NOTE: Illinois State University's FY2010 financial statements should be read in conjunction with the FY2011 financial statements. In the FY2010 financial statements, the June 30, 2010 net assets have been restated (decreased by $5,189,664) to correct errors in reporting accounts receivable. Because the June 30, 2010 net assets have been restated, the previously issued auditors' report dated March 30, 2011 is not to be relied upon without consideration of the auditors' report dated March 2, 2012 on the restatement of the June 30, 2010 net assets.

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, 2010 and 2009

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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, 2010 and 2009

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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. Dianne E. Ashby - Interim (5/1/09 - 9/14/09) Dr. Daniel T. Layzell (effective 9/15/09)
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
Director – Internal Audit	Mr. Rick Papuga (retired 10/31/09) Mr. Robert Blemler (effective 1/4/10)

Agency offices are located at:

Illinois State University
Hovey Hall
Campus Box 1100
Normal, IL 61790-1100

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.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois
and
Ms. Anne Davis
Chair, Illinois State University Audit Committee

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Illinois State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the years ended June 30, 2010 and 2009, which collectively comprise Illinois State University's basic financial statements, 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 audits. We did not audit the financial statements of Illinois State University Foundation as of and for the years ended June 30, 2010 and 2009. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Illinois State University Foundation is based on the report of the other auditors.

We conducted our audits 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 audits and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of the other auditors, 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 years ended June 30, 2010 and 2009, and the cash flows of Illinois State University for the years 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 March 30, 2011 on our consideration of 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 4 through 13 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

Peoria, Illinois
March 30, 2011

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, 2010 with selective comparative information for the years ended June 30, 2010 and 2009. 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, Campus Box 8000, Normal, Illinois 61790-8000.

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, 2010 and 2009. 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 asset 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, 2010, 2009 and 2008:

	(Thousands of dollars)		
	2010	2009	2008
Assets:			
Current assets	$ 132,616	$ 126,050	$ 124,524
Noncurrent assets:			
Capital assets, net	398,771	354,783	307,375
Other noncurrent assets	67,408	81,899	102,930
Total assets	598,795	562,732	534,829
Liabilities:			
Current liabilities	45,675	42,538	41,253
Noncurrent liabilities	133,302	140,240	145,333
Total liabilities	178,977	182,778	186,586
Net Assets:			
Invested in capital assets, net of related debt	285,373	263,690	238,317
Restricted	9,455	9,422	9,356
Unrestricted	124,990	106,842	100,570
Total net assets	$ 419,818	$ 379,954	$ 348,243

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 following ratio is 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)

2010	2009	2008
132,616 / 45,675 = 2.90	126,050 / 42,538 = 2.96	124,524 / 41,253 = 3.02

Noncurrent assets are comprised primarily of net capital assets. Net capital assets increased $44.0 million and $47.4 million from June 30, 2009 to 2010 and 2008 to 2009, respectively. The increases are primarily attributable to construction and major renovation of University buildings.

Noncurrent liabilities are comprised primarily of Bonds Payable, Certificates of Participation, 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 non-operating, and the expenses paid by the institution, operating and non-operating, 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. Non-operating 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 non-operating 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, 2010, 2009 and 2008:

	(Thousands of dollars) 2010	2009	2008
Operating revenues			
Student tuition and fees, net	$ 152,516	$ 137,167	$ 122,216
Grants and contracts	20,379	19,544	19,505
Auxiliary facilities	81,018	73,181	71,253
Other	26,369	25,141	24,110
Total operating revenues	280,282	255,033	237,084
Operating expenses	438,910	396,862	372,665
Operating (loss)	(158,628)	(141,829)	(135,581)
Non-operating revenues (expenses)			
State appropriations	85,146	82,991	83,057
Payments on behalf of the University	79,868	60,803	54,600
Other, net	24,967	22,979	22,518
Net non-operating revenues (expenses)	189,981	166,773	160,175
Capital appropriations	7,583	5,770	10,178
Capital gifts and grants	928	997	299
Increase in net assets	39,864	31,711	35,071
Net assets – beginning of year	379,954	348,243	313,172
Net assets – end of year	$ 419,818	$ 379,954	$ 348,243

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 fluctuations in this ratio are primarily attributable to funding levels of State of Illinois Capital Development Board and Foundation Capital projects.

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

(Thousands of dollars)

2010	2009	2008
39,864 / 379,954 = 10.49%	31,711 / 348,243 = 9.11%	35,071 / 313,172 = 11.20%

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 non-operating revenues to total operating revenues and total non-operating revenues. These continuing positive ratios demonstrate that University expenditures do not exceed available revenues.

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

(Thousands of dollars)

2010	2009	2008
31,353 / 473,543 = 6.62%	24,944 / 424,642 = 5.87%	24,594 / 400,173 = 6.15%

State appropriations revenue has remained in a range from approximately $83 million to $85 million for fiscal years 2008, 2009 and 2010. The University had enacted tuition and fee increases for fiscal years 2008, 2009 and 2010 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)		
	2010	2009	2008
Expenses by Function			
Instruction	$ 109,970	$ 106,796	$ 102,858
Research	14,202	14,317	13,945
Public service	15,099	16,374	15,246
Academic support	14,191	13,628	12,741
Student services	35,310	33,846	31,616
Institutional support	27,230	28,556	25,097
Operation and maintenance of plant	29,536	27,500	26,186
Depreciation	17,939	16,720	15,395
Staff benefits	1,220	1,574	1,734
Student aid	31,674	23,817	21,189
Payments on behalf of the University	78,553	59,581	53,493
Auxiliary facilities	61,584	51,785	51,008
Other	2,402	2,368	2,157
Total operating expenses	$ 438,910	$ 396,862	$ 372,665
Expenses by Natural Classification			
Compensation and benefits	$ 276,972	$ 254,001	$ 238,535
Supplies and services	116,722	106,265	101,220
Scholarships	27,277	19,876	17,515
Depreciation	17,939	16,720	15,395
Total operating expenses	$ 438,910	$ 396,862	$ 372,665

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:

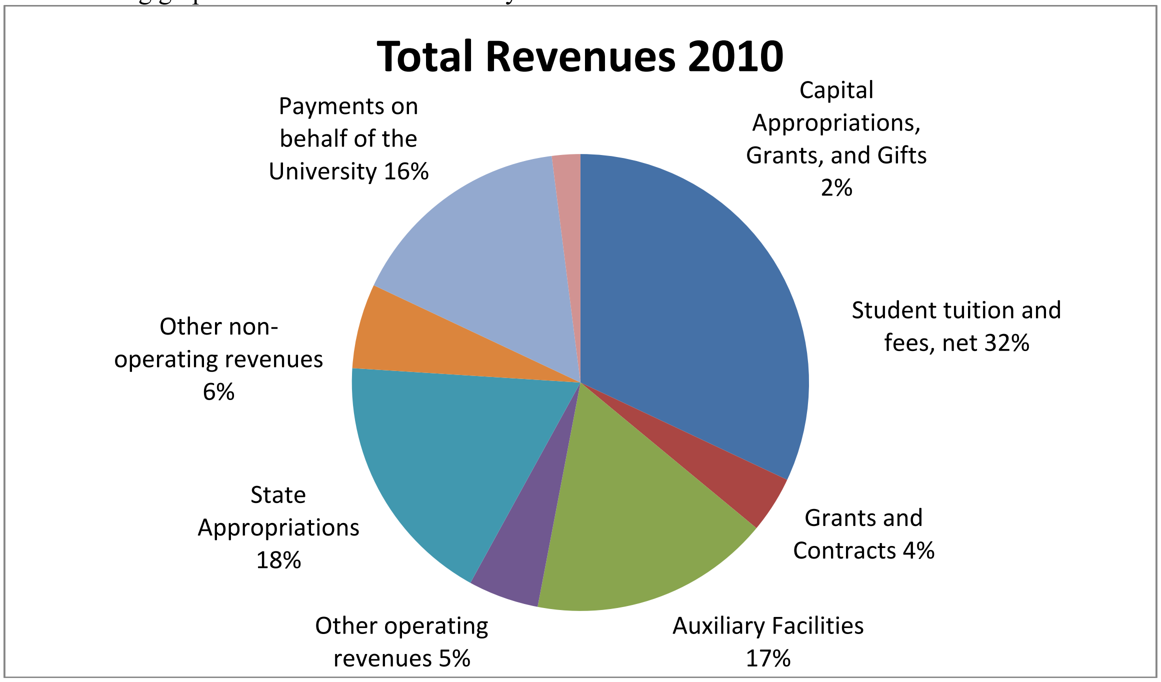
(Thousands of dollars)

2010	2009	2008
134,445 / 442,190 = 30.40%	116,264 / 399,698 = 29.09%	109,926 / 375,579 = 29.27%

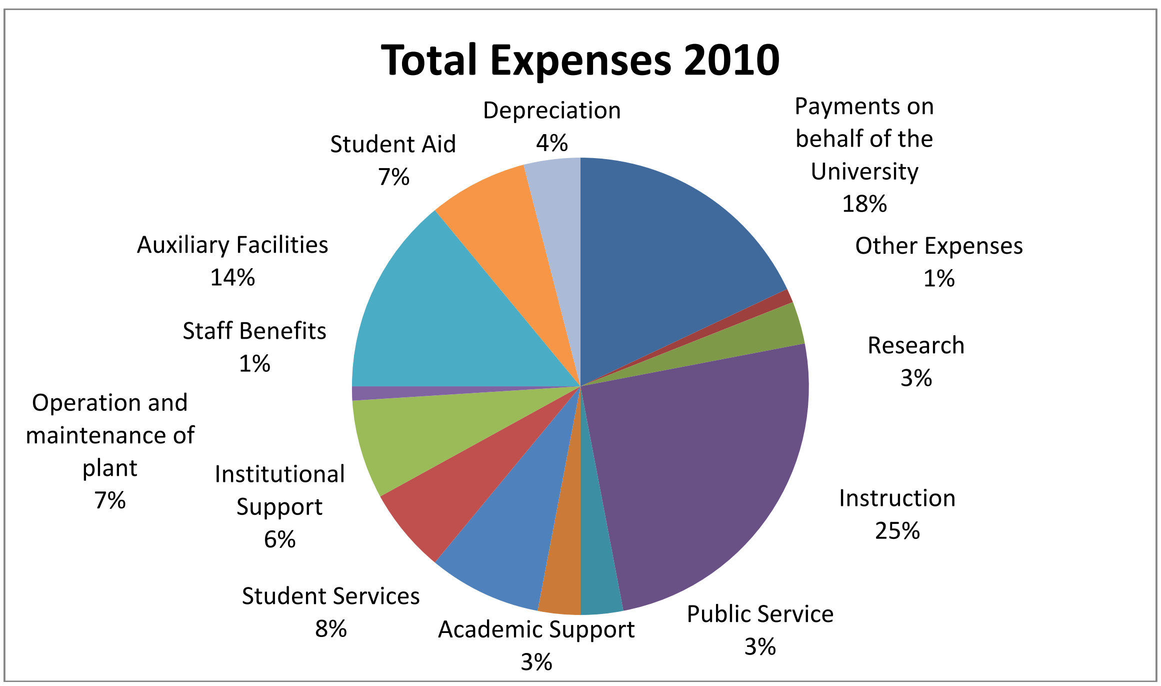
The following summarizes a comparative table of total revenues and total expenses by source/function and percentage:

	Percentage		
	2010	2009	2008
Revenues by Source			
Student tuition and fees, net	32%	32%	30%
Grants and contracts	4	4	5
Auxiliary facilities	17	17	17
Other operating revenues	5	6	6
State appropriations	18	19	20
Payments on behalf of the University	16	14	13
Other non-operating revenues	6	6	6
Capital appropriations, gifts, and grants	2	2	3
Total revenues percentage	100%	100%	100%
Expenses by Function			
Instruction	25%	27%	28%
Research	3	4	4
Public service	3	4	4
Academic support	3	3	3
Student services	8	8	8
Institutional support	6	7	7
Operation and maintenance of plant	7	7	7
Depreciation	4	4	4
Staff Benefits	1	1	1
Student Aid	7	6	5
Payments on behalf of the University	18	15	14
Auxiliary facilities	14	13	14
Other	1	1	1
Total expenses percentage	100%	100%	100%
Expenses by Natural Classification			
Compensation and benefits	63%	64%	64%
Supplies and services	27	27	27
Scholarships	6	5	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 non-operating, non-investing, 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, 2010, 2009 and 2008:

	(Thousands of dollars) 2010	2009	2008
Net cash used by operating activities	$ (62,725)	$ (70,435)	$ (63,981)
Cash flows from noncapital financing activities	122,768	68,567	101,939
Cash flows from capital and related financing activities	(59,753)	(63,061)	7,501
Cash flows from investing activities	12,726	17,809	7,992
Net increase (decrease) in cash and cash equivalents	13,016	(47,120)	53,451
Cash – beginning of year	48,013	95,133	41,682
Cash – end of year	$ 61,029	$ 48,013	$ 95,133

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.

Cash and cash equivalents increased $13.0 million from 2009 to 2010. The increase is primarily attributable to $12.8 million in more timely appropriation payments from the State of Illinois.

Capital Asset and Debt Administration

The University's capital assets include land, land improvements, infrastructure, buildings, equipment, library books and construction in progress.

The following summarizes a table of capital assets, accumulated depreciation and depreciation expense for fiscal years ended June 30, 2010, 2009 and 2008.

	(Thousands of dollars)		
	2010	2009	2008
Capital Assets	$ 716,806	$ 656,418	$ 593,706
Accumulated Depreciation	318,035	301,635	286,331
Capital Assets, Net	$ 398,771	$ 354,783	$ 307,375
Depreciation Expense	$ 17,939	$ 16,720	$ 15,395

Capital asset funding includes revenue bonds, state capital appropriations, internal funds and certificates of participation. These funding sources are for and including student housing buildings and classroom buildings.

The University primarily uses revenue bonds and, in 2008, certificates of participation to fund construction projects. The University also occasionally uses capital leases for certain equipment.

The following summarizes a table of long-term debt for fiscal years ended June 30, 2010, 2009 and 2008.

	(Thousands of dollars)		
	2010	2009	2008
Revenue Bonds	$ 103,279	$ 107,609	$ 111,689
Certificates of Participation	$ 21,321	$ 22,142	$ 22,137
Capital Leases	$	$	$ 128

In March 2008 the University issued Revenue Bond Series 2008 in the amount of $30.6 million. This funding includes capital projects for auxiliary facilities system buildings.

In June 2008 the University issued Certificates of Participation in the amount of $22.2 million.

At June 30, 2010 the University's bond credit rating from Moody's Investors Service was confirmed as A2 with a negative outlook and the rating from Standard & Poor's was confirmed as A+ with a negative outlook. The State of Illinois delays in reimbursing appropriation expenses have caused cash flow stress at Illinois public universities resulting in these ratings.

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) is:

(Thousands of dollars)		
2010	2009	2008
10,991 / 430,456= 2.55%	10,256 / 388,436= 2.64%	8,124 / 365,652 = 2.22%

Economic Outlook

In October 2010, the State of Illinois Comptroller issued a report that the state's financial position continues to deteriorate as the backlog of unpaid state obligations continues to outpace incoming revenues. With $4.7 billion in fiscal year 2010 payables on June 30 to start the new fiscal year and $1.7 billion in additional fiscal year 2010 payments presented during the lapse period, over $6.4 billion in fiscal year 2011 revenues will be used to pay last year's bills.

State appropriation revenue representing operating support for the fiscal year 2011 of $79.8 million was approved compared to $85.1 million for fiscal year 2010. The decrease was primarily attributable to the University receiving $4.6 million of Federal Stimulus – ARRA through state appropriation in fiscal year 2010 and none in fiscal year 2011.

The University continues to benefit from record levels of student enrollment demand and student retention.

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

	2010 University	2010 Foundation	2009 University	2009 Foundation
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 49,826,109	$ 6,298,635	$ 9,355,388	$ 6,617,650
Restricted cash and cash equivalents	11,202,703	-	38,657,729	-
Investments	28,505,635	-	24,938,609	880,505
Accrued interest receivable	670,500	-	808,798	-
Accounts receivable, net	13,662,634	272,874	11,926,538	260,000
Student loans receivable, net	928,736	-	902,641	-
Pledges receivable, net	-	455,336	-	1,132,711
Appropriations receivable from State	20,390,047	-	33,150,388	-
Inventories	3,585,799	-	3,332,871	-
Prepaid expenses, deposits and other	3,843,510	-	2,977,412	-
Total current assets	132,615,673	7,026,845	126,050,374	8,890,866
Noncurrent Assets:				
Restricted cash and cash equivalents	-	2,840,041	-	1,044,159
Investments	54,621,670	12,817,071	68,452,441	13,375,895
Endowment investments	-	59,521,293	-	46,243,315
Student loans receivable, net	8,827,664	-	9,043,934	-
Pledges receivable, net	-	553,755	-	641,065
Bond issuance costs	1,859,646	-	2,002,388	-
Capital assets, not depreciated	101,319,767	980,000	95,405,319	980,000
Capital assets, net of depreciation	297,450,979	8,863,116	259,377,263	9,285,866
Other noncurrent assets	2,100,000	1,166,563	2,400,000	1,084,892
Total noncurrent assets	466,179,726	86,741,839	436,681,345	72,655,192
Total assets	598,795,399	93,768,684	562,731,719	81,546,058
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	25,968,104	445,458	22,981,279	701,194
Assets held in custody for others and deposits	3,604,740	-	5,234,447	-
Deferred revenue	7,344,044	-	6,489,343	-
Certificates of participation	850,297	-	820,298	-
Revenue bonds payable	6,151,471	-	5,251,695	-
Accrued compensated absences	1,756,753	-	1,761,291	-
Other	-	405,919	-	395,209
Total current liabilities	45,675,409	851,377	42,538,353	1,096,403
Noncurrent Liabilities:				
Assets held in custody for others and deposits	228,701	-	225,920	-
Certificates of participation	20,471,234	-	21,321,530	-
Revenue bonds payable	97,127,359	-	102,357,082	-
Accrued compensated absences	15,474,492	-	16,335,191	-
Other	-	5,539,259	-	5,906,595
Total noncurrent liabilities	133,301,786	5,539,259	140,239,723	5,906,595
Total liabilities	178,977,195	6,390,636	182,778,076	7,002,998
NET ASSETS				
Invested in capital assets, net of related debt	285,373,087	6,656,076	263,689,706	7,018,142
Restricted for:				
Nonexpendable	-	59,611,136	-	46,562,613
Expendable	9,455,338	23,071,363	9,422,007	23,320,241
Unrestricted	124,989,779	(1,960,527)	106,841,930	(2,357,936)
Total net assets	$ 419,818,204	$ 87,378,048	$ 379,953,643	$ 74,543,060

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

	2010		2009	
	University	**Foundation**	**University**	**Foundation**
OPERATING REVENUES				
Student tuition and fees, net	$ 152,516,115	$ -	$ 137,167,496	$ -
Federal grants and contracts	12,513,264	-	12,048,123	-
State and local grants and contracts	3,221,832	1,907,897	2,695,355	1,910,600
Nongovernmental grants and contracts	4,643,825	-	4,800,179	-
Sales and services of educational activities	2,634,827	-	2,461,319	-
Auxiliary enterprises:				
Auxiliary facilities	81,017,810	-	73,181,556	-
Other operating revenues	23,734,054	601,858	22,679,369	554,615
Total operating revenues	280,281,727	2,509,755	255,033,397	2,465,215
OPERATING EXPENSES				
Educational and General				
Instruction	109,969,512	-	106,796,366	-
Research	14,202,048	-	14,317,400	-
Public service	15,098,876	-	16,373,915	-
Academic support	14,190,544	-	13,628,645	-
Student services	35,310,245	-	33,845,827	-
Institutional support	27,229,921	-	28,555,692	-
Operations	-	2,784,149	-	2,748,628
Operation and maintenance of plant	29,536,156	-	27,499,940	-
Depreciation	17,939,398	422,750	16,719,631	422,746
Staff benefits	1,220,296	-	1,573,954	-
Student aid	31,674,364	2,061,522	23,817,198	2,157,737
Payments on behalf of the University	78,553,377	-	59,580,738	-
Auxiliary facilities:				
Student housing, activity facilities, and parking	61,583,757	-	51,784,687	-
Other operating expenditures	2,401,736	243,819	2,368,255	333,031
Expenditures on behalf of the University	-	4,308,456	-	5,003,613
Total operating expenses	438,910,230	9,820,696	396,862,248	10,665,755
Operating (loss)	(158,628,503)	(7,310,941)	(141,828,851)	(8,200,540)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	85,146,430	-	82,991,020	-
Payments on behalf of the University - State	78,553,377	-	59,580,738	-
Payments on behalf of the University - Foundation	1,314,581	-	1,222,149	-
Laboratory Schools	7,731,508	-	7,637,498	-
Gifts and donations	256,484	5,169,552	228,506	7,354,197
Investment income, net of investment expenses	2,352,613	7,643,982	7,207,850	(15,395,168)
Interest expense	(3,280,279)	(209,315)	(2,836,093)	(199,991)
Other nonoperating revenues	17,906,543	708,346	10,741,292	675,739
Other nonoperating expenses	-	(241,951)	-	(779,438)
Net nonoperating revenues (expenses)	189,981,257	13,070,614	166,772,960	(8,344,661)
Income (Loss) before capital items	31,352,754	5,759,673	24,944,109	(16,545,201)
Capital appropriations	7,583,879	-	5,769,786	-
Capital grants and gifts	927,928	-	996,695	-
Additions to permanent endowments	-	7,075,315	-	1,015,646
Total capital items	8,511,807	7,075,315	6,766,481	1,015,646
Increase (decrease) in net assets	39,864,561	12,834,988	31,710,590	(15,529,555)
NET ASSETS				
Net assets - beginning of year	379,953,643	74,543,060	348,243,053	90,072,615
Net assets - end of year	$ 419,818,204	$ 87,378,048	$ 379,953,643	$ 74,543,060

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

ILLINOIS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2010 University	2009 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 147,214,874	$ 132,671,189
Grants and contracts	21,723,888	19,513,516
Payments to suppliers	(100,509,112)	(95,748,787)
Payments to employees for salaries and benefits	(209,707,402)	(204,302,023)
Payments for scholarships and fellowships	(27,277,142)	(19,876,097)
Student loans issued	(1,144,269)	(1,172,786)
Collection of student loans	1,087,240	1,289,474
Auxiliary enterprise charges:		
Auxiliary Facilities	80,936,805	73,608,307
Sales and service of educational activities	2,634,827	2,461,319
Payments to internal service departments	(15,970,441)	(14,250,473)
Internal service departments receipts	15,970,441	14,250,473
Agency custodial receipts	98,303,606	78,432,882
Agency custodial disbursements	(98,256,283)	(79,601,136)
Other receipts	22,267,654	22,289,454
Net cash used by operating activities	(62,725,314)	(70,434,688)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	97,906,771	50,214,746
Gifts and grants for other than capital purposes	2,557	2,113
Student direct lending receipts	99,549,539	87,480,450
Student direct lending disbursements	(99,549,539)	(87,480,450)
Other receipts	16,788,053	10,741,292
Laboratory schools	8,070,211	7,609,097
Net cash provided by noncapital financing activities	122,767,592	68,567,248
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Gifts and grants for capital purposes	992,134	748,279
Purchases of capital assets	(49,754,662)	(53,553,143)
Principal paid on capital debt and leases:		
Capital debt and leases	(6,205,000)	(5,458,226)
Interest paid on capital debt and leases	(4,785,439)	(4,797,853)
Net cash used by capital and related financing activities	(59,752,967)	(63,060,943)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	24,494,624	22,945,000
Interest on investments	3,687,229	5,037,356
Purchase of investments	(15,455,469)	(10,173,350)
Net cash provided by investing activities	12,726,384	17,809,006
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,015,695	(47,119,377)
Balance - beginning of year	48,013,117	95,132,494
Balance - end of year	$ 61,028,812	$ 48,013,117

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

	2010 University	2009 University
RECONCILIATION		
Operating (loss)	$ (158,628,503)	$ (141,828,851)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation expense	17,939,398	16,719,631
Payments on behalf of the University	79,867,958	60,802,887
Donated equipment below capitalization threshold	253,927	226,393
Changes in assets and liabilities:		
Accounts receivables, net	(367,203)	(1,755,747)
Student loans receivable, net	190,175	195,049
Inventories	(252,928)	(586,983)
Other assets	(557,481)	(2,817,184)
Accounts payable and accrued liabilities	(651,686)	(73,510)
Deferred revenue	854,701	(809,264)
Assets held in custody for others and deposits	(508,435)	(370,788)
Compensated absences	(865,237)	(136,321)
Net cash used by operating activities	$ (62,725,314)	$ (70,434,688)

SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS

	2010 University	2009 University
Payments on behalf of the University	$ 79,867,958	$ 60,802,887
Donated capital assets	64,372	47,360
Capital appropriation acquisitions	7,583,879	5,769,786
Bond accretion	1,056,360	1,255,825
Donated equipment below capitalization threshold	253,927	226,393
Tuition and fee waivers where services were provided	4,334,200	3,919,558
Construction costs in accounts payable	8,764,965	6,914,561
Investment income unrealized gain and amortization	2,057,820	2,506,538

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS

	2010 University	2009 University
Cash and cash equivalents classified as current assets	$ 49,826,109	$ 9,355,388
Restricted cash and cash equivalents classified as current assets	11,202,703	38,657,729
	$ 61,028,812	$ 48,013,117

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, Campus Box 8000, Normal, Illinois 61790-8000.

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. The University has implemented GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets and No. 53, Accounting and Financial Reporting for Derivative Instruments.

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.

Restricted Cash and Cash Equivalents: Included in restricted cash and cash equivalents is the unspent proceeds from revenue bonds and certificates of participation.

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. The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

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. During fiscal years ended 2010 and 2009, the University capitalized $2,677,817 and $2,989,057 net interest expense for construction projects, respectively.

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.

Bond issuance costs: The costs related to the issuance of revenue bonds and certificates of participation are being amortized over the life of the bonds and/or certificates using the straight line method.

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 $4,589,394 and $4,174,592 at June 30, 2010 and 2009, respectively, and is recorded in the accompanying financial statements.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, certificates of participation, 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 non-operating 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.

Non-operating revenue: Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating 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 calculations. 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 non-operating 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.

	2010	2009
Student tuition and fees	$ 186,333,481	$ 164,672,175
Less scholarship discounts and allowances	(33,167, 914)	(26,947,890)
Less discounts for employee waivers	(649,452)	(556,789)
Net student tuition and fees	$ 152,516,115	$ 137,167,496
Auxiliary facilities	$ 91,567,748	$ 81,576,707
Less scholarship discounts and allowances	(10,549,938)	(8,395,151)
Net auxiliary facilities	$ 81,017,810	$ 73,181,556

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 to current year presentations.

Note 2. Deposits

At June 30, 2010 and 2009, the University's bank balances were $14,453,270 and $8,638,232, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral.

Foundation Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation or the Security Investor Protection Corporation insured account had a balance of $85,196 and $68,395 at June 30, 2010 and 2009, respectively. Bank balances of $10,070,264 at June 30, 2010 and $7,790,975 at June 30, 2009 were invested in investment sweep funds secured by U.S. government obligations. In addition, at June 30, 2009, $920,087 was in uninsured cash awaiting investment and was subsequently invested as of July 31, 2009. The Foundation does not have a formal deposit policy for custodial credit risk.

DEPOSITS:	2010		2009	
University	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Bank Checking Funds	$ 14,453,270	$ 11,815,458	$ 8,638,232	$ 3,962,121
Foundation				
Cash in bank	$ 10,155,460	$ 9,138,676	$ 8,779,457	$ 7,661,809

Reconciliation of cash and cash equivalents to deposits:

	2010	
	University	Foundation
Cash and cash equivalents		
Current	$ 61,028,812	$ 6,298,635
Noncurrent	-	2,840,041
Total cash and cash equivalents	61,028,812	9,138,676
Less: Vault cash and change funds	(186,742)	-
Less: Money market mutual funds classified as investments for purposes of categorization	(49,026,612)	-
Carrying amount of deposits	$ 11,815,458	$ 9,138,676

	2009	
	University	Foundation
Cash and cash equivalents		
Current	$ 48,013,117	$ 6,617,650
Noncurrent	-	1,044,159
Total cash and cash equivalents	48,013,117	7,661,809
Less: Vault cash and change funds	(196,800)	-
Less: Money market mutual funds classified as investments for purposes of categorization	(43,854,196)	-
Carrying amount of deposits	$ 3,962,121	$ 7,661,809

Note 3. Investments

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

UNIVERSITY INVESTMENTS

As of June 30, 2010, 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	$ 23,822,750	$ 5,007,050	$ 18,815,700	
Federal Farm Credit Bank	27,117,200	2,039,380	25,077,820	AAA/Aaa
Federal National Mortgage Association	5,132,800	5,132,800	-	AAA/Aaa
Federal Home Loan Bank	27,054,555	16,326,405	10,728,150	AAA/Aaa
Illinois Funds Investment Pool	37,823,909	37,823,909	-	AAAm
Bank Money Market Funds	11,202,703	11,202,703	-	Not Rated
Total University	$ 132,153,917	$ 77,532,247	$ 54,621,670	

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 (20.5%) and Federal Home Loan Bank (20.5%).

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, 2009, 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	$ 8,442,630	$ -	$ 8,442,630	
Federal Farm Credit Bank	29,723,840	2,598,450	27,125,390	AAA/Aaa
Federal National Mortgage Association	8,235,630	3,030,930	5,204,700	AAA/Aaa
Federal Home Loan Mortgage Corporation	7,070,449	7,070,449	-	AAA/Aaa
Federal Home Loan Bank	39,918,501	12,238,780	27,679,721	AAA/Aaa
Illinois Funds Investment Pool	2,717,215	2,717,215	-	AAAm
Bank Money Market Funds	41,136,981	41,136,981	-	Not Rated
Total University	$ 137,245,246	$ 68,792,805	$ 68,452,441	

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 (21.66%), Federal Home Loan Bank (29.09%), Federal National Mortgage Association (6.00%), and Federal Home Loan Mortgage Corporation (5.15%).

FOUNDATION INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2010 and 2009 is as follows:

	2010	2009
U.S. Treasury Notes	$ 62,505	$ -
Common Stock	246,945	239,286
Mutual Funds – investing in:		
Stocks	27,671,503	27,967,754
Bonds	8,499,223	8,921,853
Commodities	1,969,652	1,619,318
International	9,065,614	6,763,133
U.S. Government Securities	2,463,669	381,345
Bank Common Trusts	-	904,170
Limited Partnerships	7,711,138	5,745,501
Hedged and Alternative Funds	14,047,484	7,356,724
Real Estate Investment	600,631	600,631
Total Foundation	$ 72,338,364	$ 60,499,715

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.

Foreign Currency Risk. Foreign currency risk exists when there is a possibility that changes in exchange rates could adversely affect investments denominated in foreign currencies. The Foundation does not have a formal policy that addresses foreign currency risk.

As of June 30, 2010, the Foundation had $8,264,416 U.S. dollar balances of international mutual fund investments exposed to foreign currency risk. Listed below are the U.S dollar balances of the Foundation's international mutual fund investments exposed to foreign currency risk as of June 30, 2010:

	International Equity	Emerging Markets	Total
Euro	$ 995,317	$ -	$ 995,317
British Pound	791,150	-	791,150
Japanese Yen	885,942	-	885,942
Brazilian Real	-	526,750	526,750
Taiwanese Dollar	25,521	521,375	546,896
Chinese Yuan	145,834	962,126	1,107,960
South Korean Won	10,938	612,751	623,689
Other (individually below 5% of total)	561,462	2,225,250	2,786,712
Total	$ 3,416,164	$ 4,848,252	$ 8,264,416

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, 2010, the Foundation had the following investments exposed to interest rate risk and credit risk:

		Fair Market Value	Weighted Average Life	S&P Rating
U.S. Treasury Notes	$	62,505	4.9 years	
Bond Mutual Funds		8,499,223	7.1 years	AA
Commodities Mutual Fund		1,969,652	1.3 years	AA+
U.S. Government Securities Fund		2,463,669	8.8 years	

As of June 30, 2009, the Foundation had the following investments exposed to interest rate risk and credit risk:

		Fair Market Value	Weighted Average Life	S&P Rating
Bond Mutual Funds	$	8,921,853	6.8 years	AA
Bank Common Trusts		904,170	1.8 years	AA
Commodities Mutual Funds		1,619,318	1.8 years	AA+
U.S. Government Securities Fund		381,345	.1 year	

INVESTMENTS CONSIST OF THE FOLLOWING:

	2010		2009	
	University	Foundation	University	Foundation
Current:				
Investments	$ 28,505,635	$ -	$ 24,938,609	$ 880,505
Noncurrent:				
Investments	54,621,670	12,817,071	68,452,441	13,375,895
Endowment investments	-	59,521,293	-	46,243,315
	83,127,305	72,338,364	93,391,050	60,499,715
Money market mutual funds classified as cash and cash equivalents	49,026,612	-	43,854,196	-
Total	$ 132,153,917	$ 72,338,364	$ 137,245,246	$ 60,499,715

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, fixed income, and alternative 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 47% to 67% of the portfolio with a target weight of 57%, with fixed income investments ranging from 3% to 15% with a target weight of 5%. Marketable alternative investments have an asset allocation range from 10% to 30% with a target weight of 20% and real assets have an asset allocation range of 5% to 28% with a target weight of 18%.

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2010 and 2009:

	2010	2009
Student tuition and fees	$ 9,811,953	$ 8,353,095
Auxiliary facilities and other operating activities	2,499,182	2,274,747
Other	1,016,535	1,125,082
Federal, state, and private grants and contracts	2,793,724	2,484,919
Sub-total	16,121,394	14,237,843
Less allowance for uncollectible accounts	(2,458,760)	(2,311,305)
Net Accounts Receivable	$ 13,662,634	$ 11,926,538

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2010 and 2009 are summarized as follows:

	2010	2009
Perkins student loan fund	$ 10,286,404	$ 10,415,532
Nursing loan fund	387,787	357,066
University loan fund	55,993	86,761
Sub-total	10,730,184	10,859,359
Less allowance for uncollectible accounts	(973,784)	(912,784)
Net Student Loans Receivable	$ 9,756,400	$ 9,946,575
Estimated current portion	$ 928,736	$ 902,641
Estimated noncurrent portion	8,827,664	9,043,934
Total	$ 9,756,400	$ 9,946,575

Note 6. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2010 and 2009 are summarized as follows:

		2010		2009
Pledges to be collected	$	1,175,186	$	1,957,318
Less discount for the time value of money		(44,206)		(36,743)
Less allowance for uncollectible accounts		(121,889)		(146,799)
Net Foundation Pledges Receivable	$	1,009,091	$	1,773,776
Estimated current portion	$	455,336	$	1,132,711
Estimated noncurrent portion		553,755		641,065
Total	$	1,009,091	$	1,773,776

Note 7. Deferred Revenue

Deferred revenue consists of the following at June 30, 2010 and 2009:

		2010		2009
Prepaid tuition and fees	$	4,800,148	$	4,497,009
Auxiliary facilities		656,249		587,955
Grants and contracts		1,808,116		1,305,350
Other		79,531		99,029
Deferred Revenue	$	7,344,044	$	6,489,343

Note 8. Capital Assets

Capital assets activity for the year ended June 30, 2010 is summarized as follows:

University

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	$ 14,158,006	$ -	$ -	$ -	$ 14,158,006
Construction in progress	78,676,407	51,926,302	(5,202,357)	(45,021,405)	80,378,947
Intangible -internally generated software	2,570,906	4,211,908	-	-	6,782,814
Total capital assets not being depreciated	$ 95,405,319	$ 56,138,210	$ (5,202,357)	$ (45,021,405)	$ 101,319,767
Capital assets being depreciated					
Land Improvements	$ 26,519,625	$ 425,566	$ (24,999)	$ 6,143,396	$ 33,063,588
Infrastructure	12,682,559	-	-	-	12,682,559
Buildings	381,427,798	1,746,078	-	38,878,009	422,051,885
Equipment	69,758,543	5,220,226	(1,627,748)	-	73,351,021
Library Materials	70,624,011	3,712,690	-	-	74,336,701
Total capital assets being depreciated	$ 561,012,536	$ 11,104,560	$ (1,652,747)	$ 45,021,405	$ 615,485,754
Less Accumulated Depreciation for					
Land Improvements	$ 8,851,556	$ 920,161	$ (15,702)	$ -	$ 9,756,015
Infrastructure	5,759,775	311,229	-	-	6,071,004
Buildings	178,351,503	8,203,747	-	-	186,555,250
Equipment	54,077,564	5,217,102	(1,524,194)	-	57,770,472
Library Materials	54,594,875	3,287,159	-	-	57,882,034
Total Accumulated Depreciation	$ 301,635,273	$ 17,939,398	$ (1,539,896)	$ -	$ 318,034,775
Total capital assets being depreciated, net	$ 259,377,263	$ (6,834,838)	$ (112,851)	$ 45,021,405	$ 297,450,979
Capital assets, net	$ 354,782,582	$ 49,303,372	$ (5,315,208)	$ -	$ 398,770,746

Foundation

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	$ 980,000	$ -	$ -	$ -	$ 980,000
Capital assets being depreciated	10,410,371	-	-	-	10,410,371
Less accumulated depreciation	1,124,505	422,750	-	-	1,547,255
Total capital assets being depreciated	$ 9,285,866	$ (422,750)	$ -	$ -	$ 8,863,116
Capital assets, net	$ 10,265,866	$ (422,750)	$ -	$ -	$ 9,843,116

Capital assets activity for the year ended June 30, 2009 is summarized as follows:

University

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	$ 14,158,006	$ -	$ -	$ -	$ 14,158,006
Construction in progress	42,135,736	49,172,754	-	(12,632,083)	78,676,407
Intangible -internally generated software	-	2,570,906	-	-	2,570,906
Total capital assets not being depreciated	$ 56,293,742	$ 51,743,660	$ -	$ (12,632,083)	$ 95,405,319
Capital assets being depreciated					
Land Improvements	$ 23,259,204	$ -	$ -	$ 3,260,421	$ 26,519,625
Infrastructure	12,682,559	-	-	-	12,682,559
Buildings	368,843,789	3,212,347	-	9,371,662	381,427,798
Equipment	65,378,926	5,918,745	1,539,128	-	69,758,543
Library Materials	67,247,586	3,376,425	-	-	70,624,011
Total capital assets being depreciated	$ 537,412,064	$ 12,507,517	$ 1,539,128	$ 12,632,083	$ 561,012,536
Less Accumulated Depreciation for					
Land Improvements	$ 8,117,922	$ 733,634	$ -	$ -	$ 8,851,556
Infrastructure	5,447,986	311,789	-	-	5,759,775
Buildings	170,776,707	7,574,796	-	-	178,351,503
Equipment	50,584,344	4,908,822	1,415,602	-	54,077,564
Library Materials	51,404,285	3,190,590	-	-	54,594,875
Total Accumulated Depreciation	$ 286,331,244	$ 16,719,631	$ 1,415,602	$ -	$ 301,635,273
Total capital assets being depreciated, net	$ 251,080,820	$ (4,212,114)	$ 123,526	$ 12,632,083	$ 259,377,263
Capital assets, net	$ 307,374,562	$ 47,531,546	$ 123,526	$ -	$ 354,782,582

Foundation

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	$ 210,241	$ 980,000	$ -	$ (210,241)	$ 980,000
Capital assets being depreciated	4,774,004	5,426,126	-	210,241	10,410,371
Less accumulated depreciation	701,759	422,746	-	-	1,124,505
Total capital assets being depreciated, net	$ 4,072,245	$ 5,003,380	$ -	$ 210,241	$ 9,285,866
Capital assets, net	$ 4,282,486	$ 5,983,380	$ -	$ -	$ 10,265,866

Note 9. Long-term Liabilities

UNIVERSITY LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	$ 18,096,482	$ 934,485	$ 1,799,722	$ 17,231,245
Certificates of participation	22,141,828	-	820,297	21,321,531
Revenue bonds payable	107,608,777	1,056,360	5,386,307	103,278,830
Total	$ 147,847,087	$ 1,990,845	$ 8,006,326	$ 141,831,606
Current portion				
Accrued compensated absences	$ 1,761,291			$ 1,756,753
Certificates of participation	820,298			850,297
Revenue bonds payable, net	5,251,695			6,151,471
Total current portion	$ 7,833,284			$ 8,758,521
Noncurrent portion				
Accrued compensated absences	$ 16,335,191			$ 15,474,492
Certificates of participation	21,321,530			20,471,234
Revenue bonds payable, net	102,357,082			97,127,359
Total noncurrent portion	$ 140,013,803			$ 133,073,085

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	$ 18,232,804	$ 1,611,943	$ 1,748,265	$ 18,096,482
Certificates of participation	22,137,126	-	(4,702)	22,141,828
Revenue bonds payable	111,689,258	1,255,825	5,336,306	107,608,777
Total	$ 152,059,188	$ 2,867,768	$ 7,079,869	$ 147,847,087
Current portion				
Accrued compensated absences	$ 1,712,964			$ 1,761,291
Certificates of participation	-			820,298
Revenue bonds payable, net	5,202,348			5,251,695
Total current portion	$ 6,915,312			$ 7,833,284
Noncurrent portion				
Accrued compensated absences	$ 16,519,840			$ 16,335,191
Certificates of participation	22,137,126			21,321,530
Revenue bonds payable, net	106,486,910			102,357,082
Total noncurrent portion	$ 145,143,876			$ 140,013,803

Revenue bonds payable at June 30, 2010 and 2009 consists of the following:

	2010	2009
Revenue Bonds, Series 1989:		
Capital Appreciation Bonds	$ 4,293,260	$ 7,684,674
Insured Revenue Bonds, Series 1993:		
Capital Appreciation Bonds	1,521,229	1,432,504
Revenue Bonds, Series 1996:		
Capital Appreciation Bonds	9,506,794	8,972,745
Revenue Bonds, Series 2003:		
New Project Bonds	5,347,115	5,769,650
Current Refunding Bonds	9,530,862	9,584,279
Revenue Bonds, Series 2006:		
New Project Bonds	38,830,847	38,792,576
Current Refunding Bonds	3,613,723	4,737,349
Revenue Bonds, Series 2008		
New Project Bonds	30,635,000	30,635,000
Total revenue bonds payable	$ 103,278,830	$ 107,608,777

Maturities and interest requirements on revenue bonds payable at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 6,280,000	3,839,414	10,119,414
2012	6,190,000	3,757,986	9,947,986
2013	6,330,000	3,617,701	9,947,701
2014	6,625,000	3,347,217	9,972,217
2015	7,025,000	3,101,776	10,126,776
Sub-total	32,450,000	17,664,094	50,114,094
2016-2020	21,415,000	14,235,736	35,650,736
2021-2025	20,490,000	10,334,761	30,824,761
2026-2030	23,610,000	5,599,168	29,209,168
2031-2033	9,495,000	764,121	10,259,121
Sub-total	107,460,000	$ 48,597,880	$ 156,057,880
Additions(Deductions):			
Unaccreted Appreciation	(3,583,716)		
Unamortized Discounts	(825,430)		
Unamortized Premiums	227,976		
Total	$ 103,278,830		

The Series 1989, 1993, 1996, 2003, 2006, and 2008 bonds are secured by a pledge of the net revenue of auxiliary facilities, as well as the pledged portion of the tuition, 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 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.

On March 1, 2008, $30,635,000 in Revenue Bonds, Series 2008 were issued. The New Project Bonds mature beginning April 1, 2011, and continuing through April 1, 2033. These New Project Bonds bear interest from 2.70% to 5.00%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2008.

As a requirement of issuing revenue bonds the University is subject to certain covenants. The University monitors its compliance with these covenants and is not aware of violations of these covenants.

PLEDGED REVENUES & DEBT SERVICE REQUIRMENTS

The University has pledged fees relating to tuition, health services, athletics, health insurance, student activities and all other fees (excluding laboratory, and library fees) collected from students, to repay the principal and interest of revenue bonds. A total of $156,057,880 of future revenues is pledged through 2033. Debt service to pledged revenues for the current year is 6.45%.

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, 2010 and 2009 was $10,727,614 and $10,521,652, respectively.

CERTIFICATES OF PARTICIPATION PAYABLE

On June 4, 2008, $22,230,000 in Certificates of Participation were issued. The Series 2008 Certificates of Participation mature beginning April 1, 2010 and continuing through April 1, 2028. These Certificates of Participation bear interest from 3.00% to 4.50%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2008.

Maturities and interest requirements on certificates of participation at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 855,000	$ 866,850	$ 1,721,850
2012	875,000	839,063	1,714,063
2013	910,000	810,625	1,720,625
2014	935,000	778,775	1,713,775
2015	975,000	746,050	1,721,050
Sub-total	4,550,000	4,041,363	8,591,363
2016-2020	5,455,000	3,128,038	8,583,038
2021-2025	6,675,000	1,922,750	8,597,750
2026-2028	4,725,000	429,437	5,154,437
Sub-total	21,405,000	$ 9,521,588	$ 30,926,588
Additions(Deductions):			
Unamortized Discounts	(83,469)		
Total	$ 21,321,531		

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:

	Vacation	Sick	Total
2010	$ 10,114,061	$ 7,117,184	$ 17,231,245
2009	$ 10,052,222	$ 8,044,260	$ 18,096,482

FOUNDATION LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 354,080	$ 50,554	$ 46,496	$ 358,138
Deferred rent	2,700,000	-	300,000	2,400,000
Contract-for-deed payable	3,247,724	-	60,684	3,187,040
Total	$ 6,301,804	$ 50,554	$ 407,180	$ 5,945,178
Current portion				
Beneficiary payments	$ 34,525			$ 41,170
Deferred rent	300,000			300,000
Contract-for-deed payable	60,684			64,749
Total current portion	$ 395,209			$ 405,919
Noncurrent portion				
Beneficiary payments	$ 319,555			$ 316,968
Deferred rent	2,400,000			2,100,000
Contract-for-deed payable	3,187,040			3,122,291
Total noncurrent portion	$ 5,906,595			$ 5,539,259

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 338,558	$ 15,522	$ -	$ 354,080
Deferred rent	-	3,000,000	300,000	2,700,000
Contract-for-deed payable	-	3,300,000	52,276	3,247,724
Total	$ 338,558	$ 6,315,522	$ 352,276	$ 6,301,804
Current portion				
Beneficiary payments	$ 34,525			$ 34,525
Deferred rent	-			300,000
Contract-for-deed payable	-			60,684
Total current portion	$ 34,525			$ 395,209
Noncurrent portion				
Beneficiary payments	$ 304,033			$ 319,555
Deferred rent	-			2,400,000
Contract-for-deed payable	-			3,187,040
Total noncurrent portion	$ 304,033			$ 5,906,595

FOUNDATION CONTRACT-FOR-DEED PAYABLE

A contract at June 30, 2010 consisted of a $3,300,000 installment contract-for-deed secured by the Alumni Center building. The contract requires 119 monthly payments of $22,500 at 6.5% interest with a final payment of the remaining outstanding balance.

Maturities and Interest Requirements on the contract payable at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 64,749	$ 205,251	$ 270,000
2012	69,085	200,915	270,000
2013	73,712	196,288	270,000
2014	78,649	191,351	270,000
2015	83,916	186,084	270,000
Sub-total	370,111	979,889	1,350,000
2016-2019	2,816,929	536,706	3,353,635
Sub-total	3,187,040	$ 1,516,595	$ 4,703,635

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 the Financial Accounting Standards Board.

Obligations under capital leases activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Obligations under capital leases	$ 128,226	$ -	$ 128,226	$ -
Current portion	128,226			

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, 2010 and 2009 was $912,323 and $867,419, respectively. The leases expire between July 2010 and June 2018. Following is a schedule of future minimum lease payments.

Year Ending June 30		Building
2011	$	1,313,214
2012		1,168,533
2013		1,034,604
2014		800,000
2015		800,000
2016-2018		900,000
Total	$	6,016,351

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 $64,103 in 2010 and $61,626 in 2009. The current lease expires on December 31, 2014.

Year Ending June 30		Building
2011	$	73,994
2012		75,401
2013		76,809
2014		78,216
2015		39,460
Total	$	343,880

The University leases fifteen vehicles for the Athletic Department employees at a cost of $64,526 in fiscal year 2010 and $61,832 in fiscal year 2009. The Foundation makes the payments on these leased vehicles. One, two and twelve vehicle leases expire during fiscal years 2011, 2012 and 2014, respectively. Following is a schedule of future minimum lease payments.

Year Ending June 30		Vehicles
2011	$	65,670
2012		52,248
2013		50,040
2014		44,685
Total	$	212,643

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, 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 21.27% (for FY 2011) 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, 2010, 2009, and 2008, were $31,104,831, $19,954,109, and $15,141,102, respectively, equal to the required contributions for each year.

Note 12. Post-employment Benefits

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

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

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

Note 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. The University and the Foundation entered into a three year Support Agreement effective July 1, 2009, whereby the University agrees to provide to the Foundation fair and reasonable compensation in exchange for development and fundraising services up to a maximum value of $2,200,000 during the first year of the agreement. For the years ended June 30, 2010 and 2009, the University made cash payments to the Foundation of $200,000 and $260,000, respectively for these services. In additional consideration for these services, the University provided office space, clerical, accounting and computer support estimated to be $1,707,897 and $1,650,600 during fiscal years 2010 and 2009, respectively.

During fiscal years 2010 and 2009 the Foundation contributed services and expenditures of $6,611,929 and $7,940,788, respectively, that were for the direct and/or indirect support of the University as shown below:

		2010		2009
Funds considered unrestricted:				
Totally unrestricted services	$	65,250	$	93,047
Support for University colleges		644,734		582,704
Support for University departments		1,838,740		2,580,363
Total funds considered unrestricted	$	2,548,724	$	3,256,114
Funds considered restricted:				
Provided for scholarships	$	1,594,329	$	1,806,780
Provided for programs		2,452,493		2,825,555
Provided for other services		16,383		52,339
Total funds considered restricted	$	4,063,205	$	4,684,674
Total funds provided to the University	$	6,611,929	$	7,940,788

In June 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.

In fiscal year 2009, Launching Futures, LLC acquired real estate for approximately $6.3 million that was being leased by the University from an outside party. Once the sales contract was signed, the University continued to lease the property from the seller until the initial closing. The acquired real estate serves as the University's Alumni Center. To assist with construction improvement costs, the University made a $3 million prepaid rent payment in July 2008. LLC leases the property to the University at $19,167 per month. Also, the University and Foundation are amortizing the $3 million prepaid rent over a ten-year period at $300,000 per year.

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 2010 and 2009, the University contributed $184,000 and $184,934, respectively, of revenue and direct 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 Aetna Student Health (ASH) formerly known as The Chickering Group, an Aetna Company of Cambridge, Massachusetts for administration of the Aetna Accident and Sickness Plan to provide insurance benefits to students of the University. Students enrolled in 9 or more semester hours of credit pay a premium for this coverage. As part of the contractual agreement between ISU & ASH, the University has a premium stabilization reserve (PSR) which is used to minimize future plan year increases in the premium based on unexpectedly high claims utilization. As each Plan Year is finalized, costs are debited (gain are credited) to an account funded by the University each year (15% of expected premium at the initial deposit, but adjusted to 15% of actual premium upon reconciliation). The reserve for 2007-2008 of $1,427,787 became available upon final calculation in November 2009, a portion of the reserve, $850,000, was rolled over to complete funding of 2010-2011 Plan Year, with an additional $577,787 available to the University, which can be returned or held to fund future periods. Potential refunds are still at risk for unexpected claims losses, they are not recorded as assets. Assuming 10% trend and no change in enrollment, the University estimates $935,000 to be needed to fund 2011-2012.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded $99,549,539 and $87,480,450 in Direct Student Loans for the years ended June 30, 2010 and 2009, 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. Risk-Management

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 years ended June 30, 2010 and 2009, 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 liability insurance that covers related claims above a $350,000 self-insured retention. The educator's legal liability policy has aggregate and occurrence limits of $5,000,000. The general liability insurance policy has a per occurrence limit of $10,650,000 and an aggregate of $19,650,000.

To augment existing State and commercial coverage, and to assist in addressing potential risks and liabilities incurred through its operations, the University is self-funded. 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, 2010 and June 30, 2009 the liability was $0 and $1,115,707, respectively. There were no settlements which exceeded insurance coverage for the last three years. Following is a schedule of changes in self-insurance for fiscal years 2010 and 2009:

	2010	2009
Beginning Balance	$ 1,115,707	$ 1,081,947
Revenue	15,158	44,630
Expenses	(12,374)	(10,807)
Reclassification from liability reserve to board designated self-insurance	(1,118,491)	-
Ending Balance	$ -	$ 1,115,707

Note 17. Net Assets

UNIVERSITY NET ASSETS

University restricted net assets are comprised of the following at June 30, 2010 and 2009:

	2010	2009
Expendable Student loans	$ 9,455,338	$ 9,422,007

University Board designated unrestricted net assets:

	2010	2009
Capital asset renewal and replacement for the internal service departments	$ 376,427	$ 1,142,248
Self- Insurance	1,118,491	-
Total	$ 1,494,918	$ 1,142,248

FOUNDATION NET ASSETS

Foundation restricted net assets are comprised of the following at June 30, 2010 and 2009:

	2010	2009
Nonexpendable		
Scholarship and fellowship	$ 35,190,065	$ 25,726,952
College and academic department support	9,943,241	8,599,952
Faculty and staff compensation	7,321,387	5,855,258
Other	7,156,443	6,380,451
Total nonexpendable	$ 59,611,136	$ 46,562,613

	2010	2009
Expendable		
Scholarship and fellowship	$ 7,647,477	$ 7,325,422
Instructional departmental uses	10,739,698	11,727,069
University capital projects	3,104,929	2,784,652
Other restricted expendable	1,579,259	1,483,098
Total expendable	$ 23,071,363	$ 23,320,241

Note 18. Foundation Donor Restricted Endowments

If a donor has not provided specific instructions, state law permits the Foundation to authorize expenditure from available endowment funds. The Foundation Investment Committee has adopted a weighted average spending policy based on the following components:

1. Prior year spending amount plus 4.5% of the value of new gifts. The sum is adjusted by the Higher Education Price Index inflation factor for the past 12 months then weighted at 70%.

2. End of the year market value times 4.5%, then weighted at 30%.

3. A fundraising fee of .8%, based on the end of the year market value, is assessed each endowed fund to help support Foundation fundraising and general operations.

Due to the market value of the Foundation's endowed investments declining 20.4% during the year ended June 30, 2009, the Foundation Board decided not to make a distribution for fiscal years 2010 or 2009.

The Investment Committee reinstated the distribution for fiscal year 2011 resulting in $2,868,470 to be distributed on July 1, 2010. $2,395,330 will be distributed to expendable for endowed funds and $473,140 will be distributed to the Foundation for fundraising and general operations expenses.

In September of 2010, the Foundation reached a verbal agreement to return to a donor, who is a Foundation Board member, $1.924 million in gifts to an endowed fund, which will be terminated at the donor's request.

On June 30, 2009, the Illinois Governor signed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) into law. UPMIFA replaced the Uniform Management of Institutional Funds Act (UMFIA) and eliminated the historic dollar value rule with respect to endowment fund spending. UPMIFA also updated the prudence standard for the management and investment of charitable funds. In accordance with UPMIFA, the Foundation Board considers the factors in Section 3(e)(1) and 4(a) of the act in determining the investment, management and disbursement of endowment funds.

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 and 2008. 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 $1,955,250 at June 30, 2010 ($610,000 in 2010, and $1,345,250 in 2008, 2007, 2006 and 2005 collectively) which can be credited toward the purchase price. The deposit extends the option period agreement to August 2014 with the option to renew an additional period of five years. If the University exercises the option agreements, the purchase price for the properties will be $4,180,000. The agreements also require annual maintenance fees which will not be credited toward the purchase price.

The University had several construction projects in progress at June 30, 2010 totaling $81,822,737. The Stevenson/Turner and Life Safety Improvement projects are primarily funded by appropriations from the State of Illinois Capital Development Board. The Student Fitness Center and McCormick Hall project construction costs are provided through Revenue Bond Series 2008, student fees related, and the 2008 Series Certificates of Participation, academics related. This project is scheduled to open in January 2011.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are $29,305,391, approximately $9,290,065 (31.7 percent) of the work has been completed as of June 30, 2010. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

In June 2010, the University entered into a 40 year ground lease agreement with Collegiate Housing Foundation – Normal, LLC (lessee), a non-profit limited liability company, for the purpose of financing, constructing, furnishing and equipping a new 896 bed student housing facility at the current Cardinal Court Apartment complex site. The construction cost of the project is estimated at $45,132,679 and was financed with revenue bonds in the amount of $59,610,000 issued by the Illinois Finance Authority as debt of the lessee. Construction began in February 2011 with expected completion by August 2012. The facility will house Illinois State University students and be managed by the University. The lessee will pay the University rent on the ground lease on an annual basis as defined by the terms of the agreement.

In October 2010, University Board of Trustees approved a $5.5 million capital improvement project to Hovey Hall as well as an energy conservation measures contract at a project cost of $8.5 million. The cost of these projects is expected to be financed with certificates of participation.

The University has secured natural gas and electricity at a fixed price for fiscal years 2011 through 2013 by executing forward fixed price purchase contracts with Nicor and MidAmerican Energy. As of June 30, 2010, the University's commitment to these contracts is approximately $15,641,929 for natural gas and $22,656,700 for electricity.

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest $16,296,457 as of both June 30, 2010 and 2009. As of June 30, 2010 and 2009, the Foundation has invested $9,074,772 and $7,670,950, respectively and has future investment commitments of $7,221,685 and $8,625,507, respectively.

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, 2010, 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, 2010

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 95,898,643	$ 14,070,869	$ -	$ -	$ 109,969,512
Research	10,549,779	3,652,269	-	-	14,202,048
Public Service	7,239,160	7,859,716	-	-	15,098,876
Academic Support	11,503,250	2,687,294	-	-	14,190,544
Student Services	17,989,802	17,320,443	-	-	35,310,245
Institutional Support	16,171,660	11,058,261	-	-	27,229,921
Operation of Plant	12,018,186	17,517,970	-	-	29,536,156
Depreciation	-	-	-	17,939,398	17,939,398
Staff Benefits	1,178,173	-	42,123	-	1,220,296
Student Aid	-	4,439,345	27,235,019	-	31,674,364
Payments on Behalf	78,553,377	-	-	-	78,553,377
Auxiliary Facilities	23,527,036	38,056,721	-	-	61,583,757
Other	2,343,212	58,524	-	-	2,401,736
Total University	$ 276,972,278	$ 116,721,412	$ 27,277,142	$ 17,939,398	$ 438,910,230

Natural Classification for the Year Ended June 30, 2009

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 92,587,477	$ 14,208,889	$ -	$ -	$ 106,796,366
Research	10,792,033	3,525,367	-	-	14,317,400
Public Service	8,079,415	8,294,500	-	-	16,373,915
Academic Support	10,941,344	2,687,301	-	-	13,628,645
Student Services	16,825,421	17,020,406	-	-	33,845,827
Institutional Support	16,530,796	12,024,896	-	-	28,555,692
Operation of Plant	12,061,191	15,438,749	-	-	27,499,940
Depreciation	-	-	-	16,719,631	16,719,631
Staff Benefits	1,548,501	-	25,453	-	1,573,954
Student Aid	-	3,966,554	19,850,644	-	23,817,198
Payments on Behalf	59,580,738	-	-	-	59,580,738
Auxiliary Facilities	22,755,560	29,029,127	-	-	51,784,687
Other	2,298,908	69,347	-	-	2,368,255
Total University	$ 254,001,384	$ 106,265,136	$ 19,876,097	$ 16,719,631	$ 396,862,248

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:

Condensed Statements of Net Assets at June 30	2010	2009
Assets:		
Current assets	$ 42,182,496	$ 45,032,868
Noncurrent assets:		
Capital assets, net	180,493,574	161,753,075
Other noncurrent assets	55,966,756	64,270,129
Total assets	278,642,826	271,056,072
Liabilities:		
Current liabilities	20,334,795	19,933,383
Noncurrent liabilities	99,140,744	104,360,494
Total liabilities	119,475,539	124,293,877
Net assets:		
Invested in capital assets, net of related debt	82,473,843	77,592,496
Unrestricted	76,693,444	69,169,699
Total net assets	$ 159,167,287	$ 146,762,195

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the year ended at June 30		
Operating revenues	$ 81,017,810	$ 73,181,556
Depreciation expense	(4,973,799)	(4,241,865)
Other operating expenses	(61,583,757)	(51,784,687)
Operating income	14,460,254	17,155,004
Non-operating revenues	1,225,117	4,837,109
Non-operating expenses	(3,280,279)	(2,832,131)
Increase in net assets	12,405,092	19,159,982
Net assets – beginning of year	146,762,195	127,602,213
Net assets – end of year	$ 159,167,287	$ 146,762,195

Condensed Statements of Cash Flows for the year ended June 30		
Net cash flows provided by operating activities	$ 17,278,246	$ 21,900,198
Net cash flows provided by non-capital financing activities	246,299	224,706
Net cash flows provided by (used in) capital and related financing activities	(30,491,077)	(44,216,680)
Net cash flows provided by (used in) investing activities	(2,946,219)	3,542,593
Net increase (decrease) in cash and cash equivalents	(15,912,751)	(18,549,183)
Cash and cash equivalents, beginning of year	23,757,176	42,306,359
Cash and cash equivalents, end of year	$ 7,844,425	$ 23,757,176

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 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.

	2010		2009	
	Repair and Replacement Reserve	Development Reserve	Repair and Replacement Reserve	Development Reserve
Maximum Allowable Deposits at June 30	$ 36,775,944	$ N/A	$ 33,707,491	$ N/A
Assets Reserved	25,935,606	1,319,295	15,685,182	1,301,497
Project Amount Approved by Board	N/A	1,250,000	N/A	1,250,000

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