STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2010

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2010

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STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2010

AGENCY OFFICIALS

President	Dr. Wayne Watson (10/1/09 to present)
Acting President (7/1/09 to 9/30/09)	Dr. Sandra Westbrooks (7/1/09 to 9/30/09)
Provost and Senior V.P. of Academic and Student Affairs	Dr. Sandra Westbrooks
Vice President of Administration and Finance	Mr. Glenn Meeks (11/16/09 to Present)
Interim Vice President Administration and Financial Affairs	Ms. Louise Williams (7/16/09 to 11/15/09)
Interim Vice President Administration and Financial Affairs	Dr. Dean Justman (to 7/15/09)
Associate V.P. of Administration and Finance/Controller	Mr. Edward Lannon (1/16/10 to Present)
Director of Accounting	Mr. John Frizzell (to 5/25/10)
Associate Director of Accounting	Ms. Louise Williams
Chief Internal Auditor	Mr. Ken Clow (6/7/10 to Present)
Director of Internal Audit	Mr. John Meehan (to 3/31/10)

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of Chicago State University was performed by Borschnack, Pelletier & Co.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the University's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule listed in the table of contents as findings 10-1, Financial Statement Adjustments, 10-2 Noncompliance with Unclaimed Property Act and Write Off of Accounting Errors, and 10-3, Inaccurate Reporting for the University Auxiliary Facilities System Revenue Bond Fund. The significant deficiency is described in the accompanying Schedule of Findings listed in the table of contents as finding 10-04, Purchasing Card Procedures.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on March 4, 2011. Attending were:

Representing Chicago State University

President	Dr. Wayne Watson
Vice President of Administration and Finance	Mr. Glenn Meeks
Provost and Senior Vice President Academic & Student Affairs	Dr. Sandra Westbrooks
Interim Associate Vice President Sponsored Programs	Dr. Yvonne Harris
Chief Internal Auditor	Mr. Ken Clow
Assistant Chief Internal Auditor	Ms. Deborah Muhammad
Associate Vice President of Administration and Finance/ Controller	Mr. Edward Lannon
Chief Information Officer	Ms. Ce Cole Dillon
Finance Special Projects	Mr. John Meehan
Assistant Director – Financial Aid	Mr. Jim Lucke
Interim Director of Purchasing	Ms. Janielle Graham

EXIT CONFERENCE (continued)

Representing Borschnack, Pelletier & Co.	
Partner	Mr. Paul A. Pelletier, CPA
Manager	Mr. Robert Sikma, CPA
Staff Accountant	Ms. Kristin Stojcevski
IT Specialist	Mr. James Flanagan
Representing the Office of the Auditor General	
Audit Manager	Mr. Thomas L. Kizziah, CPA
IS Audit Manager	Ms. Kathleen Devitt, C.I.S.A.

Responses to the recommendations were provided by Mr. Edward Lannon in a correspondence dated March 9, 2011.

Borschnack
Pelletier
& Co.
Certified Public Accountants & Consultants

200 East Court Street • Suite 608 • Kankakee, IL 60901
815.933.1771 • fax: 815.933.1163

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Chicago State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise Chicago State University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chicago State University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in Note 1 of the financial statements. Those statements were audited by other auditors whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Chicago State University, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the net assets as of July 1, 2009 have been restated for prior year reporting errors.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2011 on our consideration of Chicago State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago State University's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The University Auxiliary Facilities Revenue Bond Fund, Series 1998 financial statements on pages 38 through 40 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The "Unaudited" supplementary information on pages 41 and 42 has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

As discussed on pages 36 and 39, the net assets of the University Auxiliary Facilities Revenue Bond Fund, Series 1998 as of July 1, 2009 have been restated for prior year reporting errors.

Borschnack, Pelletier & Co.

March 10, 2011

Introduction

This section of the Chicago State University (University) annual financial report presents management's discussion and analysis ("MD&A") of the financial performance of the University during the fiscal year ended June 30, 2010, with fiscal year 2009 prior year data presented for comparative purposes. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

This MD&A focuses on the University and excludes the discretely presented Chicago State University Foundation, a component unit of the University. MD&A for the component unit is included in its separately issued financial statements. Refer to footnote 1 for information on how to obtain the financial statements of the component unit.

Background

Chicago State University, a public, comprehensive, urban institution of higher learning, strives for excellence in teaching, research, creative expression and community service. The University is located in a residential community on the south side of Chicago, approximately 12 miles south of downtown Chicago. The 161-acre campus has contemporary buildings attractively placed in a carefully preserved woodland setting. The mission of the University is to: 1) provide access to higher education for residents of the region, the State and beyond, with an emphasis on meeting the educational needs, undergraduate through doctoral levels, of promising graduates from outstanding secondary schools as well as educating students where academic and personal growth may have been inhibited by lack of economic, social, or educational opportunity; and 2) produce graduates who are responsible, discerning, and informed global citizens with a commitment to lifelong-learning and service.

The University enrolled approximately 6,500 doctorate, graduate and undergraduate students during Spring 2010 and employs approximately 930 employees consisting of faculty, civil service and administrators. The University offers a diverse range of degree programs from baccalaureate to graduate levels. The University confers approximately 950 graduate and undergraduate degrees per annum.

Financial Highlights

The University's financial position remained strong at June 30, 2010, with assets of $173.8 million and liabilities of $39.1 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased to $134.7 million at June 30, 2010. The increase in net assets is primarily attributable to tuition and fee revenue and State capital appropriations.

Financial Highlights (continued)

Changes in net assets represent all financial results (primarily operating activities) of the University, which consist of revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2010 and 2009 as follows:

	2010	2009
Total revenues	$ 141,435,168	$ 129,630,887
Total expenses	134,610,114	131,268,490
Change in net assets	$ 6,825,054	$ (1,637,603)

Fiscal 2010 total revenues increased $11.8 million or 9.1% to $141.4 million and total expenditures increased $3.3 million or 2.5% to $134.6 million, compared to the prior year. Overall, the University experienced an increase in net assets of $6.8 million for fiscal 2010 primarily due to student tuition and fees, net, and State capital appropriations, and a $1.9 million increase from correcting errors noted in Note 16.

Using the Financial Statements

The University prepares three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows as well as the Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35. The financial statements encompass the University and it's discretely presented component unit.

Statement of Net Assets

The Statement of Net Assets presents the assets and liabilities of the University using the accrual basis of accounting and reflects the financial position of the University at the end of the fiscal year. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the University, while the change in net assets that occurs over time is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost, less an allowance for depreciation. Net Assets has been further categorized as (i) Invested in capital assets, net of related debt, (ii) Restricted nonexpendable – net assets that are permanently restricted by externally imposed stipulations, (iii) Restricted expendable – net assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (iv) Unrestricted – net assets that are not subject to externally imposed stipulations and may be used at the discretion of the governing board to meet current expenses for any purpose.

Statement of Net Assets (continued)

A summary of the University's assets, liabilities and net assets for the year ended June 30, 2010 in comparison with June 30, 2009 is as follows:

	2010	2009 *
Assets:		
Current assets	$ 28,334,758	$ 22,279,438
Noncurrent assets:		
Capital assets, net	144,732,018	145,941,214
Other	757,219	986,857
Total Assets	173,823,995	169,207,509
Liabilities:		
Current liabilities	14,992,120	17,889,656
Noncurrent liabilities	24,114,685	25,284,122
Total Liabilities	39,106,805	43,173,778
Net Assets:		
Invested in capital assets, net of related debt	125,579,083	129,769,583
Restricted - expendable	2,943,852	3,902,573
Unrestricted	6,194,255	(7,638,425)
Total Net Assets	$ 134,717,190	$ 126,033,731

* The University's net assets at July 1, 2009 have been restated. See Note 16 in the Notes to the Financial Statements. The amounts for 2009 above do not reflect the restatement.

A review of the University's Statement of Net Assets at June 30, 2010 and 2009 shows that the University maintains a strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, and conservative use of debt.

Current assets increased by $6.1 million (27%) to $28.3 million. This is the net result of the $4.4 million increase in cash and cash equivalents, the $5.6 million increase in the balance of State appropriation, the $3.8 million decrease in accounts receivable, and the $196 thousand decrease in inventories, loans and notes receivable, net, and prepaid expenses and other assets combined. The balance in State appropriations increased $5.6 million (277%) to $7.7 million, due to the timing of expenditure processing and slow reimbursements from the State of Illinois. Accounts receivable were down $3.8 million (27%) to $10.2 million mainly due to decreases in grant receivables such as the Chicagoland Regional College Program ($1.75 million), Headstart ($688 thousand), Douglas Hall renovation ($500 thousand), Evidence-Based Trauma Practice ($367 thousand) and an increase in the allowance for bad debts of $729 thousand, partly offset by increases in other items. Prepaid expenses and other assets, loans and notes receivable, net, and inventories combined decreased by $196 thousand due to discontinuation of a Convocation Center contract; a SURMA insurance prepayment; and removal of a construction deposit for the Convocation Center.

Statement of Net Assets (continued)

Noncurrent assets are primarily capital assets which decreased by $1.2 million to $144.7 million because the fiscal year 2010 depreciation exceeded the new asset acquisitions.

The University's total assets increased $4.6 million (3%) to $173.8 million at June 30, 2010.

Total Current Liabilities decreased by $2.9 million (16%) to $15 million primarily due to a $3.3 million (26%) decrease in accounts payable. The overall decrease in accounts payable is due to some individually large decreases which are partially offset by other significant increases. The main decreases include the discharge of a $1.75 million liability for the Chicagoland Regional College Program, a $774 thousand liability on a construction grant for the Convocation Center and a decrease of $3.1 million in Local Income Fund liabilities related to the Siemens settlement and the error correction noted in Note 16. These decreases were partially offset by increases in the following: Student Health Fees ($673 thousand), Indirect Cost Recovery liabilities ($309 thousand), and Douglas Hall Renovation ($270 thousand). Accrued wages increased by $280 thousand (11.8%) due to a higher accrual on faculty wages caused by an overall $1.9 million or 8.5% rise in faculty salary expense. Deferred revenue decreased by $285 thousand (25.1%) due to the allocation of summer tuition revenue between fiscal years and truing up (summer term receivables collected to the summer term revenue recognized) of accounts receivable. The long-term liabilities current portion increased by $403 thousand (23.3%) due to a new lease on HP computer equipment ($202 thousand) and an $155 thousand increase in the estimated current liability for compensated absences as more employees come closer to retirement.

Total Noncurrent Liabilities decreased $1.2 million (4.6%) primarily due to the payments on the bonds payable and a decrease of the accrued compensated absences liability. The decrease of accrued compensated absences was due to employee layoffs related to right sizing and cost cutting. Capital leases payable show a net increase due to the new HP lease on computer equipment referred to above.

Total Liabilities overall decreased by almost $4.1 million (9.4%).

Total Net Assets increased by $6.8 million for fiscal year 2010 primarily due to student tuition and fees, net, and State capital appropriations. Net Assets also increased $1.9 million for the correction of the errors noted in Note 16.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

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

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

A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2010 in comparison with the year ended June 30, 2009 is as follows:

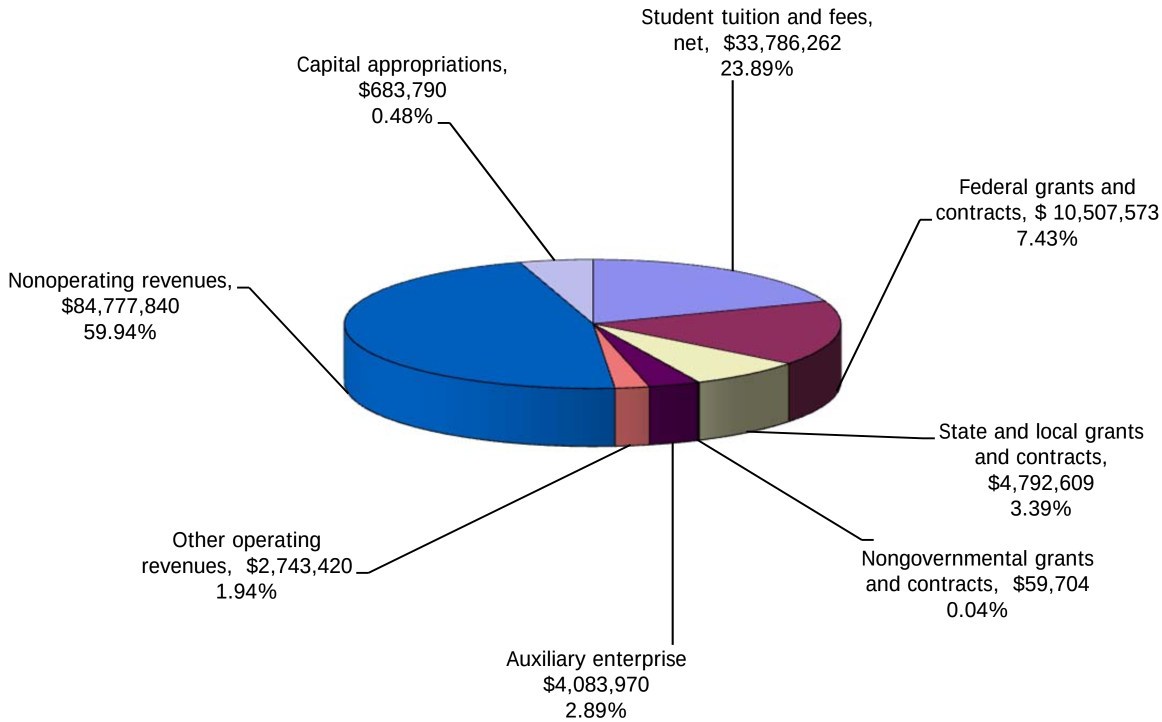
	2010	2009
Operating revenues	$ 55,973,538	$ 55,137,529
Operating expenses	133,397,046	130,434,924
Operating loss	(77,423,508)	(75,297,395)
Net non-operating revenues	83,822,923	73,012,236
Income/(loss) before other revenues, expenses, gains or losses	6,399,415	(2,285,159)
Other revenues, expenses, gains or losses	425,639	647,556
Increase/(decrease) in net assets	6,825,054	(1,637,603)
Net assets, beginning of year *	126,033,731	127,671,334
Prior period adjustment	1,858,405	
Net assets, beginning of year as restated	127,892,136	
Net Assets, end of year	$ 134,717,190	$ 126,033,731

* The University's net assets at July 1, 2009 have been restated. See Note 16 in the Notes to the Financial Statements.

The following is a graphic illustration of revenues by source, which were used to fund the University's activities for the year ended June 30, 2010. The most significant source of revenue was the State of Illinois, totaling $67,928,928 which included State appropriations of $42,725,974, State fringe benefits of $24,519,164, and capital grants and appropriations expended by CDB of $683,790 or 48.0% percent of total revenue.

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

Revenue by Source



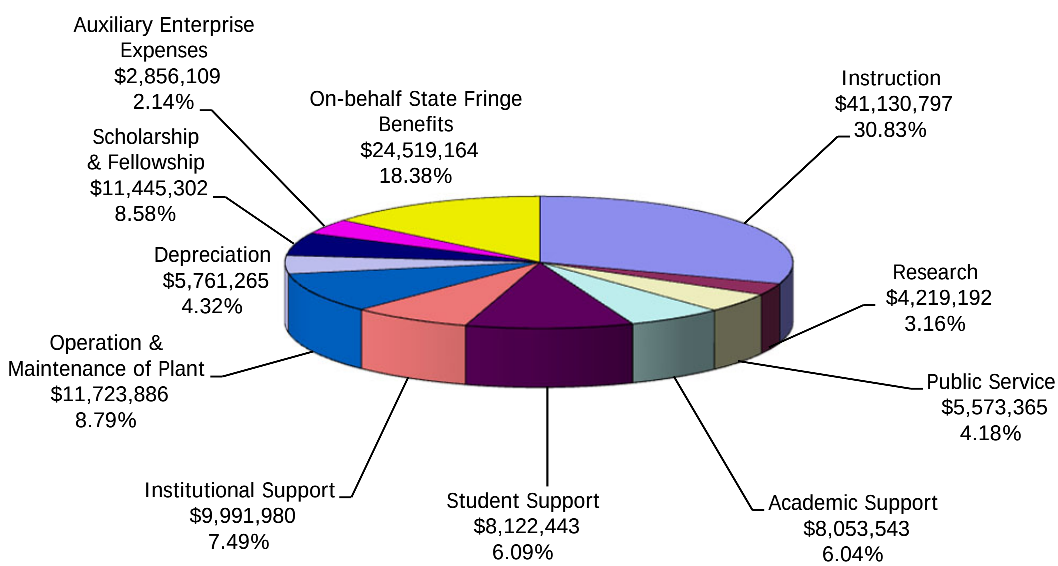
Statement of Revenues, Expenses and Changes in Net Assets (continued)

A summary of the University's operating expenses for the fiscal year ended June 30, 2010 in comparison with the fiscal year ended June 30, 2009 is as follows:

	2010	2009
Operating Expenses:		
Educational and General		
Instruction	$ 41,130,797	$ 39,531,380
Research	4,219,192	2,607,597
Public Service	5,573,365	8,099,153
Academic Support	8,053,543	7,745,016
Student Services	8,122,443	12,282,348
Institutional Support	9,991,980	9,999,481
Operations and Maintenance of Plant	11,723,886	12,884,408
Depreciation	5,761,265	6,906,656
Scholarship and Fellowship	11,445,302	8,722,355
Auxiliary Enterprise Expenses	2,856,109	2,311,469
On-behalf State Fringe Benefits	24,519,164	19,345,061
Total Operating Expenses	$ 133,397,046	$ 130,434,924

The following graphic illustration presents the operating expenses by function.

Operating Expense by Function



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

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets of $6.8 million at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

Student tuition and fees revenues increased by $4.7 million to $33.8 million due to the 8.7% increase in tuition for new students and a modest increase in enrollment. The increases slightly exceed a decrease of $4.7 million in state and local grants and contracts. Federal grants and contracts revenues increased by $405 thousand due largely to increases of the following grants Predominantly Black Institutions ($270 thousand) and Solar Cell ($211 thousand) offset by decreases elsewhere.

As indicated above, State and local grant revenues were down $4.7 million due to big decreases of $1.75 million in the Chicagoland Regional College Program, $1.4 million in grants from the City of Chicago, $413 thousand in Evidence Based Trauma Practice and several other decreases over $180 thousand each.

There is an overall net increase of 1.5% or $836 thousand in total operating revenues due to the changes explained above.

Total operating expenses increased by $2.9 million with offsetting increases and decreases in the various functional expense lines. Exclusive of On-Behalf State fringe benefits, which increased by $5.2 million, there was a net decrease of $2.2 million for all other functional expenses combined. Instruction increased $1.6 million (4%) primarily due to salary increases of $1.9 million for faculty and $416 thousand for administrators partially offset by decreases in expenditures for contractual services, equipment, and awards and grants. Research increased $1.6 million or 61.8% to $4.2 million primarily due to increases of $516 thousand for contractual services, $279 thousand in other personnel expenses, $197 thousand in bad debts expense, $131 thousand for equipment, and the elimination of a $500 thousand offset that occurred in fiscal year 2009. Public service expenses decreased by $2.5 million (31.2%) primarily due to a $1.4 million decrease in Headstart programs, a $437 thousand decrease in Evidence-Based Trauma, a $278 thousand decrease in the Prekindergarten Program, a $244 thousand decrease in Transitional College Preparatory Program, a $78 thousand decrease in Project Fame/Upward Bound Program and a $55 thousand decrease in the Jazz Harvest Jazz Band grant. Student services decreased by $4.2 million (33.9%) and included a $1.75 million decrease in the Chicagoland Regional College Program, an $804 thousand decrease in athletics, and a $590 thousand decrease in the Textbook and Learning Material grant. Operations and maintenance of plant decreased by $1.2 million (9%) primarily due to decreases of $441 thousand for electricity, $412 thousand for natural gas, and $320 thousand in repairs and maintenance costs.. Depreciation decreased by $1.1 million (16.6%) due to a correction to fixed assets and depreciation in fiscal 2009 which involved recognizing prior unrecorded fixed assets and related depreciation. This correction caused depreciation expense to be artificially high and atypical compared to the average trend of prior years and fiscal 2010. Scholarship and Fellowship expenses increased 2.7 million (31.2%) primarily due to increased PELL awards of $4.9 million with several large offsets in the opposite direction. Auxiliary enterprise expenditures increased

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

$545 thousand (23.6%) primarily due to increased expenses in Housing of $728 thousand, increases in University Center of $292 thousand and in Convocation Center of $186 thousand offset by decreases in Bookstore of $251 thousand, Physical Plant Services of $133 thousand, Child Care of $117 thousand and Parking of $116 thousand plus other lesser changes. On-behalf State fringe benefits expense increased by $5.2 million (26.7%) which follows a four-year trend of increases in retirement expenses paid by the State.

There is a total operating loss increase of $2.1 million or 2.8% based on the changes discussed above.

Net non-operating revenue increased $10.8 million or 14.8% to $83.8 million. The increase was primarily due to a $5.2 million (26.7%) increase in State Fringe benefits paid by the State; a 39.7% increase in federal non-operating grants of $4.9 million representing the Pell grant; and a $1.1 million (2.5%) increase in State appropriations. Revenues from Capital appropriations decreased by $133 thousand to $684 thousand primarily due to decreased spending on the Emil Jones Convocation center project.

The University chooses to report expenses by functional classification in the Statement of Revenues, Expenses and Changes to Net Assets. The expenses are also reported by natural classification in Note 7 of the Notes to the Financial Statements.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the fiscal year. This statement classifies sources and uses of cash into the categories defined in GASB No. 9. The statement is divided into six parts. The first part reports operating cash flows and shows the net cash used by operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received to finance the University's activities from other than operating, investing, or capital financing purposes. The third section shows cash flows from capital and related financing activities. This section reports the cash received and used for the acquisition and construction of capital projects and related items. The fourth section reflects the cash flows from investing activities and shows the purchases of, proceeds from, and interest received from investing activities. The fifth section reconciles the net cash used in operations to the net operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets. The sixth section discloses the noncash investing, capital and noncapital financing activities.

Statement of Cash Flows (Continued)

A summary of the statement of cash flows for the year ended June 30 is as follows:

	2010	2009
Cash provided by (used in):		
Operating activities	$ (45,221,137)	$ (47,935,561)
Noncapital financing activities	54,584,117	55,348,200
Capital and related financing activities	(4,960,455)	(14,796,627)
Investing activities	24,676	125,945
Net change in cash	4,427,201	(7,258,043)
Cash, beginning of year	5,535,151	12,793,194
Cash, end of year	$ 9,962,352	$ 5,535,151

	2010	2009
Operating loss	$ (77,423,508)	$ (75,297,395)
Noncash expenses included in operating loss	30,280,429	26,251,717
Net change in assets and liabilities	1,921,942	1,110,117
Net cash used in operating activites	$ (45,221,137)	$ (47,935,561)

Economic Factors that will affect the Future

Looking forward into the future, the management of the University believes it is well positioned to continue its strong financial condition and level of excellence in service to its constituents. A crucial element to the University's future will continue to be its relationship with the State of Illinois as the University relies on State appropriations to finance its higher education mission; and maintaining enrollment by providing quality education at an affordable price. The University's overall financial situation is strong and reflects prudent use of financial resources, including careful cost control and management of appropriated operating and capital resources. While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather known economic uncertainties.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	2010	
ASSETS	**University**	**Component Unit**
Current Assets		
Cash and cash equivalents (Note 2)	$ 9,962,352	$ 613,727
Cash and cash equivalents-restricted (Note 2)	-	372,714
Balance in State appropriation	7,691,533	-
Accounts receivable, net (Note 3)	10,230,824	698,108
Inventories	53,606	-
Loans and notes receivable, net (Note 3)	20,979	-
Prepaid expenses and other assets	375,464	-
Total current Assets	28,334,758	1,684,549
Noncurrent Assets		
Certificates of deposit-restricted (Note 2)	-	1,305,546
Endowment investments (Note 2)	-	1,697,203
Loans and notes receivable, net (Note 3)	757,219	-
Capital assets, net (Note 4)	144,732,018	-
Total noncurrent assets	145,489,237	3,002,749
Total Assets	173,823,995	4,687,298
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	9,361,623	706,598
Accrued wages	2,654,309	-
Deferred revenue (Note 5)	849,303	-
Long-term liabilities-current portion (Note 6)	2,126,885	-
Total current liabilities	14,992,120	706,598
Noncurrent Liabilities		
Accrued compensated absences (Note 6)	6,199,410	-
Bonds payable (Note 6)	17,365,000	-
Premium on bonds (Note 6)	280,706	-
Capital leases payable (Note 6)	269,569	-
Total noncurrent liabilities	24,114,685	-
Total Liabilities	39,106,805	706,598
NET ASSETS		
Invested in capital assets, net of related debt	125,579,083	-
Restricted for:		
Nonexpendable		
Endowments (Note 14)	-	1,881,234
Expendable		
Direct programs and scholarships	-	1,714,227
Loans	830,930	-
Capital projects	2,112,922	-
Unrestricted	6,194,255	385,239
Total Net assets	$ 134,717,190	$ 3,980,700

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	2010	
	University	Component Unit
OPERATING REVENUES:		
Student tuition and fees (net of scholarship allowances of $ 11,200,441)	$ 33,786,262	$ -
Federal grants and contracts	10,507,573	-
State and local grants and contracts	4,792,609	-
Nongovernmental grants and contracts	59,704	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $ 34,861)	4,083,970	-
Other operating revenues	2,743,420	239,433
Total operating revenues	55,973,538	239,433
OPERATING EXPENSES:		
Educational and General		
Instruction	41,130,797	-
Research	4,219,192	-
Public service	5,573,365	-
Academic support	8,053,543	-
Student services	8,122,443	-
Institutional support	9,991,980	1,049,303
Operations and maintenance of plant	11,723,886	-
Depreciation	5,761,265	-
Scholarship and fellowship	11,445,302	275,674
Auxiliary enterprise expenses	2,856,109	-
On-behalf State fringe benefits (See Note 8)	24,519,164	-
Total operating expenses	133,397,046	1,324,977
Operating loss	(77,423,508)	(1,085,544)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	42,725,974	-
State fringe benefits (Note 8)	24,519,164	-
Federal nonoperating grants	17,508,026	-
Gifts and contributions	-	639,617
Investment income (loss)	24,676	156,196
Interest on capital asset - related debt	(954,917)	-
Other nonoperating revenues (expenses)	-	(52)
Net nonoperating revenues	83,822,923	795,761
Income (loss) before other revenues, expenses, gains, or losses	6,399,415	(289,783)
Capital appropriations	683,790	-
Endowment contributions	-	100
Loss on disposal of capital assets	(258,151)	-
Total other revenues	425,639	100
Increase in net assets	6,825,054	(289,683)
NET ASSETS		
Net assets-beginning of year (as previously reported)	126,033,731	4,270,383
Prior period adjustment	1,858,405	-
Net assets-beginning of year (as restated)	127,892,136	4,270,383
Net assets-end of year	$ 134,717,190	$ 3,980,700

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	2010	
	University	**Component Unit**
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 31,897,396	$ -
Grants and contracts	18,800,181	-
Payment to suppliers for goods and services	(24,788,732)	(1,382,467)
Payments to employees for services	(67,680,020)	-
Payments for scholarships and fellowships	(10,520,241)	(275,674)
Loans issued to students	(79,672)	-
Loans collected from students	58,097	-
Sales and services of auxiliary enterprises	4,083,970	-
Other receipts (disbursements)	3,007,884	89,433
Net cash used by operating activities	(45,221,137)	(1,568,708)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	37,076,091	-
Gifts, contributions, and grants	-	6,195,614
Federal nonoperating grants	17,508,026	-
Other noncapital financing activities	-	(4,673,686)
Net cash provided by noncapital financing activities	54,584,117	1,521,928
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(3,035,344)	-
Principal paid on capital debt and leases	(947,738)	(2,623)
Interest paid on capital debt and leases	(977,373)	(52)
Net cash used by capital financing activities	(4,960,455)	(2,675)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and/or dividends on investments	24,676	74,013
Proceeds from sales and maturities of investments	-	1,354,641
Net increase in certificates of deposit investments	-	(686,965)
Purchase of investments and other	-	(1,353,899)
Net cash provided (used) by investing activities	24,676	(612,210)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,427,201	(661,665)
Cash and cash equivalents-beginning of the year	5,535,151	1,648,106
Cash and cash equivalents-end of the year	$ 9,962,352	$ 986,441
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (77,423,508)	$ (1,085,544)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	5,761,265	-
State fringe benefits	24,519,164	-
Other income transferred from fiscal agent account	-	(150,000)
Net changes in assets and liabilities:		
Accounts receivables, net	3,825,275	-
Inventories	41,460	-
Prepaid expenses and other assets	153,385	-
Loans to students and employees	231,283	-
Accounts payable and accrued liabilities	(2,124,537)	(333,164)
Accrued wages	280,345	-
Deferred revenue	(285,025)	-
Compensated absences	(200,244)	-
Net cash used by operating activities	$ (45,221,137)	$ (1,568,708)
NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES		
Capital appropriations	$ 683,790	$ -
Capital assets acquired by capital leases	$ 403,532	$ -
Unrealized gains on investments	$ -	$ 8,988
State fringe benefits	$ 24,519,164	$ -

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

Note 1 – Summary of Significant Accounting Policies

Nature of Operations – Chicago State University (the "University") is a public, comprehensive, urban institution of higher learning located on the south side of Chicago. The University serves the State, national and international communities by providing its students with academic instruction, by conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to residents of the region, the State of Illinois and beyond.

Chicago State University was established in 1867 as an experimental teacher-training school. The Chicago State University Board of Trustees, established in January 1996 by an act of the Illinois General Assembly, governs the University. The Board consists of seven members appointed by the Governor and one student member elected by the student population.

Reporting Entity – The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* and amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government entity, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of all agencies of Chicago State University, as the primary government, the accounts of the Chicago State University Foundation, Inc. (the "Foundation"), and the accounts of the University Auxiliary Facilities System Revenue Bond Fund, Series 1998.

The Chicago State University Foundation was incorporated in December 1968, as an independent, charitable, educational, and non-profit 501(c) 3 corporation with the sole purpose of raising funds for the University to support programs and initiatives for which State general operating funds are not available. In addition, University employees and facilities are used for virtually all activities of the Foundation. Accordingly, the Foundation is reported as a discretely presented component unit in the University's financial statements. Separate financial statements for the Foundation may be obtained at the Foundation's administrative office: Executive Director, Chicago State University Foundation, Cook Administration Building, 9501 South Martin Luther King Drive, Chicago, Illinois, 60628.

The University (including the Foundation) is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report (CAFR).

Note 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation – The University follows the financial statement presentation requirements prescribed by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. This statement requires the University's resources be classified into net asset categories and reported in the Statement of Net Assets. These categories are defined as (a) Invested in capital assets, net of related debt (b) Restricted nonexpendable – net assets restricted by externally imposed stipulations (c) Restricted expendable – net assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted – net assets not subject to externally imposed stipulations but may be designated for specific purposes by action of the Board of Trustees. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Basis of Accounting – For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition the University applies all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Note 1 – Summary of Significant Accounting Policies (Continued)

Investments – The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Accounts Receivable – Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of which reside in the State of Illinois. Accounts receivable also include amounts due from federal, state and local governments, or private sources, in connection with the reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are presented net of estimated uncollectible accounts.

Inventories – Inventories are determined on the first in, first out (FIFO) method and stated at the lower of cost or market. The cost is recorded as an expense as the inventory is consumed.

Capital Assets – Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Intangible assets greater than $100,000 are capitalized. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 60 years for buildings, 5 to 50 years for infrastructure and site improvements, 5 to 7 years for library books, and 3 to 15 years for equipment and intangible assets.

Deferred Revenues – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been recognized because eligibility requirements have not been met.

Compensated Absences – Employee sick and vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Assets and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Note 1 – Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued) –

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

Vacation Leave- Increase	$ 193,427
Sick Leave (Decrease)	(393,671)
Net decrease in Compensated Absences	$(200,244)

Non-current Liabilities – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital leases 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; (3) the premium on the revenue bonds payable (which are being amortized over the term of the bonds using the straight line method); and (4) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Scholarship Allowances and Student Aid – Financial aid to students is reported in the financial statements calculated by the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans and funds provided to students as awarded by third parties, and Federal Direct Lending are accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of the aid provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a university basis by allocating the cash payments to students, excluding payments for the services, calculated by a ratio of total aid to the aid not considered to be third party aid.

Net Assets – GASB Statement No. 35 reports equity as "Net Assets" rather than "fund balance." The University's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of "invested in capital assets".

Restricted net assets – nonexpendable – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Assets (Continued) –

producing present and future income, which may either be expended or added to the principal.

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

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, and sales and service of educational departments and auxiliary enterprises. 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 enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Income Taxes – The University, as a political subdivision of the State of Illinois, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue code, as amended. The Foundation is exempt from income taxes under Section 501(c) (3) of the Internal Revenue code.

Classification of Revenues – The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on institutional student loans.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9 and GASB No. 35, such as State appropriations and investment income.

New Accounting Pronouncements – The University adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* as of July 1, 2009. The University did not have any derivative instruments in fiscal year 2010. This statement had no impact on the University's financial statements.

The University also adopted GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets* as of July 1, 2009. This statement had no retroactive impact on the University's financial statements. In June of 2010, the University acquired software with a cost of $399,000 which will be depreciated over 5 years.

Note 2 – Deposits and Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosures* requires general disclosures by investment type with disclosures of the specific risks exposures of those investments. Investments exposed to credit risk, custodial credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk must be disclosed, and the deposit and investment policies (or the lack of a policy) that relate to these risks must be described if the reporting entity is exposed to them.

The Public Funds Investment Act (30 ILCS 235) authorized the University and its Board of Trustees to invest in bonds, notes, certificates of indebtedness, treasury bills, or other securities guaranteed by the United States; interest-bearing savings accounts, certificates of deposit, interest-bearing deposits, or any other investment that constitutes direct obligations of any bank; short-term discount obligations of the Federal National Mortgage Association; shares or other securities legally issued by certain state or federal savings and loan associations; insured dividend-bearing share accounts and certain other accounts of chartered credit unions; certain money market mutual funds; the Illinois Funds Money Market Funds; and repurchase agreements that meet certain instrument and transaction requirements. The Foundation is not subject to such restrictions.

Deposits – At June 30, 2010, the carrying amount of the University and the Foundation's deposits with private financial institutions were $9,962,352 and $2,291,987, respectively. This amount consisted of cash and certificates of deposit deposited with the financial institutions. For financial reporting purposes, these deposits have been classified as cash and cash equivalents or investments, depending upon the original maturity of the financial instrument.

Carrying amounts at year-end of the above deposits, pooled investments and cash on hand consisted of:

	University		Foundation	
Deposit Type	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash in bank	$ 4,474,311	$ 6,284,388	$ 980,977	$ 1,003,150
Money markets			5,464	5,464
Certificates of deposit			1,305,546	1,305,546
Total deposit accounts	4,474,311	$ 6,284,388	2,291,987	$ 2,314,160
Add: Investments classified as cash equivalents (maturity < 90 days) - Illinois Funds	5,488,041			
Less: Certificates of deposit classified as investments (maturity > 90 days)	-		(1,305,546)	
Total Cash and Cash Equivalents	$ 9,962,352		$ 986,441	

Note 2 – Deposits and Investments (Continued)

Deposits (Continued) –

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The University requires that balances on deposit with financial institutions be either insured by Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name. The University maintains cash deposits at certain Chicago-area financial institutions. The FDIC insured bank balances totaling $2,552,739 of the University and the Foundation at June 30, 2010. The remaining bank balances as of June 30, 2010 were fully collateralized.

The University and the Foundation had no custodial credit risk due to FDIC insurance and collateral in the name of the University or the Foundation.

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

Investments

The carrying value (and market value) of the investment portfolio of the Foundation and University at June 30, 2010 consisted of the following:

	University Fair Value	Foundation Fair Value
Money Funds and Other	$ -	99,797
US Treasury and Agency Obligations		507,091
Common Stock		781,042
Corporate and International Bonds		309,273
Illinois Funds (Standard & Poors AAAm)	5,488,041	-
Total	5,488,041	1,697,203
Add: Certificates of Deposit (maturity >90 days)		1,305,546
Less: Investments classified as cash equivalents (maturity < 90 days)	(5,488,041)	
Total Investments	$ -	$ 3,002,749

Custodial Credit Risk – Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2010, all investments held by the Foundation are insured or registered and held by the Foundation or its agent in the Foundation's name.

Interest Rate Risk – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation's statement of investment objectives and guidelines states that investments in non-convertible fixed-

Note 2 – Deposits and Investments (Continued)

Investments (Continued) –

income securities other than short-term securities will be restricted to issues within a maximum fixed or expected average maturity of ten years and will be made primarily in (1) securities issued or guaranteed by the U.S. government or its agencies, (2) marketable issues of non-nuclear utility companies rated at the time of purchase within the three highest grades assigned by Moody's Investor Services, Inc. (Aaa, Aa or A) or by Standard & Poors (AAA, AA or A) and (3) bond mutual funds which invest primarily in bonds with rating of A and higher. The University's funds expected to be used within one year are invested in the Illinois Funds, which is fully collateralized and has a Standard & Poors credit rating of AAAm.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2010 are as follows:

	Maturity			
Debt Security	Less than 1 year	1 - 5 years	6 - 10 years	Total
US Treasury Obligations	$ -	$ 129,205	$ 101,180	$ 230,385
US Agency/Guaranteed Obligations	-	222,656	54,050	276,706
Total US Treasury/Agency	-	351,861	155,230	507,091
Corporate & Int'l Bonds	-	169,984	139,289	309,273
Total Debt Security Investments	$ -	$ 521,845	$ 294,519	$ 816,364

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

Note 2 – Deposit and Investments (Continued)

Investments (Continued) –

The Moody's Investor Service and Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2010 are as follows:

Credit Rating	Total Debt Securities
US Treasury Notes - no rating	$ 230,385
Aaa/AAA	314,349
Aa1/AA	13,268
Aa1/A+	19,729
Aa2/AA+	21,135
Aa2/AA	11,772
Aa2/AA-	25,528
Aa3/AA-	25,021
Aa3/A+	47,811
Aa3/A-	13,535
A1/AA	15,209
A1/AA-	10,956
A1/A+	5,496
A1/A	15,680
A2/A+	4,236
A2/A	15,274
A3/BBB+	4,547
Baa1/BBB+	9,040
Baa2/BBB+	3,681
Baa2/BBB	5,490
Baa2/BBB-	4,222
TOTAL	$ 816,364

Note 2 – Deposit and Investments (Continued)

Foreign currency risk – Foreign currency risk exists when there is a possibility that the exchange rate of foreign currencies against U.S. dollars may vary. The Foundation does not have a policy limiting its exposure to foreign currency risk.

The Foundation's exposure to foreign currency risk (valued in U.S. dollars) is as follows at June 30, 2010

Investment	Currency	Maturity	Fair Value
Norvartis Secs Invest Ltd.	Bermudian dollar	2/10/2019	$ 11,195
Rio Tinto Finance Plcp.	Australian dollar	5/1/2014	4,852
Shell Int'l Fin B V-USD	European euro	3/22/2017	13,268
Transocean Sedco Forex	Swiss franc	3/15/2018	3,681
Total			$ 32,996

Note 3 – Accounts and Loans Receivable

Accounts receivable consisted of the following at June 30, 2010:

Student tuition and fees	$ 8,447,001
Federal, state, and private grants and contracts	4,534,786
Third party and other receivables	1,681,555
Total Gross Receivable	14,663,342
Less allowance for doubtful accounts	(4,432,518)
Net Accounts Receivable	$ 10,230,824

Loans receivable consisted of the following at June 30, 2010:

Loans receivable	$ 1,663,621
Less allowance for doubtful accounts	(885,423)
Net Loans Receivable	$ 778,198

Note 4 – Capital Assets

Following are the changes in capital assets for the year ended June 30, 2010:

	Amount in thousands				
	Balance June 30, 2009	Additions	Retirements	Net Transfers	Balance June 30, 2010
Capital assets not being depreciated					
Land	$ 9,611	$ -	$ -	$ -	$ 9,611
Construction in-progress *	2,208	988	-	(675)	2,521
Total capital assets not being depreciated	11,819	988	-	(675)	12,132
Other capital assets:					
Site improvements	12,083	-	-	30	12,113
Building and building improvements	166,065	760	-	857	167,682
Equipment	28,894	1,598	(755)	(212)	29,525
Intangible Assets	-	399			399
Library books	11,005	378	-	-	11,383
Total other capital assets	218,047	3,135	(755)	675	221,102
Total	229,866	4,123	(755)	-	233,234
Less: Accumulated depreciation	(83,238)	(5,761)	497	-	(88,502)
Capital Assets, net	$ 146,628	$ (1,638)	$ (258)	$ -	$ 144,732

* - as restated for prior period adjustment, see note #16

Note 5 – Deferred Revenue

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

Tuition and fees	$ 815,815
Grants and contracts	33,488
Total Deferred Revenue	$ 849,303

Note 6 – Long Term Liabilities

Long-term liabilities as of June 30, 2010 consist of the following:

	June 30, 2010	Current Portion	Non-current Portion
Accrued compensated absences	$ 7,088,635	$ 889,225	$ 6,199,410
Revenue bonds payable	18,295,000	930,000	17,365,000
Premium on bonds	303,162	22,456	280,706
Capital lease payable	554,773	285,204	269,569
Total Long Term Liabilities	$ 26,241,570	$ 2,126,885	$ 24,114,685

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

	Beginning Balance	Additions	Payments	Ending Balance
University:				
Accrued compensated absences	$ 7,288,879	$ 633,517	$ (833,761) *	$ 7,088,635
Performance contract notes payable	-	-	-	-
Revenue bonds payable	19,185,000	-	(890,000)	18,295,000
Premium on bonds	325,618	-	(22,456)	303,162
Capital leases payable	208,979	403,532	(57,738)	554,773
Total	$ 27,008,476	$ 1,037,049	$ (1,803,955)	$26,241,570
Foundation:				
Capital leases payable	$ 2,623	$ -	$ (2,623)	$ -
Total	$ 2,623	$ -	$ (2,623)	$ -

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

Revenue Bonds Payable

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

Optional Redemption – The Series 1998 Bonds maturing on December 1, 2010, through December 1, 2018, are subject to redemption at the option of the Board, on or after December 1, 2008. The Series 1998 Bonds maturing after December 1, 2018, are not subject to optional redemption prior to maturity.

Note 6 – Long Term Liabilities (Continued)

Revenue Bonds Payable (Continued) –

Mandatory Redemption - The Series 1998 Term Bonds maturing on December 1, 2018, and December 1, 2023, are subject to mandatory redemption through the application of sinking payments, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, in the following principal amounts on December 1, in each of the years as follows:

Bonds Maturing December 1, 2018		Bonds Maturing December 1, 2023	
Year	Principal Amount	Year	Principal Amount
2014	$ 1,120,000	2019	$ 1,445,000
2015	1,180,000	2020	1,525,000
2016	1,240,000	2021	1,610,000
2017	1,305,000	2022	1,705,000
2018	1,370,000	2023	1,800,000

Bond Insurance Rating – Both Moody's Investor Service and Standard and Poor's Rating Services have indicated that they will apply the National rating to municipal bonds subject to the reinsurance agreement with MBIA Corp.

The bonds are insured by MBIA Corp. and National Public Finance Guarantee. The Rating of MBIA as of 3/05/2010 is B3 and as of 09/30/2010 the National Public Finance Guarantee is Baa1.

Maturity Information

The scheduled maturities of the revenue bonds are as follows:

Fiscal Year	Revenue Bonds	Interest	Total Payments
2011	$ 930,000	$ 917,690	$ 1,847,690
2012	975,000	874,816	1,849,816
2013	1,020,000	829,175	1,849,175
2014	1,070,000	780,570	1,850,570
2015	1,120,000	727,425	1,847,425
2016-2020	6,540,000	2,709,013	9,249,013
2021-2024	6,640,000	755,700	7,395,700
Totals	$ 18,295,000	$ 7,594,389	$ 25,889,389

Note 6 – Long Term Liabilities (Continued)

Capital Leases Payable

The University leases various copiers and other equipment under capital lease purchase contracts with interest rate of 9.22% for the copiers and 0.00% for the other equipment. The capital leases payable are secured by the equipment being financed. The scheduled maturities of the capital leases are as follows:

Fiscal Year	Principal	Interest	Total Payments
2011	$ 285,204	$ 10,474	$ 295,678
2012	168,686	2,631	171,317
2013	100,883	-	100,883
Totals	$ 554,773	$ 13,105	$ 567,878

Note 7 – Natural Classifications

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

Compensation and benefits	$ 92,279,285
Contractual services	16,308,595
Commodities	2,339,705
Awards and grants	10,520,241
Telecommunication	711,857
Other operating expenses	5,476,098
Depreciation	5,761,265
Total Operating Expenses	$ 133,397,046

Note 8 - State Fringe Benefits

GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* requires the University to report "on behalf payments" for fringe benefits and salaries by legally separate entities as revenue and expenditures of the University. The University reported on behalf payments of $24,519,164 for year ended June 30, 2010 consisting of group insurance in the amount of $14,233,956 and pension contributions of $10,285,208.

State Universities Retirement System

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

Note 8 - State Fringe Benefits (Continued)

considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by section 5/15, chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org, or calling 1-800-275-7877.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 21.27% (7.6% for Self-Managed Plan) of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the years ended June 30, 2010, 2009, and 2008 were $10,635,583, $6,944,063, and $5,195,778, respectively, and is equal to the required contributions for each year.

Note 9 – Post employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health 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 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 one of the State's sponsored pension systems, do not contribute towards health and vision benefits. Annuitants now pay 100% for dental coverage based on a change in the past year. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5% for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health 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, vision and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, vision and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents for those benefits including dental.

Note 9 – Post employment Benefits

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

Note 10 – Liability Insurance

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

Chicago State University carries commercial excess general liability coverage of $ 11 million and also has general property insurance coverage for the replacement value of the University's property.

Note 11 – Related Party Transactions

A summary of related party transactions during the year ended June 30, 2010, is as follows:

The Chicago State University Foundation

The University and Foundation agreed to a master contract, effective June 30, 1983, and revised February 1, 1989, which specified the relationship between the two organizations, as required by the University Guidelines adopted on November 30, 1982, and revised September 10, 1997, by the Legislative Audit Commission. Under the terms of the contract, the Foundation is provided administrative support services by the University, such as maintenance, telephone, personnel, and property control. The Foundation does not directly pay the University for these services, which were valued at $73,085 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at $532,540 for the year ended June 30, 2010. Scholarships provided by the Foundation which benefited the University totaled $275,674 for the year ended June 30, 2010. The Foundation's liabilities include a payable to the University of $515,523, which includes $136,453 in Chicago Regional College Program (CRCP) project costs and payroll reimbursements. Also, included in the liability is an amount for salaries of $378,783 and duplicating services of $287.

Note 12 – Segment Information

A segment is an identifiable activity for which one or more revenue bonds or other revenue-backed debt instruments are outstanding. A segment has a specific, identifiable revenue stream pledged in support of the revenue bonds and has related expenses, gains and losses, assets and liabilities that can be identified.

The Chicago State University, University Auxiliary Facilities System Revenue, Bond Fund, Series 1998 (Revenue Bond Fund), an integral part of Chicago State University, has replaced the Revenue Fund Series of 1971 and includes all operations of the Cordell Reid Student Union Building. Its revenues are principally University Center fees, rental and use fees, leased food services, bookstore commissions, and parking fees.

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

Condensed Statement of Net Assets	**As of June 30, 2010**
Assets:	
Current assets	$ 4,095,471
Capital assets, net	13,862,087
Total Assets	17,957,558
Liabilities	
Current liabilities	2,329,901
Noncurrent liabilities	17,804,796
Total Liabilities	20,134,697
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(4,736,075)
Unrestricted	2,558,936
Total Net Assets (Deficit)	$ (2,177,139)

Note 12 – Segment Information - (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets(Deficit)	**Year Ended June 30, 2010**
Operating revenues	$ 6,745,332
Operating expenses	6,023,100
Operating income	722,232
Non-operating revenues and expenses, net	(939,101)
Decrease in net assets	(216,869)
Net assets, beginning of the year (as previously reported)	611,319
Prior period adjustment *	(2,571,589)
Net assets (deficit), beginning of the year (as restated)	(1,960,270)
Net assets (deficit), end of the year	$ (2,177,139)

Condensed Statement of Cash Flows	**Year Ended June 30, 2010**
Cash provided by (used in):	
Operating activities	$ 2,199,609
Capital financing activities	(1,847,738)
Investing activities	36
Net increase in cash	351,907
Cash, beginning of the year (as corrected) *	3,614,428
Cash, end of the year	$ 3,966,335

***** The 2009 financial statements of the University Auxiliary Facilities System Revenue Bond Fund, Series 1998 contained errors that overstated cash by $2,306,469, understated accounts receivable by $23,714, and understated accounts payable by $288,834.

Note 13 – Commitments and Contingent Liabilities

At June 30, 2010, the University had commitments on various construction projects and contracts for repairs and renovations of Douglas Hall of approximately $ 74,520.

The University is named as a defendant in approximately twelve (12) pending lawsuits. The University believes that these matters will generally be settled in favor of the University and will not result in any significant liabilities to the University.

Note 14 – Endowments

The Foundation Board resolved that an annual amount be taken from dividend and interest income on the endowment and that it be used for scholarships to the extent permitted by donor stipulation. The portion of dividends and interest available for scholarships in accordance with donor stipulations is transferred to the Expendable Restricted Funds. For the year ended June 30, 2010, endowment dividends and interest transferred to the Expendable Restricted Funds totaled $39,959

Note 15 – Pledged Revenues and Debt Service Requirements

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

Bond Issue	Purpose	Source of Revenue Pledged	Future Net Revenues Pledged (1)	Term of Commitment	Current Year Pledged Net Revenue to Debt Service (2)
Auxiliary Facilities System Revenue Bonds, Series 1998	Advance refund the Series 1994 Bonds and various improvements to the University facilities.	Net revenues of the University Center, Housing, Bookstore, Child Care, Facilities Rental and Parking.	$25,889,389	2024	4.69%

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

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

Note 16 – Prior Period Adjustments

It was discovered that the accounting for capital assets acquired through Capital Development Board (CDB) projects was improper and caused an understatement of construction in progress during prior years of $687,555. An account payable to the CSU Foundation from five years ago in the amount of $100,000 was determined not to be a true liability and was written off. Also, the University determined that numerous stale dated checks totaling $1,070,850 that accumulated over the past decade were the result of various errors. The University made adjustments to remove these from their previously reported accounts payable. The effect of these adjustments was to increase net assets as follows:

June 30, 2009 balance, as previously reported	$ 126,033,731
Adjustment to capital assets	687,555
Adjustments to accounts payable	1,170,850
Net assets, June 30, 2009, as restated	$ 127,892,136

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Net Assets (Deficit)
As of June 30, 2010

ASSETS	
Current Assets	
Cash and cash equivalents	$ 3,966,335
Accounts receivable, net	35,311
Other assets	93,825
Total Current Assets	4,095,471
Noncurrent Assets	
Land improvements	228,055
Buildings and improvements	19,710,762
Furniture and equipment	447,882
Less: accumulated depreciation	(6,524,612)
Total Noncurrent Assets	13,862,087
Total Assets	17,957,558
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	1,330,338
Long-term liabilities-current portion	999,563
Total Current Liabilities	2,329,901
Noncurrent Liabilities	
Accrued compensated absences	159,090
Bonds payable	17,365,000
Premium on bonds	280,706
Total Noncurrent Liabilities	17,804,796
Total Liabilities	20,134,697
NET ASSETS (DEFICIT)	
Invested in capital assets, net of related debt	(4,736,075)
Unrestricted	2,558,936
Total Net assets (Deficit)	$(2,177,139)

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
For the year ended June 30, 2010

OPERATING REVENUES		
Room and board, (net of scholarship allowances of $34,861)	$	2,538,213
Bookstore commissions		291,911
Vending and catering commissions		125,008
Child care center fees		45,529
Parking fees		1,005,602
University center fees		2,739,069
Total Operating Revenues		6,745,332
OPERATING EXPENSES		
Personal services		2,214,938
Expended for plant		905,897
Commodities		132,552
Contractual services		2,045,690
Depreciation		491,825
Miscellaneous		232,198
Total Operating Expenses		6,023,100
Operating income		722,232
NONOPERATING REVENUES (EXPENSES)		
Loss on disposal of capital assets		(7,080)
Investment income		36
Interest on capital asset - related debt		(932,057)
Net Nonoperating Revenues (Expenses)		(939,101)
Decrease in net assets		(216,869)
NET ASSETS		
Net assets (deficit)-beginning of year (as previously reported)		611,319
Prior period adjustment *		(2,571,589)
Net assets (deficit)-beginning of year (as restated)		(1,960,270)
Net assets (deficit)-end of year	$	(2,177,139)

* The 2009 financial statements of the University Auxiliary Facilities System Revenue Bond Fund, Series 1998 contained errors that overstated cash by $2,306,469, understated accounts receivable by $23,714, and understated accounts payable by $288,834.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Cash Flows
For the year ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Room and board	$ 2,536,635
Bookstore commissions	291,911
Vending and catering commissions	125,008
Child care center fees	45,529
Parking fees	1,005,602
University center fees	2,739,069
Payment to suppliers for goods and services	(2,341,040)
Payments to employees for services	(2,203,105)
Net cash provided by operating activities	2,199,609
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Principal paid on capital debt	(890,000)
Interest paid on capital debt	(957,738)
Net cash used by capital financing activities	(1,847,738)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	36
Net cash provided by investing activities	36
NET INCREASE IN CASH	351,907
Cash-beginning of the year, as restated due to prior period adjustment	3,614,428
Cash-end of the year	$ 3,966,335
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 722,232
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	491,825
Changes in assets and liabilities:	
Decrease in accounts receivables, net of deposits	2,278
Decrease in other assets	1,500
Increase in accounts payable and accrued liabilities	969,941
Increase in accrued compensated absences	11,833
Net cash provided by operating activities:	$ 2,199,609

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2009	7,235	5,192
Spring session, 2010	7,053	5,019
Summer session, 2010	2,641	1,391

University Center Fee (Unaudited)

For each term, the University Center Fee is assessed based upon enrollment status:

	Full-Time Student	Part-Time Student
Fall session, 2009	$ 186.00	$ 120.00
Spring session, 2010	186.00	120.00
Summer session, 2010	119.00	87.00

RENTAL DISCLOSURES (Unaudited)

On July 1, 1995, the Revenue Bond Fund renewed an annual rental agreement to provide the University with office space and meeting rooms to conduct certain University activities in the University Center for $272,000. This rental was funded by State appropriations.

SCHEDULE OF INSURANCE IN FORCE (Unaudited)

The Auxiliary System is insured under a master policy covering universities. The following insurance coverage applicable to the System was effective during the current fiscal year:

Fire and extended coverage ($25,000 deductible) of:		
Building	$	28,316,554
Contents	$	1,950,899
Business interruption	$	7,019,953
EDP	$	4,331,447
Boiler and machinery (Included in blanket coverage limit)	$	100,000,000
Earthquake	$	100,000,000
Flood	$	100,000,000
Basic general liability (SURMA)	$	350,000
Excess general liability	$	10,650,000

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Chicago State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise Chicago State University's basic financial statements and have issued our report thereon dated March 10, 2011. Our report was modified to include a reference to other auditors and to emphasize corrections of prior period errors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 10-01, 10-02, and 10-03 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in finding 10-04 in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chicago State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as finding 10-3.

Chicago State University's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Chicago State University's responses and, accordingly, we express no opinion on the responses.

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

Borschnack, Pelletier & Co.

March 10, 2011

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS

Chicago State University (University) did not perform accounting reconciliations of certain receivables, payables, prepaid expenses, and capital assets at the end of the current accounting period. We also noted errors reported in prior reporting periods that resulted in prior period adjustments recorded by the University.

We noted the following matters that the University posted as prior period adjustments:

- Construction in progress as of June 30, 2009 was understated by $687,555. The University made the entry to correct this item in the prior period.
- The University had written off $928,193 of old stale dated checks that it had determined were not valid liabilities of the University. The University wrote these off to other income, thereby misstating its current year revenues. We brought this matter the University's attention and they corrected the entry by restating the beginning net assets.
- The University had not reconciled its student payable account. Upon further review, it was noted that the account's liability was overstated. It included several very old entries related to unclaimed stale checks which had never been corrected. We further noted another liability account that included additional stale dated checks. The University recorded entries totaling $142,657 to remove these erroneous entries and liabilities.
- During our review of miscellaneous accounts payable, it was noted that the account had not been reconciled and included a liability to the CSU Foundation of $100,000. This had been written off by the Foundation several years prior. The University made the entry to correct this item in the prior period.

We also noted the following financial statement matters:

- The University did not use a reasonable methodology for estimating an allowance for doubtful accounts for its student loans and student accounts. After bringing this to the attention of the University, they revised their estimates and posted adjustments that increased the student account allowance by $796,268 and the student loan allowance by $121,563.
- During our review of Auxiliary Enterprise revenues and expenses, we noted a sharp decline in revenues and expenses. Upon investigation, we were told that the food service revenues and expenses for students in University housing had been removed (or netted out) from the accounting records. The University posted an adjustment to gross up those revenues and expenses of $1,204,693.
- The University had not reconciled its accounting records to the records maintained by its third party service organization that services the University's Federal Perkins Loan program and its former Nursing Student Loan Program. The University's general ledger reflected a net loan balance of $1,731,920. The detail loan balance per the service organization was $1,663,661. After bringing this matter to the University's attention, the University investigated the difference further and posted adjustments to the financial statements totaling $66,732. An adjustment of $1,527 was not recorded by the University.
- We reviewed the detail provided for third party accounts receivable at June 30, 2010. We noted that the detail records had not been reconciled to the general ledger. After further investigation by the University, it was determined that the receivable balance was over-stated. The University made an entry of $412,372 to write down the balance to the detail.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS (Continued)

- We noted that the University had not reconciled the program and fiscal records related to its Student Financial Assistance Program accounts. Our reconciliations indicated that grant receivables were understated by $24,438 and accounts payable to students were understated by $106,991. The University subsequently posted the adjustment.
- Our review of the accounts payable detail identified two items (included as debits to accounts payable) that should have been recorded as a prepaid expense ($89,474) and another item ($100,473) that should not have been recorded (was not incurred until fiscal year 2011). After these items were brought to the attention of the University, an entry was made to correct accounts payable.
- We reviewed the activity of the University's institutional loans. We noted that there had been no activity in this loan receivable account since 1997. After bringing this to the University's attention, it was determined that the University did not have any supporting documentation detailing these loans. The University posted an entry of $65,856 to write-off these loans that could not be collected.
- We reviewed the detail of the bookstore payable account and noted that the account had not been reconciled by the University. Upon further review of the account, the University discovered that the liability had been recorded in two liability accounts. The University corrected the financial statements by making a $95,299 adjustment to ensure that it was only recorded once.
- The detailed accounts payable listing provided by the University included a vendor called "Unreconciled". The University had no idea whom these amounts were payable to or if they were payable. The University wrote off these balances totaling $55,675.
- We noted the University had recorded an entry of $584,923 to buildings and commenced depreciation ($14,074) on the asset; however, this asset was architectural fees for a proposed new building construction. Building construction has not yet commenced or been abandoned so the fees should continue to be carried as a non-depreciable capital asset until it is either abandoned or placed in service. The University recorded an entry after the auditors brought the matter to the University's attention.
- While reviewing the capital assets activity of the University, we noted that the $293,691 loss on disposal of capital assets was posted to an expense account. The entry caused the expenses to be over-stated and the loss on disposal of assets to be under-stated. The University corrected the entry after the auditors brought the matter to their attention.
- The University did not correctly record the current portion of its capital lease payable. The annual payment was due by June 30, 2010, but it was paid on October 15, 2010. This resulted in two annual payments being due as the University's current portion. After bringing this to the attention of the University, an entry of $100,883 was made to correct the current and long term portion.
- We noted a $4,924 miscellaneous accounts payable related to a program that has not existed at the University for many years. The University wrote off the payable.
- During our voucher testing, we also noted $139,180 of vouchers charged to fiscal year 2010 that should have been recorded in the June 30, 2009 accounts payable. The University did not record this proposed adjustment.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS (Continued)

After being informed that the University was making these entries, we inquired whether the University obtained the necessary approvals from the Attorney General's Office to write off the receivables that exceeded $1,000 and performed the other procedures required by the Uncollectible State Claims Act. We were informed that they had not as of the date of our inquiry.

According to accounting principles generally accepted in the United States of America (GAAP) an error in recognition, measurement, presentation or disclosure in financial statements resulting from an oversight at the time the financial statements were prepared is a misstatement, that if material, either individually or in the aggregate, would result in an adverse audit opinion on the financial statements. Correction of an error in previously issued financial statements discovered subsequent to their issuance should be reported as a prior-period adjustment, the cumulative effect reflected in the carrying amount of assets and liabilities as of the beginning of the first period presented. In addition, the entity should disclose the effect of the correction of the error. Therefore, such adjustments should not affect current year revenue or expenditure amounts. The University adjusted the current year financial statements and made a prior period adjustment to correct the errors.

The University's Board of Trustees and management share the ultimate responsibility for the University's internal control over financial reporting. This responsibility should include an adequate system of review in the completeness and accuracy of the University's financial statements and disclosures to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports. The Uncollectible State Claims Act (30 ILCS 205) requires the University to obtain approval from the Attorney General to write off claims of $1,000 or more after having pursued all reasonable means of collection.

University management stated that they are in the process of cleaning up certain accounts on its books and has been assisted in this effort through the audit testing. The approval of the Attorney General had not been requested earlier due to a focus on completing the financials and the audit.

Failure to perform regular account reconciliations resulted in inaccurate accounting records. Using inaccurate accounting records to prepare the financial statements increases the likelihood that financial statements may be materially misstated. (Finding Code No. 10-1)

RECOMMENDATION

We recommend that the University enhance its procedures to ensure that accounting records are properly reconciled and evaluated and allow for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-1 FINDING: FINANCIAL STATEMENT ADJUSTMENTS (Continued)

UNIVERSITY RESPONSE

The University agrees with the recommendation and will make every effort to comply to the greatest extent of its resources. Management notes that most of the exceptions cited relate to omissions in prior years which were somehow overlooked for a long time and expects that resources will need to be managed very carefully, which it intends to do, in order to avoid similar problems from recurring.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-2 FINDING: NONCOMPLIANCE WITH UNCLAIMED PROPERTY ACT AND WRITE OFF OF ACCOUNTING ERRORS

Chicago State University (University) did not fully comply with the Uniform Disposition of Unclaimed Property Act (Act) and recorded a prior period adjustment for old accounting errors.

After the completion of each calendar year, the University transfers its old outstanding checks to a liability account and removes them from its bank reconciliation. During our audit, we noted that these liability accounts (that were included in the accounts payable balance) contained stale dated checks which had never been cashed. Some of these checks were issued over eleven years ago. The balance of checks older than 7 years old that remained as a liability on the University's Statement of Net Assets as of June 30, 2010 was $148,552.

We also noted that the University wrote off approximately $1,071,000 of stale checks that were payable to businesses and individuals that it believes were not valid liabilities of the University. The University recorded a prior period adjustment to its 2009 net assets to remove these liabilities. Although we concur that most of these stale checks were likely the result of accounting errors, the University still has a due diligence requirement to investigate each one of these stale dated checks, and comply with the Act.

Good business practices would require procedures to monitor outstanding items during reconciliations of cash on a timely basis and determine the proper disposition of stale checks promptly. The canceling of outstanding checks and transfer to a liability does not aid this process.

The Uniform Disposition of Unclaimed Property Act (765 ILCS 1025/11(a)) states that every person holding funds or other property, tangible or intangible, presumed abandoned under this Act shall report and remit all abandoned property specified in the report to the State Treasurer with respect to the property as hereinafter provided. According to the Act (765 ILCS 1025/8.1 (a)), all tangible personal property or intangible personal property and all debts owed or entrusted funds or other property held by any federal, state or local government or governmental subdivision, agency, entity, officer or appointee thereof, shall be presumed abandoned if the property has remained unclaimed for 7 years.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that funds are safeguarded against waste, loss, unauthorized use, and misappropriations.

University officials stated the expectation of the new management coming on board in mid FY10 was that checks older than the seven-year holding period under the Unclaimed Property Act would need to be remitted to the State Treasurer at the next regular reporting date of November 1, 2010 or otherwise disposed of prior to that date.

The other concern was the high dollar amount of the stale-dated check liability at almost $2 million. The expectation was that reporting and remitting stale-dated checks by the next regular reporting date and decreasing the liability dramatically would remove the conditions that led to the finding. However, according to University officials, due to the provisions of the Act regarding the seven-year holding period and the annual filing date versus the different timeframe of the University's fiscal year, it was not possible to avoid the finding for FY10. In addition, through expending the effort to review a

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-2 FINDING: NONCOMPLIANCE WITH UNCLAIMED PROPERTY ACT AND WRITE OFF OF ACCOUNTING ERRORS (Continued)

tremendous quantity of stale-dated checks that were not reviewed in prior years, it was determined that a significant portion were not true liabilities or valid claims and were primarily the result of accounting errors in previous years.

Failure to review unclaimed monies could result in noncompliance with the Act. (Finding Code Nos. 10-2, 09-1, 08-4 and 07-12)

RECOMMENDATION

We recommend that the University continue its evaluation of stale checks and comply with the requirements of the Act.

UNIVERSITY RESPONSE

The University agrees with the recommendation and will make every effort to comply to the greatest extent of its resources.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-3 FINDING: INACCURATE FINANCIAL REPORTING FOR THE UNIVERSITY AUXILIARY FACILITIES SYSTEM REVENUE BOND FUND

Chicago State University (University) did not properly report financial information of the University Auxiliary Facilities System Revenue Bond Fund (System).

During our testing of financial statements of the System, we noted that the University did not have a proper system to ensure that the reporting for the System was done correctly and consistently. After inquiries by the auditor, the University made a correction to the beginning net assets in the amount of $2,571,589 which related to a $2,306,469 overstatement of cash, a $23,714 understatement of accounts receivable, and a $288,834 understatement of accounts payable. (This adjustment is unrelated to the prior period adjustments described in Note 16 in the Notes to the Financial Statements and in Finding 10-1.)

The bond indenture for the System requires the University to keep proper books of records and accounts in which complete and correct entries will be made of all expenditures for maintaining, operating and repairing the System and all income and revenues collected therefrom. It also requires the University to prepare financial statements reflecting in reasonable detail the financial condition of the University and the operations of the System in accordance with generally accepted accounting principles.

University officials stated that the accounting system captured all the transactions of the auxiliary activities; however, the financial reports are not generated automatically and had to be manually prepared from extracted reports. Fund financial statements are prepared for auxiliary entities using fund accounting and auxiliary financial statements are prepared applying the provisions of GASB Statement No. 35. There was no reconciliation of the fund balances of the fund financial statements to the net asset balances reported in the System's financial statements in prior years which caused the improper reporting.

The inaccurate financial reporting is a violation of the Revenue Bond Indenture and may impair decision making abilities of the bondholders or anyone else who may be relying on this information. (Finding Code No. 10-3)

RECOMMENDATION

We recommend the University ensure that proper financial reporting is achieved to ensure that bond holders have proper financial information for the University and the System in accordance with generally accepted accounting principles.

UNIVERSITY RESPONSE

The University agrees with the recommendation. It became apparent that the reporting performed in previous years was inaccurate and commingled data from non-Revenue Bond sources in the fixed assets component which distorted the reporting and misstated the beginning net assets. The University intends to improve the reporting going forward to ensure compliance with the applicable financial reporting requirements.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-4 FINDING: PURCHASING CARD PROCEDURES

Chicago State University (University) did not process certain expenditures in compliance with its Purchasing Card Policy and Procedures.

During 2010, the University made net purchases totaling $907,098 with its purchasing cards. During our testing of 40 purchasing card transactions totaling $73,212 for expenditures for services, travel, commodities, and equipment, we noted the following:

- Nineteen (48%) transactions totaling $63,488 exceeded the single transaction limit of $1,000.
- Two (5%) transactions totaling $968 were for purchases involving labor or services.
- All of the 40 transactions were not coded to the general ledger in a timely manner. The transactions were coded to the accounting system between 30-95 days after the transaction was posted in the payment system.

During our review of all of the cardholder agreements (three) still open, we noted the following:

- 1 (33%) of the cardholder agreements was noted to have been signed (as cardholder) and approved (as fiscal officer) by the same individual.
- 1 (33%) of the cardholder agreements was noted to have been signed by the cardholder in July 2009, but was not approved by the fiscal officer until July 2010.
- All of the cardholder agreements failed to include the official date of training on the cardholder agreement.

We selected and tested four monthly billing statements for three card holders and noted the following:

- 3 (25%) of the statements tested exceeded the monthly spending limit of $15,000.

The University Purchasing Card Policy and Procedures Manual Section 4.1 states that the Cardholders's single transaction limit is $1,000 and the monthly spending limit is $15,000. Section 4.4 requires the cardholder to review daily/weekly transactions and reallocate each charge to the appropriate University account number. Section 7.1 of the manual lists prohibited transactions which include services involving labor.

The University Purchasing Card Policy and Procedures Manual Section 16.2 states that employees must complete the Procurement Card Agreement and have it approved by the Fiscal Officer, and not engage in stringing of successive purchases to avoid the single transaction limit. Section 3.2.3 requires that the Cardholder and Approving Official must attend a training session.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that funds are safeguarded against waste, loss, unauthorized use, and misappropriations.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

10-4 FINDING: PURCHASING CARD PROCEDURES (Continued)

University officials stated the $1,000 limit was intended for individual P-card users only, whereas the Purchasing and Physical Plant card holders were intended as exceptions because they were making purchases on behalf of the University at large. Similarly, the monthly spending limit was not intended to be $15,000 since two cards were intended to be used to make purchases for the University at large. A revised policy was prepared to account for the limits but it had not been posted on the web site. The purchases involving labor were unintended exceptions. The timing of posting to the ledger is due to batch processing after the month in question has ended as the University does not consider it efficient to post transactions throughout the month on a piece-meal basis. Rather, all posting is done following the month to facilitate reconciliation to the monthly invoice from the bank. The other exceptions noted occurred during the transition to new management at the University. New management has reemphasized adherence to written policies and training sessions have been offered to the University at large and the number of cardholders has been kept to a minimum.

Lack of adherence to procedures for use of purchasing cards could result in misappropriation of state funds. (Finding Code Nos. 10-4, 09-3, and 08-8)

RECOMMENDATION

We recommend that the University re-evaluate its Purchasing Card Policies and Procedures Manual to determine if existing policies are still appropriate for the changes that have been made to the program. After re-evaluation, we recommend the University adhere to its Purchasing Card Policy and Procedures Manual.

UNIVERSITY RESPONSE

The University agrees with the recommendation and has revised its Purchasing Card Policies to more clearly reflect its intended business practices.

PRIOR FINDINGS NOT REPEATED – GOVERNMENT AUDITING STANDARDS

A **FINDING: Voucher Processing Errors**

Chicago State University (University) did not process certain expenditures accurately and did not pay certain expenditures in a timely manner. (Finding Code No. 09-02)

Status – This finding is being repeated in the current year but the classification has changed in the current year to a State compliance finding (Finding 10-34).