STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2009

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, 2009

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STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2009

AGENCY OFFICIALS

President	Dr. Wayne Watson (10/1/09 to current)
Acting President	Dr. Sandra Westbrooks (07/1/09 to 09/30/09)
Interim President	Dr. Frank G. Pogue (07/15/08 to 06/30/09)
Acting President	Dr. Sandra Westbrooks (07/1/08 to 07/14/08)
Vice President Administration and Financial Affairs	Mr. Glenn Meeks (11/16/09 to current)
Interim Vice President Administration and Financial Affairs	Ms. Loiuse Williams (07/16/09 to 11/15/09)
Interim Vice President Administration and Financial Affairs	Dr. Dean Justmann (08/01/08 to 07/15/09)
Acting Vice President Administration and Financial Affairs	Mr. Richard Parker (07/1/08 to 07/31/08)
Director of Accounting	Mr. John Frizzell
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 an unqualified opinion on Chicago State University's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 41 to 46 of this report, as finding 09-1, (Failure to Monitor Compliance with Unclaimed Property Act), finding 09-2, (Voucher Processing Errors), and finding 09-3, (Purchasing Card Processing Errors).

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on February 5, 2010. Attending were:

<u>Representing Chicago State University</u>	
President	Dr. Wayne Watson
Vice President of Administration and Financial Affairs	Mr. Glenn Meeks
Associate Vice President of Administration/Finance	Mr. Ted Lannon
Associate Vice President Sponsored Programs	Mr. Kenneth Koroma
Director of Internal Audit	Mr. John Meehan
Director of Accounting	Mr. John Frizzell
Chief Information Officer	Ms. C. Cole Dillon
Director of Information Technology	Ms. Renee Mitchell
General Counsel	Mr. Patrick B. Cage
Police Chief	Mr. Ronnie Watson
Grant Accountant	Mr. Norm Erazo
<u>Representing De Raimo Hillger & Associates</u>	
Partner	Ms. Tiffany Motto, CPA
<u>Representing the Office of the Auditor General</u>	
Audit Manager	Mr. Thomas L. Kizziah, CPA

The responses to the recommendations were provided by Mr. Glenn Meeks in a correspondence dated February 16, 2010.

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
TIFFANY MOTTO

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 financial statements of the business-type activities 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, 2009, which collectively comprise Chicago State University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chicago State University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2008 financial statements and, in our report dated April 20, 2009, we expressed an unqualified opinion on the respective financial statements of the business-type activities and the discretely presented component unit. We did not audit the financial statements of the discretely presented component unit, as described in Note 1 of the financial statements. Those statements were audited by other auditors whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Chicago State University, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 16, 2010 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 an opinion on the financial statements that collectively comprise the Chicago State University's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The University Auxiliary Facilities Revenue Bond Fund, Series 1998 financial statements on pages 34 through 36 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The "Unaudited" supplementary information on pages 37 and 38 have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

De Raimo Hillger & Associates

February 16, 2010

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2009

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, 2009 with fiscal year 2008 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 2009 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.

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:

	2009	2008
Total revenues	$ 129,461,561	$ 130,399,832
Total expenses	131,099,164	128,952,212
Change in net assets	$ (1,637,603)	$ 1,447,620

Fiscal 2009 revenues decreased $938 thousand or 0.72% to $129.5 million and total expenditures increased $2.1 million or 1.63% to $131.1 million compared to the prior year. The decline in total revenue is due to state capital appropriations in the completion of the Convocation Center. Overall, the University experienced a decrease in net assets of $1.6 million to $126.0 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 it's 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

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, 2009 in comparison with June 30, 2008 is as follows:

	2009	2008
Assets:		
Current assets	$ 22,279,438	$ 33,801,810
Noncurrent assets:		
Capital assets, net	145,941,214	145,347,866
Other	986,857	972,423
Total Assets	169,207,509	180,122,099
Liabilities:		
Current liabilities	17,889,656	25,313,027
Noncurrent liabilities	25,284,122	27,137,738
Total Liabilities	43,173,778	52,450,765
Net Assets:		
Invested in capital assets, net of related debt	129,769,583	123,204,431
Restricted - expendable	3,902,573	12,272,443
Unrestricted	(7,638,425)	(7,805,540)
Total Net Assets	$ 126,033,731	$ 127,671,334

A review of the University's Statement of Net Assets at June 30, 2009 and 2008 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 decreased by $11.5 million to $22.3 million. Most material changes to current assets are due to the $7.3 million decrease in cash and cash equivalents, a $3.4 million decrease in the accounts receivable balance and the $214 thousand increase in prepaid expenses and other assets. The significant decrease in cash and cash equivalents is primarily due to a full settlement of a performance contract and the timing of payments.

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.

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, some 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.

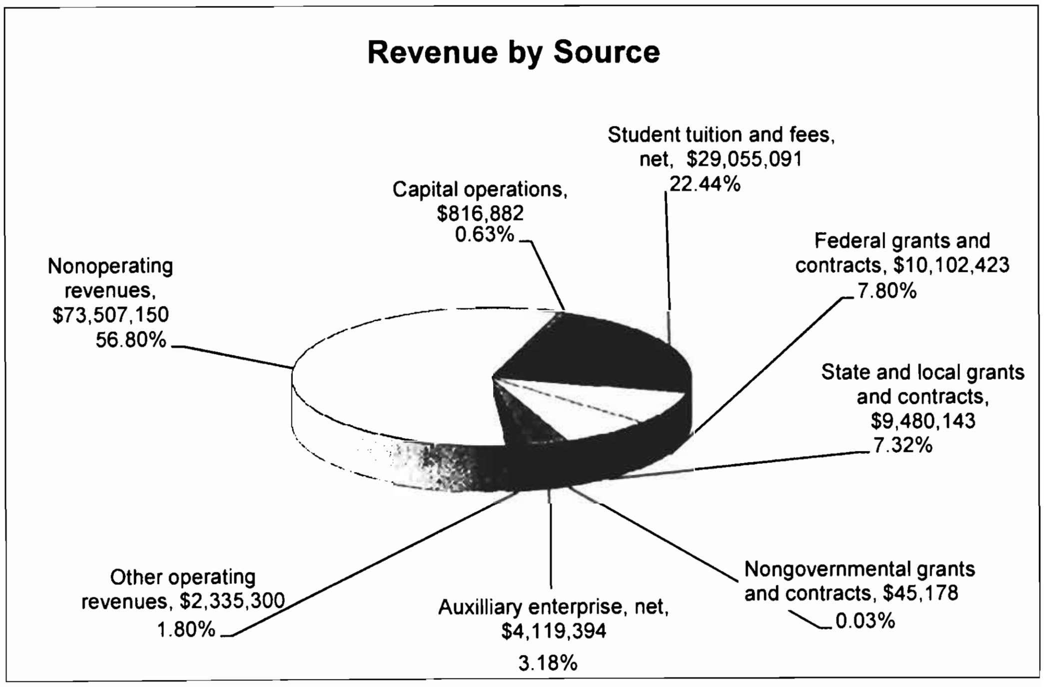
A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2009 in comparison with the year ended June 30, 2008 is as follows:

	2009	2008*
Operating revenues	$ 55,137,529	$ 52,211,788
Operating expenses	(130,434,924)	(127,606,866)
Operating loss	(75,297,395)	(75,395,078)
Net non-operating revenues	73,012,236	70,629,609
Income before other revenues, expenses, gains or losses	(2,285,159)	(4,765,469)
Other revenues, expenses, gains or losses	647,556	6,213,089
Increase in net assets	(1,637,603)	1,447,620
Net assets, beginning of year	127,671,334	126,223,714
Net Assets, end of year	$ 126,033,731	$ 127,671,334

* Pell grants have been reclassified to nonoperating revenue to conform to the current year presentation.

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, 2009. The most significant source of revenue was the State of Illinois, totaling $61,835,143 which included State appropriations of $41,673,200, State fringe benefits of $19,345,061, and capital appropriations of $816,882 or combined 48% percent of total revenue.

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

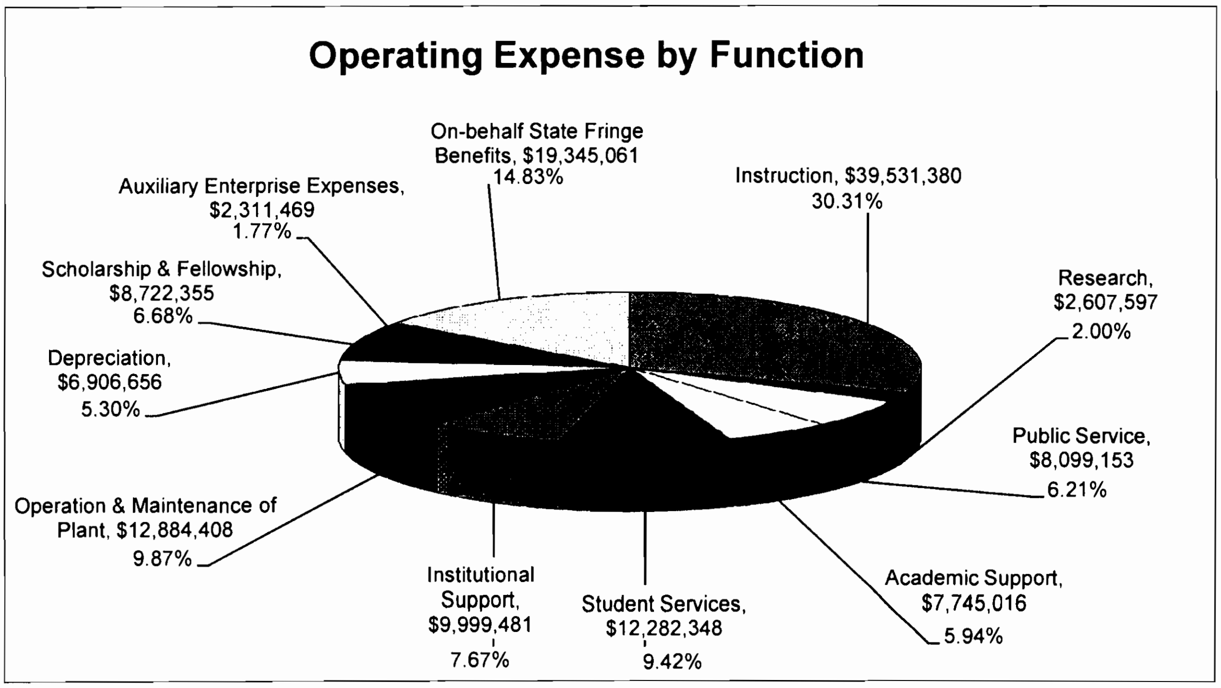


Statement of Revenues, Expenses and Changes in Net Assets (continued)

A summary of the University's operating expenses for the year ended June 30, 2009 in comparison with the year ended June 30, 2008 is as follows:

	2009	2008
Operating Expenses:		
Educational and General		
Instruction	$ 39,531,380	$ 38,707,378
Research	2,607,597	3,658,509
Public Service	8,099,153	6,180,486
Academic Support	7,745,016	7,850,205
Student Services	12,282,348	13,573,193
Institutional Support	9,999,481	9,736,245
Operations and Maintenance of Plant	12,884,408	12,297,088
Depreciation	6,906,656	5,713,803
Scholarship and Fellowship	8,722,355	7,151,009
Auxiliary Enterprise Expenses	2,311,469	4,800,965
On-behalf State Fringe Benefits	19,345,061	17,937,985
Total Operating Expenses	$ 130,434,924	$ 127,606,866

The following graphic illustration presents the operating expenses by function.



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

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 $3.9 million to $29.1 million due to the introduction of Facilities and Technology Fees and a 48% increase in other student fee revenue, including Student Union, Athletic, Activity, and Health fees. Distance Learning tuition revenue increased by 49%, and additional revenue was produced from the new Pharmacy Doctoral Program. State and local grant revenues decreased $207 thousand due to decreases in various grants. Private grants decreased $33 thousand. Other income decreased by $572 thousand, mainly in Athletic revenues.

Total operating expenses increased $2.8 million or 2.2% to $130.4 million. Research decreased $1.1 million or 29% to $2.6 million due to the decrease in expenditures from the Fuel Cell Grant. Public service expenses increased $1.9 million or 31% due to the construction completion of the Convocation Center. Institutional Support expenses increased $263 thousand or 2.7% compared to the prior fiscal year. Scholarship and Fellowship expenses increased $1.6 million or 22% due to Pell and Supplemental Educational Opportunity Grant awards. Operation and Maintenance of Plant expenditure increases included the acquisition and operating cost of the Emil Jones Convocation Center. Auxiliary enterprise expenditures decreased 52% or $2.5 million due to reclassification of expenditures.

Net non-operating revenue increased $2.4 million to $73 million because federal non operating grants increased $1.4 million to $12.5 million, and fringe benefits paid on behalf of the university increased by $1.4 to $19.3 million. Revenues from Capital appropriations and grants decreased by $5.4 million to $817 thousand due to the ending of the Emil Jones Convocation Center project.

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.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. This statement classifies sources and uses of cash into the categories defined in GASB No. 9. The statement is divided into six parts. The first part reports operating cash flows and shows the net cash used by operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section shows cash flows from capital and related financing activities. This section lists the cash used for the acquisition and construction

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:

	2009	2008*
Cash provided by (used in):		
Operating activities	$ (47,935,561)	$ (54,612,952)
Noncapital financing activities	55,348,200	52,617,931
Capital and related financing activities	(14,796,627)	(3,210,711)
Investing activities	125,945	9,186
Net change in cash	(7,258,043)	(5,196,546)
Cash, beginning of year	12,793,194	17,989,740
Cash, end of year	$ 5,535,151	$ 12,793,194

	2009	2008*
Operating loss	$ (75,297,395)	$ (75,395,078)
Noncash expenses included in operating loss	26,251,717	23,651,787
Net change in assets and liabilities	1,110,117	(2,869,661)
Net cash used in operating activities	$ (47,935,561)	$ (54,612,952)

* Pell grants have been reclassified to nonoperating revenue to conform to the current year presentation.

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; and maintaining enrollment by providing quality education at an affordable price. The University's overall financial situation is strong and reflects prudent use of financial resources, including careful cost control, management of appropriated operating and capital resources. While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather all known economic uncertainties.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

STATEMENT OF NET ASSETS

JUNE 30, 2009
(With Comparative Totals as of June 30, 2008)

	2009		2008	
	University	Component Unit	University	Component Unit
ASSETS				
Current Assets				
Cash and cash equivalents (Note 2)	$ 5,535,151	$ 410,939	$ 12,793,194	$ 597,007
Cash and cash equivalents-restricted	-	1,237,167	-	935,271
Certificate of deposit	-	-	-	-
Balance in State Appropriation	2,041,650	-	3,184,380	-
Accounts receivable, net (Note 3)	14,056,098	1,409,283	17,442,525	913,220
Inventories (Note 1)	95,066	-	46,806	-
Loans and notes receivable, net	22,624	-	20,236	-
Prepaid expenses and other assets	528,849	-	314,669	-
Total Current Assets	22,279,438	3,057,389	33,801,810	2,445,498
Non-current Assets				
Pledges receivable	-	20,000	-	855,000
Certificate of deposits - restricted	-	618,581	-	656,965
Endowment investments	-	1,616,798	-	1,907,609
Loans and notes receivable, net	986,857	-	972,423	-
Capital assets, net (Note 4)	145,941,214	-	145,347,866	-
Total Non-current Assets	146,928,071	2,255,379	146,320,289	3,419,574
Total Assets	169,207,509	5,312,768	180,122,099	5,865,072
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	12,657,010	1,039,762	16,432,876	705,078
Accrued wages	2,373,964	-	2,415,494	-
Deferred revenue (Note 5)	1,134,328	-	838,813	25,000
Long-term liabilities-current portion (Note 6)	1,724,354	2,623	5,625,844	9,745
Total Current Liabilities	17,889,656	1,042,385	25,313,027	739,823
Non-current Liabilities				
Accrued compensated absences (Note 6)	6,554,866	-	6,641,697	-
Performance contract notes payable (Note 6)	-	-	776,444	-
Bonds payable (Note 6)	18,295,000	-	19,185,000	-
Premium on bonds (Note 6)	303,162	-	325,618	-
Capital leases payable (Note 6)	131,094	-	208,979	2,623
Total Non-current Liabilities	25,284,122	-	27,137,738	2,623
Total Liabilities	43,173,778	1,042,385	52,450,765	742,446
NET ASSETS				
Invested in capital assets, net of related debt	129,769,583	-	123,204,431	-
Restricted for:				
Nonexpendable				
Endowments	-	1,808,164	-	2,054,725
Research	-	-	-	-
Expendable				
Direct Programs and Scholarships	-	2,032,427	-	2,393,563
Research and instructional department uses	-	-	-	-
Loans	961,252	-	910,197	-
Capital projects	2,941,321	-	7,551,051	-
Debt service	-	-	3,811,195	-
Unrestricted	(7,638,425)	429,792	(7,805,540)	674,338
Total Net Assets	$126,033,731	$4,270,383	$127,671,334	$5,122,626

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009
(With Comparative Totals for the Year Ended June 30, 2008)

	2009		2008	
	University	Component Unit	University	Component Unit
OPERATING REVENUES:				
Student tuition and fees (net of scholarship allowances of $ 8,804,669)	$ 29,055,091	$ -	$ 25,129,353	$ -
Federal grants and contracts	10,102,423	-	10,087,232	-
State and local grants and contracts	9,480,143	-	9,686,748	-
Nongovernmental grants and contracts	45,178	-	78,480	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $ 14,832)	4,119,394	-	4,322,723	-
Other operating revenues	2,335,300	259,888	2,907,252	263,559
Total operating revenues	55,137,529	259,888	52,211,788	263,559
OPERATING EXPENSES:				
Educational and General				
Instruction	39,531,380	-	38,707,378	-
Research	2,607,597	-	3,658,509	-
Public service	8,099,153	-	6,180,486	-
Academic support	7,745,016	-	7,850,205	-
Student services	12,282,348	-	13,573,193	-
Institutional support	9,999,481	1,107,797	9,736,245	997,161
Operations and maintenance of plant	12,884,408	-	12,297,088	-
Depreciation	6,906,656	-	5,713,803	-
Scholarship and fellowship	8,722,355	213,632	7,151,009	263,863
Auxiliary enterprise expenses	2,311,469	-	4,800,965	-
On-behalf State fringe benefits (See Note 8)	19,345,061	-	17,937,985	-
Total operating expenses	130,434,924	1,321,429	127,606,866	1,261,024
Operating loss	(75,297,395)	(1,061,541)	(75,395,078)	(997,465)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	41,673,200	-	42,857,200	-
State fringe benefits	19,345,061	-	17,937,985	-
Federal nonoperating grants	12,532,270	-	11,170,584	-
Gifts, contributions and grants	-	383,894	-	721,122
Investment income/(Loss)	125,945	(209,931)	9,186	50,509
Interest on capital asset - related debt	(664,240)	-	(1,345,346)	-
Other nonoperating revenues (expenses)	-	(4,775)	-	(43,085)
Net nonoperating revenues	73,012,236	169,188	70,629,609	728,546
Income (loss) before other revenues, expenses, gains, or losses	(2,285,159)	(892,353)	(4,765,469)	(268,919)
OTHER REVENUES, EXPENSES, GAINS OR LOSSES:				
Capital appropriations and grants	816,882	-	6,211,789	-
Endowment contributions	-	40,110	-	3,250
Gain (loss) on disposal of capital assets	(169,326)	-	1,300	-
Total other revenues, expenses, gains and losses	647,556	40,110	6,213,089	3,250
Increase/(Decrease) in net assets	(1,637,603)	(852,243)	1,447,620	(265,669)
NET ASSETS				
Net assets-beginning of year	127,671,334	5,122,626	126,223,714	5,388,295
Net assets-end of year	$ 126,033,731	$ 4,270,383	$ 127,671,334	$ 5,122,626

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, 2009
(With Comparative Totals for the Year Ended 2008)

	2009		2008	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$ 33,043,290	$ -	$ 23,052,818	$ -
Grants and contracts	19,321,487	-	12,188,924	-
Payment to suppliers for goods and services	(28,397,240)	(776,410)	(23,094,294)	(1,355,197)
Payments to employees for services	(66,393,992)	-	(62,804,446)	-
Payments for scholarships and fellowships	(10,247,715)	(213,632)	(9,933,853)	(263,863)
Loans issued to students and employees	(16,822)	-	(53,663)	-
Sales and service of auxiliary enterprises	4,119,394	-	4,322,723	-
Other receipts	636,037	109,399	1,708,839	113,559
Net cash used in operating activities	(47,935,561)	(880,643)	(54,612,952)	(1,505,501)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	42,815,930	-	41,447,347	-
Gifts, contributions and grants	-	7,751,397	-	4,382,444
Federal Nonoperating grants	12,532,270	-	11,170,584	-
Other noncapital financing activities	-	(6,867,760)	-	(4,176,565)
Net cash provided by noncapital financing activities	55,348,200	883,637	52,617,931	205,879
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Proceeds from the sale of capital assets	-	-	1,300	-
Purchases of capital assets	(6,852,448)	(10,702)	(959,390)	(9,639)
Capital Grants	-	-	-	-
Principal paid on capital debt and leases	(5,621,922)	-	(884,818)	-
Interest paid on capital debt and leases	(2,322,257)	-	(1,367,803)	-
Net cash provided (used) by capital financing activities	(14,796,627)	(10,702)	(3,210,711)	(9,639)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and/or dividends on investments	125,945	73,778	9,186	105,879
Proceeds from sales and maturities of investments	-	1,239,611	-	1,457,434
Net decrease (increase) in certificates of deposit investments	-	38,384	-	217,693
Purchase of investments and other	-	(1,228,237)	-	(1,442,658)
Net cash provided (used) by investing activities	125,945	123,536	9,186	338,348
NET INCREASE (DECREASE) IN CASH and CASH EQUIVALENTS	(7,258,043)	115,828	(5,196,546)	(970,913)
Cash and Cash Equivalents-beginning of the year	12,793,194	1,532,278	17,989,740	2,503,191
Cash and Cash Equivalents-end of the year	$ 5,535,151	$ 1,648,106	$ 12,793,194	$ 1,532,278
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	$ (75,297,395)	$ (1,061,541)	$ (75,395,078)	$ (997,465)
Capital lease payments	-	9,745	-	7,842
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation expense	6,906,656	-	5,713,803	-
State fringe benefits	19,345,061	-	17,937,985	-
Other income transferred from fiscal agent account	-	(150,000)	-	(150,000)
Net changes in assets and liabilities:				
Accounts receivables, net	3,386,427	-	(9,688,978)	-
Inventories	(48,260)	-	(12,088)	-
Prepaid expenses and other assets	(214,180)	-	854,937	-
Loans to students and employees	(16,822)	-	(53,664)	-
Accounts payable	(2,140,305)	321,153	4,970,912	(365,878)
Accrued wages	(41,530)	-	543,373	-
Deferred revenues	295,515	-	(51,093)	-
Compensated absences	(110,728)	-	566,939	-
Net cash used by operating activities	$ (47,935,561)	$ (880,643)	$ (54,612,952)	$ (1,505,501)
NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES				
Capital appropriations	$ 869,820	$ -	$ 4,288,856	$ -
Unrealized gains (losses) on investments	-	(279,437)	-	(95,751)
State fringe benefits	19,345,061	-	17,937,985	-
Total noncash investing, capital and noncapital financing activities	$ 20,214,881	$ (279,437)	$ 22,226,841	$ (95,751)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2009

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 No. 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government entity, 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).

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.

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 $528,849, 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 not been 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued) –

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

Vacation Leave	$	34,793
Sick Leave		75,935
Total Decrease in Compensated Absences	$	110,728

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.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Assets (Continued) –

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.

Reclassification – Certain items in the fiscal year 2008 financial statements have been reclassified to conform to fiscal year 2009 presentation. The reclassifications had no effect on net income.

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, 2009, the carrying amount of the University and the Foundation's deposits with private financial institutions were $5,535,151 and $1,648,106, 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:

	University		Foundation	
Deposit Type	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash in Bank	$ 1,507,349	$ 3,396,960	$ 1,575,800	$ 1,609,995
Money Markets	-	-	59,698	59,698
Certificates of Deposit	-	-	631,189	631,189
Total deposit accounts	1,507,349	3,396,960	2,266,687	2,300,882
Add: Investments classified as cash equivalents (maturity < 90 days)	4,027,802		-	
Less: Certificates of deposit classified as investments (maturity > 90 days)	-		(618,581)	
Total Cash and Cash Equivalents	$ 5,535,151		$ 1,648,106	

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. There was no credit risk due to FDIC insurance and collateral in the name of the University.

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 it's agent in the Foundation's name. The carrying value (and market value) of the investment portfolio of the Foundation and University at June 30, 2009 consisted of the following:

	University	**Foundation**
	Fair Value	Fair Value
Money Funds and Other	$ -	$ 80,674
US Treasury and Agency Obligations	-	463,583
Common Stock	-	765,597
Corporate and International Bonds	-	306,944
Public Treasurer's Investment Pool (IL Funds)	4,027,802	-
Total	4,027,802	1,616,798
Add: Certificates of Deposit (maturity > 90 days)	-	618,581
Less: Investments classified as cash equivalents (maturity < 90 days)	(4,027,802)	-
Total Investments	$ -	$ 2,235,379

Note 2 – Deposits and Investments (Continued)

Investments (Continued) –

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, 2009 are as follows:

	Maturity			
Debt Security	Less than 1 year	1 – 5 years	6 - 10 years	Total
US Treasury Obligations	$ -	$ 113,744	$ 83,668	$ 197,412
US Agency/Guaranteed Obligations	-	216,570	49,601	266,171
Total US Treasury/Agency	-	330,314	133,269	463,583
Corporate & Int'l Bonds	16,253	189,044	101,647	306,944
Total Debt Security Investments	$ 16,253	$ 519,358	$234,916	$ 770,527

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, 2009 is as follows:

Credit Rating	Debt Securities
US Treasury Notes – no rating	$ 197,412
AAA/AAA	303,407
A1/A	9,556
A1/A+	8,978
AA1/A+	18,760
A1/AA-	13,640
AA1/AA	20,375
AA1/AA+	10,755
A2/A	18,524
A2/A+	3,914
AA2/A+	18,501
AA2/AA	11,935
AA2/AA+	22,376
AA2/AA-	23,914
A3/A	5,324
A3/A+	5,351
A3/BBB+	4,138
AA3/A+	33,093
AA3/AA-	22,804
BAA1/BBB	4,430
BAA1/BBB+	4,138
BAA2/BBB	9,202
Total	$ 770,527

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, 2009:

Investment	Currency	Maturity	Fair Value
Norvartis Secs Invest Ltd. Rating: AA2/AA-	U.S. Dollars	02/10/2019	$ 10,231
Rio Tinto Finance Plcp. Rating: BAA1/BBB	U.S. Dollars	05/01/2014	4,430
Total			$ 14,661

Note 3 – Accounts and Loans Receivable

Accounts receivable consisted of the following at June 30, 2009:

Student tuition and fees	$ 6,417,407
Federal, state, and private grants and contracts	7,944,928
Third party and other receivables	2,137,460
Total Gross Receivable	16,499,795
Less allowance for doubtful accounts	(2,443,697)
Net Accounts Receivable	$ 14,056,098

Loans receivable consisted of the following at June 30, 2009:

Loans receivable	$ 1,788,314
Less allowance for doubtful accounts	(778,833)
Net Loans Receivable	$ 1,009,481

Note 4 – Capital Assets

Following are the changes in capital assets for the year ended June 30, 2009:

	Amount in '000s				
	Balance June 30, 2008	Additions	Retirements	Net Transfers	Balance June 30, 2009
Capital assets not being depreciated:					
Land	$ 9,611	$ -	$ -	$ -	$ 9,611
Construction in-progress	1,586	1,859	-	(1,924)	1,521
Total capital assets not being depreciated	11,197	1,859	-	(1,924)	11,132
Other capital assets:					
Site improvements	12,116	-	(33)	-	12,083
Buildings and building Improvements	160,416	4,025	(300)	1,924	166,065
Equipment	27,631	1,481	(218)	-	28,894
Library books	10,701	304	-	-	11,005
Total other capital assets	210,864	5,810	(551)	1,924	218,047
Total	222,061	7,669	(551)	-	229,179
Less: accumulated depreciation	(76,713)	(6,907)	382	-	(83,238)
Capital Assets, net	$ 145,348	$ 762	$ (169)	$ -	$ 145,941

Note 5 – Deferred Revenue

Deferred revenue consists of the following at June 30, 2009:

Tuition and fees	$ 1,130,994
Grants, contracts and others	3,334
Total Deferred Revenue	$ 1,134,328

Note 6 – Long Term Liabilities

Long-term liabilities as of June 30, 2009 consist of the following:

	June 30, 2009	Current Portion	Noncurrent Portion
Accrued compensated absences	$ 7,288,879	$ 734,013	$ 6,554,866
Revenue bonds payable	19,185,000	890,000	18,295,000
Premium on bonds	325,618	22,456	303,162
Capital leases payable	208,979	77,885	131,094
Total Long Term Liabilities	$ 27,008,476	$ 1,724,354	$ 25,284,122

The change in long term liabilities is as follows :

	Beginning Balance	Additions	Payments	Ending Balance
Accrued compensated absences	$ 7,399,607	$ 386,573	$ 497,301	$ 7,288,879
Performance contract notes payable	4,695,869	-	4,695,869	-
Revenue bonds payable	20,040,000	-	855,000	19,185,000
Premium on bonds	348,074	-	22,456	325,618
Capital leases payable	280,032	-	71,053	208,979
Total	$ 32,763,582	$ 386,573	$ 6,141,679	$27,008,476

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.

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:

Bonds Maturing December 1, 2018		Bonds Maturing December 1, 2023	
Year	Principal Amount	Year	Principal Amount
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

Bond Insurance – The bonds are insured by MBIA Corp. and National Public Finance Guarantee. At June 30, 2009, the rating of MBIA Corp. is BBB and National Public Finance Guarantee is Baa1.

Both Moody's Investor Service and Standard and Poor's Rating Services have indicated that they will apply the National rating to municipal bonds subject to the reinsurance agreement with MBIA Corp.

Note 6 – Long Term Liabilities – (Continued)

Maturity Information

The scheduled maturities of the revenue bonds are as follows:

Fiscal Year	Revenue Bonds	Interest	Total Payments
2010	$ 890,000	$ 957,740	$ 1,847,740
2011	930,000	917,690	1,847,690
2012	975,000	874,816	1,849,816
2013	1,020,000	829,175	1,849,175
2014	1,070,000	780,570	1,850,570
2015-2019	6,215,000	3,031,500	9,246,500
2020-2024	8,085,000	1,160,638	9,245,638
Totals	$ 19,185,000	$ 8,552,129	$ 27,737,129

Performance Contract Notes Payable

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, August 1, 2007 and August 1, 2008. In addition, the University also did not pay the Technical Support Program ("TSP") payment due to SBT during fiscal years 2009, 2008, 2007, 2006, 2005, 2004 and 2003 based upon a prior agreed upon forbearance agreement.

On June 19, 2009, a settlement agreement had been reached; University paid MBIA the amount of six million dollars ($6,000,000) for lease obligation, consisting of $4,695,869 outstanding principal and $1,304,131 accrued interest. The TSP portion of the litigation is still pending and a liability has been accrued.

Note 7 – Natural Classifications

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

Compensation and benefits	$ 85,586,795
Contractual services	20,362,854
Commodities	2,291,536
Awards and grants	10,247,715
Telecommunications	686,593
Other operating expenses	4,352,775
Depreciation	6,906,656
Total Operating Expenses	$ 130,434,924

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 $19,345,061 for year ended June 30, 2009 consisting of group insurance in the amount of $12,797,176 and pension contributions of $6,547,885.

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, or calling 1-800-275-7277.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 18.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the years ended June 30, 2009, 2008, and 2007 were $6,944,063, $5,195,778, and $3,914,344, respectively, equal to the required contributions for each year.

Note 9 – Post employment Benefits

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

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

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

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.

Note 11 – Related Party Transactions

A summary of related party transactions during the year ended June 30, 2009, 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 $246,549 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at $686,335 for the year ended June 30, 2009.

Scholarships provided by the Foundation which benefited the University totaled $213,632 for the year ended June 30, 2009.

The Foundation's liabilities include a payable to the University of $584,945, which consists primarily of a liability to the University for $414,651 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, are 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 Cordell Reid Student Union Building. Its revenues are principally University Center fees, rental and use fees, leased food services, bookstore commissions, and parking fees.

Note 12 – Segment Information - (Continued)

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

Condensed Statement of Net Assets	**As of June 30, 2009**
Assets:	
Current assets	$ 6,030,097
Capital assets - net	14,360,993
Total Assets	20,391,090
Liabilities	
Current liabilities	1,006,818
Noncurrent liabilities	18,772,953
Total Liabilities	19,779,771
Net Assets	
Invested in capital assets, net of related debt	(5,149,625)
Unrestricted	5,760,944
Total Net Assets	$ 611,319

Condensed Statement of Revenues, Expenses and Changes in Net Assets	**Year Ended June 30, 2009**
Operating revenues	$ 6,089,410
Operating expenses	4,679,366
Operating income	1,410,044
Non-operating revenues and expenses – net	(969,375)
Increase in net assets	440,669
Net assets – beginning of the year	170,650
Net assets – end of the year	$ 611,319

Note 12 – Segment Information - (Continued)

Condensed Statement of Cash Flows	Year Ended June 30, 2009
Cash provided by (used in):	
Operating activities	$ 2,304,573
Capital financing activities	(1,856,267)
Investing activities	407
Net decrease in cash	448,713
Cash – beginning of the year	5,472,184
Cash – end of the year	$ 5,920,897

Note 13 – Commitments and Contingent Liabilities

At June 30, 2009, the University had commitments on various construction projects and contracts for repairs and renovations of Douglas Hall of approximately $853,870.

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 and eight (8) are pending before the Illinois Court of Claims. The assessment of any contingent liability is not determinable at this time. The University believes that none of the above matters will result in any significant liabilities to the University.

Note 14 – Deficit Net Asset

The unrestricted net asset deficit balance of $7,638,425 on the Statement of Net Assets is due primarily to the accrued compensated absence liability of $7,288,879. This liability will be funded from future state appropriations and tuition and fee revenue.

Note 15 – Endowments

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

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

Note 16 – Subsequent Events

The Governor of the State of Illinois filled the four board of trustee vacancies, effective November 9, 2009.

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, 2009

ASSETS	
Current Assets	
Cash and cash equivalents	$ 5,920,897
Accounts receivable, net	13,875
Other assets	95,325
Total Current Assets	6,030,097
Noncurrent Assets	
Land improvements	228,055
Buildings and improvements	19,710,762
Furniture and equipment	459,882
Less: accumulated depreciation	(6,037,706)
Total Noncurrent Assets	14,360,993
Total Assets	20,391,090
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	74,789
Long-term liabilities-current portion	932,029
Total Current Liabilities	1,006,818
Noncurrent Liabilities	
Accrued compensated absences	174,791
Bonds payable	18,295,000
Premium on bonds	303,162
Total Noncurrent Liabilities	18,772,953
Total Liabilities	19,779,771
NET ASSETS	
Invested in capital assets, net of related debt	(5,149,625)
Unrestricted	5,760,944
Total Net Assets	$ 611,319

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

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

For the year ended June 30, 2009

OPERATING REVENUES	
Room and board, (net of scholarship allowances of $25,968)	$2,155,545
Bookstore commissions	240,830
Vending commissions	138,842
Child care center fees	167,698
Parking fees	1,017,952
University center fees	2,354,340
Grants and contributions	14,203
Total Operating Revenues	6,089,410
OPERATING EXPENSES	
Personal services	2,170,626
Expended for plant	13,170
Commodities	73,975
Contractual services	1,615,314
Depreciation	495,068
Miscellaneous	311,213
Total Operating Expenses	4,679,366
Operating income	1,410,044
NONOPERATING REVENUES (EXPENSES)	
Investment income	407
Interest on capital asset - related debt	(969,782)
Net Nonoperating Revenues (Expenses)	(969,375)
Increase in net assets	440,669
NET ASSETS	
Net assets - beginning of the year	170,650
Net assets-end of the year	$ 611,319

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Room and board	$2,659,998
Bookstore commissions	240,830
Vending commissions	138,842
Child care center fees	167,698
Parking fees	1,017,952
University center fees	2,082,340
Space rental revenues	272,000
Grants and contributions	14,203
Payment to suppliers for goods and services	(2,119,357)
Payments to employees for services	(2,169,933)
Net cash provided by operating activities	2,304,573
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets	(6,000)
Principal paid on capital debt	(855,000)
Interest paid on capital debt	(995,267)
Net cash used by capital financing activities	(1,856,267)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	407
Net cash provided by investing activities	407
NET INCREASE IN CASH AND CASH EQUIVALENTS	448,713
Cash and cash equivalents-beginning of the year	5,472,184
Cash and cash equivalents-end of the year	$5,920,897
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$1,410,044
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	495,068
Changes in assets and liabilities:	
Increase in accounts receivables, net	506,946
Increase in accounts payable and accrued liabilities	(108,178)
Decrease in compensated absences	693
Net cash provided by operating activities:	$2,304,573

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

University Auxiliary Facilities System Revenue Bond Fund, Series 1998

For the Year Ended June 30, 2009

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2008	6,820	4,777
Spring session, 2009	6,388	4,475
Summer session, 2009	2,472	1,918

University Center Fee (Unaudited)

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

	Full-Time Student	Part-Time Student
Fall session, 2008	$ 182	$ 117
Spring session, 2009	$ 182	$ 117
Summer session, 2009	$ 224	$ 161

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

University Auxiliary Facilities System Revenue Bond Fund, Series 1998

As of June 30, 2009

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	$	28,316,554
Contents	$	1,931,583
Business interruption	$	7,019,953
EDP	$	4,331,447
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
TIFFANY MOTTO

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 financial statements of the business-type activities of the Chicago State University and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2009 , which collectively comprise the Chicago State University's basic financial statements and have issued our report thereon dated February 16, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Chicago State University's internal control over financial reporting as a basis for designing 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in findings 09-1, 09-2 and 09-3 in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Chicago State University in a separate letter dated February 16, 2010.

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

February 16, 2010

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE

09-1 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. During the current year, the University had been reviewing these accounts, however the balance in all three accounts increased. Some of these checks were issued over eleven 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 involved thousands of check disbursement records. According to University officials, accounting management has reviewed and documented a process to alleviate these old disbursements from being on their books. Even though the liability ledger accounts do not reflect a significant reduction, the volume of unclaimed checks has declined.

Failure to review unclaimed monies could result in noncompliance with the Act. (Finding Code Nos. 09-1, 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.

UNIVERSITY RESPONSE

The University agrees with the recommendation. Analysis of the disbursement database has been ongoing and additional resources will be dedicated to this process. Management fully intends to comply with the Act requirements.

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE

09-2 FINDING: VOUCHER PROCESSING ERRORS

Chicago State University (University) did not process certain expenditures accurately and did not pay certain expenditures in a timely manner.

During our testing of 211 expenditures totaling $5,370,023 for Contractual Services, Commodities, Printing, Equipment, Telecommunications, Electronic Date Processing, and Operation of Automotive Equipment, we noted the following:

- Twenty-six invoices ($444,069) were not approved for payment in a timely manner. These invoices were approved between 33 and 567 days after receipt of a proper bill.
- Thirty-eight invoices ($2,015,045) were not paid in a timely manner. The invoices were paid between 61 and 566 days after receipt of proper bill.
- Eight invoices ($42,777) contained expenditures that were recorded to the incorrect fiscal year.
- Three invoices ($14,459) were incorrectly paid with a Direct Payment Voucher. The Direct Payment Voucher indicates at the top "This is a limited use form. It may not be used for purchases exceeding $2,000 or to purchase equipment exceeding $100."
- Eight payment packages ($129,049) contained purchase requisitions that were approved after the purchase was made. The purchase requisitions were approved between 1 day and 75 days after the invoice date.
- One payment package ($676,800) for a contractual service expenditure was not supported by a contractual agreement. No contractual agreement was provided for these services.
- One payment package ($13,680) did not contain a purchase requisition form.
- Five payment packages ($16,221) were coded with the incorrect SAMS object code.
- Eight invoices ($6,749) were paid on a Direct Payment Voucher with inadequate approvals. The Direct Payment Voucher states a Vice President or President must sign "when payment is requested by Fiscal Officer." These invoices were requested and approved by a fiscal officer with no additional approval signature.
- One invoice ($24,063) was approved by a member of the Board of Trustees of the University who is not authorized to approve purchases.
- Six invoices ($16,866) for gasoline purchases contained charges for premium or midgrade gasoline.
- Three invoices ($6,382) had no department or agency head approval signature. Two invoices ($27,848) had an approval signature, however the signature was not dated.
- Two invoices ($36,623) had approval signatures dated after the check date.
- Two invoices ($3,698) had approval signatures dated prior to the invoice date.
- One payment package ($5,198) contained a purchase order that was changed by hand over the allowed amount.
- Two invoices ($6,719) were for electronic data processing equipment that contain incorrect permanent tag numbers.
- One payment package ($2,057) contained a voucher number that did not correspond to the University's accounting system.
- One payment package ($13,663) was paid using grant funds after the grant had expired, which was clearly indicated on the package.
- Four equipment purchases ($13,120) were not reported to DCMS as required.

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE

09-2 FINDING: VOUCHER PROCESSING ERRORS (Continued)

- Two payment packages ($9,768) contained purchase requisitions that contained a dollar amount maximum per item, and some items purchased were greater than this limit.

Prudent business practices require all vouchers be paid accurately and in a timely manner. Purchase requisitions should be completed prior to making the purchase, and purchases should be within the guidelines of the purchase order. Invoices should be approved prior to payment by an authorized individual. Expenditure records should agree with supporting documentation.

The University's Accounting and Finance Policies and Procedures Manual (Procedure No. 6.2) states that Direct Payment Voucher should be used only for expenditures of $2,000 or less.

The Joint Committee on Administrative Rules (44 Ill. Adm. Code 5040.550) states "Purchases of fuel, oil, and related items for the operation of State-owned equipment must be made from the most economical source. Unleaded gasoline (with ethanol blended in, often called Gasohol) shall, however, be used where available."

The Illinois Public Higher Education Procurement Bulletin (44 Ill. Admin. Code 526.2020) states that the small purchase requirements are "Individual procurements of $50,000 or less for supplies or services, other than professional and artistic, and $70,000 or less for construction, may be made using the method of source selection determined by the State Purchasing Officer to be most appropriate to the circumstances." 44 Ill. Admin. Code 526.2010 states "competitive sealed bidding is the required method of source selection... The provisions of this section apply to every procurement required to be conducted by competitive sealed bidding."

According to the Chicago State University "Purchase Order Payables Procedures", "For purchase orders that are not confirmations, the total invoice amount 10% or up to $50 over the purchase order amount may be processed. Anything above that amount should be discussed with the buyer for written approval."

Department of Central Management Services Property Management (44 Ill. Admin Code 5010) requires each piece to be marked with a unique six-digit identification number. The State Property Control Act (30 ILCS 605/4) requires responsible officers at each agency to be accountable for the supervision, control, and inventory of all property under its jurisdiction to ensure the proper accounting and safeguarding of State assets.

University officials stated that many untimely payments were caused by cash flow problems during the fiscal year. Also, the operating budget approval process for many departments and units was labor intensive and cumbersome. Consequently, this caused delays in voucher approval. The other exceptions were caused by insufficient manual review.

Untimely payments can result in vendors being unwilling to do business with the State, and inaccurate payments may result in a loss of State funds. (Finding Code Nos. 09-2).

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE

09-2 FINDING: VOUCHER PROCESSING ERRORS (Continued)

RECOMMENDATION

We recommend that the University implement additional controls to ensure that expenditures are paid timely and are accurate.

UNIVERSITY RESPONSE

The University agrees with the recommendation. A dual review by Financial Affairs of all fiscal year expenditures will be performed. Also in February 2010 the University instituted an automated voucher processing system that upon full utilization will enhance the voucher control process. Please note that University ability to execute "prompt payment" is conditional upon the State of Illinois Comptroller funding the University.

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE

09-3 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 84 purchasing card transactions totaling $66,809 for expenditures for services, travel, commodities, equipment and telecommunications, we noted the following:

- Fourteen transactions totaling $40,031 exceeded the single transaction limit of $1,000.
- One transaction for $632 was for the purchase of a biological agent.
- Four transactions totaling $11,873 were for purchases of services involving labor.
- Five transactions totaling $1,275 were for the purchase of computer peripherals.
- One transaction for $55 included sales tax.
- There was no approval documented for ten transactions totaling $2,930.
- Four transactions totaling $2,216 were for equipment purchases in which the individual items exceeded $100 in cost.
- There was no documentation provided to support five transactions totaling $859.
- One transaction for $251 was to purchase airline tickets, however there was no documentation as to the purpose of the travel.
- For two transactions totaling $572, supporting documentation was provided, however the documentation did not correspond to the charge made on the card.
- For one transaction totaling $45, a lost receipt affidavit was submitted so auditors could not determine if purchases were in accordance with the policy.
- For two transactions totaling $1,261, documentation was provided, however, not in enough detail to determine what was purchased.
- For two transactions totaling $1,139, the supporting documentation was not retained in the employees files and was requested from the vendor to provide to auditors. For these transactions, auditors could not determine if proper approval was documented or if receipts were reconciled to the statement.
- All 84 transactions were not coded to the general ledger in a timely manner. The transactions were coded to the accounting system between 19 and 71 days after the transaction was posted to the payment system.
- 16 of 114 monthly credit card statements reviewed exceeded the monthly spending limit of $15,000.
- None of the fifteen employees that had purchasing cards had signed a purchasing card agreement as is required by policy.
- It was noted that two individuals each had two cards assigned to them.

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

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS/STATE COMPLIANCE

09-3 FINDING: PURCHASING CARD PROCESSING ERRORS (Continued)

The University 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, services involving labor, biological agents, and computer peripherals (among others listed). Section 5.1g states that no sales tax is to be charged.

The University Purchasing Card Policy and Procedures Manual Section 1.3 states that prior to the issuance of a purchasing card, the Purchasing Card Agreement must be completed.

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 holder failed to comply with the policy requirements and submission requirements. Management reduced the number of P Card holders effective March 1, 2009 to three users to improve compliance.

Inadequate procedures over purchasing card expenditures could result in a loss of State funds. (Finding Code No. 09-3 and 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 agreement. All fiscal 2010 purchases will be reviewed and explanation for policy exceptions that occurred prior to the revised agreement will be documented prior to the next audit.

Prior Finding Not Repeated – *Government Auditing Standards*

A. Financial Statement Adjustments

Chicago State University did not properly perform reconciliations of grant receivables, revenues and capital assets at the end of the accounting period.

During testing it was noted that accounts receivable, accounts payable and deferred revenue were not properly recorded. Completed construction projects were not being depreciated, items were included in construction in progress after completion, and certain items requiring capitalization were expensed. (Finding Code No. 08-1)

Disposition: During the current period, the number and dollar amount related to financial statement adjustments were significantly less. Therefore, this finding has been reported in the Letter of Immaterial Findings as finding IM09-13.

B. Generally Accepted Accounting Principles (GAAP) Not Properly Applied to Voluntary Nonexchange Transactions

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

During testing it was noted that deferred revenue balances appear to be presented in accordance with generally accepted accounting principles. (Finding Code No. 08-2)

Disposition: During the current period, we did not note any improper revenue deferrals.

C. Uncollateralized Deposit Accounts and Untimely Bank Reconciliations

Chicago State University maintained deposits in uncollateralized accounts and did not perform timely reconciliations for all the University's bank accounts.

During testing it was noted that uncollateralized deposits totaled $239,365. 43 of the 235 bank reconciliations were not being performed timely.

Disposition: During the current period, there were no uncollateralized deposits. There were fewer bank reconciliation exceptions. This finding was moved to the Letter of Immaterial Findings as finding IM09-11.

D. Inaccurate Statement of Cash Flow

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

During testing it was noted that the Statement of Cash Flows was inaccurate. The cash used in operating activities, purchases of capital assets and capital grants were all reported incorrectly.

Disposition: During the current period, the Statement of Cash Flows was prepared accurately.

Prior Finding Not Repeated – *Government Auditing Standards* (Continued)

E. Management's Discussion and Analysis

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

During testing it was noted that prior period amounts did not agree to those presented on previous financial statements, resulting in the calculation of inaccurate variances, percentages and incorrect explanations. (Finding Code No. 08-6)

Disposition: During the current period, the Management's Discussion and Analysis was completed accurately.

F. Inaccurate Supplementay Information For State Compliance Purposes

Chicago State University did not properly compile information for presentation of supplementary information for state compliance purposes.

During testing inaccuracies were noted in the supplementary information schedules. The amounts did not agree to supporting documentation, to other schedules within the supplementary information, or to amounts presented in the financial statements. Columns did not total properly and explanations were not reasonable. (Finding Code No. 08-7)

Disposition: During the current period, the presentation of supplementary information for state compliance purposes was accurate.