

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, 2014 and 2013
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois



State of Illinois
Illinois State University
Financial Audit
For the Years Ended June 30, 2014 and 2013

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Other Reports Issued Under a Separate Cover

The Illinois State University’s Compliance Examination (including the Single Audit) for the year ended June 30, 2014, which includes the reports of independent auditors, Schedule of Findings and Questioned Costs, and Supplementary Information for State Compliance Purposes, has been issued under a separate cover.

In accordance with *Government Auditing Standards*, we have also issued a report under a separate cover entitled Report Required Under Government Auditing Standards for the Year Ended June 30, 2014, on our consideration of the Illinois State University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the audit.

State of Illinois
Illinois State University
Financial Audit
June 30, 2014

Agency Officials

President (Interim)	Dr. Sheri Noren Everts (07/01/13 – 08/14/13)
President	Dr. Timothy Flanagan (08/15/13 – 03/22/14)
President	Dr. Larry Dietz (03/23/14 – Current)
Vice President for Finance and Planning	Dr. Daniel Layzell (07/01/13 – 02/24/14)
Vice President for Finance and Planning (Interim)	Mr. Greg Alt (02/25/14 – Current)
Vice President for Academic Affairs and Provost	Dr. Sheri Noren Everts (07/01/13 – 06/30/14)
Vice President for Academic Affairs and Provost (Interim)	Dr. Janet Wessel Krejci (07/01/14 – Current)
Vice President for Student Affairs	Dr. Larry Dietz (07/01/14 – 03/22/14)
Vice President for Student Affairs (Interim)	Dr. Brent Paterson (03/23/14 – Current)
Vice President for University Advancement	Ms. Erin Minne´ (07/01/14 – 09/12/14)
Vice President for University Advancement (Interim)	Mr. Pat Vickerman (09/13/14 – Current)
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
Director - Internal Audit	Mr. Robert Blemler

Board of Trustees (as of June 30, 2014)

Chair	Hon. Judge Michael McCuskey
Member	Mr. Jay D. Bergman
Member	Ms. Anne Davis
Member	Mr. Bob Churney
Member	Mr. Rocky Donahue
Member	Ms. Betty Kinser
Student Member	Ms. Ellen Schumacher

Office Locations

Agency offices are located at:

Hovey Hall
Campus Box 1100
Normal, Illinois 61790-1100

State of Illinois
Illinois State University
Financial Statement Report Summary
June 30, 2014

Summary

The audit of the accompanying financial statements of the Illinois State University was performed by BKD, LLP.

Based on their audit, the auditors expressed an unmodified opinion on the Illinois State University's basic financial statements.

Exit Conference

This report was discussed with University personnel at an exit conference on November 19, 2014. Attending were:

Representing Illinois State University

Vice President for Finance and Planning (Interim)	Mr. Greg Alt
Senior Associate Comptroller	Ms. JoEllen Bahnsen
Director - Internal Audit	Mr. Robert Blemler
Accounting Associate	Ms. Erika Jones
Information Security Officer	Mr. Kevin Crouse
Assistant Vice President for Administrative Technologies and CTO	Mr. Matthew Helm

Representing BKD LLP

Director	Ms. Heather M. Powell, CPA
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Representing the Office of the Auditor General

Audit Manager	Mr. Daniel J. Nugent, CPA
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Independent Auditor's Report

The Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Illinois State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Illinois State University, a component unit of the State of Illinois, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Illinois State University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the report of the other auditor. 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 from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Illinois State University and its aggregate discretely presented component unit, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 24 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2014, the University adopted new accounting guidance within Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the discretely presented component unit changed its method of accounting from Governmental Accounting Standards to Financial Accounting Standards. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014, on our consideration of the Illinois State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois State University's internal control over financial reporting and compliance.

BKD, LLP

Decatur, Illinois
December 17, 2014

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Illinois State University (University) for the year ended June 30, 2014, with selective comparative information for the years ended June 30, 2013 and 2012. 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.

The 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 accounting principles generally accepted in the United States of America, 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. 61.

The Illinois State University Foundation (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 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, is accordingly, exempt from federal income tax.

Overview of the Financial Statements and Financial Analysis

The 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. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871 or accessing its website at www.ioc.state.il.us.

Financial Statements Presentation: The University's financial statements include the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, 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 the University's financial health.

Statements of Net Position

The Statements of Net Position present the assets, liabilities and net position of the University as of the end of the fiscal years. The Statements of Net Position are point in time financial statements. The purpose of the Statements of Net Position is to present to the readers of the financial statements a fiscal snapshot of the University at June 30, 2014 and 2013. The Statements of Net Position present end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent) and net position (assets minus liabilities).

From the data presented, readers of the Statements of Net Position 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 Position provide a picture of the net position and their availability for expenditure by the institution.

Net position is divided into three major categories. The first category, net investment in capital assets, shows the institution's equity in the property, plant and equipment owned by the institution. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net position is 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 position. Unrestricted net position is that net position available to the institution for any lawful purpose of the institution.

Following are condensed Statements of Net Position at June 30, 2014, 2013 and 2012:

	(Thousands of dollars)		
	2014	2013 (as restated)	2012 (as restated)
Assets:			
Current assets	\$ 118,872	\$ 120,750	\$ 121,692
Noncurrent assets:			
Capital assets, net	443,207	456,844	439,664
Other noncurrent assets	175,161	128,441	124,498
Total assets	<u>737,240</u>	<u>706,035</u>	<u>685,854</u>
Liabilities:			
Current liabilities	50,467	44,063	44,817
Noncurrent liabilities	159,218	144,489	157,723
Total liabilities	<u>209,685</u>	<u>188,552</u>	<u>202,540</u>
Net Position:			
Net investment in capital assets	296,644	337,674	295,964
Restricted	9,539	9,523	9,481
Unrestricted	221,372	170,286	177,869
Total net position	<u>\$ 527,555</u>	<u>\$ 517,483</u>	<u>\$ 483,314</u>

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, unearned 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)		
	2014	2013 (as restated)	2012 (as restated)
	$\frac{118,872}{50,467} = 2.36$	$\frac{120,750}{44,063} = 2.74$	$\frac{121,692}{44,817} = 2.72$

Noncurrent assets are comprised primarily of net capital assets. Net capital assets decreased \$13.6 million and increased \$17.2 million from June 30, 2013 to 2014 and 2012 to 2013, respectively. The decrease is from the transfer of grant property to the Central Illinois Regional Broadband Network, LLC and the increase is 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 Position

Changes in total net position presented on the Statements of Net Position are based upon the activity presented in the Statements of Revenues, Expenses and Changes in Net Position. The purpose of the Statements of Revenues, Expenses and Changes in Net Position 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 General Assembly to the institution without the General Assembly 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 Position for the fiscal years ended June 30, 2014, 2013 and 2012:

	(Thousands of dollars)		
	2014	2013 (as restated)	2012 (as restated)
Operating revenues			
Student tuition and fees, net	\$ 180,469	\$ 174,094	\$ 165,308
Grants and contracts	17,221	26,969	23,792
Auxiliary facilities, net	83,179	81,205	85,908
Other	25,613	27,917	25,936
Total operating revenues	<u>306,482</u>	<u>310,184</u>	<u>300,944</u>
Operating expenses	<u>544,271</u>	<u>524,457</u>	<u>493,834</u>
Operating loss	<u>(237,789)</u>	<u>(214,272)</u>	<u>(192,890)</u>
Non-operating revenues			
State appropriations	74,089	74,082	78,874
Payments on behalf of the University	128,690	132,507	102,129
Other, net	42,841	39,327	43,260
Net non-operating revenues	<u>245,620</u>	<u>245,916</u>	<u>224,263</u>
Capital appropriations	891	1,058	73
Capital gifts and grants	<u>1,350</u>	<u>1,467</u>	<u>1,196</u>
Increase in net position	10,072	34,169	32,642
Net position - beginning of year	517,483	483,314	452,386
Change in accounting principal	-	-	(1,714)
Net position - beginning of year, as restated	<u>517,483</u>	<u>483,314</u>	<u>450,672</u>
Net position - end of year	<u>\$ 527,555</u>	<u>\$ 517,483</u>	<u>\$ 483,314</u>

The return of net position ratio indicates whether the University is financially better off compared to the previous year by comparing the increase in net position to beginning net position. The fluctuations in this ratio are primarily attributable to capital project funding levels from both the State of Illinois, Capital Development Board and the Illinois State University Foundation.

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

(Thousands of dollars)		
2014	2013 (as restated)	2012 (as restated)
<u>10,072 / 517,483 = 1.95%</u>	<u>34,169 / 483,314 = 7.07%</u>	<u>32,642 / 450,672 = 7.24%</u>

The net operating revenues ratio indicates whether the University is living within available resources. The ratio is computed by comparing operating income (loss) and net 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)		
2014	2013 (as restated)	2012 (as restated)
<u>7,831 / 557,992 = 1.40%</u>	<u>31,644 / 561,353 = 5.64%</u>	<u>31,372 / 530,493 = 5.91%</u>

State appropriations revenue has remained in a range from approximately \$74 million to \$78 million for fiscal years 2012, 2013 and 2014. The University enacted tuition and fee increases for fiscal years 2012, 2013 and 2014 to help offset the State appropriation funding trend. Payments on behalf of the University are comprised of payments by the State of Illinois for University employees to the State Universities Retirement System and to the State of Illinois, Department of Central Management Services.

Operating Expenses	(Thousands of dollars)		
	2014	2013 (as restated)	2012 (as Restated)
Expenses by Function			
Instruction	\$ 113,310	\$ 116,827	\$ 116,825
Research	14,767	14,516	14,624
Public service	14,210	14,695	14,318
Academic support	19,943	15,151	15,066
Student services	38,758	38,377	37,093
Institutional support	35,453	37,207	34,841
Operation and maintenance of plant	48,728	33,550	33,948
Depreciation	24,529	23,248	22,183
Staff benefits	1,756	2,265	3,107
Student aid	47,116	42,341	38,003
Payments on behalf of the University	127,237	130,781	100,385
Auxiliary facilities	56,645	53,263	60,476
Other	1,819	2,236	2,965
Total operating expenses	<u>\$ 544,271</u>	<u>\$ 524,457</u>	<u>\$ 493,834</u>
Expenses by Natural Classification			
Compensation and benefits	\$ 340,350	\$ 343,227	\$ 313,113
Supplies and services	141,278	123,676	126,351
Scholarships	38,114	34,306	32,187
Depreciation	24,529	23,248	22,183
Total operating expenses	<u>\$ 544,271</u>	<u>\$ 524,457</u>	<u>\$ 493,834</u>

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

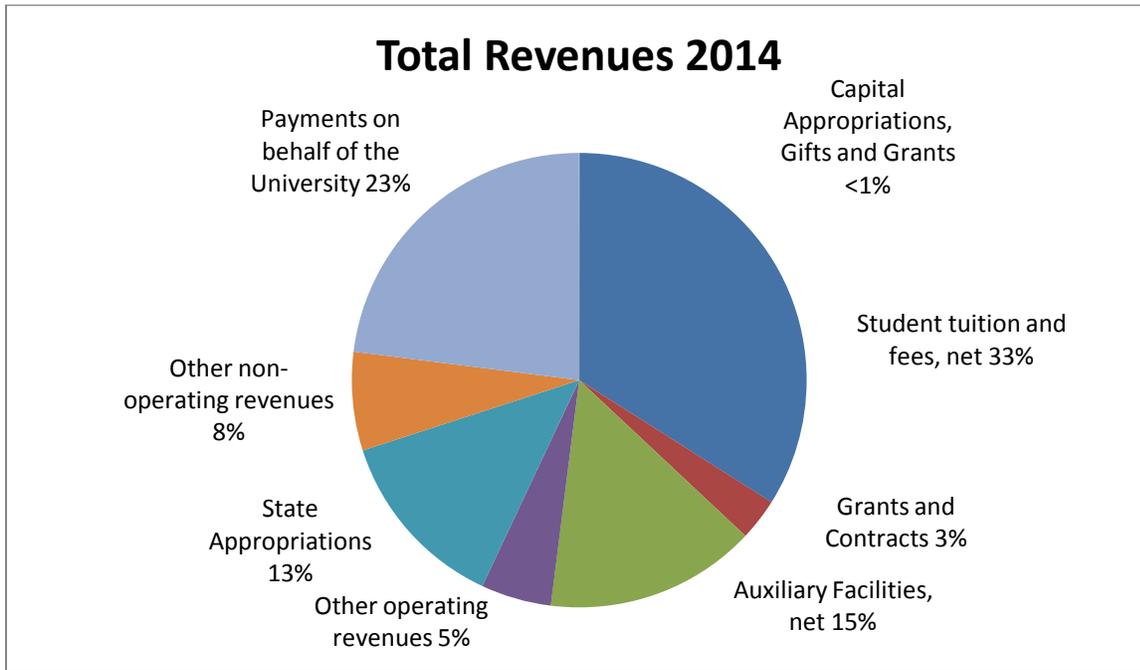
The Primary Reserve Ratio (unrestricted and expendable net position / total expenses) is:

2014	(Thousands of dollars) 2013 (as restated)	2012 (as restated)
230,911 / 550,161 = 41.97%	179,809 / 529,709 = 33.94%	187,350 / 499,180 = 37.53%

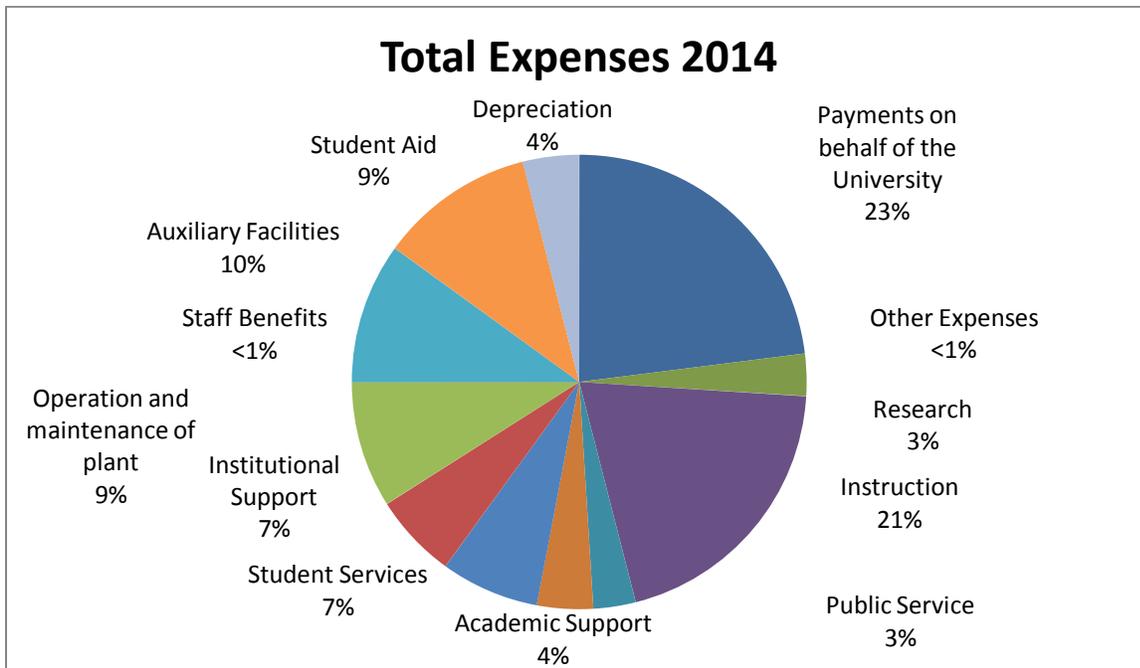
The following summarizes a comparative table of total revenues and total expenses by source/function and percentage:

	2014	Percentage 2013 (as restated)	2012 (as restated)
Revenues by Source			
Student tuition and fees, net	33%	31%	31%
Grants and contracts	3	5	5
Auxiliary facilities, net	15	14	16
Other operating revenues	5	5	5
State appropriations	13	13	15
Payments on behalf of the University	23	24	19
Other non-operating revenues, net	8	7	8
Capital appropriations, gifts and grants	<1	<1	1
Total revenues percentage	100%	100%	100%
Expenses by Function			
Instruction	21%	22%	24%
Research	3	3	3
Public service	3	3	3
Academic support	4	3	3
Student services	7	7	7
Institutional support	7	7	7
Operation and maintenance of plant	9	7	7
Depreciation	4	4	4
Staff Benefits	<1	1	1
Student Aid	9	8	8
Payments on behalf of the University	23	25	20
Auxiliary facilities	10	10	12
Other	<1	<1	1
Total expenses percentage	100%	100%	100%
Expenses by Natural Classification			
Compensation and benefits	63%	65%	63%
Supplies and services	26	24	26
Scholarships	7	7	7
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 Position 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, 2014, 2013 and 2012:

	(Thousands of dollars)		
	2014	2013 (as restated)	2012 (as restated)
	<u> </u>	<u> </u>	<u> </u>
Net cash used in operating activities	\$ (83,749)	\$ (56,274)	\$ (64,996)
Cash flows provided by noncapital financing activities	123,632	119,812	134,334
Cash flows provided by (used in) capital and related financing activities	5,092	(58,234)	(29,719)
Cash flows provided by (used in) investing activities	<u>(59,253)</u>	<u>19,922</u>	<u>(39,927)</u>
Net increase (decrease) in cash and cash equivalents	(14,278)	25,226	(308)
Cash – beginning of year	61,600	36,374	36,682
Cash – end of year	<u>\$ 47,322</u>	<u>\$ 61,600</u>	<u>\$ 36,374</u>

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 Position.

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, 2014, 2013 and 2012.

	(Thousands of dollars)		
	2014	2013	2012
Capital Assets	\$ 827,173	\$ 830,239	\$ 792,097
Accumulated Depreciation	383,966	373,395	352,433
Capital Assets, Net	<u>\$ 443,207</u>	<u>\$ 456,844</u>	<u>\$ 439,664</u>
Depreciation Expense	\$ 24,529	\$ 23,248	\$ 22,183

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

The University primarily uses revenue bonds and 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, including current principal, for fiscal years ended June 30, 2014, 2013 and 2012.

	(Thousands of dollars)		
	2014	2013	2012
Revenue Bonds	\$ 97,985	\$ 100,075	\$ 114,127
Certificates of Participation	56,076	32,821	34,334
Capital Leases	1,002	1,484	1,953

On April 10, 2014, Moody's Investors Service maintained the University's rating of "A3 negative" on its Auxiliary Facilities System Revenue Bonds and Certificates of Participation.

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 expenditures) is:

	(Thousands of dollars)		
2014	2013	2012	
<u>9,995 / 524,534 = 1.91%</u>	<u>22,411 / 517,796 = 4.33%</u>	<u>13,118 / 479,497 = 2.74%</u>	

Economic Outlook

At the end of November 2014, the Comptroller of the State of Illinois issued a report that the State's backlog continued to grow. \$4.034 billion of unpaid General Fund vouchers were held at the end of November, up from \$3.278 at the end of September. There were \$2.404 billion in Fiscal Year 2014 payables on June 30.

The General Assembly appropriated \$73.9 million to the University for operating support in Fiscal Year 2015, which is a minimal change from the 2014 State appropriations.

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 POSITION
AS OF JUNE 30,**

	2014		2013	
			as restated	
	<u>University</u>	<u>Foundation</u>	<u>University</u>	<u>Foundation</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 39,824,515	\$ 10,187,385	\$ 47,873,949	\$ 9,046,935
Restricted cash and cash equivalents	7,497,268	-	13,725,653	-
Investments	20,362,000	-	17,189,770	-
Investments Restricted	11,947,435	-	-	-
Accrued interest receivable	476,846	-	623,238	-
Accrued interest receivable restricted	2,684	-	-	-
Accounts receivable, net	14,123,882	896,574	13,538,610	16,604
Student loans receivable, net	1,038,170	-	1,117,374	-
Pledges receivable, net	-	835,274	-	1,701,053
Appropriations receivable from State	18,260,048	-	22,218,746	-
Inventories	2,764,499	-	2,721,334	-
Prepaid expenses, deposits and other	2,574,519	-	1,741,494	-
	<u>118,871,866</u>	<u>11,919,233</u>	<u>120,750,168</u>	<u>10,764,592</u>
Noncurrent Assets:				
Restricted cash and cash equivalents	-	1,812,832	-	818,695
Investments	163,975,141	109,647,409	118,942,690	19,936,161
Investments Restricted	2,146,353	-	-	-
Endowment investments	-	-	-	75,723,420
Student loans receivable, net	7,577,764	-	7,719,064	-
Pledges receivable, net	-	1,349,362	-	1,461,752
Debt issuance costs	561,460	-	579,239	-
Capital assets not depreciated	27,094,450	980,000	53,093,818	980,000
Capital assets, net of depreciation	416,112,556	7,508,200	403,750,178	7,780,752
Other noncurrent assets	900,000	4,364,185	1,200,000	1,391,373
	<u>618,367,724</u>	<u>125,661,988</u>	<u>585,284,989</u>	<u>108,092,153</u>
Total noncurrent assets	<u>618,367,724</u>	<u>125,661,988</u>	<u>585,284,989</u>	<u>108,092,153</u>
Total assets	<u>737,239,590</u>	<u>137,581,221</u>	<u>706,035,157</u>	<u>118,856,745</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	20,151,199	562,793	23,349,998	413,858
Obligations under capital leases	494,561	-	481,664	-
Assets held in custody for others and deposits	8,093,064	-	6,954,625	-
Unearned revenue	10,239,788	-	7,154,939	-
Certificates of participation	2,558,545	-	1,553,238	-
Revenue bonds payable	6,908,055	-	2,688,574	-
Accrued compensated absences	2,022,159	-	1,880,264	-
Other	-	409,216	-	400,763
	<u>50,467,371</u>	<u>972,009</u>	<u>44,063,302</u>	<u>814,621</u>
Total current liabilities	<u>50,467,371</u>	<u>972,009</u>	<u>44,063,302</u>	<u>814,621</u>
Noncurrent Liabilities:				
Assets held in custody for others and deposits	19,090	-	23,033	-
Certificates of participation	53,517,563	-	31,267,532	-
Revenue bonds payable	91,076,578	-	97,386,844	-
Accrued compensated absences	14,096,647	-	14,809,488	-
Obligations under capital leases	507,804	-	1,002,365	-
Other	-	3,941,601	-	4,299,160
	<u>159,217,682</u>	<u>3,941,601</u>	<u>144,489,262</u>	<u>4,299,160</u>
Total noncurrent liabilities	<u>159,217,682</u>	<u>3,941,601</u>	<u>144,489,262</u>	<u>4,299,160</u>
Total liabilities	<u>209,685,053</u>	<u>4,913,610</u>	<u>188,552,564</u>	<u>5,113,781</u>
NET POSITION				
Net investment in capital assets	296,643,533	4,236,059	337,673,461	4,281,258
Restricted:				
Nonexpendable	-	68,094,396	-	76,402,866
Expendable	9,539,186	50,879,242	9,523,449	27,021,822
Unrestricted	221,371,818	9,457,914	170,285,683	6,037,018
Total net position	<u>\$ 527,554,537</u>	<u>\$ 132,667,611</u>	<u>\$ 517,482,593</u>	<u>\$ 113,742,964</u>

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

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

	2014		2013 as restated	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees, net	\$ 180,469,279	\$ -	\$ 174,093,810	\$ -
Federal grants and contracts	12,192,971	-	20,083,062	-
State and local grants and contracts	2,683,647	2,291,329	3,655,741	2,134,917
Nongovernmental grants and contracts	2,344,371	-	3,230,104	-
Sales and services of educational activities	2,866,153	-	2,752,015	-
Auxiliary enterprises:				
Auxiliary facilities, net	83,179,349	-	81,205,250	-
Other operating revenues	22,746,648	649,094	25,164,465	597,776
Total operating revenues	306,482,418	2,940,423	310,184,447	2,732,693
OPERATING EXPENSES				
Educational and General:				
Instruction	113,309,443	-	116,826,820	-
Research	14,766,746	-	14,516,214	-
Public service	14,210,276	-	14,695,460	-
Academic support	19,942,550	-	15,150,598	-
Student services	38,757,524	-	38,376,694	-
Institutional support	35,453,411	-	37,207,027	-
Operations	-	3,307,774	-	3,172,405
Operation and maintenance of plant	48,728,240	-	33,549,702	-
Depreciation	24,529,019	421,513	23,247,668	421,021
Staff benefits	1,756,425	-	2,265,327	-
Student aid	47,116,143	3,017,428	42,340,787	2,929,838
Payments on behalf of the University	127,236,673	-	130,780,750	-
Auxiliary facilities:				
Student housing, activity facilities and parking	56,645,114	-	53,263,130	-
Other operating expenditures	1,819,435	167,555	2,236,549	328,394
Expenditures on behalf of the University	-	4,274,622	-	4,635,193
Total operating expenses	544,270,999	11,188,892	524,456,726	11,486,851
Operating loss	(237,788,581)	(8,248,469)	(214,272,279)	(8,754,158)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	74,089,200	-	74,082,400	-
Payments on behalf of the University - State	127,236,673	-	130,780,750	-
Payments on behalf of the University - Foundation	1,453,205	-	1,726,723	-
Laboratory Schools	8,618,042	-	8,581,839	-
Gifts and donations	152,182	6,173,555	478,067	8,827,711
Investment income (loss), net of investment expenses	2,904,840	16,490,658	(239,477)	9,844,137
Interest expense	(5,890,064)	(191,351)	(5,013,434)	(196,288)
Other nonoperating revenues	37,055,165	687,739	35,520,127	544,132
Other nonoperating expenses	-	(1,027,828)	-	(1,739,181)
Net nonoperating revenues	245,619,243	22,132,773	245,916,995	17,280,511
Income before capital items	7,830,662	13,884,304	31,644,716	8,526,353
Capital appropriations	890,862	-	1,058,267	-
Capital grants and gifts	1,350,420	-	1,466,442	-
Additions to permanent endowments	-	1,464,511	-	3,258,226
Total capital items	2,241,282	1,464,511	2,524,709	3,258,226
Increase in net position	10,071,944	15,348,815	34,169,425	11,784,579
NET POSITION				
Net position, beginning of year, as previously reported	517,482,593	113,742,964	484,967,014	101,958,385
Cumulative effect of change to FASB	-	3,575,832	-	-
Cumulative effect of changes in accounting principle	-	-	(1,653,846)	-
Net position, beginning of year, as restated	517,482,593	117,318,796	483,313,168	101,958,385
Net position, end of year	\$ 527,554,537	\$ 132,667,611	\$ 517,482,593	\$ 113,742,964

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

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

	<u>2014</u>	<u>2013</u>
	<u>University</u>	<u>as restated University</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 186,916,123	\$ 181,916,861
Grants and contracts	20,744,599	27,720,336
Payments to suppliers	(138,852,413)	(122,816,861)
Payments to employees for salaries and benefits	(223,799,716)	(224,521,732)
Payments for scholarships and fellowships	(53,543,396)	(49,331,648)
Student loans issued	(1,416,473)	(939,436)
Collection of student loans	1,600,742	1,243,896
Auxiliary enterprise charges:		
Auxiliary Facilities, net	81,043,663	81,193,656
Sales and service of educational activities	2,866,153	2,752,015
Payments to internal service departments	(17,142,940)	(17,704,062)
Internal service departments receipts	17,142,940	17,704,062
Agency custodial receipts	128,376,888	129,767,277
Agency custodial disbursements	(127,424,054)	(126,152,971)
Other receipts	39,739,155	42,894,287
	<u>(83,748,729)</u>	<u>(56,274,320)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	78,047,898	75,527,828
Gifts and grants for other than capital purposes	1,298	362
Student direct lending receipts	114,407,498	114,485,294
Student direct lending disbursements	(114,407,498)	(114,485,294)
Other receipts	37,055,165	35,520,124
Laboratory schools	8,527,319	8,763,723
	<u>123,631,680</u>	<u>119,812,037</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt:	24,571,835	-
Gifts and grants for capital purposes	3,665,009	(1,463,528)
Purchases of capital assets	(13,150,111)	(34,359,700)
Principal paid on capital debt and leases	(4,791,664)	(16,574,103)
Interest paid on capital debt and leases	(5,203,026)	(5,836,583)
	<u>5,092,043</u>	<u>(58,233,914)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	17,000,000	41,483,000
Interest on investments	3,877,077	4,046,024
Purchase of investments	(80,129,890)	(25,607,309)
	<u>(59,252,813)</u>	<u>19,921,715</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Balance, beginning of year	(14,277,819)	25,225,518
	<u>61,599,602</u>	<u>36,374,084</u>
Balance, end of year	\$ <u><u>47,321,783</u></u>	\$ <u><u>61,599,602</u></u>

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

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

	<u>2014</u>	<u>2013</u>
	<u>University</u>	<u>as restated University</u>
RECONCILIATION		
Operating loss	\$ (237,788,581)	\$ (214,272,279)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	24,529,019	23,247,668
Payments on behalf of the University	128,689,878	132,507,473
Donated equipment below capitalization threshold	150,885	477,705
Changes in assets and liabilities:		
Accounts receivables, net	(3,621,429)	844,307
Student loans receivable, net	220,504	301,167
Inventories	(43,165)	436,527
Other assets	(531,787)	599,016
Accounts payable and accrued liabilities	997,548	(2,362,868)
Unearned revenue	3,084,849	(706,164)
Assets held in custody for others and deposits	1,134,496	3,225,297
Compensated absences	<u>(570,946)</u>	<u>(572,169)</u>
Net cash used in operating activities	\$ <u>(83,748,729)</u>	\$ <u>(56,274,320)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Payments on behalf of the University	\$ 128,689,878	\$ 132,507,473
Donated capital assets	1,350,420	1,466,442
Capital appropriation acquisitions	890,862	1,058,267
Bond accretion	474,554	539,803
Donated equipment below capitalization threshold	150,885	338,129
Tuition and fee waivers where services were provided	9,053,900	8,087,800
Construction costs in accounts payable	1,874,787	6,157,118
Investment income unrealized loss and amortization	(828,581)	(3,377,175)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and cash equivalents classified as current assets	\$ 39,824,515	\$ 47,873,949
Restricted cash and cash equivalents classified as current assets	<u>7,497,268</u>	<u>13,725,653</u>
	\$ <u>47,321,783</u>	\$ <u>61,599,602</u>

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

The 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 accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary government) and its discretely presented 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. 61.

The Illinois State University Foundation (Foundation) is a University Related Organization as defined under University Guidelines adopted by the State of Illinois' Legislative Audit Commission in 1982. The 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 is a component unit of the University, as the Foundation is fiscally dependent on the University and has the potential to provide specific financial benefits to the University.

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 LLCs. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consists of the executive officers of the Foundation. This LLC activity is included as part of the Foundation's financial statements.

The University is a component unit of the State of Illinois for financial reporting purposes. The University is a component unit of the State of Illinois, as the Governor appoints a majority of the Board of Trustees, is able to impose its will on the University, and the potential exists for the University to provide the State specific financial benefits or impose specific financial burdens on the State. The financial balances and activities included in these financial statements are also included in the State of Illinois' Comprehensive Annual Financial Report. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871 or assessing its website at www.ioc.state.il.us.

Financial Statements Presentation: The University's financial statements include the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position 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. 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement No. 66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62.*

Effective for periods beginning after December 15, 2012, GASB Statement No. 65 requires debt issuance costs, excluding prepaid insurance costs, to be expensed in the period incurred. This treatment is to be applied retroactively for all costs unamortized. The effect of the change was to reduce beginning net position as follows:

	2013
Net position, beginning of year, as originally reported	\$484,967,014
Effect of change in accounting principle	(1,653,846)
Net position, beginning of year as restated	<u>\$483,313,168</u>

The Foundation determined that it met the criteria to report its statement of net position, changes in net position and cash flows on the basis of standards promulgated by the Financial Accounting Standards Board rather than the Governmental Accounting Standards Board. As a result, the July 1, 2013, net position were converted to Financial Accounting Standards from Governmental Accounting Standards; this conversion included the following adjustment to net position:

	2014
Net position, beginning of year, as originally reported	\$113,742,964
Effect of change in accounting standard	3,575,832
Net position, beginning of year as restated	<u>\$117,318,796</u>

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 Foundation follows FASB standards for financial statement presentation. Consequently, reclassifications have been made to convert their financial statements to the GASB format for inclusion in the Foundation column of the financial statements and disclosures.

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 Position.

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.

Loans to Students: The University makes loans to students under various Federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

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: 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 2014 and 2013, the University capitalized \$471,120 and \$1,355,959 net interest expense for construction projects, respectively.

Unearned Revenue: Unearned 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. Unearned 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 fiscal 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 Position. The expense is recorded in the Statements of Revenues, Expenses and Changes in Net Position as a component of operating expenses.

Employment Contracts for Certain Academic Personnel: Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was \$5,057,916 and \$5,206,902 at June 30, 2014 and 2013, 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 Position: The University's net position is classified as follows:

Net investment in capital assets: 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 net investment in capital assets.

Restricted net position - nonexpendable: Nonexpendable restricted net position 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 position - expendable: Restricted expendable net position 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 position: Unrestricted net position 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.

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 certain student financial aid classified as nonoperating revenues 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. Other significant revenues that are expected to be recurring, including Pell grants, Federal Supplemental Educational Opportunity grants, State Monetary Award Program grants and State appropriations, are considered nonoperating revenues under GASB Statement No. 34.

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 Position using the National Association of College and University Business Officers' Advisory Report 2000-05's 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 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.

	2014	2013
Student tuition and fees	\$ 242,195,211	\$ 233,094,566
Less scholarship discounts and allowances	(60,623,283)	(58,096,847)
Less discounts for employee waivers	(1,102,649)	(903,909)
Net student tuition and fees	<u>\$ 180,469,279</u>	<u>\$ 174,093,810</u>
Auxiliary facilities	\$ 95,355,404	\$ 93,045,415
Less scholarship discounts and allowances	(12,176,055)	(11,840,165)
Net auxiliary facilities	<u>\$ 83,179,349</u>	<u>\$ 81,205,250</u>

Use of Estimates in Preparing Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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, 2014 and 2013, the University's bank balances were \$30,451,827 and \$22,515,813, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral held by the pledging financial instruction in the University's name. The University has no exposure to foreign currency risk.

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 \$1,875,879 and \$1,068,695 at June 30, 2014 and 2013, respectively. Bank balances of \$10,108,600 at June 30, 2014, and \$9,305,411 at June 30, 2013, were invested in investment sweep funds secured by U.S. government obligations.

DEPOSITS:	2014		2013	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
<u>University</u>				
Bank Checking Funds	<u>\$ 30,451,827</u>	<u>\$ 27,931,627</u>	<u>\$ 22,515,813</u>	<u>\$ 16,291,600</u>
<u>Foundation</u>				
Cash in bank	<u>\$ 11,984,479</u>	<u>\$ 12,000,217</u>	<u>\$ 10,144,495</u>	<u>\$ 9,865,630</u>

Reconciliation of cash and cash equivalents to deposits:

	2014	
	University	Foundation
Cash and cash equivalents		
Current	\$ 47,321,783	\$ 10,187,385
Noncurrent	-	1,812,832
Total cash and cash equivalents	<u>\$ 47,321,783</u>	<u>\$ 12,000,217</u>
Less: Vault cash and change funds	(230,146)	-
Less: Money market mutual funds classified as investments for purposes of categorization	<u>(19,160,010)</u>	<u>-</u>
Carrying amount of deposits	<u>\$ 27,931,627</u>	<u>\$ 12,000,217</u>
	2013	
	University	Foundation
Cash and cash equivalents		
Current	\$ 61,599,602	\$ 9,046,935
Noncurrent	-	818,695
Total cash and cash equivalents	<u>\$ 61,599,602</u>	<u>\$ 9,865,630</u>
Less: Vault cash and change funds	(220,706)	-
Less: Money market mutual funds classified as investments for purposes of categorization	<u>(45,087,296)</u>	<u>-</u>
Carrying amount of deposits	<u>\$ 16,291,600</u>	<u>\$ 9,865,630</u>

Note 3. Investments

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

UNIVERSITY INVESTMENTS

As of June 30, 2014, 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	\$ 65,295,880	\$ 2,749,478	\$ 62,546,402	AAA
Federal Farm Credit Bank	23,091,530	-	23,091,530	AA+/AAA
Federal National Mortgage Association	5,048,550	5,048,550	-	AA+/AAA
Federal Home Loan Bank	104,994,969	24,511,407	80,483,562	AA+/AAA
Illinois Funds Investment Pool	11,662,733	11,662,733	-	AAAm
Bank Money Market Funds	7,497,277	7,497,277	-	AAAm/Aaa
Total University	<u>\$ 217,590,939</u>	<u>\$ 51,469,445</u>	<u>\$ 166,121,494</u>	

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

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (10.6%) and Federal Home Loan Bank (48.2%).

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.

The Illinois Funds is an external investment pool administered by the State Treasurer. The fair value of the University's investment fund is the same as the value of pool shares. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of the Public Funds Investment Act (30 ILCS 235), the State Treasurer Act (15 ILCS 505/17), and the Deposit of State Moneys Act (15 ILCS 520/22.5).

As of June 30, 2013, 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	\$ 36,268,000	\$ 5,039,050	\$ 31,228,950	AAA
Federal Farm Credit Bank	28,503,770	12,150,720	16,353,050	AA+/AAA
Federal National Mortgage Association	5,162,300	-	5,162,300	AA+/AAA
Federal Home Loan Bank	66,198,390	-	66,198,390	AA+/AAA
Illinois Funds Investment Pool	31,361,213	31,361,213	-	AAAm
Bank Money Market Funds	13,726,083	13,726,083	-	Not Rated
Total University	<u>\$ 181,219,756</u>	<u>\$ 62,277,066</u>	<u>\$ 118,942,690</u>	

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 (15.7%) and Federal Home Loan Bank (36.5%).

FOUNDATION INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2014 and 2013 is as follows:

	2014	2013
U.S. Treasury Notes	\$ 42,137	\$ 47,411
Common Stock	426,090	355,582
Mutual Funds-investing in:		
Stocks	58,080,728	49,154,631
Bonds	8,455,864	9,683,714
Commodities	1,566,227	1,257,495
International	70,877	54,893
U.S. Government Securities	-	132,331
Real Assets Marketable Funds	9,400,616	6,766,855
Hedged and Alternative Funds	31,004,239	27,606,038
Real Estate Investment	600,631	600,631
	<u>\$ 109,647,409</u>	<u>\$ 95,659,581</u>
Total Foundation		

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, 2014, the Foundation had \$17,440,736 in 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, 2014:

	Global Equity
Euro	\$ 3,827,804
British Pound	3,487,602
Japanese Yen	3,069,351
Other (individually below 5% of total)	<u>7,055,979</u>
Total	<u>\$ 17,440,736</u>

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, 2014, the Foundation had the following investments exposed to interest rate risk and credit risk:

	<u>Fair Market Value</u>	<u>Weighted Average Life</u>	<u>S&P Rating</u>
U.S. Treasury Notes	\$ 42,137	1.9 years	AAA
Bond Mutual Funds	8,455,864	7.0 years	A+
Commodities Mutual Funds	1,566,227	0.93 year	A

As of June 30, 2013, the Foundation had the following investments exposed to interest rate risk and credit risk:

	<u>Fair Market Value</u>	<u>Weighted Average Life</u>	<u>S&P Rating</u>
U.S. Treasury Notes	\$ 47,411	2.5 years	AAA
Bond Mutual Funds	9,683,714	7.7 years	AA-
Commodities Mutual Funds	1,257,495	0.7 year	AA-
U.S. Government Funds	132,331	0.1 year	AAA

INVESTMENTS CONSIST OF THE FOLLOWING:

	<u>2014</u>		<u>2013</u>	
	<u>University</u>	<u>Foundation</u>	<u>University</u>	<u>Foundation</u>
Current:				
Investments	\$ 32,309,435	\$ -	\$ 17,189,770	\$ -
Noncurrent:				
Investments	166,121,494	109,647,409	118,942,690	19,936,161
Endowment investments	-	-	-	75,723,420
	<u>198,430,929</u>	<u>109,647,409</u>	<u>136,132,460</u>	<u>95,659,581</u>
Money market mutual funds classified as cash and cash equivalents	<u>19,160,010</u>	<u>-</u>	<u>45,087,296</u>	<u>-</u>
Total	<u>\$ 217,590,939</u>	<u>\$ 109,647,409</u>	<u>\$ 181,219,756</u>	<u>\$ 95,659,581</u>

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

Foundation policy states that assets are to be invested in a diversified portfolio of equity, fixed income and alternative strategies. 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%; fixed income investments have an asset allocation range 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 from 5% to 28% with a target weight of 18%.

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Student tuition and fees	\$ 6,040,645	\$ 5,744,357
Auxiliary facilities and other operating activities	4,790,106	2,539,428
Other	641,265	594,679
Federal, state and private grants and contracts	<u>4,752,447</u>	<u>6,728,766</u>
Sub-total	16,224,463	15,607,230
Less allowance for uncollectible accounts	<u>(2,100,581)</u>	<u>(2,068,620)</u>
Net Accounts Receivable	<u>\$ 14,123,882</u>	<u>\$ 13,538,610</u>

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Perkins student loan fund	\$ 9,116,619	\$ 9,333,936
Nursing loan fund	451,850	418,825
University loan fund	<u>32,249</u>	<u>38,461</u>
Sub-total	9,600,718	9,791,222
Less allowance for uncollectible accounts	<u>(984,784)</u>	<u>(954,784)</u>
Net Student Loans Receivable	<u>\$ 8,615,934</u>	<u>\$ 8,836,438</u>
Estimated current portion	\$ 1,038,170	\$ 1,117,374
Estimated noncurrent portion	<u>7,577,764</u>	<u>7,719,064</u>
Total	<u>\$ 8,615,934</u>	<u>\$ 8,836,438</u>

Note 6. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Pledges to be collected	\$ 2,400,503	\$ 3,464,533
Less discount for the time value of money	(35,829)	(41,888)
Less allowance for uncollectible accounts	<u>(180,038)</u>	<u>(259,840)</u>
Net Foundation Pledges Receivable	<u>\$ 2,184,636</u>	<u>\$ 3,162,805</u>
Estimated current portion	\$ 835,274	\$ 1,701,053
Estimated noncurrent portion	<u>1,349,362</u>	<u>1,461,752</u>
Total	<u>\$ 2,184,636</u>	<u>\$ 3,162,805</u>

Note 7. Unearned Revenue

Unearned revenue consists of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Prepaid tuition and fees	\$ 5,737,872	\$ 5,542,991
Auxiliary facilities	774,129	675,078
Grants and contracts	3,638,998	854,917
Other	<u>88,789</u>	<u>81,953</u>
Unearned Revenue	<u>\$ 10,239,788</u>	<u>\$ 7,154,939</u>

Note 8. Capital Assets

Capital assets activity for the year ended June 30, 2014, is summarized as follows:

University	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 14,489,419	\$ 774,356	\$ -	\$ -	\$ 15,263,775
Construction in progress	38,604,399	14,637,964	(13,890,998)	(27,520,690)	11,830,675
Total capital assets not being depreciated	<u>\$ 53,093,818</u>	<u>\$ 15,412,320</u>	<u>\$ (13,890,998)</u>	<u>\$ (27,520,690)</u>	<u>\$ 27,094,450</u>
Capital assets being depreciated:					
Land Improvements	\$ 35,276,456	\$ -	\$ (263,256)	\$ -	\$ 35,013,200
Infrastructure	12,682,559	-	-	464,424	13,146,983
Buildings	549,388,411	1,846,667	(12,107,057)	27,056,266	566,184,287
Equipment	93,324,809	4,365,829	(2,454,945)	-	95,235,693
Library Materials	86,473,187	4,025,656	-	-	90,498,843
Total capital assets being depreciated	<u>\$ 777,145,422</u>	<u>\$ 10,238,152</u>	<u>\$ (14,825,258)</u>	<u>\$ 27,520,690</u>	<u>\$ 800,079,006</u>
Less Accumulated Depreciation for:					
Land Improvements	\$ 12,589,734	\$ 1,027,865	\$ (173,310)	\$ -	\$ 13,444,289
Infrastructure	7,001,886	295,023	-	-	7,296,909
Buildings	215,743,903	13,055,224	(11,609,474)	-	217,189,653
Equipment	70,403,700	6,465,445	(2,175,029)	-	74,694,116
Library Materials	67,656,021	3,685,462	-	-	71,341,483
Total Accumulated Depreciation	<u>\$ 373,395,244</u>	<u>\$ 24,529,019</u>	<u>\$ (13,957,813)</u>	<u>\$ -</u>	<u>\$ 383,966,450</u>
Total capital assets being depreciated, net	<u>\$ 403,750,178</u>	<u>\$ (14,290,867)</u>	<u>\$ (867,445)</u>	<u>\$ 27,520,690</u>	<u>\$ 416,112,556</u>
Capital assets, net	<u>\$ 456,843,996</u>	<u>\$ 1,121,453</u>	<u>\$ (14,758,443)</u>	<u>\$ -</u>	<u>\$ 443,207,006</u>
Foundation					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	\$ 980,000	\$ -	\$ -	\$ -	\$ 980,000
Capital assets being depreciated	10,593,737	148,961	-	-	10,742,698
Less accumulated depreciation	2,812,985	421,513	-	-	3,234,498
Total capital assets being depreciated	<u>\$ 7,780,752</u>	<u>\$ (272,552)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,508,200</u>
Capital assets, net	<u>\$ 8,760,752</u>	<u>\$ (272,552)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,488,200</u>

Capital assets activity for the year ended June 30, 2013, is summarized as follows:

University	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 14,489,419	\$ -	\$ -	\$ -	\$ 14,489,419
Construction in progress	44,834,546	31,717,223	-	(37,947,370)	38,604,399
Total capital assets not being depreciated	<u>\$ 59,323,965</u>	<u>\$ 31,717,223</u>	<u>\$ -</u>	<u>\$ (37,947,370)</u>	<u>\$ 53,093,818</u>
Capital assets being depreciated:					
Land Improvements	\$ 33,313,331	\$ 7,875	\$ -	\$ 1,955,250	\$ 35,276,456
Infrastructure	12,682,559	-	-	-	12,682,559
Buildings	512,059,497	1,336,794	-	35,992,120	549,388,411
Equipment	92,401,875	3,268,689	(2,345,755)	-	93,324,809
Library Materials	82,316,737	4,156,450	-	-	86,473,187
Total capital assets being depreciated	<u>\$ 732,773,999</u>	<u>\$ 8,769,808</u>	<u>\$ (2,345,755)</u>	<u>\$ 37,947,370</u>	<u>\$ 777,145,422</u>
Less Accumulated Depreciation for:					
Land Improvements	\$ 11,555,524	\$ 1,034,210	\$ -	\$ -	\$ 12,589,734
Infrastructure	6,693,758	308,128	-	-	7,001,886
Buildings	204,006,436	11,737,467	-	-	215,743,903
Equipment	65,753,923	6,935,685	(2,285,908)	-	70,403,700
Library Materials	64,423,843	3,232,178	-	-	67,656,021
Total Accumulated Depreciation	<u>\$ 352,433,484</u>	<u>\$ 23,247,668</u>	<u>\$ (2,285,908)</u>	<u>\$ -</u>	<u>\$ 373,395,244</u>
Total capital assets being depreciated, net	<u>\$ 380,340,515</u>	<u>\$ (14,477,860)</u>	<u>\$ (59,847)</u>	<u>\$ 37,947,370</u>	<u>\$ 403,750,178</u>
Capital assets, net	<u>\$ 439,664,480</u>	<u>\$ 17,239,363</u>	<u>\$ (59,847)</u>	<u>\$ -</u>	<u>\$ 456,843,996</u>
Foundation	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	\$ 980,000	\$ -	\$ -	\$ -	\$ 980,000
Capital assets being depreciated	10,593,737	-	-	-	10,593,737
Less accumulated depreciation	<u>2,391,964</u>	<u>421,021</u>	<u>-</u>	<u>-</u>	<u>2,812,985</u>
Total capital assets being depreciated	<u>\$ 8,201,773</u>	<u>\$ (421,021)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,780,752</u>
Capital assets, net	<u>\$ 9,181,773</u>	<u>\$ (421,021)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,760,752</u>

Note 9. Noncurrent Liabilities

UNIVERSITY NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	\$ 16,689,752	\$ 1,796,355	\$ (2,367,301)	\$ 16,118,806
Certificates of participation	32,820,770	24,807,365	(1,552,027)	56,076,108
Revenue bonds payable	100,075,418	653,806	(2,744,591)	97,984,633
Total	<u>\$ 149,585,940</u>	<u>\$ 27,257,526</u>	<u>\$ (6,663,919)</u>	<u>\$ 170,179,547</u>
Current portion				
Accrued compensated absences	\$ 1,880,264			\$ 2,022,159
Certificates of participation	1,553,238			2,558,545
Revenue bonds payable, net	2,688,574			6,908,055
Total current portion	<u>\$ 6,122,076</u>			<u>\$ 11,488,759</u>
Noncurrent portion				
Accrued compensated absences	\$ 14,809,488			\$ 14,096,647
Certificates of participation	31,267,532			53,517,563
Revenue bonds payable, net	97,386,844			91,076,578
Total noncurrent portion	<u>\$ 143,463,864</u>			<u>\$ 158,690,788</u>

Noncurrent liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	\$ 17,261,922	\$ 1,786,518	\$ (2,358,688)	\$ 16,689,752
Certificates of participation	34,334,008	-	(1,513,238)	32,820,770
Revenue bonds payable	114,127,378	635,173	(14,687,133)	100,075,418
Total	<u>\$ 165,723,308</u>	<u>\$ 2,421,691</u>	<u>\$ (18,559,059)</u>	<u>\$ 149,585,940</u>
Current portion				
Accrued compensated absences	\$ 1,727,659			\$ 1,880,264
Certificates of participation	1,513,238			1,553,238
Revenue bonds payable, net	6,367,013			2,688,574
Total current portion	<u>\$ 9,607,910</u>			<u>\$ 6,122,076</u>
Noncurrent portion				
Accrued compensated absences	\$ 15,534,263			\$ 14,809,488
Certificates of participation	32,820,770			31,267,532
Revenue bonds payable, net	107,760,365			97,386,844
Total noncurrent portion	<u>\$ 156,115,398</u>			<u>\$ 143,463,864</u>

Revenue bonds payable at June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Revenue Bonds, Series 1996:		
Capital Appreciation Bonds	\$ 10,626,126	\$ 11,307,320
Revenue Bonds, Series 2006:		
New Project Bonds	38,983,937	38,945,664
Revenue Bonds, Series 2008:		
New Project Bonds	27,100,000	28,020,000
Revenue Bonds, Series 2012:		
New Project Bonds	18,724,570	18,752,434
New Project Bonds, Taxable	<u>2,550,000</u>	<u>3,050,000</u>
Total revenue bonds payable	<u>\$ 97,984,633</u>	<u>\$ 100,075,418</u>

Maturities and interest requirements on revenue bonds payable at June 30, 2014, are as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 7,160,000	\$ 3,683,831	\$ 10,843,831
2016	7,195,000	3,644,031	10,839,031
2017	3,950,000	3,599,571	7,549,571
2018	4,070,000	3,463,911	7,533,911
2019	<u>4,215,000</u>	<u>3,314,322</u>	<u>7,529,322</u>
Sub-total	26,590,000	17,705,666	44,295,666
2020-2024	23,750,000	13,905,319	37,655,319
2025-2029	29,260,000	8,375,396	37,635,396
2030-2033	<u>19,325,000</u>	<u>1,834,680</u>	<u>21,159,680</u>
Sub-total	98,925,000	<u>\$ 41,821,061</u>	<u>\$ 140,746,061</u>
Additions (Deductions):			
Unaccrued Appreciation	(793,874)		
Unamortized Discounts	(641,063)		
Unamortized Premiums	494,570		
Total	<u>\$ 97,984,633</u>		

The Series 1996, 2006, 2008 and 2012 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 and service fees charged to students.

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 matured on April 1, 2013. 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 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 matured on April 1, 2013.

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.

On May 16, 2012, \$21,280,000 in Revenue Bonds, Series 2012 were issued. The Series 2012 Bonds consisted of \$18,230,000 of Series 2012A Bonds and \$3,050,000 Series 2012B (taxable) Bonds. The Series 2012A Bonds mature beginning April 1, 2018, and continuing through April 1, 2032. The Series 2012A Bonds bear interest from 3.00% to 4.00%. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 2012. The Series 2012B Bonds mature beginning April 1, 2014, and continuing through April 1, 2018. The Series 2012B Bonds bear interest from 1.30% to 2.40%. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 2012.

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.

PLEGGED REVENUES & 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 \$140,746,062 of future revenues is pledged through 2033. Debt service to pledged revenues for the current year is 3.561%.

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 Position. The defeased debt outstanding for the years ended June 30, 2014 and 2013 was \$0 and \$4,095,000, 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, 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.

On May 17, 2011, \$15,000,000 in Certificates of Participation were issued. The Series 2011 Certificates of Participation mature beginning April 1, 2012, continuing through April 1, 2032. These Certificates of Participation bear interest from 4.00% to 5.375%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2011.

On May 14, 2014, \$25,000,000 in Certificates of Participation were issued. The Series 2014 Certificates of Participation consisted of \$9,200,000 of Series 2014A-1 Certificates of Participation and \$15,800,000 Series 2014A-2 Certificates of Participation. The Series 2014A-1 Certificates of Participation mature beginning April 1, 2015, and continuing through April 1, 2023. The Series 2014A-1 Certificates of Participation bear interest at 2.29%. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 2014. The Series 2014A-2 Certificates of Participation mature beginning April 1, 2024, and continuing through April 1, 2034. The Series 2014A-2 Certificates of Participation bear interest from 3.625% to 4.125%. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 2014.

Maturities and interest requirements on certificates of participation at June 30, 2014, are as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,570,000	\$ 2,123,528	\$ 4,693,528
2016	2,645,000	2,139,455	4,784,455
2017	2,710,000	2,050,242	4,760,242
2018	2,795,000	1,958,600	4,753,600
2019	<u>2,885,000</u>	<u>1,863,729</u>	<u>4,748,729</u>
Sub-total	13,605,000	10,135,554	23,740,554
2020-2024	16,150,000	7,715,114	23,865,114
2025-2029	16,430,000	4,173,226	20,603,226
2030-2034	<u>10,095,000</u>	<u>1,243,781</u>	<u>11,338,781</u>
Sub-total	56,280,000	<u>\$ 23,267,675</u>	<u>\$ 79,547,675</u>
Additions (Deductions):			
Unamortized Discounts	(256,082)		
Unamortized Premiums	<u>52,190</u>		
Total	<u>\$ 56,076,108</u>		

ACCRUED COMPENSATED ABSENCES

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

	<u>Vacation</u>	<u>Sick</u>	<u>Total</u>
2014	\$ 11,696,955	\$ 4,421,851	\$ 16,118,806
2013	\$ 11,500,212	\$ 5,189,540	\$ 16,689,752

FOUNDATION NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	\$ 220,429	\$ 85,066	\$ (55,523)	\$ 249,972
Unearned rent	1,500,000	-	(300,000)	1,200,000
Contract-for-deed payable	2,979,494	-	(78,649)	2,900,845
	<u>\$ 4,699,923</u>	<u>\$ 85,066</u>	<u>\$ (434,172)</u>	<u>\$ 4,350,817</u>
Total				
Total	<u>\$ 4,699,923</u>	<u>\$ 85,066</u>	<u>\$ (434,172)</u>	<u>\$ 4,350,817</u>
Current portion				
Beneficiary payments	\$ 22,115			\$ 25,300
Unearned rent	300,000			300,000
Contract-for-deed payable	78,648			83,916
	<u>\$ 400,763</u>			<u>\$ 409,216</u>
Total current portion				
Total current portion	<u>\$ 400,763</u>			<u>\$ 409,216</u>
Noncurrent portion				
Beneficiary payments	\$ 198,314			\$ 224,672
Unearned rent	1,200,000			900,000
Contract-for-deed payable	2,900,846			2,816,929
	<u>\$ 4,299,160</u>			<u>\$ 3,941,601</u>
Total noncurrent portion				
Total noncurrent portion	<u>\$ 4,299,160</u>			<u>\$ 3,941,601</u>

Noncurrent liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	\$ 225,084	\$ 2,331	\$ (6,986)	\$ 220,429
Unearned rent	1,800,000	-	(300,000)	1,500,000
Contract-for-deed payable	3,053,206	-	(73,712)	2,979,494
	<u>\$ 5,078,290</u>	<u>\$ 2,331</u>	<u>\$ (380,698)</u>	<u>\$ 4,699,923</u>
Total				
Total	<u>\$ 5,078,290</u>	<u>\$ 2,331</u>	<u>\$ (380,698)</u>	<u>\$ 4,699,923</u>
Current portion				
Beneficiary payments	\$ 22,115			\$ 22,115
Unearned rent	300,000			300,000
Contract-for-deed payable	73,712			78,648
	<u>\$ 395,827</u>			<u>\$ 400,763</u>
Total current portion				
Total current portion	<u>\$ 395,827</u>			<u>\$ 400,763</u>
Noncurrent portion				
Beneficiary payments	\$ 202,969			\$ 198,314
Unearned rent	1,500,000			\$ 1,200,000
Contract-for-deed payable	2,979,494			2,900,846
	<u>\$ 4,682,463</u>			<u>\$ 4,299,160</u>
Total noncurrent portion				
Total noncurrent portion	<u>\$ 4,682,463</u>			<u>\$ 4,299,160</u>

FOUNDATION CONTRACT-FOR-DEED PAYABLE

A contract at June 30, 2014, 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, 2014, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 83,916	\$ 186,084	\$ 270,000
2016	89,536	180,464	270,000
2017	95,532	174,468	270,000
2018	101,930	168,070	270,000
2019	<u>2,529,931</u>	<u>13,704</u>	<u>2,543,635</u>
Total	<u>\$ 2,900,845</u>	<u>\$ 722,790</u>	<u>\$ 3,623,635</u>

Note 10. Leases**CAPITALIZED LEASES**

Certain leases in which the Board of Trustees, the 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 Governmental Accounting Standards Board (GASB) Statement No. 62. Assets under capital lease at June 30, 2014 and 2013, totaled \$1,118,619 and 1,415,569, respectively, net of accumulated depreciation of \$909,685 and \$612,734, respectively.

On March 30, 2011, the University entered into a capital lease agreement in an amount not to exceed \$2,410,000 with Banc of America Public CapitalCorp to finance equipment and IT costs for the Mennonite Lab Building.

Maturities on capital leases at June 30, 2014, are as follows:

Year Ending <u>June 30</u>	
2015	\$ 521,401
2016	<u>521,400</u>
Total minimum lease payments	<u>1,042,801</u>
Less amount representing interest	40,436
Present value of future minimum lease payments	<u>\$ 1,002,365</u>

OPERATING LEASES

The University has entered into agreements to lease recreational space and office space that the University is treating as operating leases. Rent expense for the years ended June 30, 2014 and 2013 was \$1,440,277 and \$1,483,125, respectively. The leases expire between July 2014 and June 2018. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Building</u>
2015	\$ 1,394,378
2016	763,828
2017	751,828
2018	<u>581,746</u>
Total	<u>\$ 3,491,780</u>

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporations and Foundation networks. Lease payments for the Chicago office were \$73,076 in 2014 and \$69,513 in 2013. The current lease set to expire on December 31, 2014 was renewed for an additional five years with the first five months of rent abated per the renewal agreement. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Building</u>
2015	\$ 43,870
2016	78,037
2017	79,541
2018	81,046
2019	<u>82,550</u>
Total	<u>\$ 365,044</u>

The University leases twelve vehicles for the Athletic Department employees at a cost of \$43,500 in Fiscal Year 2014 and \$50,640 in Fiscal Year 2013. The Foundation makes the payments on these leased vehicles. All twelve vehicle leases expire during Fiscal Year 2017. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Vehicles</u>
2015	\$ 43,500
2016	43,500
2017	<u>36,250</u>
Total	<u>\$ 123,250</u>

Note 11. State Universities Retirement System (SURS)

Plan Description: The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of State universities, certain affiliated 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% (up to 9.5% for police officers) of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 35.80% (for Fiscal Year 2015) of annual covered payroll. The rates for 2014 and 2013 were 35.20% and 34.51%, respectively. 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, 2014, 2013 and 2012 were \$67,443,918, \$63,500,755 and \$44,252,981, 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 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 Universities 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 the University's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision and life insurance benefits of all members, including post-employment health, dental, vision and life insurance benefits, is recognized as an expenditure by the State in the State's Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

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

Note 13. Transactions with Related Organizations

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, 2012, 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 \$2,350,000 during the first year of the agreement. In additional consideration for these services, the University provided office space, clerical, accounting and computer support estimated to be \$2,291,329 and \$2,143,917 during fiscal years 2014 and 2013, respectively. During fiscal years 2014 and 2013, the Foundation contributed services and expenditures of \$8,319,878 and \$9,304,212, respectively, that were for the direct and/or indirect support of the University.

In June 2007, Launching Futures II, LLC invested in real estate for \$600,631 for use by the University as a remote parking lot. Concurrently, Launching Futures II, LLC 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, LLC. The lease had a five year term that the University renewed for an additional five years during May 2013.

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. Launching Futures, 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.

Note 14. Student Health Insurance

The University contracts with Aetna Student Health (ASH) formerly known as The Chickering Group, an Aetna Company of Burlington, Massachusetts for administration of the Aetna Student Health Insurance 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 the University and 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 (gains 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 2011-2012 of \$1,016,735 will become available upon final calculation in October 2014. The entire reserve of \$1,016,735 plus experience surplus currently estimated at \$1,782,442 will be distributed as follows: a) \$774,385 was rolled over to complete funding for 2013-2014, and b) the remainder will be available to the University. Potential refunds are still at risk for unexpected claims losses, so they are not recorded as assets. Assuming a 10% trend, no plan design changes and no change in enrollment, the University estimates \$1,115,000 to be needed to fund 2014-2015.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded \$114,407,498 and \$114,485,294 in Direct Student Loans for the years ended June 30, 2014 and 2013, 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 loss related exposures. These exposures include torts, theft, damages and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University purchases various commercial insurance policies for these loss exposures. During the years ended June 30, 2014 and 2013, there were no significant reductions in coverage. In addition, the University expanded its property insurance policy to include in depth fine arts coverage.

As a public university in the State of Illinois, the University enjoys certain statutory protections from liability through the Court of Claims Act and the State Employee Indemnification Act. In addition, the University purchases liability insurance that covers related claims subject to 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, 2014 and 2013 the liability was \$0. There were no settlements which exceeded insurance coverage for the last three years.

Note 17. Net Position**UNIVERSITY NET POSITION**

University restricted net position is comprised of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Expendable Student Loans	\$ 9,539,186	\$ 9,523,449

The University's Board of Trustees designated unrestricted net position is comprised of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Capital asset renewal and replacement for the internal service departments	\$ 258,791	\$ 257,545
Self-Insurance	<u>1,118,491</u>	<u>1,118,491</u>
Total	<u>\$ 1,377,282</u>	<u>\$ 1,376,036</u>

FOUNDATION NET POSITION

The Foundation's restricted net position is comprised of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Nonexpendable		
Scholarship and fellowship	\$ 43,250,910	\$ 46,213,065
College and academic department support	14,425,878	16,862,656
Faculty and staff compensation	5,210,795	5,996,759
Other	<u>5,206,813</u>	<u>7,330,386</u>
Total nonexpendable	<u>\$ 68,094,396</u>	<u>\$ 76,402,866</u>
Expendable		
Scholarship and fellowship	\$ 26,773,826	\$ 10,130,166
Instructional and departmental uses	14,925,832	10,904,200
University capital projects	2,817,412	2,472,633
Other restricted expendable	<u>6,362,172</u>	<u>3,514,823</u>
Total expendable	<u>\$ 50,879,242</u>	<u>\$ 27,021,822</u>

Note 18. Foundation Donor Restricted Endowments

The Foundation follows the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminated the historic dollar value rule with respect to endowment fund spending. UPMIFA also updated the prudence standards for the management and investment of charitable funds. In accordance with UPMIFA, the Foundation Board considers the factors in Sections 3(e)(1) and 4(a) of the UPMIFA in determining the investment, management and disbursement of endowment funds.

UPMIFA permits the Foundation to authorize expenditures from available endowment funds' earnings and/or principal, unless the fund's donor has specified otherwise. In concert with UPMIFA standards, the Foundation Investment Committee has adopted a "weighted average" endowment spending distribution formula based on the sum of the following two components:

1. The prior year's spending distribution, plus 4.5% of the value of new gifts; the sum of which is adjusted by the most recently calculated annual Higher Education Price Index, then weighted at 70%.
2. The year-end market value times 4.5% then weighted at 30%.

A fundraising fee of 1.2% of the year-end market value, is assessed from each endowed fund's annual distribution (as calculated above) to help support the Foundation's fundraising and general operations.

On July 1, 2013, a total of \$3,330,205 was distributed to endowed funds' expendable balances and fundraising fees of \$979,907 were distributed to the Foundation budget. On July 1, 2012, a total of \$3,306,983 was distributed to endowed funds' expendable balances and fundraising fees of \$829,814 were distributed to the Foundation budget.

Note 19. Commitments

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are \$5,710,812; approximately \$1,871,636 (32.77 percent) of the work has been completed as of June 30, 2014. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

The University has secured natural gas and electricity at a fixed price for fiscal years 2015 and 2016 by executing forward fixed price purchase contracts with IMGA and MidAmerican Energy. As of June 30, 2014, the University's commitment to these contracts is approximately \$5,096,109 for natural gas and \$7,733,512 for electricity. These are considered normal purchase contracts.

On August 20, 2014, the University purchased properties at 609 W. College and 200 & 202 Kingsley in Normal for \$642,202. An estimated \$100,000 will be spent on site improvements.

On July 9, 2012, the University contracted for the purchase of 210 & 212 North Main not to exceed \$750,000 plus reasonable closing and related costs including a relocation allowance of up to \$25,000. The University purchased the properties in November 2013 and took possession on September 19, 2014, at which time the relocation allowance of \$24,000 was paid.

In February 2014, the University's Board of Trustees approved the demolition of South Campus. The estimated cost of the project is \$6,000,000, including \$1,647,500 for asbestos abatement, which has been recognized as a liability in the 2014 financial statements. This estimate was based on contractor estimates, which are subject to change.

On November 4, 2013, the University entered into an agreement with the Town of Normal to lease space for the University Galleries. The lease period is five years, commencing October 2014 with a total cost of \$2,052,000.

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest \$36,376,457 and \$27,876,457 as of June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, the Foundation had invested \$18,809,641 and \$15,774,023, respectively and has future investment commitments of \$17,566,816 and \$12,102,434, 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, 2014, 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, 2014

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 98,279,701	\$ 15,029,742	\$ -	\$ -	\$ 113,309,443
Research	10,831,531	3,935,215	-	-	14,766,746
Public Service	5,705,142	8,505,134	-	-	14,210,276
Academic Support	17,344,315	2,598,235	-	-	19,942,550
Student Services	19,156,010	19,601,514	-	-	38,757,524
Institutional Support	21,128,985	14,324,426	-	-	35,453,411
Operation of Plant	13,741,564	34,986,676	-	-	48,728,240
Depreciation	-	-	-	24,529,019	24,529,019
Staff Benefits	1,702,358	-	54,067	-	1,756,425
Student Aid	-	9,056,658	38,059,485	-	47,116,143
Payments on Behalf	127,236,673	-	-	-	127,236,673
Auxiliary Facilities	23,450,820	33,194,294	-	-	56,645,114
Other	1,773,387	46,048	-	-	1,819,435
Total University	<u>\$ 340,350,486</u>	<u>\$ 141,277,942</u>	<u>\$ 38,113,552</u>	<u>\$ 24,529,019</u>	<u>\$ 544,270,999</u>

Natural Classification for the Year Ended June 30, 2013

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 101,081,820	\$ 15,745,000	\$ -	\$ -	\$ 116,826,820
Research	10,823,102	3,693,112	-	-	14,516,214
Public Service	7,273,307	7,422,153	-	-	14,695,460
Academic Support	12,302,855	2,847,743	-	-	15,150,598
Student Services	19,260,398	19,116,296	-	-	38,376,694
Institutional Support	21,259,554	15,947,473	-	-	37,207,027
Operation of Plant	12,605,916	20,943,786	-	-	33,549,702
Depreciation	-	-	-	23,247,668	23,247,668
Staff Benefits	2,204,608	-	60,719	-	2,265,327
Student Aid	-	8,095,500	34,245,287	-	42,340,787
Payments on Behalf	130,780,750	-	-	-	130,780,750
Auxiliary Facilities	23,454,845	29,808,285	-	-	53,263,130
Other	2,180,172	56,377	-	-	2,236,549
Total University	<u>\$ 343,227,327</u>	<u>\$ 123,675,725</u>	<u>\$ 34,306,006</u>	<u>\$ 23,247,668</u>	<u>\$ 524,456,726</u>

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 Position at June 30

	2014	2013 (as restated)
Assets:		
Current assets	\$ 28,010,006	\$ 30,688,850
Noncurrent assets:		
Capital assets, net	214,852,337	215,628,376
Other noncurrent assets	85,438,234	71,582,632
Total assets	<u>328,300,577</u>	<u>317,899,858</u>
Liabilities:		
Current liabilities	14,138,115	13,173,126
Noncurrent liabilities	92,340,213	98,715,480
Total liabilities	<u>106,478,328</u>	<u>111,888,606</u>
Net position:		
Net investment in capital assets	116,867,704	124,760,923
Unrestricted	104,954,545	81,250,329
Total net position	<u>\$ 221,822,249</u>	<u>\$ 206,011,252</u>

Condensed Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30

Operating revenues	\$ 83,179,349	\$ 81,205,250
Depreciation expense	(8,235,163)	(7,148,270)
Other operating expenses	(56,645,115)	(53,263,130)
Operating income	<u>18,299,071</u>	<u>20,793,850</u>
Non-operating revenues	1,756,898	44,470
Non-operating expenses	(4,244,972)	(4,135,763)
Increase in net positions	<u>15,810,997</u>	<u>16,702,557</u>
Net position - beginning of year	206,011,252	190,372,700
Net change in accounting principal	-	(1,064,005)
Net position - beginning of year, as restated	<u>206,011,252</u>	<u>189,308,695</u>
Net position - end of year	<u>\$ 221,822,249</u>	<u>\$ 206,011,252</u>

Condensed Statements of Cash Flows for the year ended June 30

Net cash flows provided by operating activities	\$ 26,387,829	\$ 26,738,650
Net cash flows provided by non-capital financing activities	237,130	174,125
Net cash flows used in capital and related financing activities	(18,297,892)	(33,900,191)
Net cash flows provided by (used in) investing activities	<u>(16,116,473)</u>	<u>15,866,094</u>
Net increase (decrease) in cash and cash equivalents	(7,789,406)	8,878,678
Cash and cash equivalents, beginning of year	10,959,814	2,081,136
Cash and cash equivalents, end of year	<u>\$ 3,170,408</u>	<u>\$ 10,959,814</u>

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

RESERVES FOR DEBT SERVICE, REPAIR AND REPLACEMENT, AND DEVELOPMENT

Debt Service

A portion of the Debt Service Reserve Account (DSRA) that was established under the terms of the Revenue Bond Series 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 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.

	<u>2014</u>	<u>2013</u>
	Repair and Replacement Reserve	Repair and Replacement Reserve
Maximum Allowable Deposits at June 30	\$ 38,661,318	\$ 41,673,515
Assets Reserved	13,463,430	24,619,467

Note 23. Future Change in Accounting Principle

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. GASB Statement No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014; therefore, the University's Fiscal Year 2015. The impact of applying this statement has not yet been determined.

Note 24. Prior Period Adjustment

Subsequent to the issuance of the Fiscal Year 2013 financial statements, the University determined that it had sufficient administrative responsibility under the Monetary Assistance Program (MAP) and Federal Supplemental Educational Opportunity Grant (FSEOG) financial aid programs that they should be reported as non-operating revenue. In prior years, the revenues and expenses were netted and reported as operating revenues. This adjustment reports gross revenues and expenses and classifies the revenues as non-operating because of their non-exchange nature. This does not result in an overall change in net position for Fiscal Year 2013.

The following financial statement line items for Fiscal Year 2013 were affected by this adjustment:

	As Previously Reported	Adjustment	As Restated
Statement of Revenues, Expenses and Changes in Net Position			
Federal grants and contracts	\$ 20,645,891	\$ (562,829)	\$ 20,083,062
Student tuition and fees, net	189,117,793	(15,023,983)	174,093,810
Operating loss	(198,685,467)	(15,586,812)	(214,272,279)
Other non-operating revenues	19,933,315	15,586,812	35,520,127
Statement of Cash Flows - Reconciliation			
Grants and contracts	28,283,165	(562,829)	27,720,336
Payments for scholarships and fellowships	(34,307,665)	(15,023,983)	(49,331,648)
Net cash used by operating activities	(40,687,508)	(15,586,812)	(56,274,320)
Other receipts	19,933,312	15,586,812	35,520,124
Net cash provided by noncapital financing acts.	104,225,225	15,586,812	119,812,037
Operating loss	(198,685,467)	(15,586,812)	(214,272,279)

Note 25. Subsequent Events

As of June 30, 2014, the University had six collective-bargaining agreements covering various union-represented employees which were expired. As of the date of the Independent Auditor's Report, three have been renegotiated with similar terms.

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.