STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

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STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2013

AGENCY OFFICIALS

President	Dr. Wayne Watson
Chief of Staff	Dr. Napoleon Moses
Interim Provost and Senior V.P. for Academic Affairs	Dr. Angela M. Henderson (7/1/13 to present)
Provost and Senior V.P. of Academic and Student Affairs	Dr. Sandra Westbrooks (to 6/30/13)
Vice President of Administration and Finance	Mr. Glenn Meeks (to 3/25/13)
Interim Vice President of Administration and Finance	Mr. Lawrence A. Pinkelton (3/26/13 to present)
Associate V.P. of Administration and Finance	Ms. Maricela Aranda
Associate V.P. of Administration and Finance	Mr. Lawrence A. Pinkelton (to 3/25/13)
Executive Director/Controller	Mr. Raul Garcia (8/16/13 to present)
Director of Accounting/Controller	Mr. Edward J. Lannon (to 8/15/13)
Director of Accounting	Mr. Edward J. Lannon (8/16/13 to present)
Associate Director of Accounting	Ms. Louise Williams
Chief Internal Auditor	Mr. Kenneth K. Clow

University 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 was performed by Borschnack, Pelletier & Co.

Based on their audit and the report of the other auditor, the auditors expressed unmodified opinions on the business-type activities and the discretely presented component unit of Chicago State University.

SUMMARY OF FINDINGS

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings listed in the table of contents as finding 2013-001, Inaccurate Accounting of Accrued Compensated Absences.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

EXIT CONFERENCE

The University waived holding an exit conference to discuss the financial audit and the finding and recommendation appearing in this report in a communication dated December 5, 2013.

The response to the recommendation was provided by Mr. Lawrence Pinkelton in a correspondence dated December 11, 2013.

Borschnack Pelletier & Co.
Certified Public Accountants & Consultants
200 East Court Street • Suite 608 • Kankakee, IL 60901
815.933.1771 • fax: 815.933.1163

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Chicago State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Chicago State University, a component unit of the State of Illinois, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Chicago State University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Chicago State University and its discretely presented component unit, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Chicago State University's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and the discretely presented component unit of the Chicago State University in our report dated March 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago State University's basic financial statements. The University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 41 through 43 and the other information on pages 44 and 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 41 through 43 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 41 through 43 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The "Unaudited" other information on pages 44 and 45 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2014 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Chicago State University's internal control over financial reporting and compliance.

Borschnack, Pelletier & Co.

January 3, 2014

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, 2013, with fiscal year 2012 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 the Notes to the Financial Statement Note 1 on page 22 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 5,820 doctorate, graduate and undergraduate students during spring 2013 and employs approximately 910 employees consisting of faculty, civil service and administrators. The University offers a diverse range of degree programs from baccalaureate to doctoral levels. The University conferred approximately 1,010 graduate and undergraduate degrees per annum over the last 5 years.

Financial Highlights

The University's financial position remained strong at June 30, 2013, with assets of $190.2 million and liabilities of $38.1 million. Total Net Position, which represents the residual interest in the University's assets after liabilities are deducted, decreased by $5.9 million (3.7%) in fiscal 2013 to $152.2 million at June 30, 2013 from $158.1 million one year ago. The decrease in total Net Position is primarily attributable to decreased tuition and fee revenue of $787 thousand and planned investment of approximately $5.7 million to achieve overall campus and program improvements including catching up on deferred maintenance.

Financial Highlights (continued)

Changes in net position represent all financial results (primarily operating activities) of the University, which consist of revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2013 and 2012 as follows:

	2013	2012
Total revenues	$ 149,881,485	$ 150,018,572
Total expenses	155,764,564	140,702,585
Change in net position	$ (5,883,079)	$ 9,315,987

The total revenues decreased by $137 thousand from the result one year ago ($150.0 million) to the current result ($149.9 million). The total expenses increased by $15.1 million from the result one year ago ($140.7 million) to the current result ($155.8 million). The gross change in total expenses is inflated as it includes a $9.9 million increase in on-behalf state fringe benefits 100% funded by the State and matched by an equal revenue amount. The actual increase in expenses without the on-behalf item is $5.1 million. The overall change in net position was a decline of $5.9 million. The University sustained the additional expense as a strategic investment to review its programs and invest in the overall enhancement of its resources and facilities.

Using the Financial Statements

The University prepares three basic financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position 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 Position

The Statement of Net Position 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 position – is one indicator of the current financial condition of the University, while the change in net position 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 Position has been further categorized as (i) Invested in capital assets, net of related debt, (ii) Restricted nonexpendable – net position that is permanently restricted by externally imposed stipulations, (iii) Restricted expendable – net position that is 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 (iv) Unrestricted – net position that is not subject to externally imposed stipulations and may be used at the discretion of the governing board to meet current expenses for any purpose.

Statement of Net Position (continued)

A summary of the University's assets, liabilities and net position for the year ended June 30, 2013 in comparison with June 30, 2012 is as follows:

	2013	2012*	(Decrease)
Assets:			
Current assets	$ 32,080,772	$ 39,795,004	$ (7,714,232)
Noncurrent assets:			
Capital assets, net	149,978,828	148,046,447	1,932,381
Other	8,181,470	8,287,197	(105,727)
Total Assets	190,241,070	196,128,648	(5,887,578)
Liabilities:			
Current liabilities	18,623,741	17,664,324	959,417
Noncurrent liabilities	19,446,378	20,410,294	(963,916)
Total Liabilities	38,070,119	38,074,618	(4,499)
Net Assets:			
Invested in capital assets, net of related debt	134,176,049	131,102,715	3,073,334
Restricted - expendable	1,150,040	2,305,118	(1,155,078)
Unrestricted	16,844,862	24,646,197	(7,801,335)
Total Net Position	$ 152,170,951	$ 158,054,030	$ (5,883,079)

* (Certain 2012 amounts were reclassified to conform to the current year presentation.)

Current Assets

Current assets decreased by $7.7 million from the balance one year ago ($39.8 million) to the current balance ($32.1 million) primarily due to a decrease in current unrestricted cash of $7.1 million which was used strategically to fund various initiatives out of cash reserves that were achieved by the end of the prior fiscal year. The remaining decrease of $600 thousand is due to a 5% reduction of the balance in state appropriations which partly reflects an overall decrease of 6% in the State appropriation set in the FY13 State budget for the University. The balance in state appropriations is directly related to the timeliness of the State's reimbursement on vouchers that were submitted to the State for reimbursement in accordance with the appropriation process and documentation requirements.

Noncurrent Assets – Capital Assets, Net

Noncurrent assets show a net increase of $1.8 million from the balance one year ago ($156.3 million) to the current balance ($158.2 million) resulting from $8.4 million used to enhance capital facilities offset by this year's depreciation of $6.1 million and disposals of $0.4 million and; an increase in loans and notes receivable of $94 thousand from $593 thousand to $687 thousand due to improved collections and a decrease in restricted cash of about $200 thousand from $7.4 million to $7.2 million due to spending on capital projects that were funded in advance by the Capital Development Board. The $8.4 million investment consists of major projects including a new baseball field in the $3 million range and new technology switches installed all across campus in the $1.5 million range and various other building improvements and equipment purchases aimed at renewing the campus facilities and resources.

Current liabilities

Current liabilities increased by $959 thousand from the balance one year ago ($17.7 million) to the current balance ($18.6 million). This is mainly attributed to the following: The University incurred costs at year end totaling $743 thousand relating to capital improvements and moveable equipment. Capital improvements included hot water system upgrades, Pharmacy renovations in the Douglas Hall, construction of a new baseball field which included some related infrastructure repairs and improvements to the 95th Street main entrance. The remaining item is an increase to the current bond principal accrual of $50 thousand resulting from the principal payment of $1.07 million due in December 2013 offset by the principal payment previously made in December 2012 for $1.02 million.

Noncurrent liabilities

Noncurrent liabilities decreased by $964 thousand from the balance one year ago ($20.4 million) to the current balance ($19.4 million). The decrease is mainly attributed to reclassification of the current debt service payment ($1.07 million) to current liabilities. This amount will become due December 2013.

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Overall Summary:

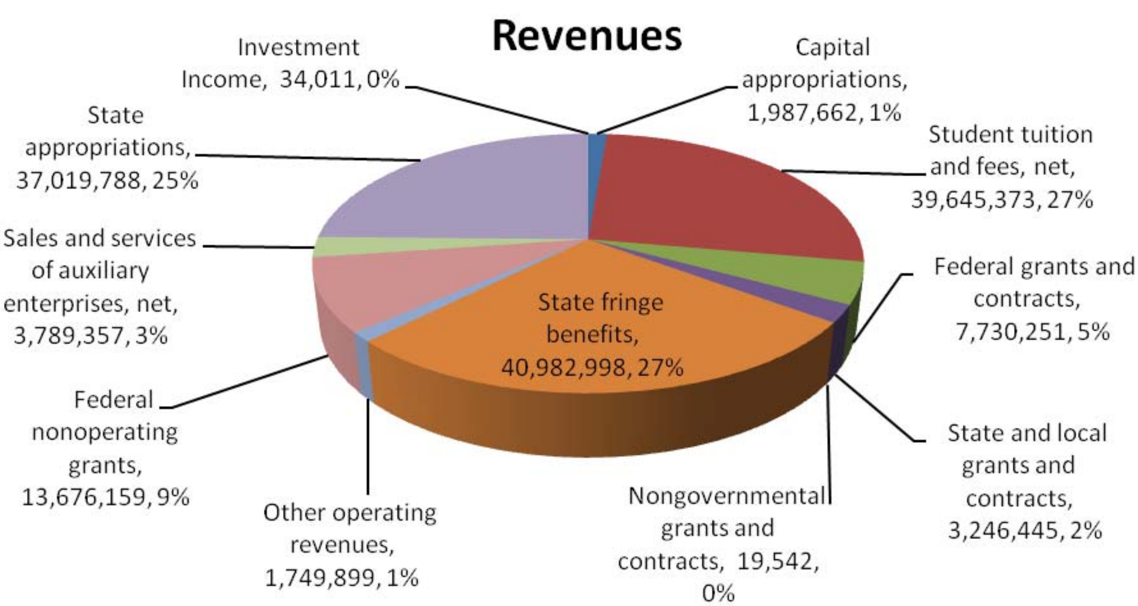
The Statement of Revenues, Expenses, and Changes in Net Position reflects a decrease from the balance in net position one year ago ($158.0 million) to the current balance ($152.2 million) of $5.9 million (3.7%) for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

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

Revenues:

A summary of the University's revenues for the year ended June 30, 2013 in comparison with the year ended June 30, 2012 is as follows:

	2013	2012	Increase (Decrease)
Operating revenues			
Student tuition and fees, net	$ 39,645,373	$ 40,432,815	$ (787,442)
Federal grants and contracts	7,730,251	8,170,333	(440,082)
State and local grants and contracts	3,246,445	3,143,671	102,774
Nongovernmental grants and contracts	19,542	24,871	(5,329)
Sales and services of auxiliary enterprises, net	3,789,357	3,656,912	132,445
Other operating revenues	1,749,899	2,989,417	(1,239,518)
Total Operating revenues	56,180,867	58,418,019	(2,237,152)
Nonoperating Revenues			
State appropriations	37,019,788	39,491,674	(2,471,886)
State fringe benefits	40,982,998	31,002,371	9,980,627
Federal nonoperating grants	13,676,159	17,768,711	(4,092,552)
Gifts and contributions	-	16,009	(16,009)
Investment Income	34,011	26,307	7,704
Total Nonoperating revenues	91,712,956	88,305,072	3,407,884
Other Revenues			
Capital appropriations	1,987,662	3,295,481	(1,307,819)
Total Revenues	$ 149,881,485	$ 150,018,572	$ (137,087)



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

Operating Revenues:

Operating Revenues decreased by $2.2 million from the result one year ago ($58.4 million) to the current result ($56.2 million) for the following main reasons:

- Student tuition decreased by $787 thousand due to a declining student enrollment.
- Federal grants and contracts decreased by $440 thousand due to the completion or near completion of various restricted grant operating initiatives partly offset by new grant initiatives. The Teaching and Learning Materials Program grant accounts for the majority of this decline ($448 thousand). This was a multiyear grant in which the objective was the coordination and distribution of textbooks and high quality cost-effective mathematics and science learning materials that are responsive to age and gender norms for use in primary schools in Ghana, Africa. The production of the textbooks accounted for the majority of the grant which occurred in fiscal year 2012.
- The decrease in Other operating revenues ($1.2 million over last year) is mainly attributed to the transition of the Chicagoland Regional College Program, a program funded by UPS, from the University to the Foundation. This undertaking was a result of UPS moving to trim the costs of operating the program as part of their own cost cutting initiatives. The transition of the program to the Foundation resulted in cost savings for UPS and secured the program's continuity while still keeping it under the administration of the Chicago State University family (University and its Foundation) that benefits our students as well as other colleges in the program.

Non-operating Revenues:

Non-operating Revenues increased by $3.4 million from the result one year ago ($88.3 million) to the current result ($91.7 million) for the following main reasons:

- State appropriations decreased by $2.5 million due to reduced funding to higher education appropriations by the State.
- State fringe benefits revenues increased by $10.0 million due to the accounting treatment for fringe benefits provided by the State on behalf of Chicago State University. The revenue increase is a direct correlation to the increase in the On-behalf State Fringe Benefit expense described later in this section.
- Federal non-operating grants (Pell awards) decreased by $4.1 million due to the decline in student enrollment.

Other Revenues:

Other Revenues decreased by $1.3 million from the result one year ago ($3.3 million) to the current result ($2.0 million). This is attributed to the completion of various capital projects during fiscal year 2012 funded through the Illinois Capital Development Board. The major remaining capital projects for the University included in construction in progress as of June 30, 2013 include Westside Campus ($1.0 million), New Academic Library ($1.0 million); and Interior Remediation of the Robinson Center ($426 thousand).

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

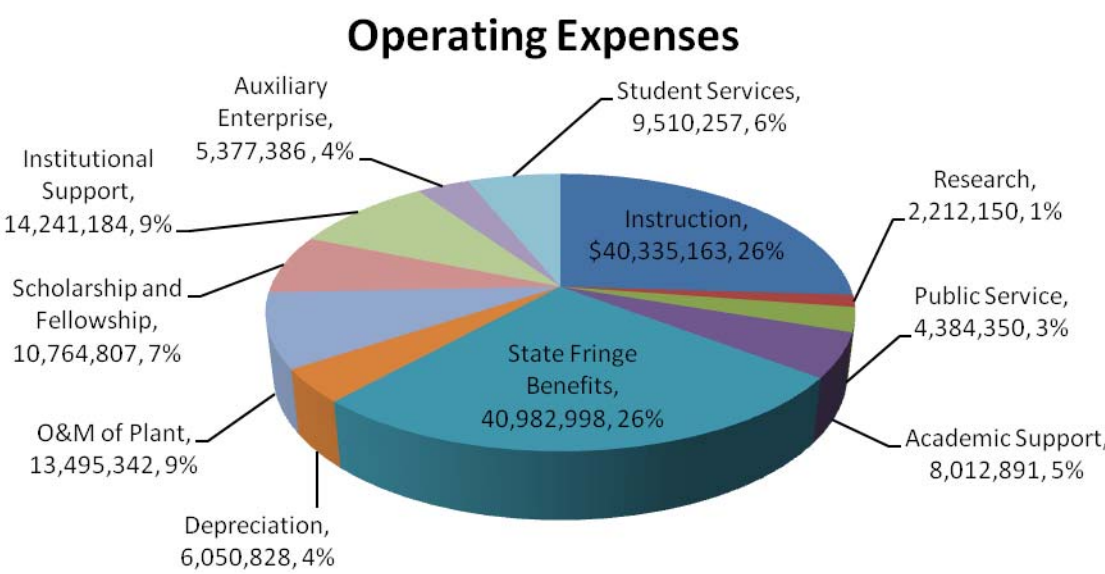
Operating Expenses:

A summary of the University's operating expenses for the fiscal year ended June 30, 2013 in comparison with the fiscal year ended June 30, 2012 is as follows:

	2013	2012	Increase (Decrease)
Operating Expenses:			
Educational and General:			
Instruction	$ 40,335,163	$ 39,586,917	$ 748,246
Research	2,212,150	2,427,037	(214,887)
Public Service	4,384,350	4,350,061	34,289
Academic Support	8,012,891	8,038,332	(25,441)
Student Services	9,510,257	7,618,595	1,891,662
Institutional Support	14,241,184	12,531,508	1,709,676
Operations and Maintenance of Plant	13,495,342	12,736,439	758,903
Depreciation	6,050,828	5,826,126	224,702
Scholarship and Fellowship	10,764,807	10,934,880	(170,073)
Auxiliary Enterprise Expenses	5,377,386	4,603,736	773,650
On-behalf State Fringe Benefits	40,982,998	31,002,371	9,980,627
Total Operating Expenses	$ 155,367,356	$ 139,656,002	$ 15,711,354

* (Certain 2012 amounts were reclassified to conform to the current year presentation.)

The following graphic illustration presents the operating expenses by function.



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

Operating Expenses (continued):

The University reports operating expenses by functional classification. They are also reported by natural classification in Note 7 of the notes to the financial statements.

Operating Expenses increased by $15.7 million from the result one year ago ($139.7 million) to the current result ($155.4 million). As explained below, the gross change in total expenses is inflated as it includes a $10 million increase in on-behalf State fringe benefits 100% funded by the State and is matched by an equal revenue amount. The actual increase in expenses without the on-behalf item is $5.7 million. The following main reasons explain the change beginning with the on-behalf item and then moving to instruction and the other functional expenses in order:

On-behalf State Fringe Benefits:

- The increase in On-behalf State Fringe Benefits ($10.0 million over last year) is attributed to a number of factors including assumptions about employees' mortality, health care cost trends, future employment and the State of Illinois' efforts to meet their annual contributions to the plan. Since the benefit is managed and funded by the State of Illinois, under generally accepted accounting principles, the expense relating to CSU employees is reflected in the financial statements with an offset to revenue as described above.

Instruction:

Instruction increased by $748 thousand from the result one year ago ($39.6 million) to the current result ($40.3 million) due to the following main reasons:

- A $150 thousand investment in a Live Text technology solution which allows students and faculty to store and share learning work products and resources.
- An additional $640 thousand of software license and maintenance costs for the platform used to run the Banner enterprise software used by the University.
- Other lesser offsets.

Student Services:

Student services increased by $1.9 million from the result one year ago ($7.6 million) to the current result ($9.5 million) for the following main reasons:

- The increase in Students Services ($1.9 million over last year) is mainly attributed to an investment ($1.5 million) to ramp up our athletics programs to become a member of the Western Athletic Conference (during fiscal year 2014). Also, additional costs were incurred in travel expenses due to more preseason games. The objective of this investment is:

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

Student Services (continued):

- o to enhance the students' overall higher education experience;
- o to have a venue for CSU to gain national exposure; and
- o to serve as a tool for recruiting and retaining athletic students and allowing their successful degree completion.

Institutional Support:

Institutional Support increased by $1.7 million from the result one year ago ($12.5 million) to the current result ($14.2 million) for the following main reasons:

- The University underwent an assessment of our current faculty tenure retention criteria at a cost of $272 thousand. The process involved the performance and completion of the assessment by multiple third party providers who actively engaged various members of our faculty from various college disciplines. The objective of this initiative is to attract and retain the best faculty to our institution.
- A significant amount of computers were replaced throughout the University including the library, student computer labs, instructional classrooms and areas of student support. There were also other technology enhancements to our systems infrastructure and software relating to student support services including Network Refresh, Banner – Workflow and BMC Footprints. All of these activities were a major undertaking for the institution which required additional human resources at a cost of $330 thousand.

Operations and Maintenance of Plant:

Operations and Maintenance of Plant increased by $759 thousand from the result one year ago ($12.7 million) to the current result ($13.5 million) due to the increase in funding in building maintenance cost of $270 thousand and the increase in utility maintenance costs of $336 thousand driven by various enhancements on the University campus.

Auxiliary Enterprise Expenses:

Auxiliary Enterprise expense increased by $774 thousand from the result one year ago ($4.6 million) to the current result ($5.4 million) primarily for the following reason:

- The increase in Auxiliary Enterprise Expenses ($774 thousand over last year) is mainly attributed to an increase in telecommunication cost of $221 thousand as result of upgrades made during the year. The upgrades included new fiber cable pulls to support a network refresh and to support new or relocation of office changes, and repair of data/voice cables.

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

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 fiscal year. This statement classifies sources and uses of cash into the categories defined in GASB Statement 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 to finance the University's activities from other than operating, investing, and capital financing purposes. The third section shows cash flows from capital and related financing activities. This section reports the cash received and used for the acquisition and construction of capital projects and related items. The fourth section reflects the cash flows from investing and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used in operations to the net operating loss on the Statement of Revenues, Expenses, and Changes in Net Position. 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, 2013 and 2012 is as follows:

	2013	2012
Cash provided by (used in):		
Operating activities	$ (49,715,452)	$ (47,193,460)
Noncapital financing activities	51,310,509	63,238,455
Capital and related financing activities	(8,951,101)	(250,165)
Investing activities	34,011	26,307
Net change in cash	(7,322,033)	15,821,137
Cash, beginning of year	23,612,953	7,791,816
Cash, end of year	$ 16,290,920	$ 23,612,953
Operating loss	$ (99,186,489)	$ (81,237,983)
Noncash expenses included in operating loss	47,033,826	36,828,497
Net change in assets and liabilities	2,437,211	(2,783,974)
Net cash used in operating activities	$ (49,715,452)	$ (47,193,460)

(Certain 2012 amounts were reclassified 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 which includes maintaining enrollment by providing a quality education at an affordable price. The University continues to monitor the State's financial condition and the factors that may influence the State economically and politically which may in turn impact the level of support the State is willing or able to continue to provide to its universities generally and to Chicago State University in particular.

The University continues efforts to remind the State of the importance of investing in the education of its citizens to continually improve their knowledge and skills levels so that Illinois remains attractive to businesses which seek a skilled workforce that will enable them to succeed in the increasingly global marketplace. Chicago State University seeks to make quality educational opportunities available to a diverse student population including economically disadvantaged students who need financial support to gain access to higher education. This goal is supported by the vision of the University as approved by the Board of Trustees on June 27, 2012: "Chicago State University will be recognized for innovations in teaching and research, and in promoting ethical leadership, entrepreneurship, and social and environmental justice. We will embrace, engage, educate, and empower our students and community to transform lives locally and globally."

The University has consistently advocated on its own behalf to maintain and enhance State financial support that is critical to allow the University to continue its mission of providing access to higher education for students of diverse backgrounds and educational needs. The University is pleased to note that additional appropriation support to the University has already been demonstrated in legislation recently enacted related to State proceeds from the Illinois gaming industry. Commencing with fiscal year 2014, the University is to receive an annual appropriation of $1.6 million funded by gaming receipts. In addition, the new legislation established a one-time appropriation of $3 million to Chicago State University. The University has committed to primarily, if not exclusively, use these newly appropriated funds in FY14 to enhance aid to students under a merit scholarship program aimed at supporting initiatives to maintain and grow enrollment. Approximately 70% of the University's students rely on financial aid in order to fund their education. Meeting the needs of these students is a critical part of the University's mission and strategic goals.

In addition to advocating for itself at the State level, the University has worked internally on a three-year strategic plan known as "Strategic Plan 2013 – 15". Work on the strategic plan began in October 2010 and continued through July of 2013. The plan is now in the implementation phase. Among the six strategic goals, the third goal is "Cost Efficiencies and Diverse Revenue Streams." This goal specifically addresses the aim of strengthening the financial resources of the University in order to lessen dependency on State support while also leveraging that support to continue the mission and maintain the financial strength of the University.

Economic Factors that will affect the Future (continued)

The University was engaged for over two years in the self study process aimed at reaccreditation and the Higher Learning Commission site visit in mid November, 2012 which is part of the reaccreditation process. Following the extensive institution-wide preparation effort for its accreditation visit this past November, Dr. Wayne Watson, President of Chicago State University, proudly announced the reaccreditation of the University in June 2013. The University is grateful and proud to note this resounding success which reflects favorably on the diligent and persistent efforts of the HLC Steering Committee, the subcommittees and the larger team that participated in the self study process.

The reaccreditation effort and other collaborative efforts aimed at conscious steps toward continuing success involve faculty, administrators and students in updating the strategic plan and in focusing energies toward a process of continuous quality improvement. They are signs that the University is alive and vibrant and is focused on continuing its mission by leveraging all the resources required to do so. Management believes these efforts focus the University on a path of enhancement and a path of financial sustainability.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2013
(With Comparative Totals as of June 30, 2012)

	2013		2012	
	University	**Component Unit**	**University**	**Component Unit**
ASSETS				
Current Assets				
Cash and cash equivalents (Note 2)	$ 9,077,133	$ 414,115	$ 16,191,180	$ 365,672
Cash and cash equivalents-restricted (Note 2)	-	1,478,323	-	547,374
Balance in State appropriation	11,275,504	-	11,916,336	-
Accounts receivable, net (Note 3)	11,110,648	-	10,970,182	-
Pledges receivable, net (Note 3)	-	126,750	-	3,037
Inventories	40,945	-	42,976	-
Loans and notes receivable, net (Note 3)	20,987	-	18,378	-
Prepaid expenses and other assets	555,555	2,388	655,952	6,276
Total current Assets	32,080,772	2,021,576	39,795,004	922,359
Noncurrent Assets				
Cash and cash equivalents-restricted (Note 2)	7,213,787	-	7,421,773	-
Certificates of deposit-restricted (Note 2)	-	1,056,575	-	1,429,618
Endowment investments (Note 2)	-	3,158,632	-	2,839,739
Loans and notes receivable, net (Note 3)	687,056	-	592,683	-
Other noncurrent assets	280,627	-	272,741	-
Capital assets, net (Note 4)	149,978,828	-	148,046,447	-
Total noncurrent assets	158,160,298	4,215,207	156,333,644	4,269,357
Total Assets	190,241,070	6,236,783	196,128,648	5,191,716
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	7,070,696	849,653	5,325,021	679,162
Accrued wages	2,339,306	-	2,527,698	-
Unearned revenue (Note 5)	6,901,165	-	7,584,553	-
Long-term liabilities-current portion (Note 6)	2,312,574	-	2,227,052	-
Total current liabilities	18,623,741	849,653	17,664,324	679,162
Noncurrent Liabilities				
Accrued compensated absences (Note 6)	4,852,111	-	4,731,642	-
Bonds payable (Note 6)	14,300,000	-	15,370,000	-
Premium on bonds (Note 6)	213,336	-	235,793	-
Intangible asset payable (Note 6)	56,858	-	72,859	-
Capital leases payable (Note 6)	24,073	-	-	-
Total noncurrent liabilities	19,446,378	-	20,410,294	-
Total Liabilities	38,070,119	849,653	38,074,618	679,162
NET POSITION				
Invested in capital assets, net of related debt	134,176,049	-	131,102,715	-
Restricted for:				
Nonexpendable endowments (Note 14)	-	3,632,365	-	3,064,053
Expendable				
Direct programs and scholarships	194,208	1,724,132	182,541	1,651,319
Research and instructional department uses	90,590	-	90,590	-
Loans	744,420	-	640,533	-
Capital projects	120,822	-	1,391,454	-
Unrestricted	16,844,862	30,633	24,646,197	(202,818)
Total Net position	$ 152,170,951	$ 5,387,130	$ 158,054,030	$ 4,512,554

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 POSITION
FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

	2013		2012	
	University	Component Unit	University	Component Unit
OPERATING REVENUES:				
Student tuition and fees (net of scholarship allowances of $ 9,988,748 for 2013 and $12,382,142 for 2012)	$ 39,645,373	$ -	$ 40,432,815	$ -
Federal grants and contracts	7,730,251	-	8,170,333	-
State and local grants and contracts	3,246,445	-	3,143,671	-
Nongovernmental grants and contracts	19,542	-	24,871	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $ 16,421 for 2013 and $32,078 for 2012)	3,789,357	-	3,656,912	-
Other operating revenues	1,749,899	382,815	2,989,417	150,256
Total operating revenues	56,180,867	382,815	58,418,019	150,256
OPERATING EXPENSES:				
Educational and General:				
Instruction	40,335,163	-	39,586,917	-
Research	2,212,150	-	2,427,037	-
Public service	4,384,350	-	4,350,061	-
Academic support	8,012,891	-	8,038,332	-
Student services	9,510,257	-	7,618,595	-
Institutional support	14,241,184	2,031,897	12,531,508	568,957
Operations and maintenance of plant	13,495,342	-	12,736,439	-
Depreciation	6,050,828	-	5,826,126	-
Scholarship and fellowship	10,764,807	148,242	10,934,880	142,645
Auxiliary enterprise expenses	5,377,386	-	4,603,736	-
On-behalf State fringe benefits (See Note 8)	40,982,998	-	31,002,371	-
Total operating expenses	155,367,356	2,180,139	139,656,002	711,602
Operating loss	(99,186,489)	(1,797,324)	(81,237,983)	(561,346)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	37,019,788	-	39,491,674	-
State fringe benefits (Note 8)	40,982,998	-	31,002,371	-
Federal nonoperating grants	13,676,159	-	17,768,711	-
Gifts and contributions	-	529,284	16,009	387,946
Investment income	34,011	408,984	26,307	92,667
Interest on capital asset - related debt	(803,023)	-	(851,294)	-
Other nonoperating revenues (expenses)	-	1,432,378	-	(19,752)
Net nonoperating revenues	90,909,933	2,370,646	87,453,778	460,861
Income (loss) before other revenues, expenses, gains, or losses	(8,276,556)	573,322	6,215,795	(100,485)
Capital appropriations and grants	1,987,662	-	3,295,481	-
Endowment contributions	-	301,254	-	1,192
Gain (loss) on disposal of capital assets	405,815	-	(195,289)	-
Total other revenues	2,393,477	301,254	3,100,192	1,192
Increase (decrease) in net position	(5,883,079)	874,576	9,315,987	(99,293)
NET POSITION				
Net position-beginning of year	158,054,030	4,512,554	148,738,043	4,611,847
Net position-end of year	$ 152,170,951	$ 5,387,130	$ 158,054,030	$ 4,512,554

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, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

	2013		2012	
	University	**Component Unit**	**University**	**Component Unit**
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$ 40,943,598	$ -	$ 40,060,372	$ -
Grants and contracts	10,138,256	-	10,973,914	-
Payment to suppliers for goods and services	(22,983,430)	(1,969,122)	(23,489,041)	(480,877)
Payments to employees for services	(72,680,121)	-	(70,150,948)	-
Payments for scholarships and fellowships	(10,751,685)	(148,242)	(10,935,042)	(146,019)
Loans issued to students	(155,705)	-	(66,503)	-
Loans collected from students	138,265	-	78,484	-
Sales and services of auxiliary enterprises	3,619,126	-	3,798,847	-
Other receipts (disbursements)	2,016,244	195,415	2,536,457	150,256
Net cash used by operating activities	(49,715,452)	(1,921,949)	(47,193,460)	(476,640)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	37,660,620	-	45,375,405	-
Gifts, contributions, and grants	-	2,674,528	16,009	1,440,043
Federal nonoperating grants	13,649,889	-	17,847,041	-
Other noncapital financing activities	-	(237,087)	-	(523,187)
Net cash provided by noncapital financing activities	51,310,509	2,437,441	63,238,455	916,856
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets	(6,968,243)	-	(4,789,882)	-
Capital grants	-	-	6,560,850	-
Principal paid on capital debt and leases	(1,153,468)	-	(1,143,686)	-
Interest paid on capital debt and leases	(829,390)	-	(877,447)	-
Net cash used by capital financing activities	(8,951,101)	-	(250,165)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and/or dividends on investments	34,011	79,839	26,307	81,483
Proceeds from sales and maturities of investments	-	1,858,891	-	1,555,629
Net increase in certificates of deposit investments	-	373,043	-	(14,245)
Purchase of investments and other	-	(1,847,873)	-	(1,493,410)
Net cash provided by investing activities	34,011	463,900	26,307	129,457
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,322,033)	979,392	15,821,137	569,673
Cash and cash equivalents-beginning of the year	23,612,953	913,046	7,791,816	343,373
Cash and cash equivalents-end of the year	$ 16,290,920	$ 1,892,438	$ 23,612,953	$ 913,046
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	$ (99,186,489)	$ (1,797,324)	$ (81,237,983)	$ (561,346)
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation expense	6,050,828	-	5,826,126	-
State fringe benefits	40,982,998	-	31,002,371	-
Non-cash revenue included in operating loss	-	(187,400)	-	-
Net changes in assets and liabilities:				
Accounts receivables, net	862,320		(1,012,708)	-
Inventories	2,031	-	(2,882)	-
Prepaid expenses and other assets	100,397	-	(414,653)	-
Loans to students and employees	(104,868)	-	106,318	-
Accounts payable and accrued liabilities	1,749,585	62,775	(821,256)	84,706
Accrued wages	(188,392)	-	(109,536)	-
Unearned revenue	(246,421)	-	(130,058)	-
Compensated absences	262,559	-	(399,199)	-
Net cash used by operating activities	$ (49,715,452)	$ (1,921,949)	$ (47,193,460)	$ (476,640)
NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES				
Capital appropriations	$ 574,179	$ -	$ 1,969,181	$ -
Intangible asset financed by vendor	$ -	$ -	$ 93,717	$ -
Unrealized gains on investments	$ -	$ 111,990	$ -	$ 8,443
State fringe benefits	$ 40,982,998	$ -	$ 31,002,371	$ -
Capital assets acquired by capital lease	$ 34,971	$ -	$ -	$ -

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

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 the Governmental Accounting Standards Board ("GASB") 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 University Auxiliary Facilities System Revenue Bond Fund, Series 1998.

The Chicago State University Foundation was incorporated in December 1968, as an independent, charitable, educational, and 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* and subsequent amendments. This statement requires the University's resources be classified into net position categories and reported in the Statement of Net Position. These categories are defined as (a) Invested in capital assets, net of related debt (b) Restricted nonexpendable – net position restricted by externally imposed stipulations (c) Restricted expendable – net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted – net position 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 resources when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The financial statements include certain prior period comparative information, which has been derived from the University's 2012 financial statements. Such information does not include all of the information required to constitute a complete presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2012.

Reclassifications - Certain items in the June 30, 2012 comparative information have been reclassified to conform with the current year presentation.

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.

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.

Cash and Cash Equivalents – Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near to maturity that they present insignificant risk of changes in value because of changes in interest rates. The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Illinois Funds are considered cash equivalents.

Note 1 – Summary of Significant Accounting Policies (Continued)

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 Position.

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 – Prepaid expenses include amounts paid in advance for services benefitting future periods. Other assets consist of capital contributions with the State University Risk Management Association.

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. Intangible assets greater than $100,000 are capitalized. 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 and intangible assets.

Unearned Revenues – Unearned 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. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been recognized because eligibility requirements have not been met.

Note 1 – Summary of Significant Accounting Policies (Continued)

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 compensated absences in the Statement of Net Position and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Position.

Total accrued compensated absences changes in the current year are as follows:

Vacation Leave Increase	$	437,497
Sick Leave (Decrease)		(174,938)
Net increase in Compensated Absences	$	262,559

Non-current Liabilities – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, capital leases with contractual maturities greater than one year, and the implicit liability related to an intangible asset license in accordance with GASB Statement No. 51; (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 and is 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, are 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 an 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 Position – GASB Statement No. 35 (as amended by GASB Statement No. 63) reports equity as "Net Position" rather than "fund balance." The University's net position is 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".

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position (Continued) –

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

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

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees, sales and service of educational departments and auxiliary enterprises, and unrestricted gifts from donors. These resources are used for transactions relating to the educational and general operations of the University and Foundation 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(1) 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 Statement No. 9 and GASB Statement No. 35, such as State appropriations and investment income.

New Accounting Pronouncements - The University adopted the provisions of GASB Statements No. 60, No. 61, No. 62, and No. 63 during the fiscal year ended June 30, 2013. These statements required some presentation changes but had little accounting impact on the University. The University will be adopting the provisions of GASB Statements No. 65, No. 66 and No. 70, in the fiscal year ending June 30, 2014. These

Note 1 – Summary of Significant Accounting Policies (Continued)

statements will require some additional presentation changes and some accounting adjustments. On July 1, 2014, the University will adopt GASB Statements No. 68 and No 69. The University has not yet fully evaluated the impact of these statements on its financial statements, although the adoption of GASB Statement No. 68 is expected to require significant accounting adjustments to recognize the unfunded pension liability.

Note 2 – Deposits and Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosures* 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; and repurchase agreements that meet certain instrument and transaction requirements. The Foundation is not subject to such restrictions.

Deposits – At June 30, 2013, the carrying amount of the University and the Foundation's deposits with private financial institutions were $11,800,370 and $2,949,013, 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.

Note 2 – Deposits and Investments (Continued)

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	$ 11,800,370	$ 15,870,961	$ 1,724,589	$ 1,413,620
Money markets	-	-	50,615	50,615
Certificates of deposit	-	-	1,173,809	1,173,809
Total deposit accounts	11,800,370	$ 15,870,961	2,949,013	$ 2,638,044
Add: Investments classified as cash equivalents (maturity < 90 days) - Illinois Funds	4,490,550		-	
Less: Certificates of deposit classified as investments (maturity > 90 days)	-		(1,056,575)	
Total Cash and Cash Equivalents	$ 16,290,920		$ 1,892,438	
Cash and Cash Equivalents	$ 9,077,133		$ 414,115	
Cash and Cash Equivalents-Restricted	7,213,787		1,478,323	
Total	$ 16,290,920		$ 1,892,438	

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The University requires that balances on deposit with financial institutions be either insured by the Federal Deposit Insurance Corporation (FDIC), 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. The FDIC insured bank balances totaling $2,113,677 of the University and the Foundation at June 30, 2013. Another $16,276,896 in bank balances was covered by pledged collateral in the University's and Foundation's name and $118,432 of the Foundation's bank balances was pledged by the financial institution but not in the name of the Foundation.

Interest Rate Risk – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Illinois Funds has a weighted average maturity of less than one year.

Note 2 – Deposits and Investments (Continued)

Investments

The carrying value (and market value) of the investment portfolio of the Foundation and University at June 30, 2013 consisted of the following:

	University Fair Value	Foundation Fair Value
Money Funds and Other	$ -	$ 205,537
US Treasury and Agency Obligations	-	654,034
Common Stock	-	1,856,988
Corporate and International Bonds	-	442,073
Illinois Funds (Standard & Poors AAAm)	4,490,550	-
Total	4,490,550	3,158,632
Add: Certificates of Deposit (maturity >90 days)	-	1,056,575
Less: Investments classified as cash equivalents (maturity < 90 days)	(4,490,550)	-
Total Investments	$ -	$ 4,215,207

Custodial Credit Risk – Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2013, all investments held by the Foundation are insured or registered and held by the Foundation or its agent in the Foundation's name.

Interest Rate Risk – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation's statement of investment objectives and guidelines requires assets to be invested with the care, skill, prudence, and diligence which a prudent person acting in a like capacity and familiar with such matters would make under conditions prevailing at the time. In order to minimize the risk of large losses, equity positions should not exceed 65% of the total portfolio. Investments in short-term fixed income securities are primarily to be (1) securities issued or guaranteed by the U.S. government or its agencies, (2) certificates of deposit, or (3) high quality money market funds or commingled short-term funds of banks. The University's funds expected to be used within one year are invested in the Illinois Funds, which is fully collateralized and has a Standard & Poors credit rating of AAAm.

Note 2 – Deposits and Investments (Continued)

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2013 are as follows:

	Maturity			
Debt Security	Less than 1 year	1 - 5 years	6 - 10 years	Total
US Treasury Obligations	$ 67,840	$ 145,418	$ 76,871	$ 290,129
US Agency/Guaranteed Obligations	-	290,171	73,734	363,905
Total US Treasury/Agency	67,840	435,589	150,605	654,034
Corporate & Int'l Bonds	26,431	214,825	200,817	442,073
Total Debt Security Investments	$ 94,271	$ 650,414	$ 351,422	$ 1,096,107

Credit Risk – Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligation.

The Moody's Investor Service and Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2013 are as follows:

Credit Rating	Total Debt Securities
US Treasury Notes - no rating	$ 290,129
Aaa/AAA	12,323
Aaa/AA+	363,905
Aa1/AA+	19,238
Aa1/AA	9,150
Aa1/AA-	15,523
Aa2/AA	23,781
Aa2/AA-	13,849
Aa3/AA-	48,124
Aa3/A+	48,921
A1/A+	9,628
A2/AA	26,821
A2/A+	24,533
A2/A	28,839
A2/A-	13,645
A3/A-	55,439
A3/BBB+	12,786
A3/BBB	14,133
Baa1/BBB+	11,409
Baa2/A-	13,806
Baa2/BBB	27,102
Baa2/BBB-	13,023
TOTAL	$ 1,096,107

Note 2 – Deposits and Investments (Continued)

Foreign currency risk – Foreign currency risk exists when there is a possibility that the exchange rate of foreign currencies against U.S. dollars may vary. 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, 2013:

Investment	Currency	Maturity	Fair Value
Norvartis Secs Invest Ltd.	Bermudian Dollar	2/10/2019	$ 11,547
Petrobras Intl Fin. Co.	Brazil Real	2/06/2017	14,134
Rabobank Nederland Utrec	European Euro	1/19/2017	13,849
Rio Tinto Fin USA	European Euro	8/21/2017	13,812
Toronto Dominion Bank	Canadian Dollar	4/30/2018	11,676
Shell Int'l Fin B V-USD	European Euro	3/22/2017	9,150
Total			$ 74,168

Note 3 – Accounts, Pledges and Loans Receivable

Accounts receivable consisted of the following at June 30, 2013:

Student tuition and fees	$ 12,109,125
Federal, state, and private grants and contracts	5,031,277
Third party and other receivables	1,877,975
Total Gross Receivable	19,018,377
Less allowance for doubtful accounts	(7,907,729)
Net Accounts Receivable	$ 11,110,648

The Foundation's net pledges receivable at June 30, 2013 was $126,750 and consisted of $131,314 of pledges expected to be collected within one year less an allowance for estimated uncollectible amounts of $4,564.

Loans receivable consisted of the following at June 30, 2013:

Loans receivable	$ 1,674,942
Less allowance for doubtful accounts	(966,899)
Net Loans Receivable	$ 708,043
Current portion	$ 20,987
Noncurrent portion	687,056
Net Loans Receivable	$ 708,043

Note 4 – Capital Assets

Following are the changes in capital assets for the year ended June 30, 2013:

	Amount in thousands				
	Balance June 30, 2012	Additions	Retirements	Net Transfers	Balance June 30, 2013
Capital assets not being depreciated					
Land	$ 9,611	$ -	$ -	$ -	$ 9,611
Construction in-progress	4,433	3,801	-	(842)	7,392
Total capital assets not being depreciated	14,044	3,801	-	(842)	17,003
Other capital assets:					
Site improvements	12,149	-	-	-	12,149
Building and building improvements	177,582	1,046	(2,299)	842	177,171
Equipment	16,954	3,076	(434)	-	19,596
Intangible Assets	545	-	-	-	545
Library books	12,013	439	-	-	12,452
Total other capital assets	219,243	4,561	(2,733)	842	221,913
Total	233,287	8,362	(2,733)	-	238,916
Less: Accumulated depreciation	(85,241)	(6,051)	2,355	-	(88,937)
Capital Assets, net	$ 148,046	$ 2,311	$ (378)	$ -	$ 149,979

Note 5 – Unearned Revenue

Unearned revenue consists of the following at June 30, 2013:

Tuition and fees	$ 1,091,471
Grants and contracts	5,809,694
Total Unearned Revenue	$ 6,901,165

Note 6 – Long Term Liabilities

Long-term liabilities as of June 30, 2013 consist of the following:

	June 30, 2013	Current Portion	Non-current Portion
Accrued compensated absences	$ 5,956,173	$ 1,104,062	$ 4,852,111
Revenue bonds payable	15,370,000	1,070,000	14,300,000
Premium on bonds	235,793	22,457	213,336
Capital lease payable	131,842	107,769	24,073
Intangible asset payable	65,144	8,286	56,858
Total Long Term Liabilities	$ 21,758,952	$ 2,312,574	$ 19,446,378

The changes in long-term liabilities are as follows**:**

	Beginning Balance	Additions	Payments	Ending Balance
Accrued compensated absences	$ 5,693,614	$ 1,301,230	$ (1,038,671) *	$ 5,956,173
Revenue bonds payable	16,390,000	-	(1,020,000)	15,370,000
Premium on bonds	258,249	-	(22,456)	235,793
Capital leases payable	201,766	34,971	(104,895)	131,842
Intangible asset payable	93,717	-	(28,573)	65,144
Total	$ 22,637,346	$ 1,336,201	$ (2,214,595)	$21,758,952

*Payments for accrued compensated absences include lump sum payouts for vacation and sick time only. Additions include vacation earned in excess of days used.

Intangible Asset Payable

In accordance with GASB Statement No. 51, the University has recorded a liability for future payments under a license agreement with a software vendor. The license agreement is for 48 months and requires various payments over the term of the agreement and at certain milestones. Implicit interest is considered immaterial.

Revenue Bonds Payable

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

Optional Redemption – The Series 1998 Bonds maturing on December 1, 2010, 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.

Note 6 – Long Term Liabilities (Continued)

Revenue Bonds Payable (Continued) –

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 Rating – 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.

The bonds are insured by MBIA Corp. and National Public Finance Guarantee. As of May 10, 2013, the S&P rating of MBIA is BBB and the rating for National Public Finance Guarantee is A. As of May 21, 2013, the Moody's ratings are B3 for MBIA Corp and Baa1 for National Public Finance Guarantee.

Maturity Information

The scheduled maturities of the revenue bonds are as follows:

Fiscal Year	Revenue Bonds	Interest	Total Payments
2014	1,070,000	780,570	$ 1,850,570
2015	1,120,000	727,425	1,847,425
2016	1,180,000	669,925	1,849,925
2017	1,240,000	609,425	1,849,425
2018	1,305,000	545,800	1,850,800
2019-2023	7,655,000	1,590,063	9,245,063
2024	1,800,000	49,500	1,849,500
Totals	$ 15,370,000	$ 4,972,708	$ 20,342,708

Note 6 – Long Term Liabilities (Continued)

Capital Leases Payable

The University leases equipment under capital lease purchase contracts with an interest rate ranging from 0.00% to an imputed rate of 1.1%. The capital leases payable are secured by the equipment being financed. The scheduled maturities of the capital leases are as follows:

Fiscal Year	Principal	Interest	Total Payments
2014	$ 107,769	$ 306	$ 108,075
2015	6,962	230	7,192
2016	7,039	153	7,192
2017	7,116	75	7,191
2018	2,956	9	2,965
Totals	$ 131,842	$ 773	$ 132,615

Note 7 – Natural Classifications

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

Compensation and benefits	$ 113,737,287
Contractual services	16,192,168
Commodities	3,656,611
Awards and grants	10,751,685
Telecommunication	868,692
Other operating expenses	4,110,085
Depreciation	6,050,828
Total Operating Expenses	$ 155,367,356

Note 8 - State Fringe Benefits

GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* requires the University to report "on behalf payments" for fringe benefits and salaries by legally separate entities as revenue and expenditures of the University. The University reported on behalf payments of $40,982,998 for year ended June 30, 2013 consisting of group insurance in the amount of $20,870,659 and pension contributions of $20,112,339.

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 State universities, certain affiliated

Note 8 - State Fringe Benefits (Continued)

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 1-800-275-7877.

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 35.20% 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 contributions to SURS for the years ended June 30, 2013, 2012, and 2011 were $20,434,939, $13,975,933, and $11,581,139, respectively, and are 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 Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays Chicago State 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 State's Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

Over the past year(s), State government has been engaged in discussions aimed at evaluating issues related to post employment benefits and/or pension covered benefits. The coverage described here was effective throughout fiscal year 2013. It is

Note 9 – Post employment Benefits (Continued)

anticipated that the benefits portrayed here may be modified in some manner by State government as soon as fiscal year 2014.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, Stratton Office Building, 401 South Spring Street, Springfield, Illinois 62706.

Note 10 – Liability Insurance

The University participates in a statutory cooperative known as the Illinois Public Higher Education Cooperative (IPHEC). Through IPHEC the University has contracted with commercial insurance carriers to provide liability insurance coverages, including educators' legal and other general liability insurance. The University purchases commercial excess general liability coverage of $10.65 million. The University's liability coverages have a general $350,000 deductible per occurrence which is administered through the State University Risk Management Association (SURMA), a cooperative pool of certain State universities in which the University participates. In most cases, participant contributions to SURMA are based upon actuarial valuations. The University also has commercial general property insurance coverage for the replacement value of the University's property.

Note 11 – Related Party Transactions

A summary of related party transactions during the year ended June 30, 2013, 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 revised 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 $584,355 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at $790,461 for the year ended June 30, 2013. Scholarships provided by the Foundation which benefited the University totaled $148,242 for the year ended June 30, 2013. The Foundation's liabilities include a payable to the University of $377,998.

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 Bond Series of 1971 and includes all operations of the Cordell Reed Student Union Building. Its revenues are principally University Center fees, rental and use fees, leased food services, bookstore commissions, and parking fees.

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

Condensed Statement of Net Position	**As of June 30, 2013**
Assets:	
Current assets	$ 3,060,052
Capital assets, net	13,213,968
Total Assets	16,274,020
Liabilities	
Current liabilities	1,530,937
Noncurrent liabilities	14,648,339
Total Liabilities	16,179,276
Net Position	
Invested in capital assets, net of related debt	(2,391,825)
Unrestricted	2,486,569
Total Net Position	$ 94,744

Note 12 – Segment Information - (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position	**Year Ended June 30, 2013**
Operating revenues	$ 5,979,054
Operating expenses	4,642,973
Operating income	1,336,081
Non-operating revenues and expenses, net	(1,390,680)
Decrease in net position	(54,599)
Net position, beginning of the year	149,343
Net position, end of the year	$ 94,744

Condensed Statement of Cash Flows	**Year Ended June 30, 2013**
Cash provided by (used in):	
Operating activities	$ 2,296,069
Non-capital financing activities	(594,748)
Capital financing activities	(2,328,697)
Investing activities	82
Net decrease in cash	(627,294)
Cash, beginning of the year	3,659,065
Cash, end of the year	$ 3,031,771

Note 13 – Commitments and Contingent Liabilities

The University is named as a defendant in approximately twenty-two (22) pending lawsuits. The University believes that these matters will generally be settled in favor of the University and will not result in any significant liabilities to the University.

The University receives monies from Federal and State government agencies under grants and contracts. The costs charged to these grants are subject to audit and disallowance by the granting agency. The University administration believes any disallowance or adjustment would not have a material effect on the University's financial position.

Note 14 – Endowments

The Foundation Board resolved that an annual amount be taken from dividend and interest income on the endowment and that it be used for scholarships to the extent permitted by donor stipulation. The portion of dividends and interest available for scholarships in accordance with donor stipulations is transferred to the Expendable Restricted Funds. For the year ended June 30, 2013, endowment interest and dividends transferred to the Expendable Restricted Funds totaled $61,344.

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

Note 15 – Pledged Revenues and Debt Service Requirements

The University has pledged specific revenue, net of specific operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

Pledged Revenues

Bond Issue	Purpose	Source of Revenue Pledged	Future Net Revenues Pledged (1)	Term of Commitment	Current Year Pledged Net Revenue to Debt Service (2)
Auxiliary Facilities System Revenue Bonds, Series 1998	Advance refund the Series 1994 Bonds and various improvements to the University facilities.	Net revenues of the University Center, Housing, Bookstore, Child Care, Facilities Rental and Parking.	$20,342,708	2024	9.03%

(1) Total future principal and interest payments on debt.

(2) Current year pledged net operating revenue (excluding depreciation) vs. total future debt service.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Net Positon
As of June 30, 2013
(With Comparative Totals as of June 30, 2012)

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,031,771	$ 3,659,065
Accounts receivable, net	28,181	23,699
Prepaid expenses	100	486
Other assets	-	134,134
Total Current Assets	3,060,052	3,817,384
Noncurrent Assets		
Land improvements	253,555	253,555
Buildings and improvements	20,341,678	19,914,617
Furniture and equipment	468,248	455,616
Less: accumulated depreciation	(7,849,513)	(7,395,822)
Total Noncurrent Assets	13,213,968	13,227,966
Total Assets	16,274,020	17,045,350
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	407,288	125,277
Unearned revenue	31,192	13,743
Long-term liabilities-current portion	1,092,457	1,042,457
Total Current Liabilities	1,530,937	1,181,477
Noncurrent Liabilities		
Accrued compensated absences	135,003	108,738
Bonds payable	14,300,000	15,370,000
Premium on bonds	213,336	235,792
Total Noncurrent Liabilities	14,648,339	15,714,530
Total Liabilities	16,179,276	16,896,007
NET POSITION		
Invested in capital assets, net of related debt	(2,391,825)	(3,420,283)
Unrestricted	2,486,569	3,569,626
Total Net Position	$ 94,744	$ 149,343

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

	2013	2012
OPERATING REVENUES		
Room and board, (net of scholarship allowances of $16,421)	$ 2,194,846	$ 2,103,806
Bookstore commissions	175,000	196,774
Vending and catering commissions	244,675	147,895
Parking fees	1,108,075	1,110,749
University center fees	2,256,458	2,525,286
Total Operating Revenues	5,979,054	6,084,510
OPERATING EXPENSES		
Personal services	1,787,318	1,640,420
Expended for plant	53,734	110,034
Commodities	155,852	174,336
Contractual services	1,926,617	1,835,338
Depreciation	500,315	495,865
Miscellaneous	219,137	245,296
Total Operating Expenses	4,642,973	4,501,289
Operating income	1,336,081	1,583,221
NONOPERATING REVENUES (EXPENSES)		
Loss on disposal of capital assets	6,795	(3,796)
Investment income	82	40
Transfers out	(594,748)	-
Interest on capital asset - related debt	(802,809)	(848,663)
Net Nonoperating Revenues (Expenses)	(1,390,680)	(852,419)
Increase (Decrease) in Net Position	(54,599)	730,802
NET POSITION		
Net position-beginning of year	149,343	(581,459)
Net position-end of year	$ 94,744	$ 149,343

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, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Room and board	$ 2,341,947	$ 2,086,414
Bookstore commissions	175,000	196,774
Vending and catering commissions	244,675	147,895
Parking fees	1,108,075	1,110,749
University center fees	2,256,458	2,525,286
Payment to suppliers for goods and services	(2,069,033)	(2,498,125)
Payments to employees for services	(1,761,053)	(1,641,561)
Net cash provided by operating activities	2,296,069	1,927,432
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tranfers to local income fund	(594,748)	-
Net cash used by noncapital financing activities	(594,748)	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(479,522)	(149,719)
Principal paid on capital debt	(1,020,000)	(975,000)
Interest paid on capital debt	(829,175)	(874,816)
Net cash used by capital financing activities	(2,328,697)	(1,999,535)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	82	40
Net cash provided by investing activities	82	40
NET INCREASE (DECREASE) IN CASH	(627,294)	(72,063)
Cash and cash equivalents - beginning of the year	3,659,065	3,731,128
Cash and cash equivalents - end of the year	$ 3,031,771	$ 3,659,065
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,336,081	$ 1,583,221
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	500,315	495,865
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables, net	(4,482)	28,737
Decrease in prepaid expenses	386	21,495
(Increase) decrease in other assets	134,134	(40,309)
Increase (decrease) in accounts payable and accrued liabilities	285,921	(154,616)
Increase (decrease) in unearned revenue	17,449	(5,820)
Increase (decrease) in accrued compensated absences	26,265	(1,141)
Net cash provided by operating activities:	$ 2,296,069	$ 1,927,432

OTHER INFORMATION

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2012	6,107	4,608
Spring session, 2013	5,821	4,411
Summer session, 2013	1,765	721

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, 2012	$ 186.00	$ 120.00
Spring session, 2013	186.00	120.00
Summer session, 2013	143.00	96.00

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	$	29,048,636
Contents	$	1,984,064
Business interruption	$	7,129,198
EDP	$	4,449,132
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

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

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Chicago State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, of 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, 2013, and the related notes to the financial statements, which collectively comprise Chicago State University's basic financial statements, and have issued our report thereon dated January 3, 2014. Our report includes a reference to another auditor who audited the financial statements of the Chicago State University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as finding 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Chicago State University's Response to Finding

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

Purpose of this Report

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

Borschnack, Pelletier & Co.

January 3, 2014

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2013-001 FINDING: INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES

Chicago State University (University) did not properly account for vested sick time absences of employees and did not properly calculate the accrued leave liability of the University.

We compared 100% of the employees' accrued sick leave days/hours as of June 30, 2013 to June 30, 2012 in order to ensure that there were not any increases in accrued vested sick days/hours for any employees. We noted 6 employees in which the accrued sick leave days/hours payable at June 30, 2012 was zero but a balance was present at June 30, 2013. The University had inadvertently left these employees' vested time off of the June 30, 2012 listing.

These omissions of vested sick time at June 30, 2012 understated the accrued leave liability for the year ending June 30, 2012 and overstated the fiscal year 2013 expenses by approximately $128,253. An adjusting entry was proposed to correct this misstatement.

We also tested a sample of 19 employees to determine if the University was properly accounting for leave time earned and used. The University maintains manual records to track employee leave days/hours. We noted two employees in our sample that had accrued leave time that was not correctly accounted for. One employee had a miscalculation of 11 hours of over-accrued leave and one employee had an over-accrual of leave by one day. The amount of miscalculation was immaterial to the financial statements. Once brought to the University's attention, the employee records were corrected.

Also, we scanned the detailed compensated absence worksheet to ensure that no accruals were over the maximum allowed by University policy. We noted one employee (who has been at the University for a period greater than 15 years) had accrued leave that was in excess of the maximum allowed by 16 hours (the employee had 415.36 hours accrued). During the scanning process, we also noted one employee hired in 2001 (sick leave no longer vests after 1997) that had a reported balance of accrued sick leave of 6.75 hours. The amount of these errors was immaterial to the financial statements. Once brought to the University's attention, the employee records were corrected.

The State Finance Act (30 ILCS 105/14a(f)) states that sick leave accumulated on or after January 1, 1998 is not compensable at the time of the employee's death, retirement, resignation, or other termination of service.

The University's Board of Trustees regulations states that an employee may not accumulate more than two times the annual leave earned. Therefore, the maximum accumulation of accrued leave for the noted employee (with 15 or more years of longevity at the University) would have been 399.36 hours.

Good business practices require the University to ensure controls are in place to properly record and summarize data correctly. This data is used for calculating compensation due to employees and determining compensated absence balances for financial reporting.

University officials stated that this is a very manual process and the errors noted were the result of human error.

2013-001 <u>FINDING:</u> INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES (continued)

Failure to properly accumulate accrued leave records and calculate liabilities related to accrued compensated absences may cause errors in compensation to employees and results in inaccurate financial statements. (Finding Code Nos. 2013-001, 12-2, 11-3)

<u>RECOMMENDATION</u>

We recommend that the University improve its system for accumulating and calculating compensated absences to ensure records and reporting are accurate.

<u>UNIVERSITY RESPONSE</u>

During FY ’13, the process for capturing vacation and sick time that supports the compensated absences calculation was manual in nature. To effectively eliminate the errors going forward, the University has conducted training that covers data gathering and input processes that support this calculation. The University has also initiated efforts to transition to an automated system that will support the calculation for the FY ’14 time period. The University accepts the recommendation.

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

A **FINDING: Uncollateralized Deposit Accounts**

Chicago State University (University) maintained deposits ($18,633,626) in excess of the Federal Deposit Insurance Corporation (FDIC) coverage and pledged collateral. (Finding Code No. 12-1)

Status – Not repeated

Our testing did not identify any University deposits that were in excess of the FDIC coverage and pledged collateral.

B **FINDING: Financial Statement Adjustments**

Chicago State University posted adjustments to its financial statements based on estimated liabilities for significant questioned costs identified by the auditors that related to noncompliance with Federal Award programs' compliance requirements (when considered in combination with other proposed audit adjustments). (Finding Code No. 12-3)

Status – Not repeated

Our testing did not identify any additional adjustments that were required to be posted to the financial statements in order to make them materially correct.