

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2008**

**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, 2008**

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

**For the Year Ended June 30, 2008**

**AGENCY OFFICIALS**

Interim President	Dr. Frank G. Pogue (7/15/08 to current)
President	Vacant (7/1/08 to 7/14/08)
President	Dr. Elnora D. Daniel (07/01/07 to 06/30/08)
Interim Vice President Administration and Financial Affairs	Dr. Dean Justmann (08/01/08 to current)
Acting Vice President Administration and Financial Affairs	Mr. Richard Parker (01/03/08 to 07/31/08)
Vice President Administration and Financial Affairs	Vacant (01/01/08 to 01/03/08)
Vice President Administration and Financial Affairs	Mr. Alan D. Robertson, CPA (07/01/07 to 12/31/07)
Director of Accounting	Mr. John Frizzell (05/12/08 to present)
Director of Accounting	Vacant (01/16/08 to 05/11/08)
Director of Accounting	Mr. Jamshaid Nasim (07/01/07 to 01/15/08)
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 & Associates.

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 42 to 58 of this report, as finding 08-1, (Financial Statement Adjustments), finding 08-2, (Generally Accepted Accounting Principles Not Properly Applied to Voluntary Nonexchange Transactions), finding 08-3 (Uncollateralized Deposit Accounts and Untimely Bank Reconciliations), finding 08-4 (Failure to Monitor Compliance with Unclaimed Property Act), finding 08-5 (Inaccurate Statement of Cash Flow, finding 08-6 (Management's Discussion and Analysis, finding 08-7 (Inaccurate Supplementary Information for State Compliance Purposes, and finding 08-8 (Purchasing Card Processing Errors). The auditors also consider finding 08-1, 08-2, 08-5, and 08-6 to be material weaknesses.

**EXIT CONFERENCE**

Chicago State University waived a formal exit conference in a letter dated March 20, 2009.

University officials provided responses to the recommendations in correspondence dated March 27, 2009.

# DE RAIMO HILLGER & ASSOCIATES

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

## 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, 2008, 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 comparative information has been derived from Chicago State University's basic financial statements as of and for the year ended June 30, 2007, which were audited by other auditors, whose report dated March 21, 2008, 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, 2008 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 20, 2009, 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.

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.

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 35 through 37 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 38 and 39 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 & Associates*

April 20, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2008**

**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, 2008 with fiscal year 2007 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 2008 and employs approximately 950 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 950 graduate and undergraduate degrees per annum.

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**CHICAGO STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2008**

**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>2008</u>	<u>2007</u>
Total revenues	\$ 130,399,832	\$ 133,068,662
Total expenses	128,952,212	117,131,377
Increase in net assets	<u>\$ 1,447,620</u>	<u>\$ 15,937,285</u>

Fiscal 2008 revenues decreased \$2.7 million or 2% to \$130.4 million and total expenditures increased \$11.8 million or 10% to \$129.0 million, compared to the prior year. The decline in total revenue is due to state capital appropriations in the completion of the Library and substantial completion of the Convocation Center. Overall, the University experienced an increase in net assets of \$1.4 million to \$127.7 million.

**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, 2008**

**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, 2008 in comparison with June 30, 2007 is as follows:

	<u>2008</u>	<u>As Restated 2007</u>
<b>Assets:</b>		
Current assets	\$ 33,801,810	\$ 28,739,725
Noncurrent assets:		
Capital assets, net	145,347,866	143,890,489
Other	972,423	921,409
<b>Total Assets</b>	<u>180,122,099</u>	<u>173,551,623</u>
<b>Liabilities:</b>		
Current liabilities	25,313,027	18,974,710
Noncurrent liabilities	27,137,738	28,353,199
<b>Total Liabilities</b>	<u>52,450,765</u>	<u>47,327,909</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	123,204,431	120,891,823
Restricted - expendable	12,021,106	11,865,806
Unrestricted	(7,554,203)	(6,533,915)
<b>Total Net Assets</b>	<u>\$ 127,671,334</u>	<u>\$ 126,223,714</u>

The University' Statement of Net Assets at June 30, 2007 has been restated. See Notes to Basic Financial Statements disclosure 16.

A review of the University's Statement of Net Assets at June 30, 2008 and 2007 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 \$5.1 million to \$33.8 million. Most material changes to current assets are due to the \$5.2 million decrease in cash and cash equivalents, a \$1.4 million increase in the receivable balance of the State General Revenue Fund Appropriation and the \$855 thousand decrease in prepaid expenses and other assets. Federal, state, and private grants and contracts receivable increased \$7.6 million due to new funding in approximately five grants. These grants are the Douglas Hall Renovation, Evidence-based Trauma, Head Start Program, Alliance for Minority Participation, and Fuel Cell for Mobile Robotics. Cash and cash equivalents were down due to the timing of payments.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2008**

The University's total assets increased \$6.6 million to \$180.1 million at June 30, 2008 due to the increase in receivables.

**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, 2008 in comparison with the year ended June 30, 2007 is as follows:

	<b><u>2008</u></b>	<b><u>As Restated 2007</u></b>
Operating revenues	\$ 63,382,372	\$ 59,760,949
Operating expenses	<u>(127,606,866)</u>	<u>(115,748,480)</u>
Operating loss	(64,224,494)	(55,987,531)
Net non-operating revenues	<u>59,459,025</u>	<u>55,040,031</u>
Income before other revenues, expenses, gains or losses	(4,765,469)	(947,500)
Other revenues, expenses, gains or losses	<u>6,213,089</u>	<u>16,884,785</u>
Increase in net assets	1,447,620	15,937,285
Net assets, beginning of year	<u>126,223,714</u>	<u>110,286,429</u>
Net Assets, end of year	\$ <u>127,671,334</u>	\$ <u>126,223,714</u>

The University' Statement of Revenues, Expenses and Changes in Net Assets at June 30, 2007 has been restated. See Notes to Basic Financial Statements disclosure 16.

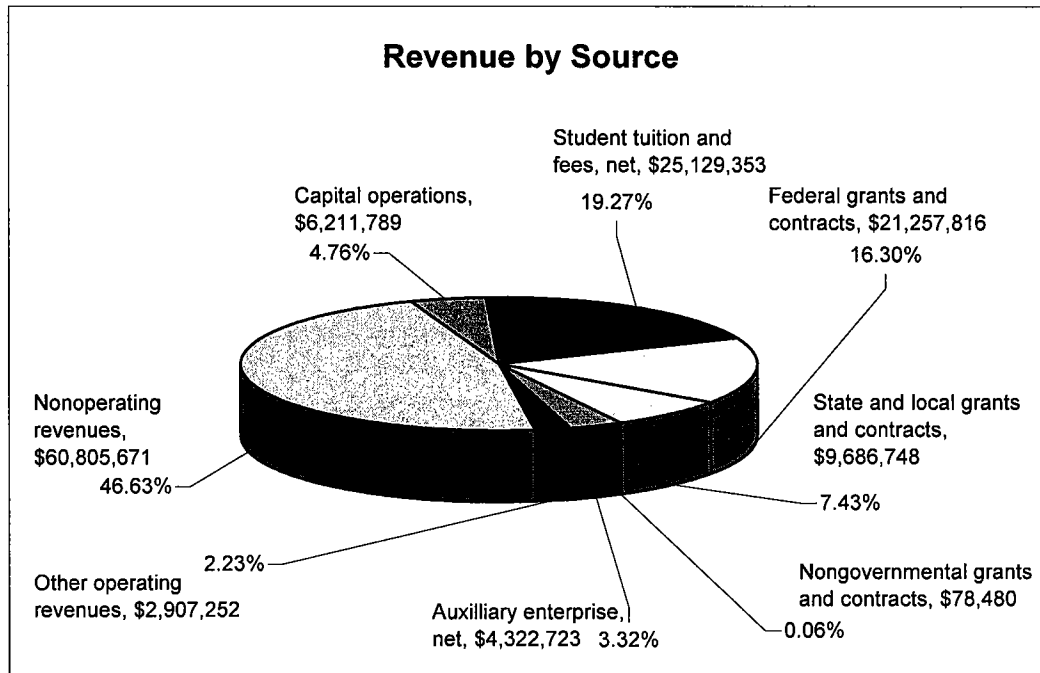
The following is a graphic illustration of revenues by source, which were used to fund the University's operations for the year ended June 30, 2008. The most significant source of revenue was the State of Illinois, totaling \$67,006,974 which included State appropriations of \$42,857,200, State fringe benefits of \$17,937,985, and capital appropriations and grants expended of \$6,211,789 or combined 51% percent of total revenue.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2008**

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



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

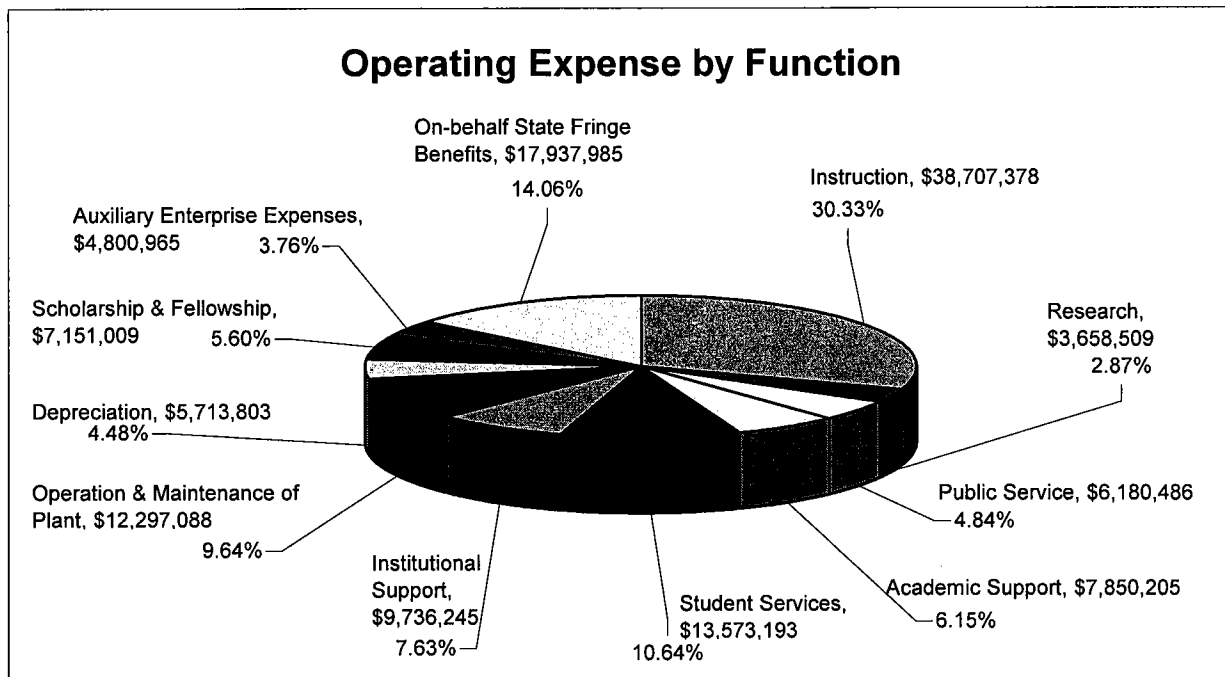
**FOR THE YEAR ENDED JUNE 30, 2008**

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

A summary of the University's operating expenses for the year ended June 30, 2008 in comparison with the year ended June 30, 2007 is as follows:

	<u>2008</u>	<u>2007</u>
<b>Operating Expenses:</b>		
<b>Educational and General</b>		
Instruction	\$ 38,707,378	\$ 38,298,566
Research	3,658,509	5,405,867
Public Service	6,180,486	7,359,554
Academic Support	7,850,205	7,118,467
Student Services	13,573,193	13,468,500
Institutional Support	9,736,245	8,903,062
Operations and Maintenance of Plant	12,297,088	6,701,614
Depreciation	5,713,803	4,067,182
Scholarship and Fellowship	7,151,009	5,346,202
Auxiliary Enterprise Expenses	4,800,965	3,902,710
On-behalf State Fringe Benefits	17,937,985	15,176,756
<b>Total Operating Expenses</b>	<b>\$ 127,606,866</b>	<b>\$ 115,748,480</b>

The following graphic illustration presents the operating expenses by function.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2008**

**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 increased by \$3.1 million to \$25.1 million due to an increase of approximately 3 thousand additional graduate and undergraduate credit hours taken in fiscal year 2008. Federal grants and contracts decreased by \$2.3 million due to decline in MBRS funding. State and local grant revenues were up \$2.3 million due to increases in various grants received from several state sources for the construction of the Convocation Center. Private grants decreased \$37 thousand. Other income decreased by \$117 thousand mainly in Continuing Education revenues.

Total operating expenses increased \$11.9 million or 10% to \$127.6 million. Research decreased \$1.7 million or 32% to \$3.7 million due to decrease funding of the MBRS grant. Academic Support increased \$732 thousand or 10%. Institutional Support expenses increased \$833 thousand or 9% compared to the prior year. Operation and Maintenance of Plant expenditure increases included the acquisition and operating cost of the Emil Jones Convocation Center and the new Academic Library. Auxiliary enterprise expenditures increased 23% or \$898 thousand due to higher than normal spending related to the additional bookstore and residence hall operating expenses.

Net non-operating revenue increased \$4.4 million to \$59.5 million because the state appropriation increased \$1.7 million to \$42.9 million, and fringe benefits paid on behalf of the university increased by \$2.8 to \$17.9 million. Revenues from Capital appropriations and grants decreased by \$10.7 million to \$6.2 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.

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2008**

**Statement of Cash Flows (Continued)**

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:

	<b><u>2008</u></b>	<b><u>2007</u></b>
Cash provided by (used in):		
Operating activities	\$ (43,442,368)	\$ (33,627,577)
Noncapital financing activities	41,447,347	39,680,074
Capital and related financing activities	(3,210,711)	1,577,353
Investing activities	9,186	54,044
Net change in cash	<u>(5,196,546)</u>	<u>7,683,894</u>
Cash, beginning of year	17,989,740	10,305,846
Cash, end of year	<u>\$ 12,793,194</u>	<u>\$ 17,989,740</u>
	<b><u>2008</u></b>	<b><u>2007</u></b>
Operating loss	\$ (64,224,494)	\$ (55,987,531)
Noncash expenses included in operating loss	23,651,787	19,243,938
Net change in assets and liabilities	<u>(2,869,661)</u>	<u>3,116,016</u>
Net cash used in operating activities	<u>\$ (43,442,368)</u>	<u>\$ (33,627,577)</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  
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**STATEMENT OF NET ASSETS**

**JUNE 30, 2008**

**(With Comparative Totals as of June 30, 2007)**

	2008		As Restated 2007	
	University	Component Unit	University	Component Unit
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents (Note 2)	\$ 12,793,194	\$ 597,007	\$ 17,989,740	\$ 681,740
Cash and cash equivalents-restricted	-	935,271	-	1,821,451
Certificate of deposit	-	-	-	177,689
Balance in State Appropriation	3,184,380	-	1,774,527	-
Accounts receivable, net (Note 3)	17,442,525	913,220	7,753,547	244,798
Inventories (Note 1)	46,806	-	34,718	-
Loans and notes receivable, net	20,236	-	17,587	-
Prepaid expenses and other assets	314,669	-	1,169,606	-
<b>Total Current Assets</b>	<b>33,801,810</b>	<b>2,445,498</b>	<b>28,739,725</b>	<b>2,925,678</b>
<b>Non-current Assets</b>				
Pledges receivable	-	855,000	-	916,082
Certificate of deposits - restricted	-	656,965	-	696,969
Endowment investments	-	1,907,609	-	1,977,048
Loans and notes receivable, net	972,423	-	921,409	-
Capital assets, net (Note 4 and Note 16)	145,347,866	-	143,890,489	-
<b>Total Non-current Assets</b>	<b>146,320,289</b>	<b>3,419,574</b>	<b>144,811,898</b>	<b>3,590,099</b>
<b>Total Assets</b>	<b>180,122,099</b>	<b>5,865,072</b>	<b>173,551,623</b>	<b>6,515,777</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	16,432,876	705,078	11,461,964	1,107,182
Accrued wages	2,415,494	-	1,872,121	-
Deferred revenue (Note 5)	838,813	25,000	889,906	5,000
Long-term liabilities-current portion (Note 6)	5,625,844	9,745	4,750,719	6,058
<b>Total Current Liabilities</b>	<b>25,313,027</b>	<b>739,823</b>	<b>18,974,710</b>	<b>1,118,240</b>
<b>Non-current Liabilities</b>				
Accrued compensated absences (Note 6)	6,641,697	-	6,170,378	-
Performance contract notes payable (Note 6)	776,444	-	1,514,714	-
Bonds payable (Note 6)	19,185,000	-	20,040,000	-
Premium on bonds (Note 6)	325,618	-	348,075	-
Capital leases payable	208,979	2,623	280,032	9,242
<b>Total Non-current Liabilities</b>	<b>27,137,738</b>	<b>2,623</b>	<b>28,353,199</b>	<b>9,242</b>
<b>Total Liabilities</b>	<b>52,450,765</b>	<b>742,446</b>	<b>47,327,909</b>	<b>1,127,482</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt (Note 16)	123,204,431	-	120,891,823	-
<b>Restricted for:</b>				
<b>Nonexpendable</b>				
Endowments	-	2,054,725	-	2,117,156
Research	-	-	-	-
<b>Expendable</b>				
Direct Programs and Scholarships	-	2,393,563	-	2,825,653
Research and instructional department uses	(251,337)	-	1,597,714	-
Loans	910,197	-	890,181	-
Capital projects	7,551,051	-	6,310,911	-
Debt service	3,811,195	-	3,067,000	-
Unrestricted	(7,554,203)	674,338	(6,533,915)	445,486
<b>Total Net Assets</b>	<b>\$ 127,671,334</b>	<b>\$ 5,122,626</b>	<b>\$ 126,223,714</b>	<b>\$ 5,388,295</b>

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

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

**FOR THE YEAR ENDED JUNE 30, 2008  
(With Comparative Totals for the Year Ended June 30, 2007)**

	2008		As Restated 2007	
	University	Component Unit	University	Component Unit
<b>OPERATING REVENUES:</b>				
Student tuition and fees (net of scholarship allowances of \$ 8,039,178 )	\$ 25,129,353	\$ -	\$ 22,023,468	\$ -
Federal grants and contracts	21,257,816	-	23,584,735	-
State and local grants and contracts	9,686,748	-	7,383,009	-
Nongovernmental grants and contracts	78,480	-	115,938	-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ 14,832)	4,322,723	-	3,630,015	-
Other operating revenues	2,907,252	263,559	3,023,784	430,998
Total operating revenues	<u>63,382,372</u>	<u>263,559</u>	<u>59,760,949</u>	<u>430,998</u>
<b>OPERATING EXPENSES:</b>				
Educational and General				
Instruction	38,707,378	-	38,298,566	-
Research	3,658,509	-	5,405,867	-
Public service	6,180,486	-	7,359,554	-
Academic support	7,850,205	-	7,118,467	-
Student services	13,573,193	-	13,468,500	-
Institutional support	9,736,245	997,161	8,903,062	1,235,529
Operations and maintenance of plant	12,297,088	-	6,701,614	-
Depreciation	5,713,803	-	4,067,182	-
Scholarship and fellowship	7,151,009	263,863	5,346,202	211,965
Auxiliary enterprise expenses	4,800,965	-	3,902,710	-
On-behalf State fringe benefits (See Note 8)	17,937,985	-	15,176,756	-
Total operating expenses	<u>127,606,866</u>	<u>1,261,024</u>	<u>115,748,480</u>	<u>1,447,494</u>
Operating loss	<u>(64,224,494)</u>	<u>(997,465)</u>	<u>(55,987,531)</u>	<u>(1,016,496)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
State appropriations	42,857,200	-	41,160,000	-
State fringe benefits	17,937,985	-	15,176,756	-
Gifts, contributions and grants	-	721,122	-	2,934,204
Investment income	9,186	50,509	54,044	300,140
Interest on capital asset - related debt	(1,345,346)	-	(1,350,769)	-
Other nonoperating revenues (expenses)	-	(43,085)	-	(41,408)
Net nonoperating revenues	<u>59,459,025</u>	<u>728,546</u>	<u>55,040,031</u>	<u>3,192,936</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(4,765,469)</u>	<u>(268,919)</u>	<u>(947,500)</u>	<u>2,176,440</u>
<b>OTHER REVENUES, EXPENSES, GAINS OR LOSSES:</b>				
Capital appropriations and grants	6,211,789	-	16,916,913	-
Endowment contributions	-	3,250	-	4,318
Gain (loss) on disposal of capital assets	1,300	-	(32,128)	-
Total other revenues, expenses, gains and losses	<u>6,213,089</u>	<u>3,250</u>	<u>16,884,785</u>	<u>4,318</u>
Increase in net assets	1,447,620	(265,669)	15,937,285	2,180,758
<b>NET ASSETS</b>				
Net assets-beginning of year	126,223,714	5,388,295	112,189,557	3,207,537
Prior period adjustment (Note 16)	-	-	(1,903,128)	-
Net assets-end of year	<u>\$ 127,671,334</u>	<u>\$ 5,122,626</u>	<u>\$ 126,223,714</u>	<u>\$ 5,388,295</u>

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, 2008  
(With Comparative Totals for the Year Ended 2007)**

	2008		2007	
	University	Component Unit	University	Component Unit
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Tuition and fees	\$ 23,052,818	\$ -	\$ 21,290,176	\$ -
Grants and contracts	23,359,508	-	31,994,973	-
Payment to suppliers for goods and services	(23,094,294)	(1,355,197)	(24,837,750)	(3,247,607)
Payments to employees for services	(62,804,446)	-	(60,293,408)	-
Payments for scholarships and fellowships	(9,933,853)	(263,863)	(6,179,983)	(211,965)
Loans issued to students and employees	(53,663)	-	(48,436)	-
Sales and service of auxiliary enterprises	4,322,723	-	3,630,015	-
Other receipts	1,708,839	113,559	816,836	88,498
Net cash used in operating activities	<u>(43,442,368)</u>	<u>(1,505,501)</u>	<u>(33,627,577)</u>	<u>(3,371,074)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State appropriations	41,447,347	-	39,680,074	-
Gifts, contributions and grants	-	4,382,444	-	8,645,315
Other noncapital financing activities	-	(4,176,565)	-	(5,500,914)
Net cash provided by noncapital financing activities	<u>41,447,347</u>	<u>205,879</u>	<u>39,680,074</u>	<u>3,144,401</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Proceeds from the sale of capital assets	1,300	-	-	-
Purchases of capital assets	(959,390)	(9,639)	(8,842,984)	(5,008)
Capital Grants	-	-	12,556,400	-
Principal paid on capital debt and leases	(884,818)	-	(469,687)	-
Interest paid on capital debt and leases	(1,367,803)	-	(1,666,376)	-
Net cash provided (used) by capital financing activities	<u>(3,210,711)</u>	<u>(9,639)</u>	<u>1,577,353</u>	<u>(5,008)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and/or dividends on investments	9,186	105,879	54,044	79,656
Proceeds from sales and maturities of investments	-	1,457,434	-	1,365,251
Net decrease (increase) in certificates of deposit investments	-	217,693	-	(734,960)
Purchase of investments and other	-	(1,442,658)	-	(1,360,997)
Net cash provided (used) by investing activities	<u>9,186</u>	<u>338,348</u>	<u>54,044</u>	<u>(651,050)</u>
<b>NET INCREASE (DECREASE) IN CASH and CASH EQUIVALENTS</b>				
	(5,196,546)	(970,913)	7,683,894	(882,731)
Cash and Cash Equivalents-beginning of the year	17,989,740	2,503,191	10,305,846	3,385,922
Cash and Cash Equivalents-end of the year	<u>\$ 12,793,194</u>	<u>\$ 1,532,278</u>	<u>\$ 17,989,740</u>	<u>\$ 2,503,191</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>				
Operating loss	\$ (64,224,494)	\$ (997,465)	\$ (55,987,531)	\$ (1,016,496)
Capital lease payments	-	7,842	-	5,008
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation expense	5,713,803	-	4,067,182	-
State fringe benefits	17,937,985	-	15,176,756	-
Other income transferred from fiscal agent account	-	(150,000)	-	(342,500)
Net changes in assets and liabilities:				
Accounts receivables, net	(9,688,978)	-	905,253	353,060
Inventories	(12,088)	-	24,874	-
Prepaid expenses and other assets	854,937	-	(946,580)	-
Loans to students and employees	(53,664)	-	(48,436)	-
Accounts payable	4,970,912	(365,878)	4,582,947	(2,375,146)
Accrued wages	543,373	-	(213,056)	5,000
Deferred revenues	(51,093)	-	(727,254)	-
Compensated absences	566,939	-	(461,732)	-
Net cash used by operating activities	<u>\$ (43,442,368)</u>	<u>\$ (1,505,501)</u>	<u>\$ (33,627,577)</u>	<u>\$ (3,371,074)</u>
<b>NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES</b>				
Capital appropriations	\$ 4,288,856	\$ -	\$ 15,402,178	\$ -
Unrealized gains (losses) on investments	-	(95,751)	-	99,608
State fringe benefits	17,937,985	-	15,176,756	-
Total noncash investing, capital and noncapital financing activities	<u>\$ 22,226,841</u>	<u>\$ (95,751)</u>	<u>\$ 30,578,934</u>	<u>\$ 99,608</u>

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**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 BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**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 BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**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 \$314,669, 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 BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

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

**Compensated Absences (Continued) –**

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

Vacation Leave	\$	182,102
Sick Leave		384,837
<b>Total Increase in Compensated Absences</b>	<b>\$</b>	<b><u>566,939</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**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**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 BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**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, 2008, the carrying amount of the University and the Foundation’s deposits with private financial institutions were \$12,793,194 and \$1,532,278, 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	\$ (1,357,990)	\$ 3,176,668	\$ 1,513,864	\$ 1,515,812
Money Markets	-	-	6,085	6,085
Certificates of Deposit	-	-	669,294	669,294
Total deposit accounts	(1,357,990)	3,176,668	2,189,243	2,191,191
Add: Investments classified as cash equivalents (maturity < 90 days)	14,151,184		-	
Less: Certificates of deposit classified as investments (maturity > 90 days)	-		(656,965)	
Total Cash and Cash Equivalents	<u>\$ 12,793,194</u>		<u>\$ 1,532,278</u>	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**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	\$ 500,000	\$ 884,171
Custodial Credit Risk		
Collateral held by pledging financial institution	2,437,303	1,281,707
Custodial Credit Risk		
Uncollateralized	<u>239,365</u>	<u>25,313</u>
Total Deposits	<u>\$ 3,176,668</u>	<u>\$ 2,191,191</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, 2008:

	<u>Deposits:</u>	<u>Currency</u>	<u>Fair Value</u>
Standard Chartered Bank		Ghana Cedi	<u>\$ 69,941</u>
Total			<u>\$ 69,941</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, 2008 consisted of the following:



**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**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	\$ -	\$ 183,104
US Treasury and Agency Obligations	-	548,033
Common Stock	-	1,011,861
Foreign debt securities	-	5,362
Corporate and International Bonds	-	165,334
Public Treasurer's Investment Pool (IL Funds)	14,151,184	-
Total	<u>14,151,184</u>	<u>1,913,694</u>
Add: Certificates of Deposit (maturity > 90 days)	-	656,965
Less: Investments classified as cash equivalents (maturity < 90 days)	<u>(14,151,184)</u>	<u>(6,085)</u>
Total Investments	<u>\$ -</u>	<u>\$ 2,564,574</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, 2008 are as follows:

	<u>Maturity</u>			
	<u>Less than</u>	<u>1 – 5</u>	<u>6 - 10</u>	
<u>Debt Security</u>	<u>1 year</u>	<u>years</u>	<u>years</u>	<u>Total</u>
US Treasury Obligations	\$ -	\$ 105,296	\$ 119,096	\$ 224,392
US Agency/Guaranteed Obligations	<u>35,428</u>	<u>199,196</u>	<u>89,017</u>	<u>323,641</u>
Total US Treasury/Agency	35,428	304,492	208,113	548,033
Corporate & Int'l Bonds	<u>17,188</u>	<u>94,210</u>	<u>59,298</u>	<u>170,696</u>
Total Debt Security Investments	<u>\$ 52,616</u>	<u>\$ 398,702</u>	<u>\$267,411</u>	<u>\$ 718,729</u>

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

**June 30, 2008**

**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, 2008 is as follows:

<u>Credit Rating</u>	<u>Total Debt Securities</u>
US Treasury Notes – no rating	\$ 548,034
AAA/AAA	17,781
A1/A	10,229
A1/A+	7,723
A2/A	5,320
AA2/A+	13,661
AA2/AA	45,452
AA2/AA-	15,539
A3/A	5,308
A3/A+	5,040
AA3/A+	13,748
AA3/AA-	16,509
BAA1/BBB+	5,362
BAA2/BBB+	9,023
<b>Total</b>	<b>\$ 718,729</b>

**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, 2008:

<u>Investment</u>	<u>Currency</u>	<u>Maturity</u>	<u>Fair Value</u>
United Mexican States - USD Rating: BAA1/BBB+	U.S. Dollars	03/03/2015	\$ 5,362
Total			<u>\$ 5,362</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 3 – Accounts and Loans Receivable**

Accounts receivable consisted of the following at June 30, 2008:

Student tuition and fees	\$ 6,795,543
Federal, state, and private grants and contracts	10,967,455
Third party and other receivables	1,422,568
Total Gross Receivable	<u>19,185,566</u>
Less allowance for doubtful accounts	<u>(1,743,041)</u>
<b>Net Accounts Receivable</b>	<b><u>\$ 17,442,525</u></b>

Loans receivable consisted of the following at June 30, 2008:

Loans receivable	\$ 1,771,977
Less allowance for doubtful accounts	<u>(779,318)</u>
<b>Net Loans Receivable</b>	<b><u>\$ 992,659</u></b>

**Note 4 – Capital Assets**

Following are the changes in capital assets for the year ended June 30, 2008:

	Amount in '000s				
	Balance June 30, 2007 As Restated	Additions	Retirements	Net Transfers	Balance June 30, 2008
Capital assets not being depreciated:					
Land	\$ 9,612	\$ -	\$ -	\$ (1)	\$ 9,611
Construction in-progress	<u>45,856</u>	<u>4,665</u>	<u>-</u>	<u>(48,935)</u>	<u>1,586</u>
Total capital assets not being depreciated	<u>55,468</u>	<u>4,665</u>	<u>-</u>	<u>(48,936)</u>	<u>11,197</u>
Other capital assets:					
Site improvements	12,074	41	-	1	12,116
Buildings and building improvements	110,687	792	-	48,937	160,416
Equipment	26,886	1,310	(43)	(522)	27,631
Library books	<u>10,339</u>	<u>362</u>	<u>-</u>	<u>-</u>	<u>10,701</u>
Total other capital assets	<u>159,986</u>	<u>2,505</u>	<u>(43)</u>	<u>48,416</u>	<u>210,864</u>
Total	215,454	7,170	(43)	(520)	222,061
Less accumulated depreciation	<u>(71,563)</u>	<u>(5,713)</u>	<u>43</u>	<u>520</u>	<u>(76,713)</u>
<b>Capital Assets, net</b>	<b><u>\$ 143,891</u></b>	<b><u>\$ 1,457</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 145,348</u></b>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 5 – Deferred Revenue**

Deferred revenue consists of the following at June 30, 2008:

Tuition and fees	\$ 779,039
Grants, contracts and others	<u>59,774</u>
<b>Total Deferred Revenue</b>	<b><u>\$ 838,813</u></b>

**Note 6 – Long Term Liabilities**

Long-term liabilities as of June 30, 2008 consist of the following:

	<u>June 30, 2008</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Accrued compensated absences	\$ 7,399,607	\$ 757,910	\$ 6,641,697
Performance contract notes payable	4,695,869	3,919,425	776,444
Revenue bonds payable	20,040,000	855,000	19,185,000
Premium on bonds	348,074	22,456	325,618
Capital leases payable	<u>280,032</u>	<u>71,053</u>	<u>208,979</u>
<b>Total Long Term Liabilities</b>	<b><u>\$ 32,763,582</u></b>	<b><u>\$ 5,625,844</u></b>	<b><u>\$ 27,137,738</u></b>

The change in long term liabilities is as follows :

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Accrued compensated absences	\$ 6,832,668	\$ 1,152,241	\$ 585,302	\$ 7,399,607
Performance contract notes payable	4,695,869	-	-	4,695,869
Revenue bonds payable	20,860,000	-	820,000	20,040,000
Premium on bonds	370,531	-	22,457	348,074
Capital leases payable	<u>344,850</u>	-	<u>64,818</u>	<u>280,032</u>
Total	<b><u>\$ 33,103,918</u></b>	<b><u>\$ 1,152,241</u></b>	<b><u>\$ 1,492,577</u></b>	<b><u>\$32,763,582</u></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.

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

**June 30, 2008**

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

**Revenue Bonds Payable (Continued)**

**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:

<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 into 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 into 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”).

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

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

**Performance Contract Notes Payable (Continued)**

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.

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>
2009	\$ 855,000	\$ 3,919,425	\$ 4,774,425	\$ 1,975,536	\$ 6,749,961
2010	890,000	776,444	1,666,444	997,900	2,664,344
2011	930,000	-	930,000	917,690	1,847,690
2012	975,000	-	975,000	874,816	1,849,816
2013	1,020,000	-	1,020,000	829,175	1,849,175
2014-2018	5,915,000	-	5,915,000	3,333,145	9,248,145
2019-2023	7,655,000	-	7,655,000	1,590,063	9,245,063
2024	1,800,000	-	1,800,000	49,500	1,849,500
<b>Totals</b>	<b><u>\$20,040,000</u></b>	<b><u>\$ 4,695,869</u></b>	<b><u>\$ 24,735,869</u></b>	<b><u>\$10,567,825</u></b>	<b><u>\$ 35,303,694</u></b>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 7 – Natural Classifications**

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

Compensation and benefits	\$ 81,852,743
Contractual services	22,295,578
Commodities	445,774
Awards and grants	9,933,853
Telecommunications	705,463
Other operating expenses	6,659,652
Depreciation	5,713,803
<b>Total Operating Expenses</b>	<b><u><u>\$ 127,606,866</u></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 \$17,937,985 for the year ended June 30, 2008: consisting of group insurance in the amount of \$13,099,387 and pension contributions of \$4,838,598.

**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**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**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 12.88% 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, 2008, 2007, and 2006 were \$5,195,778, \$3,914,344, and \$2,744,168, 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**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 11 – Related Party Transactions**

A summary of related party transactions during the year ended June 30, 2008, 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 \$393,755 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at \$864,381 for the year ended June 30, 2008.

Scholarships provided by the Foundation which benefited the University totaled \$263,863 for the year ended June 30, 2008.

The Foundation's liabilities include a payable to the University of \$452,216, which consists primarily of a liability to the University for \$394,714 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:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

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

<b>Condensed Statement of Net Assets</b>	<b>As of June 30, 2008</b>
Assets:	
Current assets	\$ 6,088,330
Capital assets - net	14,850,061
Total Assets	20,938,391
Liabilities	
Current liabilities	1,066,411
Noncurrent liabilities	19,701,330
Total Liabilities	20,767,741
Net Assets	
Invested in capital assets, net of related debt	(5,538,014)
Unrestricted	5,708,664
Total Net Assets	\$ 170,650

<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets (Deficit)</b>	<b>Year Ended June 30, 2008</b>
Operating revenues	\$ 6,622,079
Operating expenses	4,682,606
Operating income	1,939,473
Non-operating revenues and expenses – net	(995,972)
Increase in net assets	943,501
Net assets (deficit) – beginning of the year	(772,851)
Net assets – end of the year	\$ 170,650

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

**June 30, 2008**

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

<b>Condensed Statement of Cash Flows</b>	<b>Year Ended June 30, 2008</b>
Cash provided by (used in):	
Operating activities	\$ 1,808,525
Capital financing activities	( 1,895,827)
Investing activities	<u>9,186</u>
Net decrease in cash	(78,116)
Cash – beginning of the year	5,550,300
Cash – end of the year	<u>\$ 5,472,184</u>

**Note 13 – Contingent Liabilities**

At June 30, 2008, the University had commitments on various construction projects and contracts for repairs and renovations of Douglas Hall of approximately \$2,141,195.

There are ten (10) pending matters wherein the University is named as a party, which involve alleged discriminatory or negligent charges. Two (2) matters are pending before the United States District Court, one (1) currently pending before the Circuit Court of Cook County, and seven (7) 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 \$7,554,203 on the Statement of Net Assets is due primarily to the accrued compensated absence liability of \$7,399,607. This liability will be funded from future state appropriations and tuition and fee revenue. Net assets restricted for research and instructional department uses also had a deficit balance of \$251,337.

**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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 16 – Prior Period Adjustment**

During fiscal year 2008, it was discovered that capital assets were not being transferred out of construction in progress upon completion, and therefore not being properly depreciated. It was determined that these capital assets should have had \$1,903,128 of depreciation expensed in prior years. The effect of the adjustment is as follows:

	<u>Net Assets</u>	<u>Capital Assets, Net of Accumulated Depreciation</u>
June 30, 2007 balance, as previously reported	\$ 128,126,842	\$ 145,793,617
Adjustment to accumulated depreciation	<u>(1,903,128)</u>	<u>(1,903,128)</u>
June 30, 2007 balance, as restated	<u>\$ 126,223,714</u>	<u>\$ 143,890,489</u>

**Note 17 – Subsequent Event**

As of October 31, 2008, the fair market value of the investment portfolio for the total endowment investments of the Foundation was \$1,606,047.

## **SUPPLEMENTARY INFORMATION**

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

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

**As of June 30, 2008**

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 5,472,184
Accounts receivable, net	500,283
Other assets	115,863
Total Current Assets	<u>6,088,330</u>

Noncurrent Assets

Land improvements	228,055
Buildings and improvements	19,710,762
Furniture and equipment	461,127
Less: accumulated depreciation	<u>(5,549,883)</u>
Total Noncurrent Assets	<u>14,850,061</u>

**Total Assets**

20,938,391

**LIABILITIES**

Current Liabilities

Accounts payable and accrued liabilities	185,995
Long-term liabilities-current portion	880,416
Total Current Liabilities	<u>1,066,411</u>

Noncurrent Liabilities

Accrued compensated absences	190,712
Bonds payable	19,185,000
Premium on bonds	325,618
Total Noncurrent Liabilities	<u>19,701,330</u>

**Total Liabilities**

20,767,741

**NET ASSETS**

Invested in capital assets, net of related debt	(5,538,014)
Unrestricted	<u>5,708,664</u>

**Total Net Asses**

\$ 170,650

**STATE OF ILLINOIS  
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**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, 2008**

**OPERATING REVENUES**

Room and board, (net of scholarship allowances of \$25,968)	\$ 2,104,908
Bookstore commissions	268,009
Vending commissions	183,929
Child care center fees	354,166
Parking fees	1,108,700
University center fees	2,517,190
Grants and contributions	85,177
	<u>85,177</u>

Total Operating Revenues	<u>6,622,079</u>
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**OPERATING EXPENSES**

Personal services	2,214,380
Expended for plant	205,392
Commodities	128,005
Contractual services	1,462,204
Depreciation	498,206
Miscellaneous	174,419
	<u>174,419</u>

Total Operating Expenses	<u>4,682,606</u>
Operating income	<u>1,939,473</u>

**NONOPERATING REVENUES (EXPENSES)**

Investment income	9,186
Interest on capital asset - related debt	(1,005,158)
Net Nonoperating Revenues (Expenses)	<u>(995,972)</u>

Increase in net assets	943,501
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**NET ASSETS**

Net assets (deficit)-beginning of the year	<u>(772,851)</u>
Net assets-end of the year	<u>\$ 170,650</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, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Room and board	\$ 1,760,435
Bookstore commissions	268,009
Vending commissions	183,929
Child care center fees	354,166
Parking fees	1,108,700
University center fees	2,517,190
Grants and contributions	85,177
Payment to suppliers for goods and services	(2,268,391)
Payments to employees for services	<u>(2,200,690)</u>
Net cash provided by operating activities	<u>1,808,525</u>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Purchases of capital assets	(45,377)
Principal paid on capital debt	(820,000)
Interest paid on capital debt	<u>(1,030,450)</u>
Net cash used by capital financing activities	<u>(1,895,827)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments	<u>9,186</u>
Net cash provided by investing activities	<u>9,186</u>

**NET DECREASE IN CASH**

	(78,116)
Cash-beginning of the year	<u>5,550,300</u>
Cash-end of the year	<u><u>\$ 5,472,184</u></u>

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 1,939,473
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	498,206
Changes in assets and liabilities:	
Increase in accounts receivables, net	(273,252)
Increase in accounts payable and accrued liabilities	(369,592)
Decrease in compensated absences	13,690
Net cash provided by operating activities:	<u><u>\$ 1,808,525</u></u>



**STATE OF ILLINOIS  
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**University Auxiliary Facilities System Revenue Bond Fund, Series 1998**

**For the Year Ended June 30, 2008**

**Student Enrollment by Term (Unaudited)**

	<b><u>Total Enrollment</u></b>	<b><u>Unduplicated Full-Time Equivalent</u></b>
Fall session, 2007	6,810	4,681
Spring session, 2008	6,544	4,453
Summer session, 2008	2,462	1,861

**University Center Fee (Unaudited)**

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

	<b><u>Full-Time Student</u></b>	<b><u>Part-Time Student</u></b>
Fall session, 2007	\$ 182.00	\$ 117.00
Spring session, 2008	182.00	117.00
Summer session, 2008	119.00	87.00

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY**

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

**As of June 30, 2008**

**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	\$ 27,707,000
Contents	\$ 1,864,527
Business interruption	\$ 6,524,226
EDP	\$ 4,156,859
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	\$ 10,650,000

# DE RAIMO HILLGER & ASSOCIATES

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

## 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, 2008, which collectively comprise Chicago State University's basic financial statements and have issued our report thereon dated April 20, 2009. 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 08-1, 08-2, 08-3, 08-4, 08-5, 08-6, 08-7, and 08-8 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 08-1, 08-2, 08-5, and 08-6 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 08-1 through 08-8.

We also noted certain matters which we have reported to management of the Chicago State University in a separate letter dated April 20, 2009.

Chicago State University's response 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 & Associates*

April 20, 2009

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS**

Chicago State University (University) did not properly perform reconciliations of grant receivables, revenues and capital assets at the end of the accounting period. The University also did not properly reflect prior period adjustments in its financial reporting.

We noted the following financial statement matters:

- A grant agreement between the University and the Illinois Department of Commerce and Economic Opportunity for \$3,500,000 for the Chicagoland Regional College Program was awarded for costs incurred from July 1, 2007 through December 31, 2008. The program incurred costs in excess of \$3,500,000 from July 1, 2007 through June 30, 2008. However, the University did not include \$3,500,000 in the accounts receivable balance at June 30, 2008. This amount should have also been recorded in grant revenues, grant expenditures and accounts payable as of June 30, 2008. The University corrected the financial statements after the auditors brought the matter to their attention
- Per review of detail provided for accounts receivable balance at June 30, 2008, it was noted that 37 grant accounts in the detailed general ledger system had negative (credit) balances. The University added an additional account receivables account with a balance of \$666,472 to reduce these account balances to zero. This entry resulted in an incorrect amount posted to deferred revenue and an overstatement of accounts receivable at June 30, 2008. The University investigated the balances further upon auditor inquiries and an adjustment was made to the financial statements to accurately reflect accounts receivable and deferred revenue at June 30, 2008.
- The University did not have an effective system to identify completed construction projects that should be moved from construction in progress to depreciable buildings and building improvements. There were items in the construction in progress listing and included in the construction in progress balance for financial reporting that were completed and in use. At June 30, 2008, these amounts totaled \$14,389,634. Since these projects were completed in prior years, they should have been depreciated. The University initially recorded an entry of \$1,903,128 to depreciation expense which essentially recognized the prior period adjustment in the current year. The University subsequently corrected the financial statements by restating the beginning of the year Net Assets after the auditors brought the matter to their attention. The University also disclosed the effect of the adjustment in their financial statement footnotes.
- Additional construction costs for the University's new library were transferred in from the Capital Development Board during fiscal year 2008. However, the University was accounting for these costs as construction in progress at June 30, 2008. The new library is in operation and most of the costs incurred had been capitalized in previous fiscal years. The addition of these costs of \$2,210,436 would result in a transfer to the building account and related depreciation expense of \$49,121 for fiscal year 2008. The University corrected the financial statements after the auditors brought the matter to their attention.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS (Continued)**

- Several construction contracts entered into for professional costs of \$227,014 for the renovation of campus buildings were not accounted for in Construction In Progress at June 30, 2008. The addition of these items would result in an increase to Construction In Progress of \$227,014 and a decrease in professional expenditures of \$227,014. The University corrected the financial statements after the auditors brought the matter to their attention.
- The University did not have an effective system to identify telecommunication expenditures that should be capitalized as equipment. Telecommunications equipment totaling \$81,634 that should have been included in the equipment records, capitalized and depreciated during fiscal year 2008 was expensed. The addition of this equipment would result in an addition to the equipment account of \$81,634 and an additional depreciation expense of \$6,310 for the year ended June 30, 2008. The University corrected the financial statements after the auditors brought the matter to their attention.

An error in recognition, measurement, presentation or disclosure in financial statements resulting from an oversight at the time the financial statements were prepared is an error in previously issued financial statements. Correction of an error in previously issued financial statements discovered subsequent to their issuance should be reported as a prior-period adjustment, the cumulative effect reflected in the carrying amount of assets and liabilities as of the beginning of the first period presented. In addition, the entity should disclose the effect of the correction of the error. Therefore, such adjustments should not effect current year expenditure amounts. The University adjusted the current year financial statements and made a prior period adjustment to correct this error.

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 Discussion and Analysis – for Public Colleges and Universities, requires the accrual basis of accounting for business type entities. The accrual basis of accounting requires revenues to be recognized when earned. Accounts receivable should only include amounts due related to grants and contracts in connection with the reimbursement of allowable expenditures made pursuant to the grants or contracts.

Statewide Accounting Management Systems (SAMS) (Procedure 03.30.20) states that the cost of the building includes all labor, material and professional services to construct the building together with insurance, interest, and other direct costs incurred during the period of construction, to place the building into intended use.

Good business practice and internal controls would dictate that amounts are reconciled periodically to ensure that asset, capitalization and financial statement records are reasonable and accurate.

The University's Board of Trustees and management share the ultimate responsibility for the University's internal control over financial reporting. This responsibility should include an adequate system of review in the completeness and accuracy of the University's financial statements and disclosures to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS (Continued)**

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports.

University management stated that the subsidiary ledgers involving grant receivables, buildings and construction in progress were carefully reviewed by accounting management to reflect prior year entries that were never recorded. The fiscal year 2008 adjustments were reviewed by accounting management and an outside CPA firm that is familiar with Chicago State University's operations.

Failure to perform reconciliations resulted in inaccurate accounting records. Using inaccurate accounting records to prepare the financial statements jeopardizes the accuracy of those financial statements. (Finding Code No. 08-1 and 07-1)

**RECOMMENDATION**

We recommend that the University improve its system for the reconciliation of records and preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

**UNIVERSITY RESPONSE**

The University agrees with the recommendation. Recently hired accountants have reconciled all prior Capital Asset records and other subsidiary ledgers. Year-end review of financial records will be completed during the lapse period and will be subsequently reviewed by a CPA firm resulting in improved financial statements.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-2 FINDING: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) NOT PROPERLY APPLIED TO VOLUNTARY NONEXCHANGE TRANSACTIONS (Continued)**

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 12 revenue deferrals in excess of \$25,000. Upon review of the grant agreements provided and other documentation provided to support deferrals documentation, we noted that 6 of the agreements did not stipulate eligibility requirements. Therefore, revenue should have been recognized and not deferred for these voluntary nonexchange transactions. The actual error identified related to these grant agreements was \$96,733.

- Four of the revenue deferral amounts tested had not changed in one or more fiscal years and no documentation or explanation could be provided. These deferrals totaled \$41,459.
- In addition, 2 revenue deferral amounts tested were not properly coded. These amounts as presented in the financial statement totaled \$173,727.
- Also included in the deferred revenue account balance was a debit balance of (\$30,367) relating to a University program. This appeared to be the result of an adjusting entry posted twice.

A proposed audit adjustment to the originally submitted financial statements of \$281,552 was made by the University to correct these errors.

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 would dictate that reconciliations are performed and supporting documentation is maintained for amounts reflected in the financial statements and for all adjusting entries.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports.

The University's Board of Trustees and management share the ultimate responsibility for the University's internal control over financial reporting. This responsibility should include an adequate system of review in the completeness and accuracy of the University's financial statements to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United State of America.



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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-2 FINDING: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) NOT PROPERLY APPLIED TO VOLUNTARY NONEXCHANGE TRANSACTIONS (Continued)**

University management stated that the interface between the grant accountants and accounting staff requires continual review and reconciliation. Since fiscal year 2008 involves almost all new staff, this review and reconciliation was not performed on a timely basis.

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 No. 08-2, 07-2 and 06-1)

**RECOMMENDATION**

We recommend the University improve its system for identifying eligibility requirements for voluntary nonexchange transactions and improve its system for reconciling and tracking deferred revenue in accordance with GAAP.

**UNIVERSITY RESPONSE**

The University agrees with the recommendation. The interface between grant accountants and the accounting staff requires continual review and reconciliation. Fiscal year 2009 grant agreements and related documentation have been tracked and reviewed on a timely basis and applicable accounting records comply with the GAAP requirements.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-3 FINDING: UNCOLLATERALIZED DEPOSIT ACCOUNTS AND UNTIMELY BANK RECONCILIATIONS**

Chicago State University (University) maintained deposits (\$239,365) in uncollateralized accounts and did not perform timely reconciliations for all of the University's bank accounts. The following was noted:

- The University's deposits (bank balances) at various financial institutions totaled \$3,176,668 at June 30, 2008. These deposits exceeded the collateral held by the pledging financial institution by \$239,365.
- Of the 235 bank reconciliations required to be performed during the fiscal year, the University performed 43 (18.3%) untimely. These reconciliations were performed between 45 and 184 days after the month end. Thirteen (5.53%) of the bank reconciliations performed were not dated and therefore, their timeliness could not be determined.

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.

The University's Board of Trustees and management share responsibility for the University's internal control over bank accounts and locally held funds. This responsibility should include an adequate system to ensure reconciliations of University records and bank statements are performed monthly by an independent person.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that funds are safeguarded against waste, loss, unauthorized use, and misappropriations.

University management stated that the Ghana grant process involves a foreign bank account with no FDIC regulatory insurance. Management subsequently instructed the grant fiscal officer to close the account. That process has been implemented for fiscal year 2009. The bank reconciliation delayed process is a repeat finding. The University has acquired more accounting resources to assure the timeliness of all bank reconciliations.

Failure to obtain collateral puts the 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. 08-3 and 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 resources to ensure that all bank accounts are reconciled in a timely manner.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-3 FINDING: UNCOLLATERALIZED DEPOSIT ACCOUNTS AND UNTIMELY BANK RECONCILIATIONS (Continued)**

**UNIVERSITY RESPONSE**

The University agrees with the recommendation. The uncollateralized Ghana grant related bank accounts have been closed. For fiscal year 2009 monthly bank reconciliations have been completed and reviewed in a timely manner.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-4 FINDING: FAILURE TO MONITOR COMPLIANCE WITH UNCLAIMED PROPERTY ACT**

Chicago State University (University) did not have procedures in place to periodically monitor unclaimed monies to determine proper and timely disposition of the funds in compliance with the Act.

During our audit we noted that the University had three accounts included in the accounts payable balance that solely contained stale checks. There was no evidence that checks in these accounts had been periodically reviewed to determine their status or proper disposition. Some of these checks were issued over ten years ago.

Good business practice would require procedures are in place to monitor the outstanding items during reconciliations of cash on a timely basis and determine the proper disposition of stale checks promptly.

The Uniform Disposition of Unclaimed Property Act (765 ILCS 1025/11(a)) states that every person holding funds or other property, tangible or intangible, presumed abandoned under this Act shall report and remit all abandoned property specified in the report to the State Treasurer with respect to the property as hereinafter provided. According to the Act (765 ILCS 1025/8.1(a)), all tangible personal property or intangible personal property and all debts owed or entrusted funds or other property held by any federal, state or local government or governmental subdivision, agency, entity, officer or appointee thereof, shall be presumed abandoned if the property has remained unclaimed for 7 years.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that funds are safeguarded against waste, loss, unauthorized use, and misappropriations.

University management stated that the unclaimed property records involve thousands of check disbursement records. Periodic file maintenance has been insufficient in the past several years. According to University officials, accounting management has reviewed and documented a process to alleviate these old disbursements from being on their books.

Failure to review unclaimed monies could result in noncompliance with the Act. (Finding Code No. 08-4 and 07-12)

**RECOMMENDATION**

We recommend that the University establish appropriate procedures for stale checks. We further recommend that the University comply with the requirements of the Act.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-4 FINDING: FAILURE TO MONITOR COMPLIANCE WITH UNCLAIMED PROPERTY ACT  
(Continued)**

**UNIVERSITY RESPONSE**

The University agrees with this recommendation. Analysis of the disbursement database has recently been completed and the review process has been started. The University will comply with the Act requirements.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-5 FINDING: INACCURATE STATEMENT OF CASH FLOW**

Chicago State University did not prepare an accurate Statement of Cash Flows.

During our review of the Statement of Cash Flows we noted certain inaccuracies in the preparation of the Statement. These inaccuracies were brought to the attention of University personnel so they could be corrected. The University was able to correct the Statement with our guidance.

Some of the errors we noted were as follows:

Net cash used in operating activities was originally reported as \$36,954,014, however the actual amount totaled \$43,751,016 resulting in a difference in operating activities of \$6,797,002.

Purchases of capital assets was originally reported as \$19,941,259, and capital grants was originally reported as \$12,556,400, however the actual amounts totaled \$650,742 and \$0. These amounts, in addition to incorrect reporting for proceeds on disposal of equipment and principal paid on capital leases, resulted in a difference in financing activities of \$6,734,117.

Generally accepted accounting principles (GAAP) for governmental entities are promulgated by the Governmental Accounting Standards Board (GASB). GASB 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* requires the University to present a Statement of Cash Flows using the direct method.

The University’s Board of Trustees and management share the ultimate responsibility for the University’s internal control over financial reporting. This responsibility should include an adequate system of review in the completeness and accuracy of the University’s financial statements to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United State of America.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which would include the accurate preparation of the Statement of Cash Flow.

University management stated that the financial year end process included totally new staff and management. According to University officials, these errors were brought to their attention and were timely corrected. Further, they state a review process has been established for all reports that go out of Financial Affairs.

Failure to prepare an accurate Statement of Cash Flows prevents the University from preparing financial statements in accordance with accounting principles generally accepted in the United States of America. (Finding Code No. 08-5)

**RECOMMENDATION**

We recommend the University prepare an accurate Statement of Cash Flows in accordance with accounting principles generally accepted in the United States of America.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-5 FINDING: INACCURATE STATEMENT OF CASH FLOW (Continued)**

**UNIVERSITY RESPONSE**

The University agrees with the recommendation. All financial statements will be reviewed for complete and comparable data before submission to the external auditors.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-6 FINDING: MANAGEMENT’S DISCUSSION AND ANALYSIS**

Chicago State University (University) did not properly compile information for presentation of Management’s Discussion and Analysis.

Per our review of the Management’s Discussion and Analysis presented to auditors for inclusion in the financial statements of the University, it was noted that prior period amounts did not agree to those as presented on previous financial statements, resulting in the calculation of inaccurate variances, percentages and incorrect explanations. Management Discussion and Analysis was rewritten after auditors brought the inaccuracies to the attention of University personnel.

Governmental Accounting Standards Board (GASB) Statement No. 35 *Basic Financial Statements – Management’s Discussion and Analysis – for Public Colleges and Universities*, includes public colleges and universities in the financial reporting model established by GASB 34. Governmental Accounting Standards Board Statement No 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, states that Management’s Discussion and Analysis should provide an objective and easily readable analysis of the government’s financial activities based on currently known facts, decisions, or conditions.

Good business practices dictate that items contained in required supplementary information sections should agree to amounts as per the presentation of the financial statements. Amounts as presented for financial reporting should be reviewed and reconciled prior to completion.

The University’s Board of Trustees and management share the ultimate responsibility for the University’s internal control over financial reporting. This responsibility should include an adequate system of review of the completeness and accuracy of the University’s financial statements and required supplementary information to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United State of America.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which would include the accurate preparation of Management’s Discussion and Analysis.

University officials stated that the financial year end process included totally new staff and management. According to University officials these errors were brought to their attention and were timely corrected. Further, they state a review process has been established for all reports that go out of Financial Affairs.

Failure to maintain and present financial report components in accordance with generally accepted accounting principles could lead to inaccurate reporting by the University and the State of Illinois. (Finding Code No. 08-6)

**RECOMMENDATION**

We recommend the University prepare an accurate Management’s Discussion and Analysis in accordance with accounting principles accepted in the United States of America.



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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-6 FINDING: MANAGEMENT'S DISCUSSION AND ANALYSIS**

**UNIVERSITY RESPONSE**

The University agrees with the recommendation. All financial statements will be reviewed for complete and comparable data before submission to the external auditors.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-7 FINDING: INACCURATE SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

Chicago State University (University) did not properly compile information for presentation of Supplementary Information for State Compliance Purposes.

Per our review of the supplementary information schedules, inaccuracies were noted.

The amounts did not agree to supporting documentation provided, the amounts did not agree to other schedules within the supplementary information, the amounts did not agree to amounts as presented in the financial statements, columns did not total properly, amounts of expenditures on the Statement of Federal Expenditures were not correct, and explanations for variances were not reasonable. The University corrected the information after auditors brought the discrepancies to their attention.

Good business practices dictate that items contained in supplementary information sections should agree to amounts as per the presentation of the financial statements. Also amounts should agree to amounts as presented in corresponding fiscal schedules and supporting documentation.

The University's Board of Trustees and management share the ultimate responsibility for the University's internal control over financial reporting. This responsibility should include an adequate system of review in the completeness and accuracy of the University's supplementary schedule reporting to ensure all information presented is accurate.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports.

University officials stated that the financial year end process included totally new staff and management. According to University officials, these errors were brought to their attention and were timely corrected. They further stated a review process has been established for all reports that go out of Financial Affairs.

Failure to accurately compile and present supplementary information for state compliance purposes could lead to inaccurate reporting by the University and the State of Illinois. (Finding Code No. 08-7)

**RECOMMENDATION**

We recommend the University prepare accurate Supplementary Information for State Compliance Purposes.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-7 FINDING: INACCURATE SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES (Continued)**

**UNIVERSITY RESPONSE**

The University agrees with the recommendation. All financial statements will be reviewed for complete and comparable data before submission to the external auditors.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-8 FINDING: PURCHASING CARD PROCESSING ERRORS**

Chicago State University (University) did not process certain expenditures in compliance with Purchasing Card Policy and Procedures.

During our testing of 40 purchasing card transactions totaling \$225,104 for expenditures for services, travel, commodities, equipment and telecommunications, we noted the following:

- Thirty six transactions totaling \$220,553 exceeded the single transaction limit of \$1,000.
- For the individual transactions tested, it was noted that four users exceeded the monthly dollar limit of \$15,000 for a billing period for 10 different periods.
- Eleven transactions totaling \$69,692 were for equipment purchases in which the individual items exceeded \$100 in cost.
- Three of the transactions totaling \$3,609 were for purchases of services involving labor.
- There was no documentation provided to support one transaction of \$2,191.
- Five of the transactions totaling \$79,599 were for expenditures for rooms that exceeded the allowable maximum rates. No documentation was provided as an explanation for the payment of the higher rate.
- For 4 transactions (totaling \$9,341) documentation was provided, however, not in detail to determine what was purchased.
- There was no approval documented for six transactions totaling \$16,205.
- All forty transactions were not coded to the general ledger in a timely manner. The transactions were coded in the accounting system between 24 and 62 days after the transaction was posted to the payment system. This resulted in eleven transactions, totaling \$39,037 being coded in a subsequent fiscal year.
- In addition for all 40 transactions, receipts were not provided to the accounts payable department. The accounts payable department received a copy of the purchase order or travel authorization, however, the receipts and invoices were maintained in the department of the cardholder.

Prudent business practices would require that all expenditures are properly approved, supported by documentation and posted to the accounting system in a timely manner.

The University's Purchasing Card Policy and Procedures Manual Section 4.1 states that The Cardholder's single transaction limit is \$1,000 and the monthly spending limit is \$15,000. Section 4.4 states that the cardholder reviews transactions daily/weekly on PaymentNet and reallocates each charge to the appropriate University account number. Section 5.1a states that purchases should be made after following proper internal procedures specific to the department to obtain authorization to make the purchase. Section 7.1 of the manual lists prohibited items, it states that P-cards may not be used for the purchase of the following items: equipment and furniture with a unit cost of \$100 or above, and services involving labor(among others listed). Section 9.7 states that the signed and approved commercial card statement and all receipts shall be submitted to Accounts Payable.

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

**FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE**

**08-8 FINDING: PURCHASING CARD PROCESSING ERRORS (Continued)**

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that funds are safeguarded against waste, loss, unauthorized use, and misappropriations.

University officials stated that the P card owner is responsible to comply with the P Card Policy and Procedures. Most of the travel transactions are processed by the Purchasing Office on the Director's P card. The monthly travel volume exceeds the limit. The Director of Physical Plant has an extended limit. The other exceptions relate to errors due to lack of accounting staff and lack of monitoring.

Inadequate procedures over purchasing card expenditures could result in a loss of State funds. (Finding Code No. 08-8)

**RECOMMENDATION**

We recommend that the University adhere to its policies and procedures for purchasing card expenditures.

**UNIVERSITY RESPONSE**

The University agrees with the recommendation. The University will revise the Purchasing Card Pilot Program agreement and limit cards issued. All fiscal year 2009 purchases will be reviewed and explanations for any policy exceptions will be documented prior to the audit. The number of the Purchasing Cards issued will not be increased until the control objectives of the Pilot Program are achieved.

**STATE OF ILLINOIS  
CHICAGO STATE UNIVERSITY  
PRIOR FINDINGS NOT REPEATED**

**JUNE 30, 2008**

Prior Finding Not Repeated – *Government Auditing Standards*  
*For the Year Ended June 30, 2008*

**None**