

**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY**

**FINANCIAL AUDIT**  
**(In Accordance with the Single Audit Act  
and OMB Circular A-133)**

**For The Years Ended June 30, 2007 and 2006**

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

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

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**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY  
FINANCIAL STATEMENT REPORT  
AGENCY OFFICIALS**

President	Dr. C. Alvin Bowman
Vice President – Finance and Planning	Dr. Stephen M. Bragg
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
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Hovey Hall  
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**STATE OF ILLINOIS  
ILLINOIS STATE UNIVERSITY  
FINANCIAL STATEMENT REPORT  
SUMMARY**

The audit of the accompanying financial statements of Illinois State University was performed by Clifton Gunderson, LLP. Based on their audit, the auditors expressed an unqualified opinion on Illinois State University's basic financial statements.

The University's 2006 financial statements were audited by Nykiel, Carlin & Co., Ltd., which practice was acquired by Clifton Gunderson, LLP by merger on November 1, 2006. Based on their audit, the auditors expressed an unqualified opinion on the University's basic financial statements.

## INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Illinois State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of Illinois State University's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Illinois State University as of and for the year ended June 30, 2006, were audited by Nykiel, Carlin & Co., Ltd., which practice was acquired by Clifton Gunderson, LLP by merger on November 1, 2006. Nykiel, Carlin & Co., Ltd.'s report dated December 18, 2006, expressed an unqualified opinion on those financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2008 on our consideration of the Illinois State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clifton Gunderson LLP*

CLIFTON GUNDERSON, LLP  
Kankakee, Illinois

January 24, 2008

### **Introduction**

The following discussion and analysis provides an overview of the financial position and activities of Illinois State University (the "University") for the year ended June 30, 2007 with selective comparative information for the years ended June 30, 2006 and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Illinois State University is governed by the Board of Trustees and is the first institution of higher learning in Illinois, being founded in 1857. The University is a residential university of approximately 21,000 students with six colleges and thirty-five academic departments that offer more than one hundred sixty programs of study. The Graduate School coordinates forty-seven masters, specialist, and doctoral programs.

As required by generally accepted accounting principles, these financial statements present the financial position and financial activities of the University (the primary unit) and its component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, an amendment of GASB Statement No. 14.

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982, as amended. The Illinois State University Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Hovey Hall, Campus Box 3060, Normal, Illinois 61790-3060.

The Foundation was incorporated in May 1948 under the "General Not-for-Profit Corporation Act" for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. The Foundation is an organization as described in Section 501c(3) of the Internal Revenue Code and, accordingly, exempt from federal income tax.

### **Overview of the Financial Statements and Financial Analysis**

Illinois State University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are also included in the State of Illinois Comprehensive Annual Financial Report (CAFR).

Financial Statements Presentation: The University's financial statements include the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and presented on an entity-wide basis. Several ratios have been included in the financial analysis to help assess University financial health.

**Statements of Net Assets**

The Statements of Net Assets present the assets, liabilities, and net assets of the University as of the end of the fiscal years. The Statements of Net Assets are point in time financial statements. The purpose of the Statements of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Illinois State University at June 30, 2007 and 2006. The Statements of Net Assets present end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers of the Statements of Net Assets are able to determine the assets available to continue the operations of the institution. Readers should also be able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statements of Net Assets provide a picture of the net assets and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, shows the institution's equity in the property, plant and equipment owned by the institution. The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time and/or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are those net assets available to the institution for any lawful purpose of the institution.

Following are condensed Statements of Net Assets at June 30, 2007, 2006 and 2005:

	(Thousands of dollars)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets:</b>			
Current assets	\$ 102,007	\$ 94,811	\$ 82,825
Noncurrent assets:			
Capital assets, net	275,429	262,486	255,070
Other noncurrent assets	<u>70,430</u>	<u>66,102</u>	<u>30,783</u>
Total assets	<u>447,866</u>	<u>423,399</u>	<u>368,678</u>
<b>Liabilities:</b>			
Current liabilities	37,203	33,054	28,405
Noncurrent liabilities	<u>97,491</u>	<u>100,303</u>	<u>65,790</u>
Total liabilities	<u>134,694</u>	<u>133,357</u>	<u>94,195</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	221,414	211,980	203,489
Restricted	9,356	9,343	10,007
Unrestricted	<u>82,402</u>	<u>68,719</u>	<u>60,987</u>
Total net assets	<u>\$ 313,172</u>	<u>\$ 290,042</u>	<u>\$ 274,483</u>

The University's current assets from 2006 to 2007 increased \$7.2 million of which cash and cash equivalents and restricted cash and cash equivalents increased by a combined total of \$7.9 million. This increase is primarily attributable to auxiliary activities, \$6.0 million, to meet current construction needs.

From 2005 to 2006, the University's current assets increased \$12.0 million. This was primarily attributable to the Series 2006 AFS bond issue which provided an additional \$19.3 million in short-term investments for future construction purposes (see the Capital Asset and Debt Administration section of the Management's Discussion and Analysis). Appropriations receivable from the State decreased \$10.7 million from 2005 to 2006.

Current liabilities are obligations of the University coming due in less than one year. Current liabilities consist primarily of accounts payable and accrued liabilities, assets held in custody for others, deferred revenues, and current portion of long-term debt. The two following ratios are intended to give an indication of the University's ability to meet its obligations the following year:

**The Current Ratio** (current assets / current liabilities) is:

(Thousands of dollars)		
2007	2006	2005
$\frac{102,007}{37,203} = 2.74$	$\frac{94,811}{33,054} = 2.87$	$\frac{82,825}{28,405} = 2.92$

**The Acid-test Ratio** (cash, short-term investments, accrued interest receivable, net accounts receivable and appropriations receivable from State / current liabilities) is:

(Thousands of dollars)		
2007	2006	2005
$\frac{76,153}{37,203} = 2.05$	$\frac{69,194}{33,054} = 2.09$	$\frac{77,495}{28,405} = 2.73$

Noncurrent assets are comprised primarily of net capital assets. Net capital assets increased \$12.9 million and \$7.4 million from June 30, 2006 to 2007 and 2005 to 2006, respectively. The increases are primarily attributable to construction and major renovation of University buildings.

Noncurrent liabilities are comprised primarily of Bonds Payable and Accrued Compensated Absences.



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

Changes in total net assets presented on the Statements of Net Assets are based upon the activity presented in the Statements of Revenues, Expenses, and Changes in Net Assets. The purpose of the Statements of Revenues, Expenses, and Changes in Net Assets is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. These are called non-exchange transactions. For example, State appropriations are classified as nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

Student tuition and fees, grants and contracts, the Auxiliary facilities system, State appropriations and payments by the State of Illinois on behalf of the University are the primary sources of funding.

Following are condensed Statements of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2007, 2006 and 2005:

	(Thousands of dollars)		
	2007	2006	2005
Operating revenues			
Student tuition and fees, net	\$ 108,623	\$ 95,397	\$ 88,420
Grants and contracts	25,062	27,357	26,255
Auxiliary facilities	67,176	61,864	57,753
Other	22,652	21,872	20,543
	<u>223,513</u>	<u>206,490</u>	<u>192,971</u>
Total operating revenues			
Operating Expenses	<u>347,503</u>	<u>329,529</u>	<u>313,408</u>
Operating (loss)	<u>(123,990)</u>	<u>(123,039)</u>	<u>(120,437)</u>
Nonoperating revenues (expenses)			
State appropriations	81,528	80,452	80,452
Payments on behalf of the University	47,705	42,163	43,776
Other, net	13,040	9,397	8,390
	<u>142,273</u>	<u>132,012</u>	<u>132,618</u>
Net nonoperating revenues (expenses)			
Capital appropriations	2,830	4,708	11,829
Capital gifts and grants	2,017	1,878	6,861
	<u>23,130</u>	<u>15,559</u>	<u>30,871</u>
Increase in net assets			
Net assets – beginning of year	<u>290,042</u>	<u>274,483</u>	<u>243,612</u>
Net assets – end of year	<u>\$ 313,172</u>	<u>\$ 290,042</u>	<u>\$ 274,483</u>

The return of net assets ratio indicates whether the University is financially better off compared to the previous year by comparing the increase in net assets to beginning net assets. The decline in 2007 and 2006 compared to 2005 are primarily attributable to lower levels of State of Illinois Capital Development Board and Foundation capital projects funding compared to prior years.

**The Return on Net Assets Ratio** (increase in net assets / beginning of year net assets) is:

(Thousands of dollars)		
2007	2006	2005
<u>23,130 / 290,042 = 7.97%</u>	<u>15,559 / 274,483 = 5.67%</u>	<u>30,871 / 243,612 = 12.67%</u>

The net operating revenues ratio indicates whether the University is living within available resources. The ratio is computed by comparing operating income <loss> and net nonoperating revenues to total operating revenues and total nonoperating revenues. These continuing positive ratios demonstrate that University expenditures do not exceed available revenues.

**The Net Operating Revenues Ratio** (operating income (loss) plus net nonoperating revenues (expenses) / operating revenues plus nonoperating revenues) is:

(Thousands of dollars)		
2007	2006	2005
<u>18,283 / 368,483 = 4.96%</u>	<u>8,973 / 341,559 = 2.63%</u>	<u>12,181 / 328,441 = 3.71%</u>

State appropriations revenue has remained consistent at approximately \$81 million for fiscal years 2007, 2006 and 2005. The University had enacted tuition and fee increases for fiscal years 2005, 2006 and 2007 to help offset the State appropriation funding trend.

Payments on behalf of the University are comprised of State of Illinois payments for University employees to the State Universities Retirement System and Central Management Services Group Insurance.

Operating Expenses	(Thousands of dollars)		
	2007	2006	2005
<b>Expenses by Function</b>			
Instruction	\$ 97,775	\$ 92,775	\$ 89,270
Research	14,499	13,585	13,111
Public service	12,063	15,367	12,058
Academic support	12,629	11,213	10,002
Student services	30,506	27,754	25,559
Institutional support	24,071	24,011	23,116
Operation and maintenance of plant	23,771	21,604	20,415
Depreciation	14,870	14,783	13,553
Staff benefits	2,273	975	1,802
Student aid	18,732	17,832	17,175
Payments on behalf of the University	46,693	41,326	42,893
Auxiliary facilities	47,665	46,481	42,741
Other	1,956	1,823	1,713
<b>Total operating expenses</b>	<b>\$ <u>347,503</u></b>	<b>\$ <u>329,529</u></b>	<b>\$ <u>313,408</u></b>
<b>Expenses by Natural Classification</b>			
Compensation and benefits	\$ 225,084	\$ 204,157	\$ 199,041
Supplies and services	92,378	96,054	86,660
Scholarships	15,171	14,535	14,154
Depreciation	14,870	14,783	13,553
<b>Total operating expenses</b>	<b>\$ <u>347,503</u></b>	<b>\$ <u>329,529</u></b>	<b>\$ <u>313,408</u></b>

The primary reserve ratio compares unrestricted net assets and certain expendable net assets to total expenses. This ratio is an indicator of how long the University could function by using its reserves without relying on additional net assets generated by operations. This ratio continues to remain strong over the last several years as the University has been successful in increasing net assets while limiting growth in expenditures.

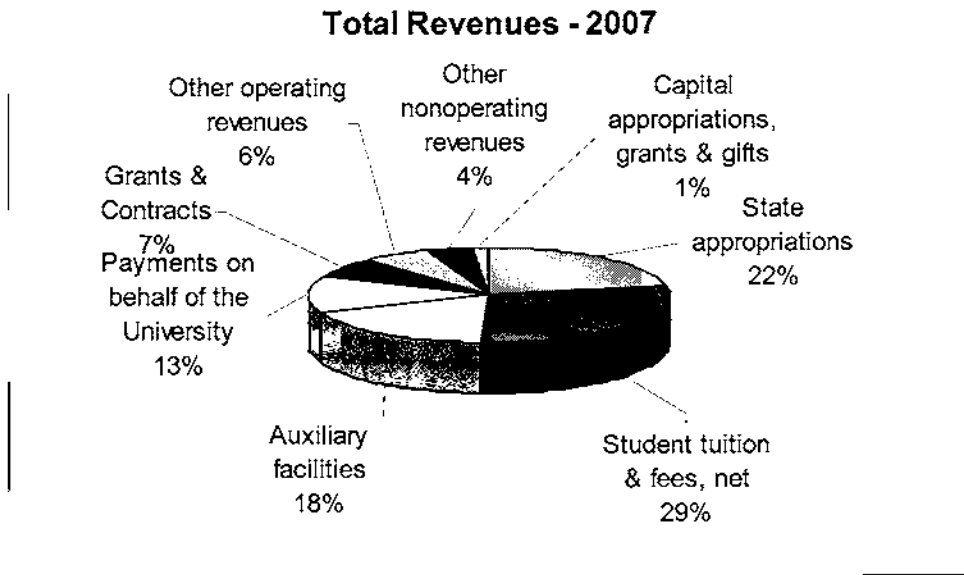
**The Primary Reserve Ratio** (unrestricted and expendable net assets / total expenses) is:

(Thousands of dollars)		
2007	2006	2005
$91,758 / 350,200 = 26.77\%$	$78,062 / 332,586 = 23.47\%$	$70,994 / 316,260 = 22.48\%$

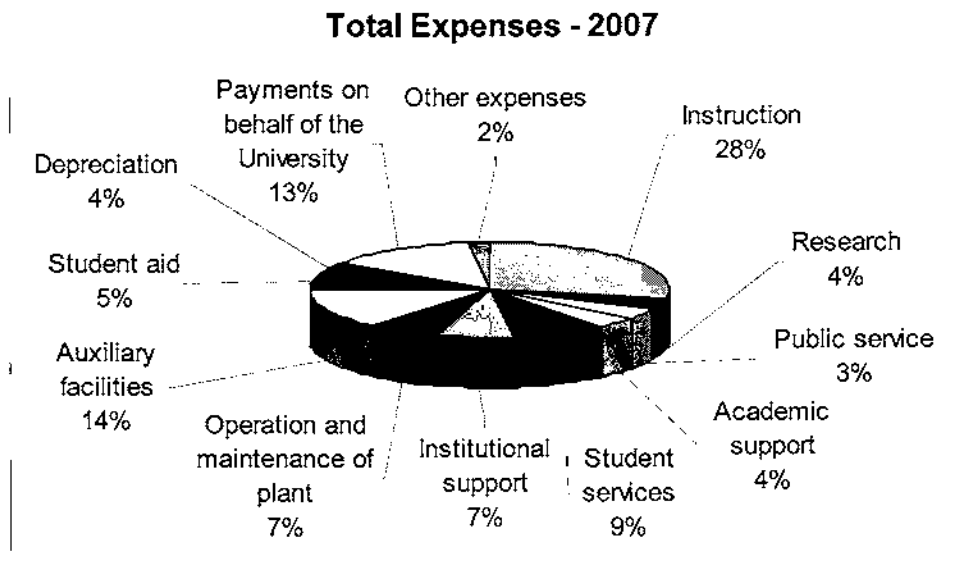
The following summarizes a comparative table of total revenues and total expenses by source/function and percentage:

	Percentage		
	2007	2006	2005
<b>Revenues by Source</b>			
Student tuition and fees, net	29%	28%	25%
Grants and contracts	7	8	8
Auxiliary facilities	18	18	17
Other operating revenues	6	6	6
State appropriations	22	23	23
Payments on behalf of the University	13	12	13
Other nonoperating revenues	4	3	3
Capital appropriations, grants, and gifts	1	2	5
Total revenues percentage	100%	100%	100%
<b>Expenses by Function</b>			
Instruction	28%	29%	28%
Research	4	4	4
Public service	3	5	4
Academic support	4	3	3
Student services	9	8	8
Institutional support	7	7	7
Operation and maintenance of plant	7	6	7
Depreciation	4	4	4
Student aid	5	5	5
Payments on behalf of the University	13	12	14
Auxiliary facilities	14	15	14
Other	2	2	2
Total expenses percentage	100%	100%	100%
<b>Expenses by Natural Classification</b>			
Compensation and benefits	65%	63%	63%
Supplies and services	27	29	28
Scholarships	4	4	5
Depreciation	4	4	4
Total operating percentage	100%	100%	100%

The following graph illustrates total revenues by source:



The following graph illustrates total expenditures by function:



**Statements of Cash Flows**

The Statements of Cash Flows provide information about the University's cash receipts and cash payments. The statements are divided into five sections. The first section deals with operating cash flows and shows the net cash used for the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section shows the cash flows from capital and related financing activities. This section shows the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The last section reconciles the operating loss shown on the Statements of Revenues, Expenses, and Changes in Net Assets to the cash used by operating activities on the Statements of Cash Flows.

Following are condensed Statements of Cash Flows for the Years ended June 30, 2007, 2006 and 2005:

	(Thousands of dollars)		
	2007	2006	2005
Net cash used by operating activities	\$ (58,656)	\$ (61,578)	\$ (62,748)
Cash flows from noncapital financing activities	91,025	99,918	81,097
Cash flows from capital and related financing activities	(30,541)	16,940	(19,067)
Cash flows from investing activities	6,105	(55,212)	12,213
Net increase (decrease) in cash and cash equivalents	7,933	68	11,495
Cash – beginning of year	33,749	33,681	22,186
Cash – end of year	\$ 41,682	\$ 33,749	\$ 33,681

The Statements of Cash Flows include cash transactions of internal service departments, gross receipts and disbursements of the agency custodial accounts, and direct lending receipts and disbursements that are not included in the Statements of Revenues, Expenses, and Changes in Net Assets.

**Capital Asset and Debt Administration**

In March 2006, Revenue Bonds, Series 2006, were issued in the amount of \$45.6 million. The Series consisted of \$6.0 million of advance refunding bonds and \$39.6 million of new project bonds for auxiliary facilities system improvements. The University began construction on the capital projects during fiscal year 2006. During 2007, the University continued construction on capital projects. These projects include renovations of auxiliary facilities system student housing buildings.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are \$10.6 million. Approximately \$3.6 million (34 percent) of the work has been completed as of June 30, 2007. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

During fiscal year 2006, renovation work for Schroeder Hall was completed. The project was funded through the State of Illinois Capital Development Board. The University capitalized \$15.1 million of construction project costs as of June 30, 2006.

With the issuance of Revenue Bonds Series 2006, the University's bond credit rating from Moody's Investors Service remained A2 with the outlook enhanced from stable to positive and from Standard & Poor's was confirmed as A with stable outlook. This is a continued result of the University's continued stable financial position and strong enrollment demand.

The viability ratio measures the availability of unrestricted net assets and certain expendable net assets to cover debt if the University were required to settle this debt as of the balance sheet date. Debt includes revenue bonds payable less unexpended bond proceeds and capital leases.

**The Viability Ratio** (unrestricted and expendable net assets / debt) is:

(Thousands of dollars)		
2007	2006	2005
91,758 / 85,322 = 107.54%	78,062 / 89,268 = 87.46%	70,994 / 54,057 = 131.33%

The debt burden ratio examines the dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenditures. It compares the level of current debt service with the University's total expenditures.

**The Debt Burden Ratio** (debt service / total expenses less depreciation expense plus principal payments) is:

(Thousands of dollars)		
2007	2006	2005
8,178 / 340,735 = 2.40%	6,521 / 323,126 = 2.02%	6,301 / 313,953 = 2.01%

**Economic Outlook**

State appropriation revenue representing operating support for the fiscal year 2008 was approved with a \$1.5 million increase over fiscal year 2007. The University approved a tuition increase for first time resident students of 13.7% for fall 2007. Throughout the economic challenges of the past few years, the University continues to enjoy a strong financial position. As the University celebrates 150 years of teaching, research and service, there continues to be a strong enrollment demand and student retention.

In October 2007, University Board Trustees approved construction of the Student Fitness and Kinesiology Recreation Center at a cost of \$44 million.

The University is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the financial position or results of operations during this and future fiscal years.

**ILLINOIS STATE UNIVERSITY  
STATEMENTS OF NET ASSETS  
AS OF JUNE 30**

	2007		2006	
	University	Foundation	University	Foundation
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 29,649,302	\$ 1,431,731	\$ 27,538,516	\$ 2,131,752
Restricted cash and cash equivalents	12,032,929		6,210,736	
Investments	24,105,891	6,330,801	26,268,451	4,549,177
Restricted investments	19,174,582		19,283,840	
Accrued interest receivable	1,063,065	42,091	846,940	43,550
Accounts receivable, net	8,427,522	12,774	7,010,560	
Student loans receivable, net	1,541,289		1,970,528	
Pledges receivable, net		1,911,986		1,688,961
Appropriations receivable from State	874,119		1,319,001	
Inventories	2,965,810		2,607,787	
Prepaid expenses and deposits	1,844,926		1,439,033	
Deferred charges and obligations	327,962		315,517	
<b>Total current assets</b>	<b>102,007,397</b>	<b>9,729,383</b>	<b>94,810,909</b>	<b>8,413,440</b>
Noncurrent Assets:				
Restricted cash and cash equivalents		1,264,839		4,051,583
Investments	61,245,809	17,605,986	44,390,121	14,476,588
Restricted investments			13,026,950	
Endowment investments		56,807,661		47,640,533
Student loans receivable, net	8,548,632		7,958,497	
Pledges receivable, net		1,040,100		2,187,582
Bond issuance costs	634,991		726,307	
Capital assets, net	275,429,237	3,420,129	262,486,324	1,813,260
Other noncurrent assets		892,578		794,686
<b>Total noncurrent assets</b>	<b>345,858,669</b>	<b>81,031,293</b>	<b>328,588,199</b>	<b>70,964,232</b>
<b>Total assets</b>	<b>447,866,066</b>	<b>90,760,676</b>	<b>423,399,108</b>	<b>79,377,672</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued liabilities	14,929,562	1,260,710	11,354,778	736,324
Obligations payable	255,786		214,352	
Obligations under capital leases	202,457		219,221	
Assets held in custody for others and deposits	8,873,112		8,490,565	
Deferred revenue	6,859,252		5,947,841	
Notes payable		100,000		240,000
Revenue bonds payable	4,391,826		5,058,693	
Accrued compensated absences	1,690,896		1,768,437	
Other		34,525		35,237
<b>Total current liabilities</b>	<b>37,202,891</b>	<b>1,395,235</b>	<b>33,053,887</b>	<b>1,011,561</b>
Noncurrent Liabilities:				
Assets held in custody for others and deposits	222,189		196,301	
Revenue bonds payable	80,499,872		83,419,206	
Accrued compensated absences	16,640,902		16,356,878	
Obligations under capital leases	128,226		330,683	
Other		271,368		276,709
<b>Total noncurrent liabilities</b>	<b>97,491,189</b>	<b>271,368</b>	<b>100,303,068</b>	<b>276,709</b>
<b>Total liabilities</b>	<b>134,694,080</b>	<b>1,666,603</b>	<b>133,356,955</b>	<b>1,288,270</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	221,414,367	3,320,129	211,980,047	1,573,260
Restricted for:				
Nonexpendable		56,807,661		47,640,533
Expendable	9,355,623	26,252,999	9,342,536	27,419,289
Unrestricted	82,401,996	2,713,284	68,719,570	1,456,320
<b>Total net assets</b>	<b>\$ 313,171,986</b>	<b>\$ 89,094,073</b>	<b>\$ 290,042,153</b>	<b>\$ 78,089,402</b>

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

**ILLINOIS STATE UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30**

	2007		2006	
	University	Foundation	University	Foundation
<b>OPERATING REVENUES</b>				
Student tuition and fees, net	\$ 108,622,959	\$	\$ 95,396,990	\$
Federal grants and contracts	18,554,147		21,707,447	
State and local grants and contracts	2,938,946	1,571,536	2,457,151	1,483,750
Nongovernmental grants and contracts	3,568,567		3,192,260	
Sales and services of educational activities	2,459,794		2,193,079	
Auxiliary enterprises:				
Auxiliary facilities	67,175,847		61,863,707	
Other operating revenues	20,192,587	54,395	19,679,899	60,836
<b>Total operating revenues</b>	<b>223,512,847</b>	<b>1,625,931</b>	<b>206,490,533</b>	<b>1,544,586</b>
<b>OPERATING EXPENSES</b>				
Educational and General				
Instruction	97,774,921		92,774,766	
Research	14,498,859		13,585,119	
Public service	12,062,844		15,367,448	
Academic support	12,628,600		11,213,328	
Student services	30,506,471		27,754,643	
Institutional support	24,070,803		24,010,967	
Operations		1,987,594		1,861,261
Operation and maintenance of plant	23,771,074		21,603,708	
Depreciation	14,869,618	63,237	14,782,677	60,231
Staff benefits	2,273,063		974,807	
Student aid	18,732,693	2,137,974	17,832,447	1,844,541
Payments on behalf of the University	46,692,888		41,325,783	
Auxiliary facilities:				
Student housing, activity facilities, and parking	47,664,808		46,480,617	
Other operating expenditures	1,955,823	70,774	1,823,003	227,974
Expenditures on behalf of the University		4,413,656		3,355,438
<b>Total operating expenses</b>	<b>347,502,465</b>	<b>8,673,235</b>	<b>329,529,313</b>	<b>7,349,445</b>
<b>Operating (loss)</b>	<b>(123,989,618)</b>	<b>(7,047,304)</b>	<b>(123,038,780)</b>	<b>(5,804,859)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	81,527,500		80,452,000	
Payments on behalf of the University - State	46,692,888		41,325,783	
Payments on behalf of the University - Foundation	1,012,012		837,013	
Laboratory Schools	8,456,329		8,105,800	
Gifts and donations	362,814	4,406,188	396,864	11,169,963
Investment income, net of investment expenses	6,237,173	12,068,401	3,317,748	5,464,006
Interest expense	(2,697,572)	(13,005)	(3,056,306)	(17,509)
Other nonoperating revenues	680,988	811,359	633,225	776,942
Other nonoperating expenses		(569,946)		(3,636,069)
<b>Net nonoperating revenues</b>	<b>142,272,132</b>	<b>16,702,997</b>	<b>132,012,127</b>	<b>13,757,333</b>
<b>Income (loss) before capital items</b>	<b>18,282,514</b>	<b>9,655,693</b>	<b>8,973,347</b>	<b>7,952,474</b>
Capital appropriations	2,829,843		4,707,663	
Capital grants and gifts	2,017,476		1,877,947	
Additions to permanent endowments		1,348,978		2,112,453
<b>Total capital items</b>	<b>4,847,319</b>	<b>1,348,978</b>	<b>6,585,610</b>	<b>2,112,453</b>
<b>Increase in net assets</b>	<b>23,129,833</b>	<b>11,004,671</b>	<b>15,558,957</b>	<b>10,064,927</b>
<b>NET ASSETS</b>				
<b>Net assets - beginning of year</b>	<b>290,042,153</b>	<b>78,089,402</b>	<b>274,483,196</b>	<b>68,024,475</b>
<b>Net assets - end of year</b>	<b>\$ 313,171,986</b>	<b>\$ 89,094,073</b>	<b>\$ 290,042,153</b>	<b>\$ 78,089,402</b>

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



**ILLINOIS STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30**

	<u>2007</u>	<u>2006</u>
	<u>University</u>	<u>University</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 105,036,133	\$ 94,400,246
Grants and contracts	26,546,982	29,721,534
Payments to suppliers	(77,648,165)	(78,605,856)
Payments to employees for salaries and benefits	(186,120,604)	(176,796,823)
Payments for scholarships and fellowships	(15,170,999)	(14,534,982)
Student loans issued	(2,251,805)	(2,451,790)
Collection of student loans	1,919,308	2,368,178
Auxiliary enterprise charges:		
Auxiliary Facilities	66,496,862	62,429,465
Sales and service of educational activities	2,459,794	2,193,079
Payments to internal service departments	(14,506,404)	(18,784,385)
Internal service departments receipts	14,506,404	18,784,385
Agency custodial receipts	71,758,257	67,327,855
Agency custodial disbursements	(71,105,229)	(66,884,817)
Other receipts	19,423,134	19,255,662
Net cash used by operating activities	<u>(58,656,332)</u>	<u>(61,578,249)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	81,972,382	91,146,118
Gifts and grants for other than capital purposes	6,272	10,573
Student direct lending receipts	63,962,079	61,793,800
Student direct lending disbursements	(63,962,079)	(61,793,800)
Other receipts	680,988	629,050
Laboratory schools	8,365,772	8,132,403
Net cash provided by noncapital financing activities	<u>91,025,414</u>	<u>99,918,144</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital debt:		
Capital long-term debt		38,574,920
Debt defeasement		5,880,517
Gifts and grants for capital purposes	2,456,333	776,378
Purchases of capital assets	(24,819,223)	(15,706,287)
Principal paid on capital debt and leases:		
Capital debt and leases	(5,404,221)	(5,322,605)
Debt defeasement		(5,856,310)
Interest paid on capital debt and leases	(2,774,214)	(1,198,879)
Payments of bond issuance costs		(207,772)
Net cash provided (used) by capital financing activities	<u>(30,541,325)</u>	<u>16,939,962</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	146,074,462	130,369,266
Interest on investments	7,065,572	3,286,179
Purchase of investments	<u>(147,034,812)</u>	<u>(188,866,735)</u>
Net cash provided (used) by investing activities	<u>6,105,222</u>	<u>(55,211,290)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,932,979	68,567
Balance - beginning of year	<u>33,749,252</u>	<u>33,680,685</u>
Balance - end of year	<u>\$ 41,682,231</u>	<u>\$ 33,749,252</u>

**ILLINOIS STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS - CONTINUED  
YEARS ENDED JUNE 30**

	<u>2007</u>	<u>2006</u>
	<u>University</u>	<u>University</u>
<b>RECONCILIATION</b>		
Operating (loss)	\$ (123,989,618)	\$ (123,038,780)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation expense	14,869,618	14,782,677
Payments on behalf of the University	47,704,900	42,162,796
Donated equipment below capitalization threshold	356,542	386,291
Changes in assets and liabilities:		
Accounts receivables, net	(2,098,086)	1,028,453
Student loans receivable, net	(160,897)	(912)
Inventories	(358,023)	(257,685)
Other assets	(386,985)	(367,557)
Accounts payable and accrued liabilities	4,513,805	2,496,794
Deferred revenue	277,494	1,619,056
Assets held in custody for others and deposits	408,435	520,275
Compensated absences	206,483	(909,657)
	<u>\$ (58,656,332)</u>	<u>\$ (61,578,249)</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS</b>		
Payments on behalf of the University	\$ 47,704,900	\$ 42,162,796
Donated capital assets	199,309	993,280
Capital appropriation acquisitions	2,829,843	4,707,663
Donated equipment below capitalization threshold	356,542	386,291
Tuition and fee waivers where services were provided	3,559,200	3,317,800

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

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

**THE FINANCIAL REPORTING ENTITY AND COMPONENT UNIT DISCLOSURES**

Illinois State University, which is governed by the Board of Trustees, was founded in 1857 and is the oldest public institution of higher learning in Illinois. As required by generally accepted accounting principles, these financial statements present the financial position and financial activities of the University (the primary unit) and its component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, an amendment of GASB Statement No. 14.

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982. The Illinois State University Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Hovey Hall, Campus Box 3060, Normal, Illinois 61790-3060.

The Foundation was incorporated in May 1948 under the "General Not-for-Profit Corporation Act" for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. The Foundation is an organization as described in Section 501(c)(3) of the Internal Revenue Code and, accordingly, exempt from federal income tax. *See Note 13, Transactions with Related Organizations.*

The Foundation has formed two limited liability companies (LLC) to carry out the Foundation's mission to assist the University. The Foundation is a sole member of each of these LLC's. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consists of the executive officers of the Foundation. LLC activity is included as part of the Foundation's financial statements.

Illinois State University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are also included in the State of Illinois Comprehensive Annual Financial Report.

**Financial Statements Presentation:** The University's financial statements include the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. The financial statements are prepared in accordance with GASB principles and presented on an entity-wide basis.

**Basis of Accounting:** For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. 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, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date. The University does follow FASB pronouncements issued prior to November 30, 1989.

**Cash and Cash Equivalents:** In accordance with GASB Statement No. 9, cash equivalents are defined as short-term, highly liquid investments that are both:

- a. Readily convertible to known amounts of cash.
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less meet this definition.

**Investments:** The University accounts for its investments at fair value as determined by quoted market prices 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 Statements of Revenues, Expenses, and Changes in Net Assets.

**Accounts Receivable:** Accounts receivable consist of tuition and fee charges to students and auxiliary facilities service provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

**Allowance for Uncollectibles:** The University provides allowances for uncollectible accounts and student loans receivable based upon management's best estimate of uncollectible accounts and loans at the Statements of Net Assets dates, considering type, age, collection history of receivables, and any other factors as considered appropriate.

**Inventories:** Inventories are carried at the lower of cost or market on either the first-in, first-out; weighted average; or average cost methods.

**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. Livestock for educational purposes is recorded at estimated fair value. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than two years. 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 was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 40 years for infrastructure and land improvements, 10 years for library books, and 3 to 7 years for equipment.

**Capitalization of Interest:** Auxiliary Facilities interest is charged to expense as incurred except for interest related to borrowings used for construction projects which is capitalized net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially complete.

**Deferred Revenue:** Deferred revenue includes amounts received for tuition and fees, advance ticket sales, and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

**Compensated Absences:** Employee vacation and sick pay is accrued at year-end for financial statement purposes. The liability is recorded at year-end as current and long-term liabilities (*see Note 9*) in the Statements of Net Assets. The expense is recorded in the Statements of Revenues, Expenses, and Changes in Net Assets as a component of operating expenses.

**Employment Contracts for Certain Academic Personnel:** Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was \$3,649,403 and \$3,440,664 at June 30, 2007 and 2006, respectively, and is recorded in the accompanying financial statements.

**Noncurrent Liabilities:** Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

**Net Assets:** The University's net assets are classified as follows:

**Invested in capital assets, net of related debt:** This represents the University's total investment in capital assets, net of 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, net of related debt.

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

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

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

**Income Taxes:** Certain activities of the University are subject to state sales tax and some activities may be subject to taxation as unrelated business income under the Internal Revenue Code.

**Classification of Revenue:** The University has classified its revenue as either operating or nonoperating revenue according to the following criteria:

**Operating revenue:** Operating revenue includes 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 facilities, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts except for training and (4) interest on institutional student loans.

**Nonoperating revenue:** Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenue by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

**Scholarship Discounts and Allowances:** Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets using the NACUBO Advisory Report 2000-05 alternate method calculation. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenue in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

	2007	2006
Student tuition and fees	\$ 131,111,689	\$ 111,339,966
Less scholarship discounts and allowances	(22,043,443)	(15,545,701)
Less discounts for employee waivers	(445,287)	(397,275)
Net student tuition and fees	<u>\$ 108,622,959</u>	<u>\$ 95,396,990</u>
Auxiliary facilities	\$ 75,140,382	\$ 68,812,017
Less scholarship discounts and allowances	(7,964,535)	(6,948,310)
Net auxiliary facilities	<u>\$ 67,175,847</u>	<u>\$ 61,863,707</u>

Pledged fees relating to health services, athletics, health insurance, student activities and all other fees (excluding tuition, laboratory and library fees) collected from students are used as security for revenue bonds payable.

**Use of Estimates in Preparing Financial Statements:** The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications:** Certain prior year amounts have been reclassified to conform with current year presentations.

**Note 2. Deposits**

At June 30, 2007 and 2006, the University's bank balances were \$366,438 and \$119,157, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral. The University had cash on hand of \$197,997 and \$225,509 at June 30, 2007 and 2006, respectively.

At June 30, 2007 and 2006, the Illinois State University Foundation, the discretely presented component unit, bank balances were \$3,040,808 and \$6,589,196, respectively, and were covered by the Federal Deposit Insurance Corporation.

DEPOSITS:	2007		2006	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
<u>University</u>				
Bank Checking Funds	\$ 366,438	\$	\$ 119,157	\$
Local Vault Cash and Change Funds		197,997		225,509
Total University	\$ <u>366,438</u>	\$ <u>197,997</u>	\$ <u>119,157</u>	\$ <u>225,509</u>
<u>Foundation</u>				
Cash in bank	\$ <u>3,040,808</u>	\$ <u>2,696,570</u>	\$ <u>6,589,196</u>	\$ <u>6,183,335</u>

Reconciliation of cash and cash equivalents to deposits:

	2007	
	University	Foundation
Cash and cash equivalents		
Current	\$ 41,682,231	\$ 1,431,731
Noncurrent		1,264,839
Total cash and cash equivalents	41,682,231	2,696,570
Less: Money market mutual funds classified as investments for purposes of categorization	(41,484,234)	
Carrying amount of deposits	\$ <u>197,997</u>	\$ <u>2,696,570</u>
	2006	
	University	Foundation
Cash and cash equivalents		
Current	\$ 33,749,252	\$ 2,131,752
Noncurrent		4,051,583
Total cash and cash equivalents	33,749,252	6,183,335
Less: Money market mutual funds classified as investments for purposes of categorization	(33,523,743)	
Carrying amount of deposits	\$ <u>225,509</u>	\$ <u>6,183,335</u>

**Note 3. Investments**

Investments are recorded at fair market value, as determined by quoted market prices.

**UNIVERSITY INVESTMENTS**

As of June 30, 2007, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 6 Years	S&P/Moody's Rating
U.S. Treasuries	\$ 21,173,182	\$ 21,173,182	\$	
Federal Farm Credit Bank	16,255,959		16,255,959	AAA/Aaa
Federal National Mortgage Association	10,934,720		10,934,720	AAA/Aaa
Federal Home Loan Mortgage Corporation	10,859,340	1,981,940	8,877,400	AAA/Aaa
Federal Home Loan Bank	45,303,081	20,125,351	25,177,730	AAA/Aaa
Illinois Funds Investment Pool	2,230,315	2,230,315		AAAm
Bank Money Market Funds	39,253,919	39,253,919		Not Rated
Total University	<u>\$ 146,010,516</u>	<u>\$ 84,764,707</u>	<u>\$ 61,245,809</u>	

**Interest Rate Risk:** The University does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk:** The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (11.13%), Federal Home Loan Bank (31.03%), Federal National Mortgage Association (7.49%), and Federal Home Loan Mortgage Corporation (7.44%).

**Credit Risk:** State law authorizes investments of U.S. Government Securities (Treasuries and Agencies), commercial paper (not more than 33% of total cash and investments), money market mutual funds and repurchase agreements. The University's investments are rated by Moody's Investors Service and Standard and Poor's Corporation.

As of June 30, 2006, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 6 Years	S&P/Moody's Rating
U.S. Treasuries	\$ 38,233,690	\$ 23,235,640	\$ 14,998,050	
Federal Farm Credit Bank	7,664,929	3,745,549	3,919,380	AAA/Aaa
Federal National Mortgage Association	3,980,620	3,980,620		AAA/Aaa
Federal Home Loan Mortgage Corporation	4,899,430	2,963,930	1,935,500	AAA/Aaa
Federal Home Loan Bank	48,190,693	11,626,552	36,564,141	AAA/Aaa
Illinois Funds Investment Pool	22,344,134	22,344,134		AAAm
Bank Money Market Funds	11,179,609	11,179,609		Not Rated
Total University	<u>\$ 136,493,105</u>	<u>\$ 79,076,034</u>	<u>\$ 57,417,071</u>	



**Interest Rate Risk:** The University does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk:** The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (5.6%) and Federal Home Loan Bank (35.3%).

**Credit Risk:** State law authorizes investments of U.S. Government Securities (Treasuries and Agencies), commercial paper (not more than 33% of total cash and investments), money market mutual funds and repurchase agreements. The University's investments are rated by Moody's Investors Service and Standard and Poor's Corporation.

#### FOUNDATION INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2007 and 2006 is as follows:

	2007	2006
U.S. Government Securities	\$ 996,680	\$ 11,958
Certificates of Deposits		120,503
Common Stock	373,543	326,099
Mutual Funds – investing in:		
Stocks	58,506,404	50,108,252
Bonds	11,632,658	8,696,097
Commodities	1,352,156	1,209,456
Bank Common Trusts	5,040,646	4,971,242
Limited Partnerships	2,241,730	1,222,691
Real Estate	600,631	
Total Foundation	\$ 80,744,448	\$ 66,666,298

**Interest Rate Risk:** The Foundation's investment policy requires the average duration of the fixed income portfolio to be within 20% of the duration of the index to which the portfolio is benchmarked.

**Credit Risk:** Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy states that no more than 25% of the fixed income portfolio may be rated below investment grade.

As of June 30, 2007, the Foundation had the following investments exposed to interest rate risk and credit risk:

	Fair Market Value	Effective Duration	S&P Rating
Bond Mutual Funds	\$ 11,632,658	4.4 years	AA
Bank Common Trusts	5,040,646	3.3 months	AAA
U.S Government Securities*	996,080	8/2007 maturity	

\* Not subject to credit risk

As of June 30, 2006, the Foundation had the following investments exposed to interest rate risk and credit risk:

	Fair Market Value	Effective Duration	S&P Rating
Bond Mutual Funds	\$ 8,696,097	4.4 years	AA
Bank Common Trusts	4,971,242	2.9 months	AAA
U.S Government Securities*	11,958	2/2023 maturity	
Certificates of Deposits*	120,503	1/2007 maturity	

\* Not subject to credit risk

Duration is a measure of a fixed income's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt. The interest rate risk information for U.S. Government Securities and Certificates of Deposits is disclosed by specific identification since these investments have a distinct investment objective and are maintained separately.

Investments consist of the following:

	2007		2006	
	University	Foundation	University	Foundation
Current:				
Investments	\$ 24,105,891	\$ 6,330,801	\$ 26,268,451	\$ 4,549,177
Restricted investments	19,174,582		19,283,840	
Noncurrent:				
Investments	61,245,809	17,605,986	44,390,121	14,476,588
Restricted investments			13,026,950	
Endowment investments		56,807,661		47,640,533
	<u>104,526,282</u>	<u>80,744,448</u>	<u>102,969,362</u>	<u>66,666,298</u>
Money market mutual funds classified as cash and cash equivalents	<u>41,484,234</u>		<u>33,523,743</u>	
Total	\$ <u>146,010,516</u>	\$ <u>80,744,448</u>	\$ <u>136,493,105</u>	\$ <u>66,666,298</u>

Bond resolutions restrict investments in the Auxiliary Debt Retirement account to U.S. Government Securities. All other auxiliary facilities money may be invested in any instrument permitted by the laws of the State of Illinois for the investment of public funds.

Foundation policy states that assets are to be invested in a diversified portfolio of equity and fixed income securities. No investment is to be made that will cause the total investment in equities or fixed income securities issued or guaranteed by any one person, firm, or corporation to exceed five percent of the then fair market value of the Foundation, provided, this restriction is not to apply to either well diversified mutual funds, pooled funds, unit trust, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies. Equity investments have an asset allocation range from 70% to 85% of the portfolio with a target weight of 78% with fixed income investments ranging from 17% to 27% with a target weight of 22%.

**Note 4. Accounts Receivable**

Accounts receivable consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Student tuition and fees	\$ 5,106,702	\$ 4,582,869
Auxiliary facilities and other operating activities	2,781,209	2,288,837
Other	357,736	385,530
Federal, state, and private grants and contracts	<u>2,181,794</u>	<u>1,659,164</u>
Sub-total	10,427,441	8,916,400
Less allowance for uncollectible accounts	<u>(1,999,919)</u>	<u>(1,905,840)</u>
Net Accounts Receivable	<u>\$ 8,427,522</u>	<u>\$ 7,010,560</u>

**Note 5. Student Loans Receivable**

Student loans receivable at June 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Perkins student loan fund	\$ 10,691,995	\$ 10,482,412
Nursing loan fund	236,146	266,693
University loan fund	<u>56,564</u>	<u>59,704</u>
Sub-total	10,984,705	10,808,809
Less allowance for uncollectible accounts	<u>(894,784)</u>	<u>(879,784)</u>
Net Student Loans Receivable	<u>\$ 10,089,921</u>	<u>\$ 9,929,025</u>
Estimated current portion	\$ 1,541,289	\$ 1,970,528
Estimated noncurrent portion	<u>8,548,632</u>	<u>7,958,497</u>
Total	<u>\$ 10,089,921</u>	<u>\$ 9,929,025</u>

**Note 6. Foundation Pledges Receivable**

Foundation pledges receivable at June 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Pledges to be collected	\$ 3,168,382	\$ 4,205,585
Less discount for the time value of money	(111,012)	(188,792)
Less allowance for uncollectible accounts	<u>(105,284)</u>	<u>(140,250)</u>
Net Foundation Pledges Receivable	<u>\$ 2,952,086</u>	<u>\$ 3,876,543</u>
Estimated current portion	\$ 1,911,986	\$ 1,688,961
Estimated noncurrent portion	<u>1,040,100</u>	<u>2,187,582</u>
Total	<u>\$ 2,952,086</u>	<u>\$ 3,876,543</u>

**Note 7. Deferred Revenue**

Deferred revenue consists of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Prepaid tuition and fees	\$ 4,188,182	\$ 3,780,963
Auxiliary facilities	663,349	731,005
Grants and contracts	1,884,279	1,265,851
Other	<u>123,442</u>	<u>170,022</u>
Deferred Revenue	<u>\$ 6,859,252</u>	<u>\$ 5,947,841</u>

## Note 8. Capital Assets

Capital assets activity for the year ended June 30, 2007 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 14,158,006	\$	\$	\$ 14,158,006
Land Improvements	17,358,785	2,125,381		19,484,166
Infrastructure	12,682,559			12,682,559
Buildings	351,264,579	825,051		352,089,630
Equipment	61,178,619	4,122,896	1,702,997	63,598,518
Library Materials	60,868,711	3,157,460		64,026,171
Construction in Progress	8,871,713	18,470,883	782,875	26,559,721
Sub-total	\$ 526,382,972	\$ 28,701,671	\$ 2,485,872	\$ 552,598,771
Less Accumulated Depreciation for:				
Land Improvements	\$ 7,205,571	\$ 412,463	\$	\$ 7,618,034
Infrastructure	4,824,212	311,921		5,136,133
Buildings	159,729,527	7,015,357		166,744,884
Equipment	46,128,913	4,591,419	1,596,732	49,123,600
Library Materials	46,008,425	2,538,458		48,546,883
Total Accumulated Depreciation	\$ 263,896,648	\$ 14,869,618	\$ 1,596,732	\$ 277,169,534
Capital Assets, net	\$ 262,486,324			\$ 275,429,237

Capital assets activity for the year ended June 30, 2006 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 14,080,758	\$ 77,248	\$	\$ 14,158,006
Land Improvements	16,734,470	624,315		17,358,785
Infrastructure	12,682,559			12,682,559
Buildings	336,038,658	15,601,535	375,614	351,264,579
Equipment	59,268,008	4,855,119	2,944,508	61,178,619
Library Materials	57,552,376	3,316,335		60,868,711
Construction in Progress	10,691,252	14,474,390	16,293,929	8,871,713
Sub-total	\$ 507,048,081	\$ 38,948,942	\$ 19,614,051	\$ 526,382,972
Less Accumulated Depreciation for:				
Land Improvements	\$ 6,848,297	\$ 357,274	\$	\$ 7,205,571
Infrastructure	4,435,518	388,694		4,824,212
Buildings	152,535,917	7,227,624	34,014	159,729,527
Equipment	44,383,719	4,575,412	2,830,218	46,128,913
Library Materials	43,774,752	2,233,673		46,008,425
Total Accumulated Depreciation	\$ 251,978,203	\$ 14,782,677	\$ 2,864,232	\$ 263,896,648
Capital Assets, net	\$ 255,069,878			\$ 262,486,324

Foundation net capital assets were \$3,420,129 and \$1,813,260 at June 30, 2007 and 2006, respectively.

## Note 9. Long-term Liabilities

## UNIVERSITY LONG-TERM LIABILITIES

Long-term liability activity at June 30, 2007 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	\$ 18,125,315	\$ 1,963,076	\$ 1,756,593	\$ 18,331,798
Revenue bonds payable	<u>88,477,899</u>		<u>3,586,201</u>	<u>84,891,698</u>
Total	<u>\$ 106,603,214</u>	<u>\$ 1,963,076</u>	<u>\$ 5,342,794</u>	<u>\$ 103,223,496</u>
Current portion				
Accrued compensated absences	\$ 1,768,437			\$ 1,690,896
Revenue bonds payable, net	<u>5,058,693</u>			<u>4,391,826</u>
Total current portion	<u>\$ 6,827,130</u>			<u>\$ 6,082,722</u>
Noncurrent portion				
Accrued compensated absences	\$ 16,356,878			\$ 16,640,902
Revenue bonds payable, net	<u>83,419,206</u>			<u>80,499,872</u>
Total noncurrent portion	<u>\$ 99,776,084</u>			<u>\$ 97,140,774</u>

Long-term liability activity at June 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	\$ 19,034,972	\$ 908,217	\$ 1,817,874	\$ 18,125,315
Revenue bonds payable	<u>52,979,932</u>	<u>46,307,967</u>	<u>10,810,000</u>	<u>88,477,899</u>
Total	<u>\$ 72,014,904</u>	<u>\$ 47,216,184</u>	<u>\$ 12,627,874</u>	<u>\$ 106,603,214</u>
Current portion				
Accrued compensated absences	\$ 1,905,811			\$ 1,768,437
Revenue bonds payable, net	<u>5,019,221</u>			<u>5,058,693</u>
Total current portion	<u>\$ 6,925,032</u>			<u>\$ 6,827,130</u>
Noncurrent portion				
Accrued compensated absences	\$ 17,129,161			\$ 16,356,878
Revenue bonds payable, net	<u>47,960,711</u>			<u>83,419,206</u>
Total noncurrent portion	<u>\$ 65,089,872</u>			<u>\$ 99,776,084</u>

Revenue bonds payable at June 30, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Revenue Bonds, Series 1989:		
Capital Appreciation Bonds	\$ 11,619,421	\$ 10,813,225
Insured Revenue Bonds, Series 1992:		
Capital Appreciation Bonds	2,167,759	5,717,227
Insured Revenue Bonds, Series 1993:		
Capital Appreciation Bonds	1,270,297	1,196,214
Revenue Bonds, Series 1996:		
Current Interest Bonds	979,751	1,914,502
Capital Appreciation Bonds	7,993,004	7,543,960
Revenue Bonds, Series 2003:		
New Project Bonds	6,584,721	6,977,256
Current Refunding Bonds	9,691,113	9,744,529
Revenue Bonds, Series 2006:		
New Project Bonds	38,716,030	38,677,757
Current Refunding Bonds	<u>5,869,602</u>	<u>5,893,229</u>
Total revenue bonds payable	<u>\$ 84,891,698</u>	<u>\$ 88,477,899</u>

Maturities and Interest Requirements on revenue bonds payable at June 30, 2007, are as follows:

Year Ending				
June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2008	\$ 5,265,000	\$ 2,647,171	\$ 7,912,171	
2009	5,330,000	2,584,388	7,914,388	
2010	5,380,000	2,533,285	7,913,285	
2011	5,435,000	2,478,860	7,913,860	
2012	<u>5,315,000</u>	<u>2,420,248</u>	<u>7,735,248</u>	
Sub-total	26,725,000	12,663,952	39,388,952	
2013-2017	25,665,000	9,856,070	35,521,070	
2018-2022	13,290,000	7,559,275	20,849,275	
2023-2027	14,045,000	4,665,590	18,710,590	
2028-2031	<u>13,075,000</u>	<u>1,463,993</u>	<u>14,538,993</u>	
Sub-total	92,800,000	<u>\$ 36,208,880</u>	<u>\$ 129,008,880</u>	
Additions(Deductions):				
Unaccreted Appreciation	(7,324,518)			
Unamortized Discounts	(979,617)			
Unamortized Premiums	395,833			
Total	<u>\$ 84,891,698</u>			

The Series 1989, 1992, 1993, 1996, 2003 and 2006 bonds are secured by a pledge of the net revenue of auxiliary facilities, as well as the pledged portion of the health service and athletic & service fees charged to students.

On October 1, 1989, \$11,702,450 in Revenue Bonds, Series 1989 were issued. The Series 1989 Bonds consisted of \$7,770,000 in Current Interest Bonds and \$3,932,450 in Capital Appreciation Bonds. The Current Interest Bonds mature annually on April 1, commencing April 1, 2013, through April 1, 2014, and bear interest at 7.40%. Interest is payable on April 1 and October 1 of each year, commencing April 1, 1990. The Capital Appreciation Bonds have a principal at maturity of \$17,065,000 and an original issue discount of \$13,132,550. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation bonds mature semi-annually commencing April 1, 2008, through October 1, 2012. The Capital Appreciation bonds were issued at prices to yield 7.30% to 7.35% at maturity.

On April 9, 1992, \$27,094,107 in Insured Revenue Bonds, Series 1992 were issued. The Series 1992 Bonds consisted of \$16,125,000 in Current Interest Bonds and \$10,969,107 in Capital Appreciation Bonds. The Current Interest Bonds matured April 1, 2001. The Capital Appreciation Bonds have a principal at maturity of \$25,115,000 and an original issue discount of \$14,145,893. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation bonds yield from 6.55% to 6.95% interest and mature semi-annually commencing October 1, 2001, through October 1, 2007.

On June 23, 1993, \$10,221,971 in Insured Revenue Bonds, Series 1993 were issued. The Series 1993 Bonds consisted of \$9,675,000 in Current Interest Bonds and \$546,971 in Capital Appreciation Bonds. The Current Interest Bonds were called and redeemed in full on April 10, 2003. The Capital Appreciation Bonds have a principal at maturity of \$1,665,000 and an original issue discount of \$1,118,029. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation Bonds yield 6.10% interest and mature October 1, 2011, and April 1, 2012.

On December 10, 1996, \$18,101,018 in Revenue Bonds, Series 1996 were issued. The Series 1996 Bonds consisted of \$13,760,000 in Current Interest Bonds and \$4,341,018 in Capital Appreciation Bonds. The Current Interest Bonds mature beginning April 1, 1999, and continuing through April 1, 2013. These Current Interest Bonds bear interest from 4.30% to 5.40%. Interest is payable on April 1 and October 1 of each year, commencing April 1, 1997. The Capital Appreciation Bonds have a principal at maturity of \$12,755,000 and an original issue discount of \$8,413,982. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation Bonds yield 5.80% to 5.90% interest and mature annually commencing April 1, 2014, through April 1, 2016.

On March 11, 2003, \$16,905,000 in Revenue Bonds, Series 2003 were issued. The Series 2003 Bonds consisted of \$7,570,000 of New Project Bonds and \$9,335,000 in Current Refunding Bonds. The New Project Bonds mature beginning April 1, 2004, and continuing through April 1, 2023. These New Project Bonds bear interest from 2.00% to 4.70%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2003. The Current Refunding Bonds mature beginning April 1, 2012, and continuing through April 1, 2014. The Current Refunding Bonds bear interest from 4.00% to 5.00%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2003.

On March 21, 2006, \$45,595,000 in Revenue Bonds, Series 2006 were issued. The Series 2006 Bonds consisted of \$39,625,000 of New Project Bonds and \$5,970,000 in Current Refunding Bonds. The New Project Bonds mature beginning April 1, 2017, and continuing through April 1, 2031. These New Project Bonds bear interest from 3.90% to 4.40%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2006. The Current Refunding Bonds mature beginning April 1, 2007, and continuing through April 1, 2013. The Current Refunding Bonds bear interest from 3.35% to 3.70%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2006.



Proceeds from the sale of the Series 2006 Current Refunding Bonds, were used to provide for the advance refunding of a portion of the Series 1996 Bonds and to pay certain expenses related to the issuance of the bonds. The Series 1996 Current Interest Bonds were redeemed with a call premium of 2% for a total of \$5,829,300 on October 1, 2006. The Series 1996 Bonds had a book value of \$5,674,321 and unamortized issuance costs of \$45,332. Although the advanced refunding resulted in the recognition of an accounting loss of \$227,321 for the year ended June 30, 2006, the issuance of the 2006 refunding bonds at lower interest rates will cause aggregate debt service payments to be decreased by \$209,511 and will result in an economic gain or present value gain of \$190,972 over the life of the refunded bonds.

**DEFEASED BONDS**

In June 1993, the University defeased a portion of the Series 1989 bonds by creating a separate irrevocable trust fund. New debt (series 1993 bonds) was issued and the proceeds used to purchase U.S. Treasury securities that were placed in the trust fund. The investments and fixed earnings from the investment are sufficient to service the defeased amount until the debt matures. For financial reporting purposes, the debt has been considered defeased and removed as a liability on the Statements of Net Assets. The defeased debt outstanding for the years ended June 30, 2007 and 2006 was \$10,151,756 and \$9,985,895, respectively.

## FOUNDATION LONG-TERM LIABILITIES

Long-term liability activity at June 30, 2007 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	\$ 311,946	\$	\$ 6,053	\$ 305,893
Notes payable	240,000	_____	140,000	100,000
Total	\$ 551,946	\$ _____	\$ 146,053	\$ 405,893
Current portion				
Beneficiary payments	\$ 35,237			\$ 34,525
Notes payable	240,000			100,000
Total current portion	\$ 275,237			\$ 134,525
Noncurrent portion				
Beneficiary payments	\$ 276,709			\$ 271,368
Total noncurrent portion	\$ 276,709			\$ 271,368

Long-term liability activity at June 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	\$ 373,388	\$	\$ 61,442	\$ 311,946
Accrued compensated absences	23,652		23,652	
Notes payable	300,000	_____	60,000	240,000
Total	\$ 697,040	\$ _____	\$ 145,094	\$ 551,946
Current portion				
Beneficiary payments	\$ 41,414			\$ 35,237
Notes payable				240,000
Total current portion	\$ 41,414			\$ 275,237
Noncurrent portion				
Beneficiary payments	\$ 331,974			\$ 276,709
Accrued compensated absences	23,652			
Notes payable	300,000			
Total noncurrent portion	\$ 655,626			\$ 276,709

Foundation notes payable at June 30, 2007 consists of a \$100,000 promissory note secured by all inventory, chattel paper, accounts and general intangibles; requiring monthly interest payments at a fixed rate interest rate of 6.95% and having a principal maturity date of April 10, 2008.

Foundation notes payable at June 30, 2006 consisted of a \$1,000,000 line of credit (\$240,000 outstanding) secured by all accounts on deposit with the lender, its subsidiaries, or affiliates; requiring monthly interest payments at an interest rate of 7%. This line of credit matured on April 15, 2007.

**ACCRUED COMPENSATED ABSENCES**

Compensated absences consist of accrued vacation and sick leave. The total for accrued vacation and sick leave for the University is shown below:

<u>2007</u>		<u>Vacation</u>		<u>Sick</u>		<u>Total</u>
University	\$	9,289,453	\$	9,042,345	\$	18,331,798
<u>2006</u>		<u>Vacation</u>		<u>Sick</u>		<u>Total</u>
University	\$	8,538,071	\$	9,587,244	\$	18,125,315

**Note 10. Leases**

**CAPITALIZED LEASES**

Certain leases in which the Board of Trustees, governing board of the University, is the lessee are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date as required by Financial Accounting Standards Board (FASB) Statement No. 13. Cost and accumulated depreciation for these capital assets were \$691,329 and \$212,775 at June 30, 2007 and \$927,176 and \$233,745 at June 30, 2006, respectively.

Obligations under capital leases activity at June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Obligations under capital leases	\$ 549,904	\$ _____	\$ 219,221	\$ 330,683
Current portion	219,221			202,457
Noncurrent portion	330,683			128,226

Obligations under capital leases activity at June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Obligations under capital leases	\$ 777,509	\$ _____	\$ 227,605	\$ 549,904
Current portion	227,605			219,221
Noncurrent portion	549,904			330,683

Future minimum lease payments for the above assets under capital leases together with the present value of the minimum lease payments at June 30, 2007, are as follows:

Year Ending <u>June 30</u>	<u>Total</u>
2008	\$ 211,979
2009	<u>132,188</u>
Total minimum lease payments	344,167
Less amount representing interest	<u>(13,484)</u>
Net present value	<u>\$ 330,683</u>

**OPERATING LEASES**

The University has entered into agreements to lease recreational space and office space that the University is treating as operating leases. Rent expense for the years ended June 30, 2007 and 2006 was \$433,407 and \$451,575, respectively. The leases expire between July 2007 and May 2012. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Building</u>
2008	\$ 512,402
2009	160,369
2010	155,769
2011	137,769
2012	<u>110,929</u>
Total	<u>\$ 1,077,238</u>

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporation, and Foundation networks. Lease payments for the Chicago office were \$56,914 in 2007 and \$64,244 in 2006. The current lease has been amended to expire on December 31, 2014. In addition, the Foundation leases a vehicle for the Executive Director of the Foundation and thirteen vehicles for the University Athletic Department employees at a cost of \$74,529 in 2007 and \$46,201 in 2006. The lease for the Executive Director expires in the fiscal year ending June 30, 2009. The Athletic Department vehicles expire in the fiscal year ending June 30, 2011. The following is a schedule of future minimum lease payments for both.

Year Ending <u>June 30</u>	<u>Building</u>	<u>Vehicles</u>
2008	\$ 70,412	\$ 63,170
2009	71,819	61,082
2010	73,227	56,907
2011	74,635	23,848
2012	76,042	
2013-2015	<u>196,085</u>	
Total	<u>\$ 562,220</u>	<u>\$ 205,007</u>

**Note 11. State Universities Retirement System (SURS)**

**Plan Description:** Illinois State University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at [www.SURS.org](http://www.SURS.org), or by calling 1-800-275-7877.

**Funding Policy:** Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ending June 30, 2007, 2006, and 2005, were \$11,217,492, \$7,536,451, and \$11,889,799, respectively, equal to the required contributions for each year.

**Note 12. Post-employment Benefits**

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

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental, and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis. These costs are funded by the State and are not an obligation of the University.

**Note 13. Transactions with Related Organizations**

Illinois State University Foundation (The Foundation) is a related organization formed to support in various ways the University's instructional, research, and public service missions. During fiscal years 2007 and 2006, Illinois State University entered into contractual agreements with the Foundation requiring payments of \$260,000 annually for fund raising services. In addition, the University contributed services and expenditures of \$1,311,536 and \$1,223,750 during fiscal years 2007 and 2006, respectively. During fiscal year 2007 and 2006, the Foundation contributed services and expenditures of \$7,121,576 and \$8,836,048, respectively, that were for the direct and/or indirect support of the University. These transactions have not been eliminated from the financial statements of the University or the Foundation.

On June 27, 2007, Launching Futures II invested in real estate for \$600,631 for use by the University as a remote parking lot. Concurrently, Launching Futures II signed a lease agreement with the University for the real estate providing for annual payments of \$49,992 from the University to Launching Futures II. The lease has a five year term with the University having the option to extend the lease term for an additional five year period.

Subsequent to June 30, 2007, Launching Futures, LLC expects to acquire real estate for approximately \$6.3 million that is currently being leased by the University from an outside party. Once the sales contract is signed, the University will continue to lease the property from the seller until the initial closing. During this period, the Seller will make improvements to the property which will eventually be used to house the offices of University Advancement and Conference Services. In addition to the Seller's cost of improvements, Launching Futures, LLC has committed to pay for an additional \$400,000 in improvements. The construction is expected to take eight to ten months to complete. Once the construction is completed, the initial closing will take place. Launching Futures, LLC will then take possession of the property, lease the property to the University and begin monthly contract-for-deed payments to the seller. After 119 months of payments to the seller, Launching Futures, LLC will pay the seller the balance of the sales contract.

The Illinois Institute for Entrepreneurship Education (IIEE) was created by an act of the Illinois General Assembly in 1988. The purpose of the IIEE is to foster growth and development of entrepreneurship by educating Illinois citizens to the viability of entrepreneurship as a career option and to the role and contributions of entrepreneurs in economic development and job creation. The IIEE is mandated to reach all areas of the State, all ages, all ethnic groups, and income levels. The IIEE was created under the oversight of Illinois State University and, by working cooperatively with the University, the IIEE offers Illinois teachers two university-accredited graduate courses in entrepreneurship. During fiscal years 2007 and 2006, the University contributed \$184,058 and \$183,333, respectively, of revenue and public service expenditures to the IIEE. These amounts are discretely blended in the University financial statements.

#### **Note 14. Student Health Insurance**

The University contracts with Chickering Group, an Aetna Company of Cambridge, Massachusetts for administration of the Aetna Health and Accident Insurance Plan, to provide group insurance benefits to University students. Students taking 9 or more semester hours of class pay a fee for this coverage. The contract provides for a premium stabilization reserve (PSR) that is used to minimize increases in the premium and against unexpected claims utilization. As each plan year is finalized, costs are debited (gains are credited) to a PSR account held by Chickering and funded by the University each year (15% of expected premium). The gain for the 2005-06 plan year experience approximates \$1,660,485; the initial refund of \$799,368 was credited to complete the \$817,216 PSR funding required for the 2006-07 plan year; and a second refund of \$833,560 was credited in November 2007 and used to fund the \$833,560 required for the PSR deposit for the 2007-08 plan year. Because potential refunds are still at risk for unexpected claims losses, they are not recorded as assets. In addition, the University retains a locally held premium stabilization account to provide supplemental funding to the insurance program if required. The balance of this account on June 30, 2007, is \$926,594.

#### **Note 15. Student Financial Assistance**

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded \$63,962,079 and \$61,793,800 in Direct Student Loans for the years ended June 30, 2007 and 2006, respectively. The University classified this loan program as noncash federal awards, and it is disclosed in the footnotes to the Office of Management and Budget (OMB) Circular A-133 Schedule of Expenditures of Federal Awards. Accordingly, no revenue or expenditures are included in the financial statements of the University.

**Note 16. Self-Insurance**

The University is exposed to various risks of loss related to torts, theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University purchases commercial insurance for these risks of loss. During the year ended June 30, 2007, there were no significant reductions in coverage.

As a public University in the State of Illinois, Illinois State University enjoys certain statutory protections from liability through the Illinois Court of Claims statute and the State Indemnification Act. In addition, the University purchases an excess liability policy that covers claims above the \$350,000 deductible level and has annual aggregate levels of \$5,000,000 for educator's legal liability and \$14,650,000 for general liability.

To augment existing State and commercial coverage, and to assist in addressing potential risks and liabilities incurred through its operations, the Board of Trustees has established the Self-Insurance Fund. The balance in the fund at June 30, 2007 and 2006 was \$1,045,962 and \$1,010,024, respectively. The University did not pay any claims for fiscal years 2007 and 2006. The University made contributions of interest to the fund of \$36,888 for fiscal year 2007 and \$27,068 for fiscal year 2006. In accordance with the requirement of GASB Statement No. 10, a liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. At June 30, 2007 and June 30, 2006, no liability for claims was reported.

**Note 17. Net Assets**

**UNIVERSITY NET ASSETS**

University restricted net assets are comprised of the following at June 30, 2007 and 2006:

	2007	2006
Expendable Student loans	\$ 9,355,623	\$ 9,342,536

University unrestricted net assets:

Board designated capital asset renewal and replacement for the internal service departments at June 30, 2007 and 2006 was \$1,385,127 and \$1,365,038, respectively. These amounts are included in unrestricted net assets.

**FOUNDATION NET ASSETS**

Foundation restricted net assets are comprised of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
<b>Nonexpendable</b>		
Scholarship and fellowship	\$ 30,657,351	\$ 25,580,590
College and academic department support	10,606,994	9,209,138
Faculty and staff compensation	7,251,214	6,131,471
Other	<u>8,292,102</u>	<u>6,719,334</u>
Total nonexpendable	\$ <u>56,807,661</u>	\$ <u>47,640,533</u>
<b>Expendable</b>		
Scholarship and fellowship	\$ 9,265,843	\$ 8,057,340
Instructional departmental uses	11,007,981	12,021,843
University capital projects	3,852,459	5,653,917
Other restricted expendable	<u>2,126,716</u>	<u>1,686,189</u>
Total expendable	\$ <u>26,252,999</u>	\$ <u>27,419,289</u>

**Note 18. Foundation Restricted Endowments**

If a donor has not provided specific instructions, State law permits the Foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. The Foundation Investment Committee adopted a spending policy for fiscal years 2007 and 2006 of 4.5% and 4.0%, respectively, of the average fair value of endowment investments for the preceding 12 months.

At June 30, 2007 and 2006, net appreciation of \$14,342,000 and \$7,643,000, respectively, remains available for future authorization for expenditure by the Investment Committee. This amount is included in the Net Assets section of the Statements of Net Assets as Restricted for Nonexpendable.

**Note 19. Commitments**

The University entered into two real estate deposit and option agreements during 2005, with one of the agreements being amended in 2006. The agreements grant the University an irrevocable seven year option period to purchase the properties. The agreements provide that the option periods may be renewed for up to two additional periods of seven years. The University has made non-refundable option deposit payments of \$1,180,250 at June 30, 2007 (\$340,000 each in 2007 and 2006 and \$500,250 in 2005) which can be credited toward the purchase price. If the University exercises the option agreements, the purchase price for the properties will be \$4,015,000. The agreements also require annual maintenance fees which will not be credited toward the purchase price.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are \$10,610,987, approximately \$3,606,636 (34 percent) of the work has been completed as of June 30, 2007. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.



The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest \$10,096,457. As of June 30, 2007, the Foundation has invested \$2,166,981 and has future investment commitments of \$7,929,476.

The Foundation has entered into a contract approximating \$2.5 million for a landscaping project on the Foundation's Ewing Cultural Center grounds. As of June 30, 2007, construction costs totaled approximately \$1.5 million. The project is expected to be completed in late 2007.

**Note 20. Contingencies**

The University is from time to time subject to various claims, legal actions, and inquiries related to compliance with environmental and other governmental laws and regulations. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the University's future financial condition or results of operations.

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters on the financial condition or results of operations of the University is necessary at June 30, 2007, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

**Note 21. Crosswalk of Natural Classification with Functional Classifications**

Natural Classification for the Year Ended June 30, 2007

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 86,582,898	\$ 11,192,023	\$	\$	\$ 97,774,921
Research	10,566,122	3,932,737			14,498,859
Public Service	6,157,936	5,904,908			12,062,844
Academic Support	10,171,866	2,456,734			12,628,600
Student Services	15,118,738	15,387,733			30,506,471
Institutional Support	14,393,592	9,677,211			24,070,803
Operation of Plant	10,751,378	13,019,696			23,771,074
Depreciation				14,869,618	14,869,618
Staff Benefits	2,265,543		7,520		2,273,063
Student Aid		3,569,215	15,163,478		18,732,693
Payments on Behalf	46,692,888				46,692,888
Auxiliary Facilities	20,489,345	27,175,463			47,664,808
Other	1,893,140	62,683			1,955,823
<b>Total University</b>	<b>\$ 225,083,446</b>	<b>\$ 92,378,403</b>	<b>\$ 15,170,998</b>	<b>\$ 14,869,618</b>	<b>\$ 347,502,465</b>

Natural Classification for the Year Ended June 30, 2006

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 81,845,872	\$ 10,928,894	\$	\$	\$ 92,774,766
Research	10,063,913	3,521,206			13,585,119
Public Service	6,437,056	8,930,392			15,367,448
Academic Support	8,896,822	2,316,506			11,213,328
Student Services	13,882,845	13,871,798			27,754,643
Institutional Support	11,917,926	12,093,041			24,010,967
Operation of Plant	7,906,820	13,696,888			21,603,708
Depreciation				14,782,677	14,782,677
Staff Benefits	954,471		20,336		974,807
Student Aid		3,317,800	14,514,647		17,832,447
Payments on Behalf	41,325,783				41,325,783
Auxiliary Facilities	19,152,199	27,328,418			46,480,617
Other	1,773,617	49,386			1,823,003
<b>Total University</b>	<b>\$ 204,157,324</b>	<b>\$ 96,054,329</b>	<b>\$ 14,534,983</b>	<b>\$ 14,782,677</b>	<b>\$ 329,529,313</b>

**Note 22. Additional Auxiliary Facilities System Disclosure Information**

The University operates auxiliary facilities that include student housing, student activities and parking.

Following are condensed financial statements for the Auxiliary Facilities System:

<b>Condensed Statements of Net Assets at June 30</b>	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Current assets	\$ 62,224,907	\$ 47,349,053
Noncurrent assets:		
Capital assets, net	103,493,562	91,124,511
Other noncurrent assets	44,105,090	53,260,878
Total assets	<u>209,823,559</u>	<u>191,734,442</u>
<b>Liabilities:</b>		
Current liabilities	17,187,625	14,263,662
Noncurrent liabilities	82,405,571	85,202,498
Total liabilities	<u>99,593,196</u>	<u>99,466,160</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	37,776,446	34,957,402
Unrestricted	72,453,917	57,310,880
Total net assets	<u>\$ 110,230,363</u>	<u>\$ 92,268,282</u>
 <b>Condensed Statements of Revenues, Expenses and Changes in Net Assets for the year ended at June 30</b>		
Operating revenues	\$ 67,175,847	\$ 61,863,707
Depreciation expense	(3,412,041)	(3,466,415)
Other operating expenses	(47,664,808)	(46,480,617)
Operating income	16,098,998	11,916,675
Nonoperating revenues	4,543,886	2,735,166
Nonoperating expenses	(2,680,803)	(3,032,207)
Increase in net assets	17,962,081	11,619,634
Net assets – beginning of year	92,268,282	80,648,648
Net assets – end of year	<u>\$ 110,230,363</u>	<u>\$ 92,268,282</u>
 <b>Condensed Statements of Cash Flows for the year ended June 30</b>		
Net cash flows provided by operating activities	\$ 22,168,935	\$ 16,631,349
Net cash flows provided by non-capital financing activities	188,468	196,262
Net cash flows provided by (used in) capital and related financing activities	(22,989,381)	23,851,939
Net cash flows provided by (used in) investing activities	6,668,293	(41,784,104)
Net increase (decrease) in cash and cash equivalents	6,036,315	(1,104,554)
Cash and cash equivalents, beginning of year	10,642,672	11,747,226
Cash and cash equivalents, end of year	<u>\$ 16,678,987</u>	<u>\$ 10,642,672</u>

Following is additional disclosure information relating to University Auxiliary Facilities revenue bonds. *See Note 9:*

**RESERVES FOR DEBT SERVICE, REPAIR AND REPLACEMENT, AND DEVELOPMENT**

**Debt Service**

A portion of the Debt Service Reserve Account (DSRA) that was established under the terms of the Revenue Bond Series 1989, 1992, 1993 and 1996 indentures was used to purchase a Surety Bond. This Surety Bond constitutes a Reserve Account Credit Instrument under the requirements of the Bond Resolution. The Surety Bond is payable to the Bond Registrar. The proceeds of the Surety Bond held in the DSRA may be used solely for the purpose of paying principal and interest on the Series 1989, 1992, 1993 and 1996 Bonds and any outstanding Parity Bonds.

**Repair and Replacement and Development**

The Bond indentures also require a deposit be made in the Repair and Replacement Reserve Account. The sum of the deposit shall be greater than 10% of the Maximum Debt Service and shall not exceed the sum of 5% of the replacement cost of the auxiliary facilities' structures plus 20% of the replacement cost of their equipment plus 10% of the either the historical cost of the parking lots or 100% of the estimated cost of resurfacing any existing auxiliary facilities' parking lot. The Development Reserve Account consists of funds for projects approved by the Board.

	2007		2006	
	Repair and Replacement Reserve	Develop- ment Reserve	Repair and Replacement Reserve	Develop- ment Reserve
Maximum Allowable Deposits at June 30	\$ 30,826,715	\$ N/A	\$ 29,322,181	\$ N/A
Assets Reserved	16,806,936	1,306,632	20,041,194	1,274,270
Project Amount Approved by Board	N/A	1,250,000	N/A	1,250,000

**GRANT AGREEMENT WITH U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT**

On January 1, 1974, the U. S. Department of Housing and Urban Development (HUD) awarded a debt service subsidy to the University for the Union portion of the University Union Auditorium Bond Series 1970-70A. Annual payments under the grant agreement are not to exceed \$160,640 making the total grant subsidy approximately \$5,542,080. During fiscal year 2006, the University received its final payment in the amount of \$80,320.

This information is an integral part of the accompanying financial statements.



**Clifton  
Gunderson LLP**  
Certified Public Accountants & Consultants

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

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Illinois State University as of and for the year ended June 30, 2007, and have issued our report thereon dated January 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Illinois State University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Illinois State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Illinois State University's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

We are currently conducting a State compliance examination of Illinois State University as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

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

*Clifton Gunderson LLP*

CLIFTON GUNDERSON LLP  
Kankakee, Illinois

January 24, 2008