STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

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, 2015

TABLE OF CONTENTS

	Page No.
Agency Officials	1
Financial Statement Report	
Summary	2
Independent Auditors' Report	3
Management's Discussion and Analysis (Unaudited)	6
Basic Financial Statements	
Statement of Net Position	13
Statement of Revenues, Expenses, and Changes in Net Position	14
Statement of Cash Flows	15
Notes to the Financial Statements	16
Required Supplementary Information (Unaudited)	
Schedule of the Employer's Proportionate Share of the Net Pension Liability (Unaudited)	42
Schedule of Employer Contributions (Unaudited)	42
Notes to Required Supplementary Information (Unaudited)	43
Supplementary Information	
University Auxiliary Facilities System Revenue Bond Fund, Series 1998	
- Statement of Net Position	44
- Statement of Revenues, Expenses and Changes in Net Position	45
- Statement of Cash Flows	46
Other Information (Unaudited)	
- Student Enrollment by Term (Unaudited)	47
- University Center Fee (Unaudited)	47
- Rental Disclosures (Unaudited)	48
- Schedule of Insurance in Force (Unaudited)	48
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*	49
Schedule of Findings	51
Prior Findings Not Repeated	53

Other Reports Issued Under Separate Cover:

Compliance Reports (including Single Audit) for Chicago State University for the Year Ended June 30, 2015

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2015

AGENCY OFFICIALS

President	Dr. Wayne Watson
Provost and Senior V.P. for Academic Affairs	Dr. Angela M. Henderson (11/24/14 to present)
Interim Provost and Senior V.P. for Academic Affairs	Dr. Angela M. Henderson (to 11/23/14)
Interim V.P. of Administration and Finance	Mr. Cecil B. Lucy, CPA (10/1/15 to present)
V.P. of Administration and Finance	Mr. Lawrence A. Pinkelton (4/1/15 to 9/30/15)
Interim V.P. of Administration and Finance	Mr. Lawrence A. Pinkelton (to 3/31/15)
Associate V.P. of Administration and Finance	Ms. Maricela Aranda
Executive Director/Controller	Mr. Raul Garcia, CPA, MBA
Director of Accounting/Assistant Controller	Ms. Louise Williams, CPA (12/16/14 to present)
Associate Director of Accounting	Ms. Louise Williams, CPA (to 12/15/14)
Chief Internal Auditor	Mr. Michael N. Mayo, CPA (12/1/14 to present)
Interim Chief Internal Auditor	Mr. Michael N. Mayo, CPA (to 11/30/14)

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 2015-001 Inaccurate Accounting of Accrued Compensated Absences.

EXIT CONFERENCE

The University waived holding an exit conference to discuss the financial audit and the findings and recommendations appearing in this report in a communication dated December 3, 2015.

The response to the recommendation was provided by Mr. Cecil B. Lucy in a correspondence dated December 2, 2015

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 Chicago State University, a component unit of the State of Illinois, as of and for the year ended June 30, 2015, 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 Chicago State University and its discretely presented component unit, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective July 1, 2014. The implementation of these statements resulted in a restatement of net position as of June 30, 2014 in the amount of $372,126. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Chicago State University's 2014 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 December 19, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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, Schedule of the Employer's Proportionate Share of the Net Pension, Schedule of Employer Contributions, and Notes to Required Supplementary Information on pages 6 through 12 and 42 through 43 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 44 through 46 and the other information on pages 47 and 48 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 44 through 46 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 44 through 46 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The "Unaudited" other information on pages 47 and 48 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 December 4, 2015 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.

December 4, 2015

Background

Chicago State University (CSU) was founded as a teacher-training school over 140 years ago. It is located in a residential community on the south side of Chicago, approximately 12 miles south of downtown Chicago. Today the University is composed of five colleges - the College of Arts & Sciences, the College of Business, the College of Education, the College of Health Sciences, and the College of Pharmacy. CSU offers thirty-six undergraduate degrees, twenty-two graduate degrees, and two doctoral degrees (the Doctorate of Education in Educational Leadership and the Doctor of Pharmacy). It also offers an interdisciplinary Honors College for highly motivated students in all areas of study and has a Division of Continuing Education. CSU has once again been accredited through the 2022 – 2023 academic year by the Higher Learning Commission.

Operational and Financial Highlights

The fiscal year 2015 Operating Loss ($97.9 million) decreased by $10.0 million compared to the previously fiscal year's operating loss ($107.9 million). This decrease is attributed to continued pressures to reduce operating costs relative to the reduction in our State financial support and declining student enrollment. The decrease in Non-operating Revenues (Expenses) ($0.7 million) is attributed to a decrease in reimbursable student financial assistance ($1.7 million) (Pell, SEOG and Monetary Award Program) caused by the decline in student enrollment; a decrease in State appropriation funding ($4.1 million) offset by an increase in State fringe benefits ($5.1 million). The increase in Other Revenues ($11.9 million) is mainly attributed to State support for capital projects that are further listed below under the Capital Appropriations and Grants section of this report. The following is a financial comparison for the twelve months ending June 30, 2015 and 2014.

	2015 (in thousands)		2014 (in thousands)		Change	
Operating loss	$	(97,863)	$	(107,926)	$	10,063
Non-operating revenues (expenses)		98,097		98,793		(696)
Other revenues		14,877		3,026		11,851
Increase (decrease) in net position	$	15,111	$	(6,107)	$	21,218

Management's Discussion and Analysis

The management's discussion and analysis (MD&A) section of this report presents Chicago State University's financial information in a condensed financial presentation format for fiscal years ended June 30, 2015 and 2014. This section of the report is designed to provide an overview of the changes in financial activities from one year to the next, and should be read in conjunction with the University's basic financial statements. Chicago State University's management is responsible for the completeness and fairness of this information.

The 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 Statements Note 1 on page 16 for information on how to obtain the financial statements of the component unit.

Using the Financial Statements

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and, the Statement of Cash Flows emulate the corporate presentation models whereby all of the University's activities are consolidated into one total. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35. The financial statements report the financial position and activities of the University and its 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 statement reflects the University's financial position at a certain date. 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 and net of related debt, (ii) Restricted nonexpendable – net position that is permanently restricted by externally imposed stipulations, (iii) 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 (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.

A summary of the University's assets, liabilities and net position for the year ended June 30, 2015 in comparison with June 30, 2014 is as follows:

	2015 (in millions)	2014 (in millions)	Change
Assets:			
Current assets	$ 31.4	$ 26.0	$ 5.4
Noncurrent assets:			
Capital assets, net	158.9	149.1	9.8
Other	6.1	6.0	0.1
Total Assets	196.4	181.1	15.3
Deferred Outflows of Resources	0.3	-	0.3
Liabilities:			
Current liabilities	18.1	16.5	1.6
Noncurrent liabilities	17.1	18.5	(1.4)
Total Liabilities	35.2	35.0	0.2
Net Position:			
Invested in capital assets, net of related debt	144.6	134.3	10.3
Restricted - expendable	0.9	1.0	(0.1)
Unrestricted	16.0	10.8	5.2
Total Net Position	$ 161.5	$ 146.1	$ 15.4

Current Assets

Current assets increased $5.4 million from the balance one year ago ($26.0 million) to the current balance ($31.4 million). The increase is attributable to reduced cash outlays for operating activities.

Noncurrent Assets (Capital assets, net)

Noncurrent assets (Capital assets, net) increased by $9.8 million from the balance one year ago ($149.1 million) to the current balance ($158.9 million). The increase consists of building renovations for our Pharmacy Program ($4.7 million), electrical system upgrades ($3.9 million), Child Care renovations ($0.5 million), various building renovations ($5.4 million), and intangible assets, equipment and library books ($1.6 million). This increase is offset by depreciation expense ($6.3 million).

Current Liabilities

Current liabilities increased by $1.6 million from the balance one year ago ($16.5 million) to the current balance ($18.1 million) mainly due to the increase in operating vendor and supplier commitments at year end.

Noncurrent Liabilities

Noncurrent liabilities decreased by $1.4 million from the balance one year ago ($18.5 million) to the current balance ($17.1 million) is attributed to the annual debt service payments and a decrease in employee compensated absences driven by workforce reductions.

Net Position (Invested in Capital Assets)

Capital asset related net position ($144.6 million) increased by $10.3 million from the balance one year ago ($134.3 million). Capital assets increased by $9.8 million and related debt decreased by $0.5 million.

Net Position (Unrestricted)

Unrestricted net position ($16.0 million) increased by $5.2 million from the balance one year ago ($10.8 million). This is predominantly attributed to the University's cost cutting initiatives that yielded stronger cash position for the University.

Statement of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position focuses on the gross costs and the net costs of the University's activities that are supported substantially by student tuition and fees, state and federal grants and contracts, auxiliary enterprise revenues, and State appropriations. The purpose of the statement is to present the revenues earned and expenses incurred by the University, both operating and non-operating.

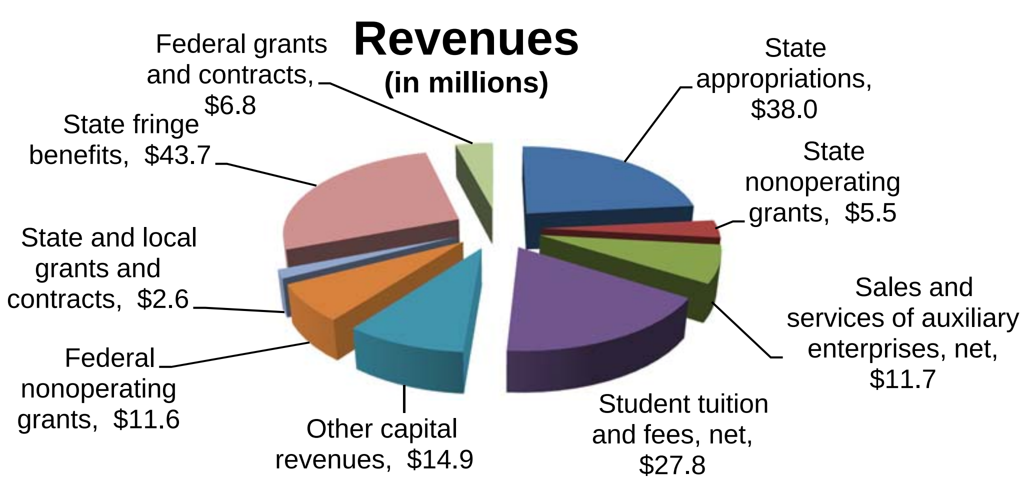
Operating revenues primarily result from exchange transactions where each of the parties to the transaction either gives up or receives something of equal or similar value. The major sources of the University's operating revenues are student tuition and fees, certain grants, and auxiliary enterprise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

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

Revenues

A summary of the University's revenues for the year ended June 30, 2015 in comparison with June 30, 2014 is as follows:

	2015 (in millions)	2014 (in millions)	Change
Operating Revenues:			
Student tuition and fees, net	$ 27.8	$ 24.1	$ 3.7
Federal grants and contracts	6.8	10.6	(3.8)
State and local grants and contracts	2.6	2.6	-
Sales and services of auxiliary enterprises, net	11.7	10.6	1.1
Total Operating revenues	48.9	47.9	1.0
Nonoperating Revenues:			
State appropriations	38.0	42.1	(4.1)
State fringe benefits	43.7	38.6	5.1
State nonoperating grants	5.5	6.0	(0.5)
Federal nonoperating grants	11.6	12.8	(1.2)
Other	-	-	-
Total Nonoperating revenues	98.8	99.5	(0.7)
Other Capital Revenues:			
Capital appropriations and grants	14.3	3.0	11.3
Capital gifts	0.6	-	0.6
Total Other Capital Revenues	14.9	3.0	11.9
Total Revenues	$ 162.6	$ 150.4	$ 12.2



Student Enrollment

	Head Count		%	Credit Hours		%
Terms	**FY 2015**	**FY 2014**	**Change**	**FY 2015**	**FY 2014**	**Change**
Fall	5,211	5,701	-8.6%	56,013	61,500	-8.9%
Spring	4,818	5,297	-9.0%	51,458	56,567	-9.0%
Summer	1,368	1,585	-13.7%	7,384	9,415	-21.6%

Operating Revenues

Operating Revenues ($48.9 million) increased by $1.0 million from the prior year's amount ($47.9 million) for the following main reasons:

- Tuition increased by ($3.7 million) due to reductions in student bad debt write-offs ($3.3 million) and scholarship allowances ($1.4 million) offset by the decline in tuition and fee revenues ($0.9 million).
- Federal grants and contracts decreased ($3.8 million) due to the completion of a various grant contracts in fiscal year 2014 that were no longer active in fiscal year 2015, one of which was the Textbook and Learning Materials program funded by the U.S. Agency for International Development (USAID) for $3.6 million.

Nonoperating Revenues

Nonoperating Revenues ($98.8) decreased by $0.7 million from the prior year's amount ($99.5 million) for the following main reasons:

- The State appropriations revenue decrease ($4.1 million) is mainly attributed to the elimination of a onetime State support of $3 million in fiscal year 2014. The entire amount ($3 million) was used towards student scholarships in support for the University's student enrollment strategies. The remaining difference represents a decline in State financial support.
- State fringe benefits revenues increased by $5.1 million. In 2015, the revenue represents the State of Illinois' direct contributions towards the University's employees' healthcare benefits and the University's allocated portion of the State's pension expense recognized in accordance with GASB Statement No. 68. In 2014, the revenue represents the State of Illinois' direct contributions towards the University employees' healthcare benefits and retirement. Lastly, the related employee benefit cost is reported as On-behalf State Fringe Benefits in the Operating Expense section of the statement.
- Federal nonoperating grant revenues relating to student financial aid awards decreased by $1.2 million due to a decline in student enrollment.

Other Capital Revenues

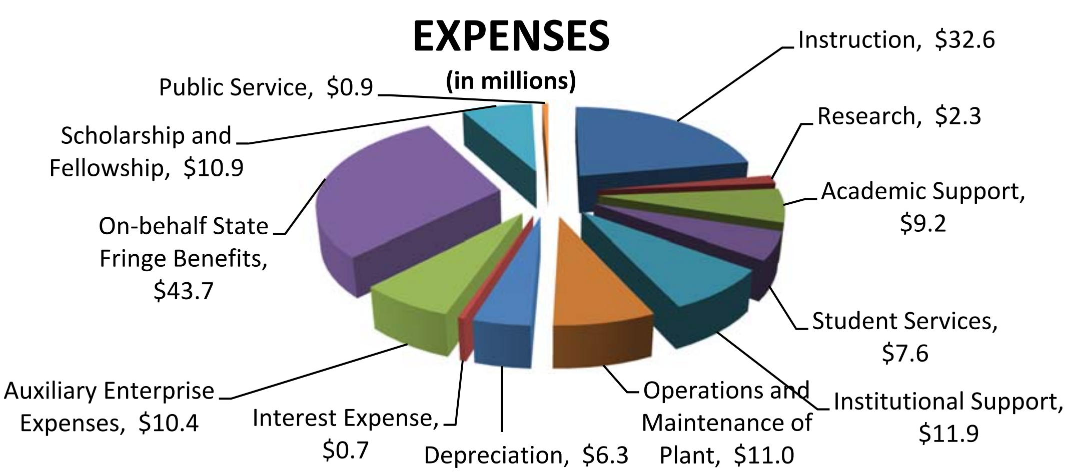
Other Capital Revenues ($14.9) increased by $11.9 million from the prior year's amount ($3.0 million) due to an increase in funding for various capital projects of which $8.7 million was funded and managed by the State of Illinois Capital Development Board for various capital renovations ($4.3 million), Child Care renovations ($0.5 million), and electrical system upgrades ($3.9 million), and renovations funded by various other capital grants ($5.6 million).

Expenses

A summary of the University's operating expenses for the fiscal year ended June 30, 2015 in comparison with the fiscal year ended June 30, 2014 is as follows:

	2015 (in millions)	2014 (in millions)	Change
Operating Expenses:			
Educational and General:			
Instruction	$ 32.6	$ 39.1	$ (6.5)
Research	2.3	2.0	0.3
Public Service	0.9	1.5	(0.6)
Academic Support	9.2	10.6	(1.4)
Student Services	7.6	7.6	-
Institutional Support	11.9	13.5	(1.6)
Operations and Maintenance of Plant	11.0	11.9	(0.9)
Depreciation	6.3	6.4	(0.1)
Scholarship and Fellowship	10.9	13.1	(2.2)
Auxiliary Enterprise Expenses	10.4	11.6	(1.2)
On-behalf State Fringe Benefits	43.7	38.6	5.1
Total Operating Expenses	146.8	155.9	(9.1)
Nonoperating Expenses:			
Interest Expense	0.7	0.7	-
Total Expenses	$ 147.5	$ 156.6	$ (9.1)

The following graphic illustration presents the operating expenses by function.



Operating Expenses

Operating expenses decreased by $9.1 million from the balance one year ago ($155.9 million) to the current balance ($146.8 million) for the following main reasons:

- Vendor and employee costs were strategically curtailed ($8.4 million) in response to declines in State funding and tuition and fee revenues.
- The completion of the Textbook and Learning Materials Federal Grant program in fiscal year 2014 resulted in reduced costs ($3.6 million).
- Scholarship and fellowship decreased ($2.2 million) due to declining student enrollment.
- On-behalf State fringe benefits increased ($5.1 million) primarily due to the adoption of GASB Statement No. 68 which required the University to recognize retirement benefits based on the University's allocated portion of the State's pension expense under GASB Statement No. 68, not just the State's contributions to the retirement plan for University employees which had been used in prior years. Since this benefit is managed and funded by the State of Illinois, under generally accepted accounting principles, the expense relating to University employees is reflected in the financial statements along with offsetting revenue reported as State Fringe Benefits in the Nonoperating revenue (expenses) section of the statement.

Economic Factors that will affect the Future

The State of Illinois continues to rally around creating a pathway for sound fiscal management, but there currently is no consensus on what is the appropriate pathway. The State's financial challenges include escalating employee benefit costs and a back log of obligations. The State's unemployment rate continues to lag in comparison to its neighboring states. As of the month ending August 2015, the Illinois unemployment rate is 5.6% while neighboring state's unemployment rates range from 3.7% to 5.6%.

Despite the financial affairs of the State, higher education will continue to play a vital role in developing a well-educated workforce to compete in a modern economy in various industries including healthcare, information technology, distribution and logistics, and manufacturing. Accordingly, the University in coordination with other sister higher education institutions continue to advocate for continued State financial support.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2015
(With Comparative Totals as of June 30, 2014)

	2015		2014	
	University	Component Unit	University	Component Unit
ASSETS				
Current Assets				
Cash equity wih the State Treasurer	$ 524,043	$ -	$ 88,274	$ -
Cash and cash equivalents (Note 2)	18,348,687	127,321	9,887,484	178,553
Cash and cash equivalents-restricted (Note 2)	-	1,763,092	-	1,076,818
Certificate of deposit (Note 2)	250,000	-	-	-
Balance in State appropriation	5,541,430	-	7,255,692	-
Securities lending collateral of State Treasurer (Note 2)	300,848	-	-	-
Accounts receivable, net (Note 3)	5,817,866	-	8,127,737	-
Pledges receivable, net (Note 3)	-	-	-	6,828
Inventories	29,411	-	44,253	-
Loans receivable, net (Note 3)	21,052	-	13,325	-
Prepaid expenses and other assets	564,964	16	632,366	8
Total current Assets	31,398,301	1,890,429	26,049,131	1,262,207
Noncurrent Assets				
Cash and cash equivalents-restricted (Note 2)	5,138,062	-	4,930,001	-
Certificates of deposit-restricted (Note 2)	-	2,000	-	2,000
Endowment investments (Note 2)	-	5,157,070	-	5,072,313
Loans receivable, net (Note 3)	713,496	-	739,278	-
Other noncurrent assets	269,813	-	253,801	-
Capital assets, net (Note 4)	158,917,345	-	149,110,491	-
Total noncurrent assets	165,038,716	5,159,070	155,033,571	5,074,313
Total Assets	196,437,017	7,049,499	181,082,702	6,336,520
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions after measurement date	318,777	-	-	-
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	9,210,015	1,271,842	6,200,294	571,211
Obligations under securities lending of State Treasurer	300,848	-	-	-
Accrued wages (Note 5)	2,382,606	-	2,205,698	-
Unearned revenue (Note 6)	3,873,633	-	5,691,455	-
Long-term liabilities-current portion (Note 7)	2,360,140	-	2,443,223	-
Total current liabilities	18,127,242	1,271,842	16,540,670	571,211
Noncurrent Liabilities				
Accrued compensated absences (Note 7)	4,539,108	-	4,946,853	-
Bonds payable (Note 7)	12,000,000	-	13,180,000	-
Premium on bonds (Note 7)	168,423	-	190,880	-
Intangible asset payable (Note 7)	299,381	-	8,286	-
Capital leases payable (Note 7)	74,349	-	152,146	-
Total noncurrent liabilities	17,081,261	-	18,478,165	-
Total Liabilities	35,208,503	1,271,842	35,018,835	571,211
NET POSITION				
Invested in capital assets, net of related debt	144,599,567	-	134,320,584	-
Restricted for:				
Nonexpendable endowments (Note 16)	-	2,961,624	-	2,943,897
Expendable				
Direct programs and scholarships	4,734	2,681,975	40,377	2,792,921
Loans	743,844	-	749,536	-
Capital projects	127,209	-	126,052	-
Unrestricted	16,071,937	134,058	10,827,318	28,491
Total Net position	$ 161,547,291	$ 5,777,657	$ 146,063,867	$ 5,765,309

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, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015		2014	
	University	**Component Unit**	**University**	**Component Unit**
OPERATING REVENUES:				
Student tuition and fees (net of scholarship allowances of $ 12,874,813 for 2015 and $14,227,833 for 2014)	$ 27,832,036	$ -	$ 24,091,689	$ -
Federal grants and contracts	6,807,501	-	10,649,241	-
State and local grants and contracts	2,506,513	-	2,600,095	-
Nongovernmental grants and contracts	85,590	-	7,433	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $107,096 for 2015 and $525 for 2014)	11,677,750	-	10,599,857	-
Other operating revenues	3,986	429,917	2,421	547,996
Total operating revenues	48,913,376	429,917	47,950,736	547,996
OPERATING EXPENSES:				
Educational and General:				
Instruction	32,560,710	-	39,152,593	-
Research	2,325,552	-	1,950,884	-
Public service	936,499	-	1,497,384	-
Academic support	9,255,643	-	10,581,254	-
Student services	7,594,711	-	7,572,746	-
Institutional support	11,925,039	3,222,934	13,492,998	2,366,553
Operations and maintenance of plant	10,962,559	-	11,919,117	-
Depreciation	6,263,385	-	6,456,366	-
Scholarship and fellowship	10,875,344	160,265	13,076,323	103,457
Auxiliary enterprise expenses	10,375,155	-	11,582,937	-
On-behalf State fringe benefits (See Note 9)	43,701,632	-	38,593,745	-
Total operating expenses	146,776,229	3,383,199	155,876,347	2,470,010
Operating loss	(97,862,853)	(2,953,282)	(107,925,611)	(1,922,014)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	38,008,893	-	42,108,205	-
State fringe benefits (Note 9)	43,701,632	-	38,593,745	-
State nonoperating grants	5,515,213	-	6,034,575	-
Federal nonoperating grants	11,546,163	-	12,762,578	-
Gifts and contributions	-	435,878	-	340,314
Investment income	28,680	188,127	49,491	509,318
Interest on capital asset - related debt	(703,549)	-	(755,195)	-
Other nonoperating revenues (expenses)	-	2,336,590	-	1,450,561
Net nonoperating revenues	98,097,032	2,960,595	98,793,399	2,300,193
Income (loss) before other revenues, expenses, gains, or losses	234,179	7,313	(9,132,212)	378,179
Capital appropriations and grants	14,322,576	-	3,017,640	-
Capital gifts	568,561	-	-	-
Endowment contributions	-	5,035	-	-
Gain (loss) on disposal of capital assets	(14,018)	-	7,488	-
Total other revenues	14,877,119	5,035	3,025,128	-
Increase (decrease) in net position	15,111,298	12,348	(6,107,084)	378,179
NET POSITION				
Net position-beginning of year (as previously reported)	146,063,867	5,765,309	152,170,951	5,387,130
Cumulative effect of change in accounting principle (Note 18)	372,126	-	-	-
Net position-beginning of year (as restated)	146,435,993	5,765,309	152,170,951	5,387,130
Net position-end of year	$ 161,547,291	$ 5,777,657	$ 146,063,867	$ 5,765,309

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, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015 University	2014 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 27,807,039	$ 27,358,074
Grants and contracts	11,237,044	11,967,133
Payment to suppliers for goods and services	(15,679,609)	(25,790,225)
Payments to employees for services	(67,378,680)	(73,092,760)
Payments for scholarships and fellowships	(10,875,344)	(13,076,323)
Loans issued to students	(148,859)	(169,527)
Loans collected from students	139,497	87,938
Sales and services of auxiliary enterprises	11,509,162	11,068,840
Other receipts	231,286	281,693
Net cash used by operating activities	(43,158,464)	(61,365,157)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	39,723,155	46,128,017
State nonoperating grants	5,509,228	6,034,575
Federal nonoperating grants	11,566,018	12,796,533
Net cash provided by noncapital financing activities	56,798,401	64,959,125
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(6,521,591)	(3,811,661)
Capital grants	4,251,113	816,156
Principal paid on capital debt and leases	(1,312,433)	(1,251,272)
Interest paid on capital debt and leases	(730,673)	(781,843)
Net cash used by capital financing activities	(4,313,584)	(5,028,620)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and/or dividends on investments	28,680	49,491
Purchases of investments	(250,000)	-
Net cash provided (used) by investing activities	(221,320)	49,491
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,105,033	(1,385,161)
Cash and cash equivalents-beginning of the year	14,905,759	16,290,920
Cash and cash equivalents-end of the year	$ 24,010,792	$ 14,905,759
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (97,862,853)	$ (107,925,611)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	6,263,385	6,456,366
Donated equipment below capitalization threshold	24,971	-
State fringe benefits	43,701,632	38,593,745
Net changes in assets, deferred outflows of resources and liabilities:		
Accounts receivables, net	1,826,789	2,265,956
Inventories	14,842	(3,308)
Prepaid expenses and other assets	53,390	(76,811)
Pension contributions after measurement date	53,349	-
Loans to students	18,055	(17,734)
Accounts payable and accrued liabilities	3,173,699	(866,211)
Accrued wages	176,908	(133,608)
Unearned revenue	20,949	166,751
Compensated absences	(623,580)	175,308
Net cash used by operating activities	$ (43,158,464)	$ (61,365,157)
NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES		
Capital appropriations	$ 8,701,904	$ 1,508,023
Capital grants and gifts	$ 543,590	$ -
Intangible asset financed by vendor	$ 495,055	$ -
State fringe benefits	$ 43,701,632	$ 38,593,745
Capital assets acquired by capital lease	$ -	$ 260,857
Trade value received for capital assets	$ 9,500	$ 40,265

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 2014 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, 2014.

The fiscal year 2014 comparative amounts in the accompanying financial statements have not been restated for the adoption of GASB Statements Nos. 68 and 71 because complete information was not available.

Because the fiscal year 2014 amounts have not been restated, the fiscal year 2014 amounts are not fully comparable to the fiscal year 2015 amounts. The differences include:

- In fiscal year 2015, employer contributions to the State University Retirement System have been reported as a Deferred Outflow of Resources, but in fiscal year 2014 (as previously presented), such payments were expensed.

- In fiscal year 2015, the University recognized on-behalf retirement payments (revenue and expense) related to the University's proportionate share of the fiscal year 2014 pension expense recognized by the State of Illinois figured in accordance with GASB Statement 68. In fiscal year 2014 and previous years, the University recognized on-behalf retirement payments (revenue and expense) to the extent of contributions the State of Illinois made to the State University Retirement System (SURS) on behalf of the University's employees in that fiscal year.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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. Allowances for doubtful accounts are charged against revenues when estimated or determined to be uncollectible.

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 and a meal plan deposit with the University's food service provider.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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, respectively.

Net accrued compensated absences changes are as follows:

	2015	2014	Net Change
Vacation Leave	$4,340,883	$ 4,714,670	$ (373,787)
Sick Leave	1,167,019	1,416,811	(249,792)
Total	$5,507,902	$ 6,131,481	$ (623,579)

Non-current Liabilities – Noncurrent liabilities include (1) principal amounts of revenue bonds 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; and (3) the premium on the revenue bonds payable (which are being amortized over the term of the bonds using the straight line method).

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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)

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) certain 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 Statements Nos. 9, 24 and 35, such as State appropriations, pass through grants, and investment income.

New Accounting Pronouncements - The University adopted the provisions of GASB Statements No. 68, No. 69, and No. 71 during the fiscal year ended June 30, 2015. See Note 18 for information regarding the implementation of GASB Statements No. 68 and 71. GASB Statement No. 69 had no impact on the University's current financial statements.

Note 1 – Summary of Significant Accounting Policies (Continued)

In additon, the University will be required to implement GASB Statements No. 72 and 76 in fiscal year 2016, Statements No 73, 74 and 77 in fiscal year 2017, and Statement No 75 in fiscal year 2018. The University has not yet evaluated the impact of adopting future pronouncements on its financial statements.

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.

Cash Equity with State Treasurer – The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in custody of the State Treasurer are pooled and invested with other State funds in accourdance with the Deposit of State Moneys Act (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the University does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

Deposits – At June 30, 2015, the carrying amount of the University and the Foundation's deposits with private financial institutions were $15,227,439 and $1,892,413, 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	$ 14,977,438	$ 17,278,109	$ 1,839,461	$ 3,080,573
Money markets	-	-	50,952	50,952
Certificates of deposit	250,000	250,000	2,000	2,000
Total deposit accounts	15,227,438	$ 17,528,109	1,892,413	$ 3,133,525
Add: Investments classified as cash equivalents (maturity < 90 days) - Illinois Funds-Standard & Poors AAAm	8,478,273		-	
Add: Cash on hand	31,038		-	
Less: Certificates of deposit classified as investments (maturity > 90 days)	(250,000)		(2,000)	
Total Cash and Cash Equivalents	$ 23,486,749		$ 1,890,413	
Cash and Cash Equivalents	$ 18,348,687		$ 127,321	
Cash and Cash Equivalents-Restricted	5,138,062		1,763,092	
Total	$ 23,486,749		$ 1,890,413	

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 $1,599,479 of the University and the Foundation at June 30, 2015. Another $18,084,365 in bank balances were covered by pledged collateral in the University's and Foundation's name and $977,790 of the Foundation's bank balance was not collateralized and subject to custodial credit risk.

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, 2015 consisted of the following:

	University Fair Value	Foundation Fair Value
Money Funds and Other	$ -	$ 1,225,930
US Treasury and Agency Obligations	-	647,572
Common Stock	-	2,864,402
Corporate and International Bonds	-	419,166
Illinois Funds (Standard & Poors AAAm)	8,478,273	-
Total	8,478,273	5,157,070
Add: Certificates of Deposit (maturity >90 days)	250,000	2,000
Less: Investments classified as cash equivalents (maturity < 90 days)	(8,478,273)	-
Total Investments	$ 250,000	$ 5,159,070

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, 2015, 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 and Credit Risk – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. 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 Foundation's statement of investment objectives and guidelines states that investments in non-convertible fixed income securities other than short-term securities will be restricted to issues within a maximum fixed or expected average maturity of ten years and will be made primarily in (1) securities issued or guaranteed by the U.S. government or its agencies, (2) marketable issues of non-nuclear utility companies rated at the time of purchase within the three highest grades assigned by Moody's Investor Services, Inc (Aaa, Aa, or A) or by Standard & Poors (AAA, AA, or A), and (3) bond mutual funds which invest primariily in bonds with rating of A and higher. 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, 2015 are as follows:

	Maturity			
Debt Security	Less than 1 year	1 - 5 years	6 - 10 years	Total
US Treasury Obligations	$ -	$ 219,450	$ 78,141	$ 297,591
US Agency/Guaranteed Obligations	-	273,033	76,948	349,981
Total US Treasury/Agency	-	492,483	155,089	647,572
Corporate & Int'l Bonds	12,228	188,045	218,893	419,166
Total Debt Security Investments	$ 12,228	$ 680,528	$ 373,982	$1,066,738

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, 2015 are as follows:

Credit Rating	Total Debt Securities
US Treasury/Agency/Guaranteed Obligations - no rating	$ 297,591
Aaa/AAA	11,563
Aaa/AA+	349,981
Aa1/AA+	23,757
Aa1/AA-	24,839
Aa2/A+	13,428
Aa2/AA	23,750
Aa3/A+	11,028
Aa3/AA	8,119
Aa3/AA-	36,412
A1/A+	33,350
A1/A	26,175
A2/AA	25,862
A2/A+	24,654
A2/A-	13,021
A3/A	12,906
A3/A-	55,972
Baa1/A-	14,254
Baa1/BBB+	28,391
Baa1/BBB	12,228
Baa1/BBB-	5,404
Baa2/BBB	14,053
TOTAL	$ 1,066,738

Note 2 – Deposits and Investments (Continued)

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundation 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, 2015:

Investment	Currency	Maturity	Fair Value
Norvatis Secs. Invest Ltd	Bermudian Dollar	2/10/2019	$ 11,119
Rating: Aa3/AA-			
Rabobank Nederland Utrec	European Euro	1/19/2017	13,428
Rating: Aa2/A+			
Rio Tinto Fin USA	European Euro	8/21/2017	14,010
Rating: A3/A-			
Shell Int'l Fin B V-USD	European Euro	3/22/2017	12,864
Rating: Aa1/AA-			
Toronto Dominion Bank	Canadian Dollar	4/30/2018	11,975
Rating: Aa1/AA-			
Total			$ 63,396

Securities Lending Transactions

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2015, Deutsche Bank Group lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions on loan amounts of available and eligible securities during fiscal year 2015. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during fiscal year 2015 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal year 2015, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market

Note 2 – Deposits and Investments (Continued)

daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2015 were $4,007,450,623 and $3,980,606,070, respectively.

Note 3 – Accounts, Pledges and Loans Receivable

Accounts receivable consisted of the following at June 30, 2015:

Student tuition and fees	$	12,134,725
Federal, state, and private grants and contracts		3,753,859
Third party and other receivables		1,245,746
Total Gross Receivable		17,134,330
Less allowance for doubtful accounts		(11,316,464)
Net Accounts Receivable	$	5,817,866

Loans receivable (Federal Perkins Loans) consisted of the following at June 30, 2015:

Loans receivable	$	1,729,369
Less allowance for doubtful accounts		(994,821)
Net Loans Receivable	$	734,548
Current portion	$	21,052
Noncurrent portion		713,496
Net Loans Receivable	$	734,548

Note 4 – Capital Assets

Following are the changes in capital assets for the year ended June 30, 2015:

	Amount in thousands				
	Balance June 30, 2014	Additions	Retirements	Net Transfers	Balance June 30, 2015
Capital assets not being depreciated:					
Land	$ 9,611	$ -	$ -	$ -	$ 9,611
Construction in-progress	7,200	14,483	-	(680)	21,003
Total capital assets not being depreciated	16,811	14,483	-	(680)	30,614
Other capital assets:					
Site improvements	15,005	-	-	-	15,005
Building and building improvements	178,767	62	-	680	179,509
Equipment	19,599	640	(552)	-	19,687
Intangible assets	545	631	-	-	1,176
Library books	12,831	280	-	-	13,111
Total other capital assets	226,747	1,613	(552)	680	228,488
Total	243,558	16,096	(552)	-	259,102
Less: Accumulated depreciation	(94,448)	(6,263)	526	-	(100,185)
Capital Assets, net	$ 149,110	$ 9,833	$ (26)	$ -	$ 158,917

Note 5 – Accrued Wages

Accrued wages includes employee contracts for certain academic personnel that provide for twelve monthly salary payments, although the contracted services are rendered during a nine-month period, and services provided by hourly employees that were paid after June 30. The liability for those employees who are on a deferred pay schedule and those that have completed their contracted services, but have not yet received final payment totaled $2,382,606 and $2,205,698 at June 30, 2015 and 2014, respectively.

Note 6 – Unearned Revenue

Unearned revenue consists of the following at June 30, 2015:

Tuition and fees	$ 1,009,355
Grants and contracts	2,864,278
Total Unearned Revenue	$ 3,873,633

Note 7 – Long Term Liabilities

Long-term liabilities as of June 30, 2015 consist of the following:

	June 30, 2015	Current Portion	Non-current Portion
Accrued compensated absences	$ 5,507,902	$ 968,794	$ 4,539,108
Revenue bonds payable	13,180,000	1,180,000	12,000,000
Premium on bonds	190,879	22,456	168,423
Capital leases payable	165,402	91,053	74,349
Intangible asset payable	397,218	97,837	299,381
Total Long Term Liabilities	$ 19,441,401	$ 2,360,140	$ 17,081,261

The changes in long-term liabilities are as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued compensated absences	$ 6,131,481	$ 159,577	$ (783,156) *	$ 5,507,902
Revenue bonds payable	14,300,000	-	(1,120,000)	13,180,000
Premium on bonds	213,336	-	(22,457)	190,879
Capital leases payable	259,999	-	(94,597)	165,402
Intangible asset payable	16,572	495,055	(114,409)	397,218
Total Long Term Liabilities	$ 20,921,388	$ 654,632	$ (2,134,619)	$19,441,401

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

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.

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:

Note 7 – Long Term Liabilities (Continued)

Bonds Maturing December 1, 2018			Bonds Maturing December 1, 2023		
Year	Principal Amount		Year	Principal Amount	
2015	$	1,180,000	2019	$	1,445,000
2016		1,240,000	2020		1,525,000
2017		1,305,000	2021		1,610,000
2018		1,370,000	2022		1,705,000
			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 Public Finance Guarantee 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 June 30, 2015, the S&P rating of MBIA is A- and the rating for National Public Finance Guarantee is AA-. The Moody's ratings are Ba1 for MBIA Corp and A3 for National Public Finance Guarantee.

Maturity Information

The scheduled maturities of the revenue bonds are as follows:

Fiscal Year	Revenue Bonds		Interest		Total Payments	
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		1,370,000		478,925		1,848,925
2020		1,445,000		404,938		1,849,938
2021-2024		6,640,000		755,700		7,395,700
Totals	$	13,180,000	$	3,464,713	$	16,644,713

Note 7 – Long Term Liabilities (Continued)

Capital Leases Payable

The University leases equipment under capital lease purchase contracts with an imputed rate of 1.10% to 1.62%. 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
2016	$ 91,053	$ 1,817	$ 92,870
2017	71,393	591	71,984
2018	2,956	9	2,965
Totals	$ 165,402	$ 2,417	$ 167,819

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 60 months and requires various payments over the term of the agreement and at certain milestones. Implicit interest is considered immaterial.

Fiscal Year	Principal	Interest	Total Payments
2016	97,837	-	97,837
2017	99,794	-	99,794
2018	99,794	-	99,794
2019	99,793	-	99,793
Totals	$ 397,218	$ -	$ 397,218

Note 8 – Natural Classifications

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

Compensation and benefits	$ 110,686,990
Contractual services	14,269,609
Commodities	1,977,261
Awards and grants	11,328,536
Telecommunication	534,656
Other operating expenses	1,715,792
Depreciation	6,263,385
Total Operating Expenses	$ 146,776,229

Note 9 - 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 group insurance on behalf payments of $17,786,411 for year ended June 30, 2015. The University also reported on behalf payments of $25,915,221 for its proportionate share of the State's collective pension expense as described in Note 10.

Note 10 - Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description – The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State of Illinois (State) makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial report 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.

Benefits Provided – A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2014 can be found in the System's comprehensive annual financial report (CAFR) Notes to Financial Statements.

Contributions – The State of Illinois is primarily responsible for funding SURS on behalf on the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of SURS to reach 90% of the total Actuarial Accrued Liability by the end of the Fiscal year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal cost on behalf of applicable employees. The employer normal cost for fiscal

Note 10 – Defined Benefit Pension Plan (Continued)

year 2014 and 2015 respectively, was 11.91% and 11.71% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15.139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15.155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

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

Net Pension Liability
At June 30, 2014, SURS reported a net pension liability (NPL) of $21,790,983,139. The initial net pension liability was measured as of June 30, 2013 and has been rolled forward to to June 30, 2014 using generally accepted actuarial procedures.

Employer proportionate Share of Net Pension Liability
The amount of proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $342,183,267 or 1.5703%. This amount is not recognized in the University's financial statement. The net pension liability was measured as of June 30, 2014, and the total pension used to calculate the net pension liability was determined based on June 30, 2013 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during fiscal year 2014.

Pension Expense
At June 30, 2014 SURS reported a collective net pension expense of $1,650,338,263.

Employer Proportionate Share of Pension Expense
The University's proportionate share of collective pension expense is recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used for the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2014. As a result, the University recognized on-behalf revenue and pension expense of $25,915,221 for the fiscal year ended June 30, 2015.

Note 10 – Defined Benefit Pension Plan (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
Deferred outflows of resources are the consumption of net position by SURS that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Changes in Assumption	88,940,815	-
Net difference between projected and actual earnings on pension plan investments	-	1,271,105,952
Total	$ 88,940,815	$1,271,105,952

Employer Deferral of Fiscal year 2015 Pension Expense
The University paid $318,777 in federal, trust or grant contributions for the fiscal year ended June 30, 2015. These contributions were made subsequent to the pension liability measurement date of June 30, 2014 and are recognized as Deferred Outflows of Resources as of June 30, 2015.

Assumptions and Other Inputs

Actuarial Assumptions – The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period June 30, 2006 – 2010 and an economic study completed June 2014. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 12.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rate were based on the RP2000 Combined Mortality Table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected

Note 10 – Defined Benefit Pension Plan (Continued)

inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustee after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2014, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	31%	7.65%
Private Equity	6%	8.65%
Non-U.S. Equity	21%	7.85%
Global Equity	8%	7.90%
Fixed Income	19%	2.50%
Treasury-Inflation Protected Securities	4%	2.30%
Real Estate	6%	6.20%
REITS	4%	6.20%
Opportunity Fund	1%	2.50%
Total	100%	5.00%
Inflation		2.75%
Expected Geometrical Normal Return		**7.75%**

Discount Rate – A single discount rate of 7.090% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.250% and a municipal bond rate of 4.290% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that the member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the SURS' funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments though the year 2065. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2065, and the municipal bond rate was applied to all benefit payments after that date.

Note 10 – Defined Benefit Pension Plan (Continued)

Sensitivity of the SURS' Net Pension Liability to Changes in the Discount Rate– Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.09%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.09%	Current Single Discount Rate Assumption 7.09%	1% Increase 8.09%
$26,583,701,134	$21,790,983,139	$17,796,570,836

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

Note 11 – 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. Effective July 1, 2013, annuitants were required to contribute towards health, dental, and vision benefits with the amount based on factors such as years of credited service, additional dependent coverage, annuitant's Medicare participation, and type of health plan elected. 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 reduces to $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.

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 12 – 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 13 – Related Party Transactions

A summary of related party transactions during the year ended June 30, 2015, 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 $525,085 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at $1,311,469 for the year ended June 30, 2015. Scholarships provided by the Foundation which benefited the University totaled $160,265 for the year ended June 30, 2015.

Note 14 – 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, 2015**
Assets:	
Current assets	$ 1,486,441
Capital assets, net	12,665,805
Total Assets	14,152,246
Liabilities	
Current liabilities	1,440,654
Noncurrent liabilities	12,263,730
Total Liabilities	13,704,384
Net Position	
Invested in capital assets, net of related debt	(705,074)
Unrestricted	1,152,936
Total Net Position	$ 447,862

Note 14 – Segment Information - (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position	Year Ended June 30, 2015
Operating revenues	$ 5,470,144
Operating expenses	4,517,057
Operating income	953,087
Non-operating revenues and expenses, net	(698,296)
Increase in net position	254,791
Net position, beginning of the year	193,071
Net position, end of the year	$ 447,862

Condensed Statement of Cash Flows	Year Ended June 30, 2015
Cash provided by (used in):	
Operating activities	$ 1,442,551
Capital financing activities	(1,961,920)
Investing activities	6
Net decrease in cash	(519,363)
Cash, beginning of the year	1,648,106
Cash, end of the year	$ 1,128,743

Note 15 – Commitments and Contingent Liabilities

The University is named as a defendant in several 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. An additional lawsuit was initially decided in favor of the plaintiff. The University is appealing that decision and the Court has issued a stay of enforcement of the judgement pending the appeal. The University anticipates reversal of the judgment when the appeal is settled and has not recorded a liability.

In addition to potential legal matters, the University also 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 16 – 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, 2015, endowment interest and dividends transferred to the Expendable Restricted Funds totaled $71,931.

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

Note 17 – 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.	$16,644,713	2024	9.04%

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

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

Note 18 – Change in Accounting Principle

Effective July 1, 2014, the University adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 requires the University to recognize their long term obligation for pension benefits and more comprehensively and comparably measure the annual costs of those pension benefits. GASB Statement No. 71 requires the University to recognize a beginning deferred outflow of resources for employer pension contributions made subsequent to the measurement date of the beginning net pension liability but before the beginning of the University's fiscal year. It was not practical for the University to restate its 2014

Note 18 – Change in Accounting Principle - (Continued)

financial statements to reflect the effects of adopting these statements because the University could not obtain complete information to accurately report the pension expense for 2014. Therefore the University has restated its 2015 beginning net position for the change in accounting principle. The entire net pension liability has been recognized by the State of Illinois. The change below relates to the beginning deferred outflow required by GASB Statement No. 71. A reconciliation of net position from the June 30, 2014 financial statements to beginning net position as reported on the June 30, 2015 financial statements is as follows:

Beginning net position	$ 146,063,867
Change in accounting principle for GASB 68 and 71	372,126
Beginning net position as restated	$ 146,435,993

Note 19 – Subsequent Events

Although the State of Illinois has not acted on an appropriation bill to fund higher education, the University has developed a contingency plan to manage reductions of its FY 2016 appropriations. On June 25, 2015, the Board of Trustees approved a FY 2016 Preliminary Operating Budget in the amount of $105,007,200. This includes an assumed reduction of 15% of FY 2015 State appropriations from the Education Assistance Fund.

As of the date of these financial statements, the State of Illinois has not adopted a budget and therefore has not provided appropriations to the University. An extended delay and/or eventual cuts in State appropriations may cause a financial burden on the University.

Effective September 30, 2015, the Federal government discontinued the Federal Perkins Loan Program. The University still maintains notes receivable related to this program at June 30, 2015. New loans issued of the program will be limited to prescribed requirements.

Chicago State University elected to terminate its contractual agreement with the Chicago State University Foundation effective June 30, 2015. The University Foundation at Chicago State (TUFCS), a new foundation, was established for the purpose of providing the University’s students, faculty, and staff financial support through fund raising activities. TUFCS is a nonprofit tax exempt 501(c) (3) organization. The dissolution of Chicago State University Foundation and the transfer of its assets and related obligations to TUFCS has not yet been finalized.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2015

Schedule of the Employer's Proportionate Share of the Net Pension Liability	
	FY 2015
(a) Proportional Percentage of the Collective Net Pension Liability	0%
(b) Proportional Amount of the Collective Net Pension Liability	$ -
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with Employer	$ 342,183,267
Total (b) + (c)	$ 342,183,267
Employer Covered-employee payroll	$ 62,948,685
Proportion of Collective Net Pension Liability associated with Employer as a percentage of covered-employee payroll	18.40%
SURS Plan Net Position as a Percentage of Total Pension Liability	44.39%

Schedule of Employer Contributions	
	FY 2015
Federal, Trust, Grant and Other contributions	$ 318,777
Contributions in relation to required contributions	$ 318,777
Contribution deficiency (excess)	$ -
Employer Covered-employee payroll	$ 59,288,873
Contributions as a percentage of covered-employee payroll	0.54%

*Note: The University implemented GASB No. 68 in FY 2015. The information above is presented for as many years as available. The schedules are intended to show information for 10 years.

Notes to Required Supplementary Information

Changes of benefit terms*.* There were no benefit changes recognized in the Total Pension Liability as of June 30, 2014.

Changes of assumptions*.* In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every five years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015. There are no changes of assumptions that affect measurement of the total collective pension liability since the prior measurement date.

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, 2015
(With Comparative Totals as of June 30, 2014)

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,128,743	$ 1,648,106
Accounts receivable, net	203,579	99,050
Prepaid expenses	154,119	189,802
Total Current Assets	1,486,441	1,936,958
Noncurrent Assets		
Land improvements	538,481	538,481
Buildings and improvements	20,504,357	20,472,557
Furniture and equipment	494,430	409,736
Less: accumulated depreciation	(8,871,463)	(8,319,270)
Total Noncurrent Assets	12,665,805	13,101,504
Total Assets	14,152,246	15,038,462
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	209,154	197,259
Unearned revenue	29,044	21,524
Long-term liabilities-current portion	1,202,456	1,142,456
Total Current Liabilities	1,440,654	1,361,239
Noncurrent Liabilities		
Accrued compensated absences	95,307	113,272
Bonds payable	12,000,000	13,180,000
Premium on bonds	168,423	190,880
Total Noncurrent Liabilities	12,263,730	13,484,152
Total Liabilities	13,704,384	14,845,391
NET POSITION		
Invested in capital assets, net of related debt	(705,074)	(1,411,832)
Unrestricted	1,152,936	1,604,903
Total Net Position	$ 447,862	$ 193,071

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, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
OPERATING REVENUES		
Room and board, (net of scholarship allowances of $107,096)	$ 2,176,149	$ 2,150,834
Bookstore commissions	175,000	175,000
Vending and catering commissions	178,635	176,903
Parking fees	848,370	954,981
University center fees	2,091,990	2,092,760
Total Operating Revenues	5,470,144	5,550,478
OPERATING EXPENSES		
Personal services	1,621,542	1,728,679
Expended for plant	87,420	72,010
Commodities	135,958	148,238
Contractual services	1,911,050	2,093,644
Depreciation	552,193	531,299
Miscellaneous	208,894	121,729
Total Operating Expenses	4,517,057	4,695,599
Operating income	953,087	854,879
NONOPERATING REVENUES (EXPENSES)		
Gain (Loss) on disposal of capital assets	2,000	(2,629)
Investment income	6	-
Interest on capital asset - related debt	(700,302)	(753,923)
Net Nonoperating Revenues (Expenses)	(698,296)	(756,552)
Increase (Decrease) in Net Position	254,791	98,327
NET POSITION		
Net position-beginning of year	193,071	94,744
Net position-end of year	$ 447,862	$ 193,071

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, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Room and board	$ 2,117,095	$ 2,158,552
Bookstore commissions	166,408	160,856
Vending and catering commissions	178,635	176,903
Parking fees	831,032	954,669
University center fees	2,079,965	2,018,961
Payment to suppliers for goods and services	(2,291,077)	(2,831,161)
Payments to employees for services	(1,639,507)	(1,750,410)
Net cash provided by operating activities	1,442,551	888,370
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(114,494)	(421,465)
Principal paid on capital debt	(1,120,000)	(1,070,000)
Interest paid on capital debt	(727,426)	(780,570)
Net cash used by capital financing activities	(1,961,920)	(2,272,035)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	6	-
Net cash provided by investing activities	6	-
NET INCREASE (DECREASE) IN CASH	(519,363)	(1,383,665)
Cash and cash equivalents - beginning of the year	1,648,106	3,031,771
Cash and cash equivalents - end of the year	$ 1,128,743	$ 1,648,106
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 953,087	$ 854,879
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	552,193	531,299
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables, net	(104,529)	(70,869)
(Increase) decrease in prepaid expenses	35,683	(189,702)
Increase (decrease) in accounts payable and accrued liabilities	16,562	(205,838)
Increase (decrease) in unearned revenue	7,520	(9,668)
Increase (decrease) in accrued compensated absences	(17,965)	(21,731)
Net cash provided by operating activities:	$ 1,442,551	$ 888,370

OTHER INFORMATION

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2014	5,211	3,941
Spring session, 2015	4,818	3,638
Summer session, 2015	1,368	701

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, 2014	$ 186.00	$ 120.00
Spring session, 2015	$ 199.00	$ 128.00
Summer session, 2015	$ 159.00	$ 102.00

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	$ 44,121,027
Contents	$ 420,000
Business interruption	$ 7,343,074
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

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 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, 2015, 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 December 4, 2015. 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. The financial statements of the Chicago State University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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 item 2015-001 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.

December 4, 2015

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2015-001 FINDING: INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES

Chicago State University (University) did not properly account for accrued compensated absences.

We obtained the University's schedule of accrued compensated absences and performed the following tests:

- From the University's directory, we selected a sample of 5 employees from employment categories that generally do not vest accrued leave (athletic coaches, one year contract employees, and employees funded by grants) and noted that 1 of the employees selected was included on the accrued compensated absences schedule. We reviewed the employee's contract and verified the employee was not eligible for vested accrued leave. We brought this information to the attention of the University and asked them to go through their records and remove all individuals that were not allowed to accrue absences. The University reviewed their records and indicated that there were no other individuals required to be removed. The noted employee's accrued leave ($15,216) was removed from the listing prior to the preparation of the financial statements.

- We also tested a sample of 19 employees to determine if the University was properly accounting for leave time earned and used during the year. We noted four employees in our sample that had beginning accrued leave time that did not agree to the prior year schedule prepared by the University. The differences in beginning balances ranged from accruals that were 44.25 hours under to accruals that were 70.21 hours over previously reported amounts. We also noted one employee that was shorted 8 hours of accrued leave during the fiscal year. The total projected misstatement based on our sample was $61,595 of additional expense that was run through the current year Statement of Revenues, Expenses and Changes in Net Position.

- We tested 6 of 12 employees that received sick leave payouts during the fiscal year. Of the 6 employees tested, we noted that three of them received a payout for 100% of their sick time ($6,256 over the allowed amount). The projected error in payments made was $7,531.

The University's Human Resource Policy manual states that coaches must use all accrued vacation by the end of each contract year or it shall be lost. There is no accrued leave payout for one-year contract employees and employees funded by grants.

The State Finance Act (Act) (30 ILCS 105/14a(f)) requires that sick leave earned between January 1, 1984 and January 1, 1998 be paid by multiplying ½ the number of accumulated sick days by the daily rate of compensation at the time of the employee's resignation from the University.

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

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2015-001 FINDING: INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES (continued)

University officials stated that the University maintains all accrued leave records in its electronic information system. The data does require some manual input and manipulation. The errors noted were due to human error.

Failure to properly account for accrued leave may cause errors in compensation to employees and may result in inaccurate financial statements. (Finding Code Nos. 2015-001, 2014-002, 2013-001, 12-2, 11-3)

RECOMMENDATION

We recommend the University improve its processes to account for accrued leave to ensure records and reporting are accurate and that employees are paid appropriately. We further recommend the University recoup the inaccurate sick leave payouts.

UNIVERSITY RESPONSE

The University agrees with the recommendation and will improve its process between the Office of Human Resources and Finance/Administration to ensure that the appropriate accrued leave is captured on the general ledger. We will further continue our practice to recoup any overpayment.

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

A **FINDING: Noncompliance and Inadequate Controls Over Advances to Employees**

Chicago State University (University) did not maintain appropriate controls over advances made to employees that were provided to pay for University expenses and did not comply with Internal Revenue Service (IRS) regulations related to amounts advanced that were not substantiated under an accountable plan. (Finding Code No. 2014-001)

Status – Not repeated

Our sample testing of employee advances did not identify any instances where expenditure of funds were not substantiated by submitted receipts or funds returned to the University.

B **FINDING: Inadequate Controls over Payroll and Purchasing Cards**

Chicago State University's (University) did not have sufficient controls in place over certain payroll and purchasing card functions. (Finding Code No. 2014-003)

Status – Not repeated

Our sample testing did not identify any instances of Department heads hiring relatives or circumvention of the University's purchasing card controls.