally accepted accounting principles, distorts the net assets of the University and the State. (Finding Code Nos. 07-2 and 06-1)

**RECOMMENDATION**

We recommend the University improve its system for identifying eligibility requirements for voluntary nonexchange transactions and properly account for such transactions in accordance with GAAP.

**UNIVERSITY RESPONSE**

We agree with the recommendation. The University will develop appropriate management reports to be submitted to the University's Comptrollers' Office for all grant agreements to properly identify and apply the appropriate revenue recognition criteria per GASB 33. The University believes that with this additional level of review, the situation will be corrected and this finding will not recur.

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
SCHEDULE OF FINDINGS**

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

**07-3 FINDING: UNCOLLATERALIZED DEPOSIT ACCOUNTS AND UNTIMELY BANK RECONCILIATIONS**

Chicago State University (University) maintained deposits (\$40,245) in uncollateralized accounts and did not perform timely reconciliations for all the University's bank accounts. The following was noted:

- The University's deposits (bank balances) at various financial institutions totaled \$5,360,274 at June 30, 2007. These deposits exceeded the collateral held by the pledging financial institution by \$40,245.
- Of the 236 bank reconciliations required to be performed during the fiscal year, the University performed 11 (5%) untimely. These reconciliations were performed between 61 and 117 days after the month end. In addition, bank reconciliations for three of the University's bank accounts could not be located for the first eleven months of the fiscal year and reconciliations for June 30, 2007 were performed 123 days after the month end.

University policy and prudent business practices require that the University obtain appropriate collateral for all funds held in their bank accounts and that all bank accounts are reconciled in a timely manner.

University management stated that the uncollateralized deposit was due to human oversight and that the delay in reconciling the bank accounts was due to a lack of staff and numerous staff turnover in the finance department.

Failure to obtain collateral puts University funds at risk in the event that the financial institution incurs financial difficulties and failure to timely perform monthly bank reconciliations could result in errors or misappropriation of State funds to remain undetected. (Finding Code No. 07-3)

**RECOMMENDATION**

We recommend the University adhere to their policy to obtain collateral for all bank accounts. We further recommend that the University allocate adequate resources to ensure that all bank accounts are reconciled in a timely manner.

**UNIVERSITY RESPONSE**

We agree with the recommendation. The University has hired an additional accountant to concentrate on reconciling the various University bank accounts. The University believes that with this additional manpower, the situation will be corrected and the finding will not recur.

The uninsured University bank deposit of \$40,245 is the result of one bank account in a third world country. The University is not certain that deposit insurance is available in this country but will pursue the issue with the bank. Also, the University will maintain minimum balance in this account.

STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
PRIOR FINDINGS NOT REPEATED

JUNE 30, 2007

Prior Finding Not Repeated – *Government Auditing Standards*  
*For the Year Ended June 30, 2007*

**07-4 *Inaccurate Reporting and Accounting of Accrued Compensated Absences***

Status: Implemented

It was recommended that the University establish procedures to ensure that time worked and compensated absences used are promptly reported promptly and accurately.

During the current year, our testing did not identify significant errors in accounting for compensated absences. (Finding Code No. 06-2)