STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017

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University Officials

Interim President	Dr. Rachel Lindsey, PhD (04/17/17 to Present)
	Mr. Cecil B. Lucy, JD, MBA, CPA (09/16/16 to 04/16/17)
President	Dr. Thomas J. Calhoun, Jr. (01/01/16 to 09/15/16)
President Emeritus	Dr. Wayne Watson (12/31/15 to Present)
Provost and Senior V.P. for Academic Affairs	Dr. Angela M. Henderson
Deputy General Counsel	Ms. Stephanie Kelly, Esq. (09/01/17 to Present)
Vice President and General Counsel	Vacant (05/23/17 to 08/31/17)
	Mr. Patrick B. Cage, Esq. (11/01/09 to 05/22/17)
V.P. of Administration and Finance	Ms. Simone A. Edwards (12/01/17 to Present)
Interim V.P. of Administration and Finance	Ms. Arrilean Patawaran (06/20/17 to 11/30/17)
	Vacant (06/08/17 to 06/19/17)
	Mr. Cecil B. Lucy, JD, MBA, CPA (10/01/15 to 10/31/16) (04/17/17 to 06/07/17)
Acting V.P. of Administration and Finance	Mr. Larry D. Owens, CPA (11/01/16 to 04/16/17)
Associate V.P. of Administration and Finance	Ms. Maricela Aranda
Interim Executive Director/Controller	Mr. Larry D. Owens, CPA (06/13/16 to Present)
Chief Internal Auditor	Mr. Michael N. Mayo, CPA

University offices are located at:

9501 South Martin Luther King Drive
Chicago, Illinois 60628

State of Illinois
Chicago State University
Financial Audit
For the Year Ended June 30, 2017

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of Chicago State University (University) was performed by E. C. Ortiz and Co., LLP.

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

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 of Findings on pages 52 through 57 of this report as items 2017-001, *Inadequate Control over Reporting Restricted Accounts* and 2017-002, *Noncompliance with Bond Covenants*. The significant deficiencies are described in the accompanying Schedule of Findings on pages 58 through 61 of this report as items 2017-003, *Financial Statement Adjustments* and 2017-004, *Noncompliance with Unclaimed Property Act*.

Exit Conference

The University waived having an exit conference in a letter dated December 5, 2017 from Mr. Larry Owens, Interim Executive Director/Controller.

Responses to the recommendations were provided by Mr. Larry Owens, Interim Executive Director/Controller, in the letters dated December 6, 2017 and February 2, 2018.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Chicago State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Chicago State University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports 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 from material misstatement.

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

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

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

Opinions

In our opinion, based on our 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 of the University and its discretely presented component units, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, the unrestricted net position as of July 1, 2016 has been restated for a prior year reporting error. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and discretely presented component units of the University in our report dated March 17, 2017, prior to the identification of an error described in Note 1, Reclassifications. Because the University reclassified all Auxiliary Facilities System's net position to restricted from unrestricted, we express no opinion on the University's summarized comparative information presented herein.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Share of Net Pension Liability, Schedule of Contributions, and Notes to Required Supplementary Information on pages 7 through 14 and 44 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 46 through 48 and the other information on page 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 46 through 48 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, the University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 46 through 48 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The "Unaudited" other information on page 49 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated February 14, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
February 14, 2018

Background

Chicago State University (CSU or University) was founded as a teacher-training school over 140 years ago. It is located in a residential community on the south side of Chicago, approximately 12 miles south of downtown Chicago. Today the University is composed of five colleges - the College of Arts & Sciences, the College of Business, the College of Education, the College of Health Sciences, and the College of Pharmacy. CSU offers thirty-six undergraduate degrees, twenty-two graduate degrees, and two doctoral degrees (the Doctorate of Education in Educational Leadership and the Doctor of Pharmacy). It also offers an interdisciplinary Honors College for highly motivated students in all areas of study and has a Division of Continuing Education. While CSU has been accredited through the 2022 – 2023 academic year by the Higher Learning Commission (Commission), it was notified in mid-2016 that due to the precarious financial state caused by the budget impasse in Springfield, its accreditation was in jeopardy. In November 2017, the Commission informed the University that it had removed the aforementioned sanction as a result of the University's ability to demonstrate that it meets HLC's Criteria for Accreditation.

Operational and Financial Highlights

The Fiscal Year 2017 operating loss ($82.1 million) decreased by $1.2 million compared to the previous fiscal year's operating loss ($83.3 million). This slight decrease is attributed to continued pressures to maintain reduced operating costs relative to the reduction in the State financial support and declining student enrollment. The net decrease in nonoperating revenues ($2.9 million) is attributed to a decrease in State appropriation funding ($7.4 million), an increase in State fringe benefits ($7.2 million), a decrease in State nonoperating grants ($0.4 million), a decrease in federal nonoperating grants ($3.6 million) and a decrease in other nonoperating expenses ($1.1 million). The decrease in other revenues, expenses, gains or losses ($2.6 million) is mainly attributed to the drastically reduced State support for capital projects. The following is a financial comparison for the twelve months ending June 30, 2017 and 2016.

	2017 (in thousands)	2016 (in thousands)	Increase (Decrease)
Operating loss	$ (82,065)	$ (83,308)	$ 1,243
Nonoperating revenues	70,163	73,063	(2,900)
Other revenues, expenses, gains or losses	(525)	2,030	(2,555)
Decrease in net position	$ (12,427)	$ (8,215)	$ (4,212)

State of Illinois
Chicago State University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Management's Discussion and Analysis

The management's discussion and analysis (MD&A) section of this report presents the University's financial information in a condensed financial presentation format for fiscal years ended June 30, 2017 and 2016. This section of the report is designed to provide an overview of the changes in financial activities from one year to the next, and should be read in conjunction with the University's basic financial statements. The University's management is responsible for the completeness and fairness of this information.

The MD&A focuses on the University and excludes the discretely presented component units (Chicago State University Foundation and The University Foundation at Chicago State). MD&A for the component units are included in their separately issued financial statements. Refer to the Notes to the Basic Financial Statements (Note 1 on page 19) for information on how to obtain the financial statements of the component units.

Using the Financial Statements

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows emulate the corporate presentation models whereby all of the University's activities are consolidated into one total. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35. The financial statements encompass the University and its discretely presented component units.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources and liabilities of the University using the accrual basis of accounting and reflects the financial position of the University at the end of the fiscal year. The statement reflects the University's financial position at a certain date. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University, while the change in net position that occurs over time is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. Net position has been further categorized as (i) Net investment in capital assets, (ii) Restricted nonexpendable – net position that are permanently restricted by externally imposed stipulations, (iii) Restricted expendable – net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (iv) Unrestricted – net position that 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.

A summary of the University's assets, deferred outflows, liabilities and net position for the year ended June 30, 2017 in comparison with June 30, 2016 are as follows:

	2017 (in millions)	2016 (in millions)	Change (in millions)
Assets			
Current assets	$ 17.7	$ 26.2	$ (8.5)
Noncurrent assets:			
Capital assets, net	149.1	154.7	(5.6)
Other	2.4	2.8	(0.4)
Total Assets	169.2	183.7	(14.5)
Deferred outflows for pension expense	0.2	0.3	(0.1)
Liabilities			
Current liabilities	15.1	16.6	(1.5)
Noncurrent liabilities	12.4	14.1	(1.7)
Total Liabilities	27.5	30.7	(3.2)
Net Position			
Net investment in capital assets	138.0	142.1	(4.1)
Restricted, expendable	2.9	2.8	0.1
Unrestricted	1.0	8.4	(7.4)
Total Net Position	$ 141.9	$ 153.3	$ (11.4)

Current Assets

Current assets decreased by $8.5 million from the balance one year ago ($26.2 million) to the current balance ($17.7 million). The decrease is attributable to cash outlays for operating activities.

Noncurrent Assets (Capital)

Noncurrent assets (Capital) decreased by $5.6 million from the balance one year ago ($154.7 million) to the current balance ($149.1 million). The decrease consists of annual depreciation charges ($6.2 million), slightly offset by net capital additions ($0.6 million).

Current Liabilities

Current liabilities decreased by $1.5 million from the balance one year ago ($16.6 million) to the current balance ($15.1 million) mainly due to decreases in accrued wages ($1.1 million), unearned revenues ($0.4 million) and the current portion of long term liabilities ($0.2

million), slightly offset by the small increase in accounts payable and accrued liabilities ($0.5 million).

Noncurrent Liabilities

Noncurrent liabilities decreased by $1.7 million from the balance one year ago ($14.1 million) to the current balance ($12.4 million) and is attributed to the decrease in bonds payable and a decrease in employee compensated absences.

Net Position (Net investment in capital assets)

Capital net position ($138.0 million) decreased by $4.1 million from the balance one year ago ($142.1 million). Capital assets decreased by $5.6 million and related debt decreased by $1.4 million.

Net Position (Unrestricted)

Unrestricted net position ($1.0 million) decreased by $7.4 million from the balance one year ago ($8.4 million). This is predominantly attributed to the decreased operating results from lower enrollment and reduced appropriations.

Statement of Revenues, Expenses and Changes in Net Position

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

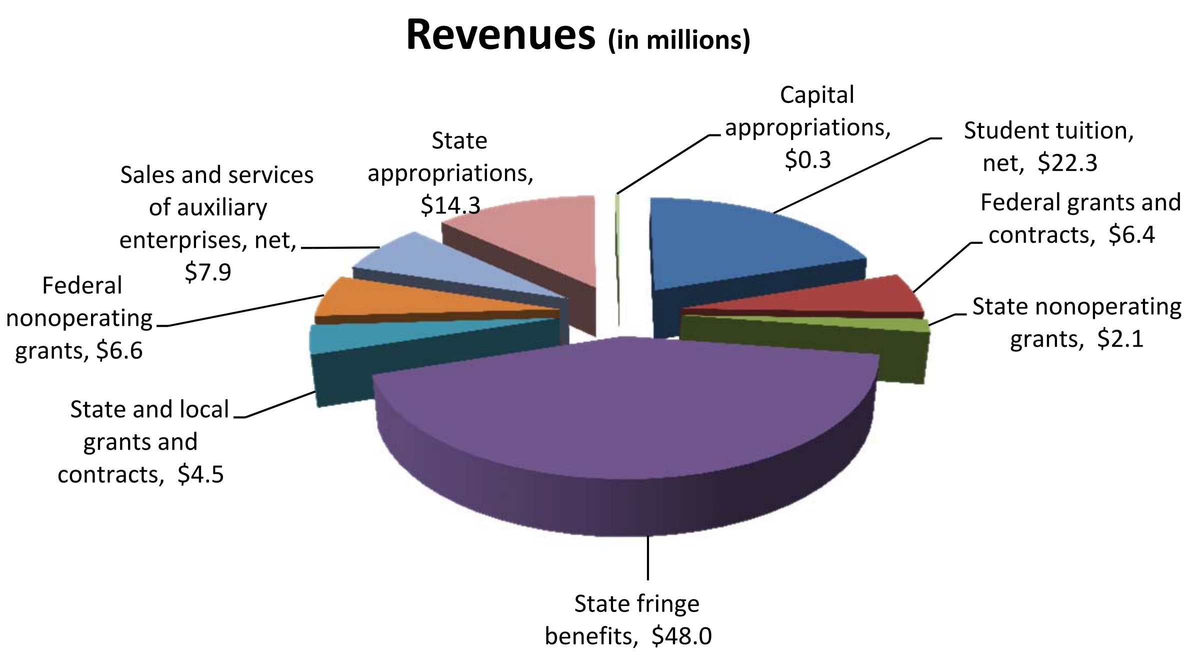
Operating revenues primarily result from exchange transactions where each of the parties to the transaction either gives up or receives something of equal or similar value. The major sources of the University's operating revenues are student tuition and fees, certain grants, and auxiliary revenues.

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

Revenues

A summary of the University's revenues for the year ended June 30, 2017 in comparison with June 30, 2016 is as follows:

	2017 (in millions)	2016 (in millions)	Change (in millions)
Operating Revenues			
Student tuition and fees, net	$ 22.3	$ 26.5	$ (4.2)
Federal grants and contracts	6.4	7.1	(0.7)
State and local grants and contracts	4.5	3.2	1.3
Sales and services of auxiliary enterprises, net	7.9	10.6	(2.7)
Total Operating Revenues	41.1	47.4	(6.3)
Nonoperating Revenues			
State appropriations	14.3	21.7	(7.4)
State fringe benefits	48.0	40.8	7.2
State nonoperating grants	2.1	2.5	(0.4)
Federal nonoperating grants	6.6	10.2	(3.6)
Total Nonoperating Revenues	71.0	75.2	(4.2)
Other Capital Revenues			
Capital appropriations	0.3	2.0	(1.7)
Capital grants and gifts	0.1	–	0.1
Total Other Revenues	0.4	2.0	(1.6)
Total Revenues	$ 112.5	$ 124.6	$ (12.1)



Student Enrollment

	Head Count		Change	Credit Hours		Change
Terms	**FY 2017**	**FY 2016**	**%**	**FY 2017**	**FY 2016**	**%**
Fall	3,578	4,767	(24.9%)	37,967	49,146	(22.7%)
Spring	3,244	4,441	(27.0%)	34,288	45,671	(24.9%)
Summer	1,026	899	14.1%	5,526	4,811	14.9%

Operating Revenues

Operating revenues ($41.1 million) decreased by $6.3 million from the prior year's amount ($47.4 million) for the following reasons:

- Tuition decreased ($4.2 million) due mostly to the decline in tuition and fees as a result of declining enrollment, particularly in the undergraduate programs.

- Revenues from Sales and Services of Auxiliary Enterprises decreased by $2.7 million, having also been impacted by the declining student enrollment.

Nonoperating Revenues

Nonoperating revenues ($71.0 million) decreased by $4.2 million from the prior year's amount ($75.2 million) for the following main reasons:

- The state appropriations revenue decrease ($7.4 million) is attributed to the decline in State financial support.

- State fringe benefits revenues increased by $7.2 million. The revenue represents the State of Illinois' direct contributions towards the University's employees' retirement and healthcare benefits. The change in the level of State's funding is determined by the cost of the benefits and the State of Illinois' ability to pay for the benefits. Lastly, the related employee benefit cost is reported as On-behalf State Fringe Benefits of the Educational and General Operating Expenses section of the report.

- Federal nonoperating grant revenues relating to student financial aid awards decreased by $3.6 million due to a decline in student enrollment.

Other Capital Revenues

Other capital revenues ($0.4 million) decreased by $1.6 million from the prior year's amount ($2.0 million) due to significant reductions in both University capital spending and the State of Illinois Capital Development Board spending for various capital renovations managed by them.

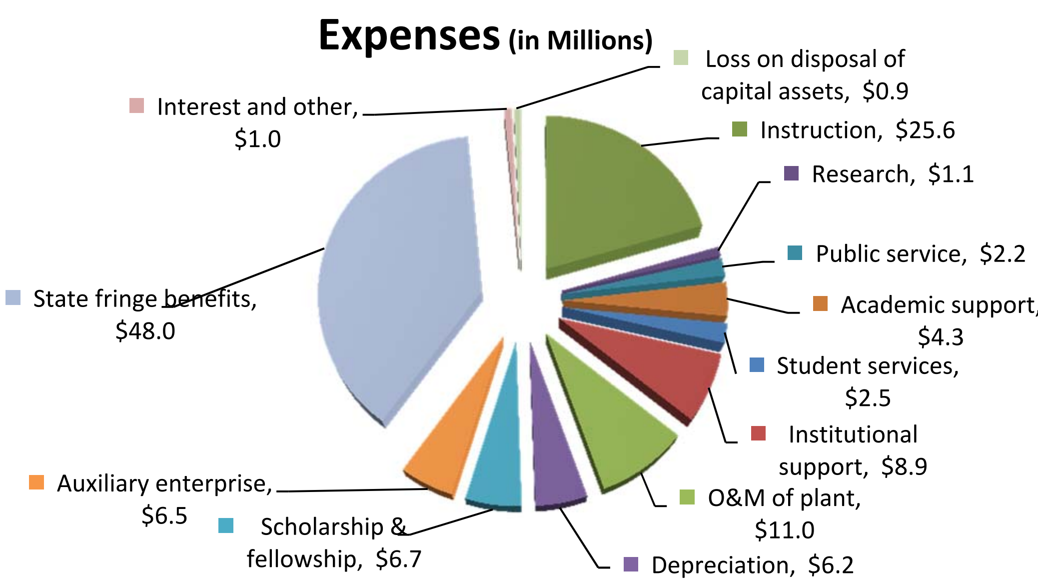
State of Illinois
Chicago State University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Expenses

A summary of the University's operating expenses for the fiscal year ended June 30, 2017 in comparison with the fiscal year ended June 30, 2016 is as follows:

	2017 (in millions)	2016 (in millions)	Increase (Decrease)
Operating Expenses			
Education and general:			
Instruction	$ 25.6	$ 33.5	$ (7.9)
Research	1.1	1.7	(0.6)
Public service	2.2	3.0	(0.8)
Academic support	4.3	4.8	(0.5)
Student services	2.5	2.8	(0.3)
Institutional support	8.9	11.1	(2.2)
Operations and maintenance of plant	11.0	10.6	0.4
Depreciation	6.2	6.1	0.1
Scholarship and fellowship	6.7	8.9	(2.2)
Auxiliary enterprise expenses	6.5	7.4	(0.9)
On-behalf State fringe benefits	48.0	40.8	7.2
Total Operating Expenses	123.0	130.7	(7.7)
Other Nonoperating Expenses			
Interest and other expenses	1.0	2.1	(1.1)
Other Capital Expenses			
Loss on disposal of capital assets	0.9	–	0.9
Total Expenses	$ 124.9	$ 132.8	$ (7.9)

The following graphic illustration presents the operating expenses by function.



Operating Expenses

Operating expenses decreased by $7.7 million from the balance one year ago ($130.7 million) to the current balance ($123.0 million). The decrease is directly related to reduction in student service expenditures as a result of the overall decline in student enrollment, and fall into the following areas:

- Decrease in expenses incurred over the previous fiscal year of approximately $12.3 million were realized in Instruction ($7.9 million), Scholarship and fellowship ($2.2 million), and Institutional support ($2.2 million), due to continuing decline in student enrollment.

- Interest and other expenses decreased ($1.1 million) mainly due to 2016 payout that concluded a pending lawsuit.

- On-behalf State fringe benefits increased ($7.2 million). Since this benefit is managed and funded by the State of Illinois, under generally accepted accounting principles, the expense relating to University employees is reflected in the financial statements with an offset to revenue on the State fringe benefits line item reported in the nonoperating revenue (expenses) section of the financial statements.

Economic Factors That Will Affect the Future

The State of Illinois continues to rally around taking steps to creating a pathway for sound fiscal management. In early July 2017, the State passed appropriations for both fiscal years 2017 and 2018. However, it continues to face economic challenges, including escalating employee benefit costs and a back log of obligations. The State of Illinois continues to lag in the unemployment economic indicator relative to its neighboring states. For the month ended August 2017, the Illinois unemployment rate was 5.0% while its neighboring unemployment rate ranged from 3.3% to 3.5%.

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2017
(With Summarized Comparative Information as of June 30, 2016)

	2017			2016		
	University	**CSUF**	**TUFCS**	**University**	**CSUF**	**TUFCS**
ASSETS						
Current Assets						
Cash equity with State Treasurer	$ 598,094	$ -	$ -	$ 1,608,491	$ -	$ -
Cash and cash equivalents (Note 2)	10,126,127	-	150,216	15,274,721	-	53,693
Cash and cash equivalents - restricted (Note 2)	1,938,884	-	980,507	1,692,690	-	789,897
Securities lending collateral equity of State Treasurer (Note 2)	196,073	-	-	425,860	-	-
Balance in State Appropriation	153,500	-	-	24,879	-	-
Accounts receivable, net (Note 3)	4,216,106	-	-	6,765,204	-	28,951
Accounts receivable, net - restricted (Note 3)	5,780	-	-	126,419	-	-
Inventories	20,682	-	-	23,706	-	-
Loans and notes receivable, net (Note 3)	25,571	-	-	22,522	-	-
Prepaid expenses and other assets	356,134	-	-	211,673	-	6,551
Prepaid expenses and other assets - restricted	57,338	-	-	56,280		
Total current assets	17,694,289	-	1,130,723	26,232,445	-	879,092
Noncurrent Assets						
Cash and cash equivalents - restricted (Note 2)	1,990,196	-	-	2,154,181	-	-
Endowment investments (Note 2)	-	-	4,885,973	-	5,036,281	-
Loans and notes receivable, net (Note 3)	484,504	-	-	627,144	-	-
Capital assets, net (Note 4)	149,088,569	-	-	154,682,708	-	-
Total noncurrent assets	151,563,269	-	4,885,973	157,464,033	5,036,281	-
Total Assets	169,257,558	-	6,016,696	183,696,478	5,036,281	879,092
DEFERRED OUTFLOWS FOR PENSION EXPENSE	165,753	-	-	287,671	-	-
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	9,324,969	-	106,425	8,818,493	272,023	20,506
Obligations under securities lending collateral equity of State Treasurer	196,073	-	-	425,860	-	-
Accrued wages (Note 5)	957,840	-	-	2,143,411	-	-
Unearned revenue (Note 6)	2,248,565	-	-	2,605,908	-	-
Long-term liabilities - current portion (Note 7)	2,394,822	-	-	2,587,263	-	-
Total current liabilities	15,122,269	-	106,425	16,580,935	272,023	20,506
Noncurrent Liabilities						
Accrued compensated absences (Note 7)	2,692,405	-	-	2,962,118	-	-
Bonds payable (Note 7)	9,455,000	-	-	10,760,000	-	-
Premium on bonds (Note 7)	123,510	-	-	145,967	-	-
Intangible asset payable (Note 7)	99,794	-	-	199,587	-	-
Capital leases payable (Note 7)	-	-	-	2,956	-	-
Total noncurrent liabilities	12,370,709	-	-	14,070,628	-	-
Total Liabilities	27,492,978	-	106,425	30,651,563	272,023	20,506
NET POSITION						
Net investment in capital assets	137,979,463	-	-	142,098,962	-	-
Restricted for:						
Nonexpendable						
Endowments	-	-	-	-	2,840,820	-
Scholarships and academic support	-	-	2,840,820	-	-	-
Expendable						
Direct programs and scholarships	57,087	-	3,515,660	109,435	2,186,381	789,897
Loans	548,882	-	-	666,668	-	-
Capital projects	438,997	-	-	437,237	-	-
Auxiliary services	1,832,673	-	-	1,647,244		
Unrestricted	1,073,231	-	(446,209)	8,373,040	(262,943)	68,689
Total Net Position	$ 141,930,333	$ -	$ 5,910,271	$ 153,332,586	$4,764,258	$858,586

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(With Summarized Comparative Information for the Year Ended June 30, 2016)

	2017			2016		
	University	**CSUF**	**TUFCS**	**University**	**CSUF**	**TUFCS**
OPERATING REVENUES						
Student tuition and fees (net of scholarship allowances of $8,983,799 for 2017 and $12,501,405 for 2016)	$ 22,265,078	$ -	$ -	$ 26,472,595	$ -	$ -
Federal grants and contracts	6,448,567	-	-	7,101,139	-	-
State and local grants and contracts	4,451,978	-	-	3,198,762	-	-
Nongovernmental grants and contracts	6,812	-	-	23,948	-	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $95,072 for 2017 and $59,266 for 2016)	7,901,488	-	-	10,603,548	-	-
Other operating revenues	4,499	272,023	-	10,124	20,548	327,615
Total operating revenues	41,078,422	272,023	-	47,410,116	20,548	327,615
OPERATING EXPENSES						
Educational and general						
Instruction	25,628,589	-	-	33,498,981	-	-
Research	1,147,619	-	-	1,697,821	-	-
Public service	2,192,976	-	-	2,960,937	-	-
Academic support	4,281,785	-	-	4,774,182	-	-
Student services	2,542,950	-	-	2,775,201	-	-
Institutional support	8,905,865	-	-	11,121,139	-	-
Operations and maintenance of plant	11,035,916	-	-	10,648,552	-	-
Depreciation	6,197,787	-	-	6,115,677	-	-
Scholarship and fellowship	6,679,700	-	71,165	8,949,904	39,261	64,322
Auxiliary enterprise expenses	6,514,060	-	-	7,414,923	-	-
On-behalf State fringe benefits (See Note 9)	48,015,921	-	-	40,760,468	-	-
Total operating expenses	123,143,168	-	71,165	130,717,785	39,261	64,322
OPERATING INCOME (LOSS)	(82,064,746)	272,023	(71,165)	(83,307,669)	(18,713)	263,293
NONOPERATING REVENUES (EXPENSES)						
State appropriations	14,343,500	-	-	21,707,300	-	-
State fringe benefits	48,015,921	-	-	40,760,468	-	-
State nonoperating grants	2,106,107	-	-	2,505,197	-	-
Federal nonoperating grants	6,578,930	-	-	10,186,943	-	-
Gifts and contributions	-	-	929,525	-	7,335	44,800
Investment income (loss)	93,982	-	339,707	48,359	(79,322)	12,310
Interest on capital asset - related debt	(582,530)	-	-	(644,972)	-	-
Other nonoperating expenses	(392,594)	-	(1,182,663)	(1,500,000)	(159,330)	(225,186)
Net nonoperating revenues (expenses)	70,163,316	-	86,569	73,063,295	(231,317)	(168,076)
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(11,901,430)	272,023	15,404	(10,244,374)	(250,030)	95,217
Capital appropriations	308,581	-	-	2,032,760	-	-
Capital grants and gifts	71,126	-	-	-	-	-
Loss on disposal of capital assets	(904,530)	-	-	(3,091)	-	-
Equity transfer	-	(5,036,281)	5,036,281	-	(763,369)	763,369
INCREASE (DECREASE) IN NET POSITION	(12,426,253)	(4,764,258)	5,051,685	(8,214,705)	(1,013,399)	858,586
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	153,332,586	4,764,258	858,586	161,547,291	5,777,657	-
PRIOR PERIOD ADJUSTMENT (Note 19)	1,024,000	-	-	-	-	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	154,356,586	4,764,258	858,586	161,547,291	5,777,657	-
NET POSITION, END OF YEAR	$ 141,930,333	$ -	$ 5,910,271	$ 153,332,586	$4,764,258	$858,586

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, 2017
(With Summarized Comparative Information for the Year Ended June 30, 2016)

	2017 University	2016 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 22,279,619	$ 26,612,905
Grants and contracts	12,927,599	9,668,714
Payment to suppliers for goods and services	(15,275,530)	(16,091,426)
Payments to employees for services	(47,040,930)	(61,796,684)
Payments for scholarship and fellowship	(6,679,700)	(8,933,884)
Loans issued to students and employees	(96,553)	(139,408)
Loans collected from students	98,557	126,380
Sales and services of auxiliary enterprises	8,040,610	10,674,108
Other receipts (disbursements)	314,996	(375,166)
Net cash used in operating activities	(25,431,332)	(40,254,461)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	14,214,279	27,223,086
State nonoperating grants	2,106,107	2,511,182
Federal nonoperating grants	6,569,906	10,164,784
Other noncapital financing activities	(392,594)	-
Net cash provided by noncapital financing activities	22,497,698	39,899,052
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(1,174,393)	(1,549,756)
Capital grants	-	325,738
Principal paid on capital debt and leases	(1,452,183)	(1,327,297)
Interest paid on capital debt and leases	(610,554)	(672,344)
Net cash used in capital financing activities	(3,237,130)	(3,223,659)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and/or dividends on investments	93,982	48,359
Proceeds from sales and maturities of investments	-	250,000
Net cash provided by investing activities	93,982	298,359
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,076,782)	(3,280,709)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	20,730,083	24,010,792
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 14,653,301	$ 20,730,083
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (82,064,746)	$ (83,307,669)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	6,197,787	6,115,677
Noncash for donated equipment (not capitalized)	21,125	-
State fringe benefits	48,015,921	40,760,468
Changes in assets, deferred outflows of resources, and liabilities:		
Accounts receivables, net	2,704,158	(421,920)
Inventories	3,024	5,705
Prepaid expenses and other assets	(145,519)	566,824
Deferred outflows for pension expense	121,918	31,106
Loans and notes receivable	139,591	84,882
Accounts payable and accrued liabilities	1,536,043	(1,886,606)
Accrued wages	(1,185,571)	(239,195)
Unearned revenue	(357,343)	(529,976)
Accrued compensated absences	(417,720)	(1,433,757)
Net cash used in operating activities	$ (25,431,332)	$ (40,254,461)
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES		
Capital appropriations	$ 283,784	$ 334,375
Capital grants and gifts	71,126	-
State fringe benefits	48,015,921	40,760,468
Loss on disposal of capital assets	904,530	-

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

State of Illinois
Chicago State University
Notes to the Basic Financial Statements
June 30, 2017

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.

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

Reporting Entity - The financial reporting entity, as defined by the Governmental Accounting Standards Board (GASB), consists of the primary government entity, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of all agencies of Chicago State University, as the primary government, the accounts of the Chicago State University Foundation, the accounts of The University Foundation at Chicago State, (collectively the "Foundation"), and the accounts of the University Auxiliary Facilities System Revenue Bond Fund, Series 1998.

The Chicago State University Foundation (CSUF) 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. CSUF was voluntarily dissolved on April 27, 2016. The University elected to terminate its contractual agreement with the CSUF effective June 30, 2015.

The University Foundation at Chicago State (TUFCS), a new foundation, was established on March 24, 2015 for the purpose of providing the University's students, faculty, and staff financial support through fund raising activities. TUFCS is a non-profit tax-exempt 501(c)(3) organization. The dissolution of CSUF and the transfer of its assets and related obligations to TUFCS was completed during the current fiscal year. CSUF and TUFCS are reported as discretely presented component units in the University's financial statements.

Separate financial statements for the Foundations may be obtained at the Foundations' administrative office: Executive Director, Chicago State University Foundation/The University Foundation at Chicago State, Cook Administration Building, 9501 South Martin Luther King Drive, Chicago, Illinois, 60628.

The University (including the Foundations) 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).

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

The financial statements include certain prior period comparative information, which has been derived from the University's 2016 financial statements. Such information does not include all of the information required to constitute a complete presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2016.

Reclassifications - Certain prior year amounts were reclassified from unrestricted net position to restricted net position to conform to current year presentations due to the identification of an error in segment reporting which resulted in the University reclassifying all Auxiliary Facilities System's net position and the related assets to restricted from unrestricted. In addition, certain items in the June 30, 2016 comparative information have been reclassified to conform with the current presentation.

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

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

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

Investments - The University accounts for its investments at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the changes in fair value of investments are reported as an increase or decrease to investment assets and a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position.

Accounts Receivable - Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of which reside in the State of Illinois. Accounts receivable also includes 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 is presented net of estimated uncollectible accounts. Allowances for doubtful accounts are charged against revenues when estimated or determined to be uncollectible.

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

Prepaid Expenses and Other Assets - Prepaid expenses include amounts paid in advance for services benefitting future periods. Other assets consist of a meal plan deposit with the University's food service provider.

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 expenses in the year in which the expense is incurred.

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

Unearned Revenue - Unearned revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that are related to the subsequent accounting period. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been recognized because eligibility requirements have not been met.

Accrued 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.

Net accrued compensated absences charges are as follows:

	2017	2016	Net Change
Vacation leave	$ 2,789,219	$ 3,171,557	$ (382,338)
Sick leave	867,205	902,588	(35,383)
Total	$ 3,656,424	$ 4,074,145	$ (417,721)

Noncurrent Liabilities - Noncurrent liabilities include (1) principal amounts of revenue bonds payable, capital leases with contractual maturities greater than one year, and the implicit liability related to an intangible asset license in accordance with GASB Statement No. 51; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) the premium on the revenue bonds payable (which are being amortized over the term of the bonds using the straight line method).

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

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

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

Net Position - GASB Statement No. 63 reports equity as "Net Position." The University's net position is classified as follows:

> **Net investment in capital assets** - This represents the University's total investment in capital assets, net of 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 "net investment in capital assets."
>
> **Restricted net position - nonexpendable** - Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
>
> **Restricted net position - expendable** - Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. These resources include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Unrestricted net position - Unrestricted net position represents resources derived from student tuition and fees, sales and service of educational departments and auxiliary enterprises, and unrestricted gifts from donors. These resources are used for transactions relating to the educational and general operations of the University and Foundations and may be used at the discretion of the governing board to meet current expenses for any purpose.

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 Foundations are exempt from income taxes under Section 501(c)(3) of the Internal Revenue code.

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

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

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement Nos. 9, 24 and 35, such as State appropriations, pass-through grants, and investment income.

New Accounting Pronouncements - The University adopted the provisions of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* No. 77, *Tax Abatement Disclosures*, No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans,* No. 80, *Blending Requirements for Certain Component Units–an Amendment to GASB Statement No. 14,* and No. 82, *Pension Issues–an Amendment of GASB Statements No. 67, No. 68, and No. 73* during the fiscal year ended June 30, 2017. GASB Statement No. 73 seeks to improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. GASB Statement No. 74 seeks to improve the usefulness of information about postemployment benefits other than pensions. GASB Statement No. 77 requires the University to disclose information about the nature and magnitude of tax abatements. GASB Statement No. 78 amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. It establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for such pensions. GASB Statement No. 80 seeks to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The impact of adoption of these statements has been deemed to be minimal to the reporting of the University. In addition, the University will be required to implement GASB Statements No. 75*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* No. 81, *Irrevocable Split-Interest Agreements*, No. 85, *Omnibus 2017,* and No. 86, *Certain Debt Extinguishment Issues* in Fiscal Year 2018. The University has not yet evaluated the impact of adopting future pronouncements on its financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

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

Deposits - At June 30, 2017, the carrying amount of the University and the TUFCS deposits with private financial institutions were $14,055,207 and $1,130,723, 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		TUFCS	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Deposit Type				
Cash in bank	$ 6,654,884	$8,433,932	$ 1,130,723	$ 1,130,723
Add: Investments classified as cash equivalents (maturity < 90 90 days) - Illinois Funds - Standard & Poors AAAm	7,387,680			
Add: Cash on hand	12,643			
Total cash and cash equivalents	$14,055,207		$ 1,130,723	

	Carrying Amount	
	University	TUFCS
Cash and cash equivalents	$ 10,126,127	$ 150,216
Cash and cash equivalents - restricted - current	1,938,884	980,507
Cash and cash equivalents - restricted - noncurrent	1,990,196	–
Total	$ 14,055,207	$ 1,130,723

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The University requires that balances on deposit with financial institutions be either insured by the Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name. The University maintains cash deposits at certain Chicago-area financial institutions. The FDIC insured bank balances totaled $1,250,101 for the University and TUFCS at June 30, 2017. Another $7,433,831 in bank balances were covered by pledged collateral in the University's name, while the remaining $880,723 in bank balances were not covered by pledged collateral in the TUFCS'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 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 TUFCS and University at June 30, 2017 consisted of the following:

	University Fair Value	TUFCS Fair Value
Equity securities	$ –	$ 4,885,973
Illinois Funds (Standard & Poors AAAm)	7,387,680	–
Total	7,387,680	4,885,973
Less: Investments classified as cash equivalents (maturity < 90 days)	(7,387,680)	–
Total investments	$ –	$ 4,885,973

In accordance with GASB Statement No. 72, the fair value of investments is further categorized by levels depending on the type of inputs used for their valuation.

- Level 1: Unadjusted quoted prices for identical assets in active markets that are accessible at the date of measurement.

- Level 2: Quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the assets.

- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, the inputs are supported by little or no market activity).

The fair value of TUFCS's shares of security funds is based on an observable unadjusted quoted market price in an active market therefore this investment has been categorized as Level 1 in the fair value hierarchy. The University's investment in Illinois Funds is also categorized as Level 1.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an agency's investment in a single user. All investments are insured or registered and held by TUFCS or its agent in TUFCS's name. TUFCS does not have a policy limiting its exposure to concentration of credit risk.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligation. TUFCS's statement of investment objectives and guidelines states that investments in non-convertible fixed income securities other than short-term securities will be restricted to issues within a maximum fixed or expected average maturity of ten years and will be made primarily in (1) securities issued or guaranteed by the U.S. government or its agencies, (2) marketable issues of non-nuclear utility companies rated at the time of purchase within the three highest grades assigned by Moody's Investor Services, Inc. (Aaa, Aa, or A) or by Standard & Poors (AAA, AA or A), and (3) bond mutual funds which invest 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.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundations does not have a policy limiting its exposure to foreign currency risk.

Investment return at June 30, 2017 and its classification in the TUFCS financial statements are shown below:

Interest and dividends	$	26,172
Net realized and unrealized gain		313,535
Total investment return	$	339,707

Securities Lending Transactions

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

During Fiscal Year 2017, Deutsche Bank Group lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%. The State Treasurer did not impose any restrictions on loan amounts of available and eligible securities during Fiscal Year 2017. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during Fiscal Year 2017 resulting from a default of the borrowers or Deutsche Bank Group.

During Fiscal Year 2017, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2017 were $3,522,922,500 and $3,475,790,990, respectively.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the State Treasurer has allocated the assets and obligations at June 30, 2017 arising from securities lending agreements to the various funds of the State. The total allocated to the University at June 30, 2017 was $196,073.

NOTE 3 - ACCOUNTS, PLEDGES AND LOANS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2017:

Student tuition and fees	$ 12,908,198
Federal, state and private grants and contracts	2,492,718
Third party and other receivable	872,926
Total Gross Receivable	16,273,842
Less allowance for doubtful accounts	(12,051,956)
Net Accounts Receivable	$ 4,221,886

Loans receivable (Federal Perkins Loans) consisted of the following at June 30, 2017:

Loans receivable	$ 1,735,582
Less allowance for doubtful accounts	(1,225,507)
Net Loans Receivable	$ 510,075
Current portion	$ 25,571
Noncurrent portion	484,504
Net Loans Receivable	$ 510,075

On February 17, 2016, a Dear Colleague Letter Gen-16-05 notified schools that the Federal Perkins Loan Program Extension Act of 2015 (Public Law 114-105), enacted on December 18, 2015, extends the Perkins Loan Program through September 30, 2017. The Extension Act establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans. The grandfathering guidance is no longer applicable to the Perkins Loan Program. Schools participating in the Perkins Loan Program may make Perkins Loan through September 30, 2017 (undergraduate students) and September 30, 2016 (graduate students). The University still maintains notes receivable related to this program. New loans issued through the program will be limited to prescribed requirements.

NOTE 4 - CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2017:

	Amount in thousands				
	Balance June 30, 2016	Additions	Retirements	Net Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land	$ 9,611	$ –	$ –	$ –	$ 9,611
Work of art	41	–	–	–	41
Construction in progress	13,650	284	(904)	–	13,030
Total capital assets not being depreciated	23,302	284	(904)	–	22,682
Other capital assets:					
Site improvements	15,005	842	–	–	15,847
Buildings and building improvements	187,865	97	–	–	187,962
Equipment	19,186	249	(52)	313	19,696
Intangible assets	1,490	–	–	–	1,490
Library books	13,260	28	–	–	13,288
Capital leases - equipment	340	8	–	(313)	35
Total other capital assets	237,146	1,224	(52)	–	238,318
Less accumulated depreciation	(105,765)	(6,198)	52	–	(111,911)
Total other capital assets, net	131,381	(4,974)	–	–	126,407
Capital assets, net	$ 154,683	$ (4,690)	$ (904)	$ –	$ 149,089

The retirement of $904,530 in capital assets resulted in a loss on disposal to the university. This retirement was the result of writing off planning costs incurred for the potential construction of a new science building. Due to lack of state funding, the project is not moving forward, and it was determined that the costs had no continuing value.

NOTE 5 - ACCRUED WAGES

Accrued wages include services provided by certain academic personnel and hourly employees that were paid after June 30. The liability for those employees who have completed their contracted services, but have not yet received final payment totaled $957,840 at June 30, 2017. Accrued wages also includes unpaid insurance benefits as of June 30, 2017 totaling $341,079.

NOTE 6 - UNEARNED REVENUE

Unearned revenue consists of the following at June 30, 2017:

Tuition and fees	$ 697,375
Grants and contracts	1,551,190
Total Unearned Revenue	$ 2,248,565

NOTE 7 - LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2017 consist of the following:

	June 30, 2017	Current Portion	Non-current Portion
Accrued compensated absences	$ 3,656,424	$ 964,019	$ 2,692,405
Bonds payable	10,760,000	1,305,000	9,455,000
Premium on bonds	145,967	22,457	123,510
Capital leases payable	3,552	3,552	–
Intangible asset payable	199,588	99,794	99,794
Total Long Term Liabilities	$ 14,765,531	$ 2,394,822	$12,370,709

The changes in long-term liabilities are as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued compensated absences	$ 4,074,145	$ 37,382	$ (455,103) *	$ 3,656,424
Bonds payable	12,000,000	–	(1,240,000)	10,760,000
Premium on bonds	168,423	–	(22,456)	145,967
Capital leases payable	115,942	–	(112,390)	3,552
Intangible asset payable	299,381	–	(99,793)	199,588
Total Long Term Liabilities	$16,657,891	$ 37,382	$(1,929,742)	$14,765,531

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

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, 2009, through December 1, 2018, are subject to redemption at the option of the Board on or after December 1, 2008. The Series 1998 Bonds maturing after December 1, 2018, are not subject to optional redemption prior to maturity.

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

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

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

The bonds are insured by MBIA Corp. and National Public Finance Guarantee. As of June 30, 2017, the S&P rating of MBIA is BBB and the rating for National Public Finance Guarantee is A. The Moody’s ratings are Ba1 for MBIA Corp. and A3 for National Public Finance Guarantee.

Maturity Information

The scheduled maturities of the bonds payable are as follows:

Fiscal Year	Revenue Bonds	Interest	Total Payments
2018	$ 1,305,000	$ 545,800	$ 1,850,800
2019	1,370,000	478,925	1,848,925
2020	1,445,000	404,938	1,849,938
2021	1,525,000	323,263	1,848,263
2022	1,610,000	237,050	1,847,050
2023-2024	3,505,000	195,387	3,700,387
Total	$ 10,760,000	$2,185,363	$ 12,945,363

Capital Leases Payable

The University leases equipment under capital lease purchase contracts with an imputed rate of 1.10% to 1.62%. The capital leases payable are secured by the equipment being financed. The scheduled maturities of the capital leases payable are as follows:

Fiscal Year	Principal	Interest	Total Payments
2018	$ 3,552	$ 12	$ 3,564

Intangible Asset Payable

In accordance with GASB Statement No. 51, the University has recorded a liability for future payments under a license agreement with a software vendor dated December 22, 2014. The license agreement is for 60 months and requires various payments over the term of the agreement and at certain milestones. Implicit interest is considered immaterial. The scheduled maturities of the intangible asset payable are as follows :

Fiscal Year	Principal	Interest	Total Payments
2018	$ 99,794	$ –	$ 99, 794
2019	99,794	–	99,794
Total	$ 199,588	$ –	$ 199,588

NOTE 8 - NATURAL CLASSIFICATIONS

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

Compensation and benefits	$ 92,551,478
Contractual services	15,234,622
Commodities	1,202,405
Awards and grants	6,679,700
Telecommunication	578,644
Other operating expenses	698,532
Depreciation	6,197,787
Total Operating Expenses	$ 123,143,168

NOTE 9 - STATE FRINGE BENEFITS

GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* requires the University to report "on-behalf payments" for fringe benefits and salaries by legally separate entities as revenue and expenditures of the University. The University reported group insurance on-behalf payments of $13,546,790 for the year ended June 30, 2017. The University also reported on-behalf payments of $34,469,131 for its proportionate share of the State's collective pension expense as described in Note 10. The on-behalf payments amount that relates to State group health insurance is an allocation of estimated costs incurred by the Department of Central Management Services on-behalf of the University.

On-behalf payments for fringe benefits are reflected as nonoperating revenues and corresponding on-behalf expense is reflected as an operating expense.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

Benefits Provided - A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2016 can be found in the System's comprehensive annual financial report (CAFR) Notes to the Financial Statements.

Contributions - The State of Illinois is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for Fiscal Year 2016 and 2017 respectively, was 12.69% and 12.53% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

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

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

Net Pension Liability

The net pension liability (NPL) was measured as of June 30, 2016. At June 30, 2016, SURS reported an NPL of $25,965,271,744.

Employer Proportionate Share of Net Pension Liability

The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $348,769,627 or 1.3432%. This amount is not recognized in the University's financial statement. The net pension liability and total pension liability as of June 30, 2016, was determined based on the June 30, 2015 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during Fiscal Year 2016.

Pension Expense

At June 30, 2016 SURS reported a collective net pension expense of $2,566,164,865.

Employer Proportionate Share of Pension Expense

The University's proportionate share of collective pension expense is recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used for the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during Fiscal Year 2016. As a result, the University recognized on-behalf revenue and pension expense of $34,469,131 for the fiscal year ended June 30, 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Deferred outflows of resources are the consumption of net position by the System that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 14,215,882	$ 2,298,574
Changes in assumption	655,463,758	–
Net difference between projected and actual earnings on pension plan investments	795,528,330	–
Total	$ 1,465,207,970	$ 2,298,574

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future Pension Expenses:

Year Ending June 30	Net Deferred Outflows of Resources
2017	$ 539,536,680
2018	275,426,885
2019	401,520,624
2020	246,425,207
2021	–
Thereafter	–
Total	$ 1,462,909,396

Employer Deferral of Fiscal Year 2017 Pension Expenses

The University paid $165,753 in federal, trust or grant contributions for the fiscal year ended June 30, 2017. These contributions were made subsequent to the pension liability measurement date of June 30, 2016 and are recognized as deferred outflows of resources as of June 30, 2017.

Assumptions and Other Inputs

Actuarial assumptions - The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period June 30, 2010 - 2014. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 15.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rates were based on the RP2014 Combined Mortality Table with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2016, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-term Expected Real Rate of Return
U.S. equity	23%	6.08%
Private equity	6%	8.73%
Non-U.S. equity	19%	6.95%
Global equity	8%	6.78%
Fixed income	19%	1.17%
Treasury-inflation protected securities	4%	1.41%

Emerging market debt	3%	4.44%
Real estate REITS	4%	5.75%
Direct real estate	6%	4.62%
Commodities	2%	4.23%
Hedged strategies	5%	4.00%
Opportunity fund	1%	6.54%
Total	100%	5.09%
Inflation		2.75%
Expected arithmetic return		7.84%

Discount Rate - A single discount rate of 7.010% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.250% and a municipal bond rate of 2.85% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the System's funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the System's Net Pension Liability to Changes in the Discount Rate - Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.01%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.01%	Current Single Discount Rate Assumption 7.01%	1% Increase 8.01%
$ 31,348,831,631	$ 25,965,271,744	$ 21,502,421,700

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

NOTE 11 - POSTEMPLOYMENT BENEFITS

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Effective July 1, 2013, annuitants were required to contribute towards health, dental, and vision benefits with the amount based on factors such as years of credited service, additional dependent coverage, annuitant's Medicare participation, and the type of health plan elected. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit reduces to $5,000.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62706.

NOTE 12 - LIABILITY INSURANCE

The University participates in a statutory cooperative known as the Illinois Public Higher Education Cooperative (IPHEC). Through IPHEC, the University has contracted with commercial insurance carriers to provide liability insurance coverages, including educators' legal and other general liability insurance. The University purchases commercial excess general liability coverage of $10.65 million. The University's liability coverages have a general $350,000 deductible per occurrence. The University also has commercial general property insurance coverage for the replacement value of the University's property.

NOTE 13 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the year ended June 30, 2017, is as follows:

The University and CSUF 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 CSUF is provided administrative support services by the University, such as maintenance, telephone, personnel, and property control. The University support to the CSUF has been discontinued as a result of the termination of the master contact by the University. The CSUF has since transferred all assets to the TUFCS as of July 2016 and ceased all operations.

A similar type agreement has been entered into by the University and TUFCS effective November 2, 2016. The TUFCS does not directly pay the University for these services, which were valued at $323,826 for the current fiscal year. The TUFCS reciprocates by providing fundraising and other services to the University.

NOTE 14 - SEGMENT INFORMATION

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

The Chicago State University, University Auxiliary Facilities System Revenue, Bond Fund, Series 1998 (Revenue Bond Fund), an integral part of Chicago State University, has replaced the Revenue Bond Series of 1971 and includes all operations of the Cordell Reed Student Union Building. Its revenues are principally University Center fees, rental and use fees, leased food services, bookstore commissions, and parking fees. The associated expenditures are principally personnel costs, contracted services and travel incurred in support of those auxiliary operations.

As a requirement of issuing certain revenue bonds, the University is subject to certain covenants. The University regularly monitors its compliance with those covenants.

In fiscal years 2012 and 2016, the University calculated excess funds under the *University Guidelines* and transferred $981,766 out of the Revenue Bond Fund into the University's Income Fund. This transfer was a violation of its debt covenants and as a result the funds were transferred back to the Revenue Bond Fund to correct the mistake.

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

Condensed Statement of Net Position	**As of June 30, 2017**
Assets	
Current assets - restricted	$ 2,002,002
Capital assets, net	11,557,810
Total Assets	13,559,812
Liabilities	
Current liabilities	1,442,340
Noncurrent liabilities	9,632,955
Total Liabilities	11,075,295
Net Position	
Net investment in capital assets	651,844
Restricted for auxiliary services	1,832,673
Total Net Position	$ 2,484,517

Condensed Statement of Revenues, Expenses, and Changes in Net Position	**Year Ended June 30, 2017**
Operating revenues	$ 3,562,049
Operating expenses	3,049,920
Operating income	512,129
Nonoperating revenues and expenses, net	382,266
Increase in net position	894,395
Net position, beginning of the year	1,590,122
Net position, end of the year	$ 2,484,517

Condensed Statement of Cash Flows		**Year Ended June 30, 2017**
Cash provided by (used in):		
Operating activities	$	1,131,552
Noncapital financing activities		963,798
Capital financing activities		(1,849,426)
Investing activities		270
Net increase in cash		246,194
Cash, beginning of the year		1,692,690
Cash, end of the year	$	1,938,884

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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

In addition to potential legal matters, the University also receives monies from federal and State government agencies under grants and contracts. The costs charged to these grants are subject to audit and disallowance by the granting agency. The University administration believes any disallowance or adjustment would not have a material effect on the University's financial position.

NOTE 16 - ENDOWMENT

The TUFCS board resolved that endowments' dividend and interest income be used for scholarships and that a reasonable amount of dividends and interest be added back to the endowment principal. The portion of dividends and interest available for scholarships is transferred to unrestricted funds. For the year ended June 30, 2017, endowment dividends and interest transferred to the unrestricted funds totaled $26,172.

Gains or losses on sales of investments are retained and reported as part of the net position restricted expendable. Although not required by law, it is the intent of the TUFCS to maintain the corpus of both donor restricted endowment funds and endowment funds designated by the TUFCS board.

NOTE 17 - PLEDGED REVENUES AND DEBT SERVICE REQUIREMENTS

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

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.	$ 12,945,363	2024	8.23%

(1) Total future principal and interest payments on debt.
(2) Current year pledged net operating revenue (excluding depreciation) vs. total future debt service.

NOTE 18 - STATE OF ILLINOIS APPROPRIATIONS

On June 30, 2016, the General Assembly passed SB 2047, Public Act 099-0524 that included a 6-month stop-gap budget for universities. The University received Fiscal Year 2017 appropriations as follows: $1,600,000 appropriation from the Education Improvement Fund, $153,500 from the General Professions Dedicated Fund and $12,590,000 from the Education Assistance Fund.

Article 74 of the Public Act states that except for those appropriations for Personal Services, State Contributions to State Employees' Retirement System and State Contributions to Social Security, Fiscal Year 2017 appropriations may be used to pay prior year costs. The University fully spent the Fiscal Year 2017 appropriation from the Education Assistance Fund for Fiscal Year 2016 costs. In addition, the awards made for Fiscal Year 2016 scholarships totaling $2,089,634 from the Monetary Assistance Program to the University were also paid from the Fiscal Year 2017 appropriation, from the Fund for the Advancement of Education. In accordance with GASB Statement No. 33, the revenues paid from Fiscal Year 2017 appropriations totaling $14,679,634 were not recognized as revenues and receivables at June 30, 2016 even though they were used to pay for Fiscal Year 2016 costs.

Subsequent to Fiscal Year 2017, in July 2017, the General Assembly passed SB 0006, Public Act 100-0021 that amended Public Act 099-0524. In this amendment, the University received additional Fiscal Year 2017 appropriations as follows: $18,942,700 appropriation from the General Revenue Fund, $153,500 from the General Professional Dedicated Fund and $4,797,800 from the Education Assistance Fund. Consistent with Public Act 099-0524 treatment, the Fiscal Year 2017 revenues approved in Public Act 100-0021 will be recognized in Fiscal Year 2018.

NOTE 19 - PRIOR PERIOD ADJUSTMENT

The University restated its net position balance in Fiscal Year 2016 to reverse the accrual of their share in the group health insurance as allocated and estimated by the Department of Central Management Services. This adjustment increased the University's net position by $1,024,000.

A reconciliation of net position reported in prior period financial statements and as restated follows:

Net position, beginning of year, as previously reported	$	153,332,586
Adjustment to accounts payable and accrued liabilities		1,024,000
Net position, beginning of year, as restated	$	154,356,586

REQUIRED SUPPLEMENTARY INFORMATION

State of Illinois
Chicago State University
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2017

Schedule of Share of Net Pension Liability (Unaudited)

	FY 2016	FY 2015	FY 2014
Schedule of Pension Allocations			
(a) Proportional percentage of the collective net pension liability	0%	0%	0%
(b) Proportional amount of the collective net pension liability	$ –	$ –	$ –
(c) Portion of nonemployer contributing entities' total proportion of collective net pension liability associated with employer	348,769,627	346,747,343	342,183,267
Total (b) + (c)	$348,769,627	$346,747,343	$342,183,267
Employer defined benefit covered payroll	$ 48,247,884	$ 52,894,247	$ 56,869,819
Proportion of collective net pension liability associated with employer as a percentage of defined benefit covered payroll	13.83%	15.25%	16.62%
SURS plan net position as a percentage of total pension liability	39.57%	42.37%	44.39%

Schedule of Contributions (Unaudited)

	FY 2017	FY 2016	FY 2015	FY 2014
Federal, trust, grant and other contribution	$ 165,753	$ 287,671	$ 318,777	$ 348,064
Contribution in relation to required contribution	165,753	287,671	318,777	348,064
Contribution deficiency (excess)	–	–	–	–
Employer covered-employee payroll	$2,531,033	$3,538,415	$4,104,465	$4,533,557
Contributions as a percentage of covered payroll	6.50%	8.13%	7.77%	7.68%

* Note: The System implemented GASB Statement No. 68 in Fiscal Year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.

Fiscal Year 2017 total defined benefit contributions: $3,029,769

Fiscal Year 2017 self-managed plan total contributions: $ 341,025

State of Illinois
Chicago State University
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2017

Notes to Required Supplementary Information (Unaudited)

Changes of Benefit Terms

There were no benefit changes recognized in the Total Pension Liability as of June 30, 2016.

Changes of Assumptions

In accordance with *Illinois Compiled Statutes*, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

- Mortality rates. Change from the RP2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
- Salary increase. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent based on years of service, with underlying wage inflation of 3.75 percent.
- Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
- Early retirement rates. Change to a slight increase to the rates at ages 55 and 56.
- Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
- Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
- Dependent assumption. Main the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Faciilites System Revenue Bond Fund, Series 1998
Statement of Net Position
As of June 30, 2017
(With Comparative Totals as of June 30, 2016)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents - restricted	$ 1,938,884	$ 1,692,690
Accounts receivable, net - restricted	5,780	126,418
Prepaid expenses - restricted	57,338	56,280
Total Current Assets	2,002,002	1,875,388
Noncurrent Assets		
Land improvements	538,481	538,481
Buildings and improvements	20,504,357	20,504,357
Furniture and equipment	487,930	487,930
Less: accumulated depreciation	(9,972,958)	(9,419,467)
Total Noncurrent Assets	11,557,810	12,111,301
Total Assets	13,559,812	13,986,689
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	105,163	135,734
Unearned revenue	9,721	7,581
Long-term liabilities - current portion	1,327,456	1,262,456
Total Current Liabilities	1,442,340	1,405,771
Noncurrent Liabilities		
Accrued compensated absences	54,445	84,829
Bonds payable	9,455,000	10,760,000
Premium on bonds	123,510	145,967
Total Noncurrent Liabilities	9,632,955	10,990,796
Total Liabilities	11,075,295	12,396,567
NET POSITION		
Net investment in capital assets	651,844	(57,122)
Restricted for auxiliary services	1,832,673	1,647,244
	$ 2,484,517	$ 1,590,122

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
OPERATING REVENUES		
Room and board (net of scholarship allowances of $95,072)	$ 1,525,001	$ 1,982,144
Bookstore commissions	71,658	175,000
Vending and catering commissions	39,829	112,823
Parking fees	489,998	732,589
University center fees	1,435,563	1,866,158
Total operating revenues	3,562,049	4,868,714
OPERATING EXPENSES		
Personal services	893,069	1,358,817
Expended for plant	8,618	4,798
Commodities	55,546	80,495
Contractual services	1,472,836	1,021,431
Depreciation	553,491	554,504
Miscellaneous	66,360	63,906
Total operating expenses	3,049,920	3,083,951
OPERATING INCOME	512,129	1,784,763
NONOPERATING REVENUES (EXPENSES)		
Investment income	270	49
Transfers in, net	963,798	-
Interest on capital asset - related debt	(581,802)	(642,552)
Net nonoperating revenue (expenses)	382,266	(642,503)
INCREASE IN NET POSITION	894,395	1,142,260
NET POSITION, BEGINNING OF YEAR	1,590,122	447,862
NET POSITION, END OF YEAR	$ 2,484,517	$ 1,590,122

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, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Room and board	$ 1,525,001	$ 2,041,198
Bookstore commissions	129,657	152,538
Vending and catering commissions	39,829	112,823
Parking fees	489,577	747,624
University center fees	1,500,763	1,870,227
Payment to suppliers for goods and services	(1,629,822)	(1,141,291)
Payments to employees for services	(923,453)	(1,369,295)
Net cash provided by operating activities	1,131,552	2,413,824
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from local income fund	981,766	-
Transfers to local income fund	(17,968)	-
Net cash provided by noncapital financing activities	963,798	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal paid on capital debt	(1,240,000)	(1,180,000)
Interest paid on capital debt	(609,426)	(669,926)
Net cash used by capital financing activities	(1,849,426)	(1,849,926)
CASH FLOWS FROM INVESTING ACTIVITY		
Interest on investments	270	49
NET INCREASE IN CASH AND CASH EQUIVALENTS	246,194	563,947
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,692,690	1,128,743
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,938,884	$ 1,692,690
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 512,129	$ 1,784,763
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	553,491	554,504
Changes in assets and liabilities:		
Accounts receivables, net - restricted	120,638	77,161
Prepaid expenses - restricted	(1,058)	97,839
Accounts payable and accrued liabilities	(25,404)	(68,502)
Unearned revenue	2,140	(21,463)
Accrued compensated absences	(30,384)	(10,478)
Net cash provided by operating activities	$ 1,131,552	$ 2,413,824

OTHER INFORMATION

State of Illinois
Chicago State University
Other Information (Unaudited)
For the Year Ended June 30, 2017

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2016	3,578	2,734
Spring session, 2017	3,244	2,486
Summer session, 2017	1,026	750

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, 2016	$ 199	$ 128
Spring session, 2017	199	128
Summer session, 2017	159	102

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 ($50,000 deductible) of:	
Building	$ 39,094,795
Contents	1,291,600
Business interruption	12,009,000
Boiler and machinery (included in blanket coverage limit)	100,000,000
Earthquake	100,000,000
Flood	100,000,000
Basic general liability (self-insured retention)	350,000
Excess general liability (policy limit)	10,650,000

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's 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 Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Chicago State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Chicago State University (University) and its discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 14, 2018. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditor's 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 of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

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 the accompanying schedule of findings as items 2017-001 and 2017-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2017-003 and 2017-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2017-002.

University's Responses to the Findings

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
February 14, 2018

State of Illinois
Chicago State University
Schedule of Findings
June 30, 2017

Current Findings - *Government Auditing Standards*

2017-001 - Inadequate Control over Reporting Restricted Accounts

The Chicago State University (University) did not ensure restrictions from revenue bond covenants were properly reflected within the University's financial statements.

As of June 30, 2017, the University's Auxiliary Facilities System (System) consisted of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- student services facilities, such as the Cordell Reed Student Union Building;
- health services, including student health related operations of the Wellness Center and Insurance Support services; and,
- parking facilities.

As of June 30, 2017, the University had outstanding revenue bond issues (Series 1998) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" where the revenues generated by the System could only be used for the following purposes:

1) expenses necessary for the operation and maintenance of the System;
2) payment of principal and/or interest amounts when due;
3) amounts set aside limited to and used for financing the costs of renovating or replacing capital assets of the System beyond ordinary maintenance and operation of the System;
4) amounts set aside limited to and used for constructing new space or additions to existing facilities within the System; and,
5) amounts set aside limited to and used for acquiring movable equipment to be installed in the facilities constituting the System;

with any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to fund the redemption of previously issued bonds when callable; the purchase of the University's bonds on the open market; advance refund any series of bonds then outstanding; credit funds to utility reserve to provide for the payment of the System's utilities; establish a self-insurance reserve in connection with claims against or damage to the System; or purchase of capital equipment for the System. Notably, resources within the System are unavailable for use by the University outside of the System.

During testing, we noted the University had controls to segregate the System's assets and include its net position with the University's financial statements; however, the University had not designed its internal controls to ensure accurate reporting of restricted assets and restricted net position under generally accepted accounting principles. The University originally designed the control due to the implementation of Governmental Accounting Standards Board (GASB)

Current Findings - *Government Auditing Standards* (Continued)

2017-001 - Inadequate Control over Reporting Restricted Accounts (Continued)

Statement No. 34 by drawing inferences from the implementation guidance published by the GASB that was not necessarily on point with the University's unique "closed system" situation and from discussions with other universities with closed systems.

Historically, auditors did not take exception to the design flaw until the current year. After this issue was noted during the current year, the Auditor General's Office and the Office of the State Comptroller consulted with staff of the GASB. After this consultation, the University (and all universities with closed systems) changed its accounting presentation in its final financial statements to show all non-capital assets associated with the System, totaling $1.0 million, as restricted assets and reclassified the System's portion of the University's net position to expendable restricted net position, totaling $0.9 million.

GASB Statement No. 34, Paragraph 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments,* requires net position should be reported as restricted when constraints imposed upon the use of the net position are externally imposed by creditors, such as through debt covenants. Further, GASB Statement No. 34, Paragraph 99, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments,* requires the reporting of restricted assets when constraints imposed upon the use of the net position are externally imposed by creditors which change the nature or normal understanding of the availability of the asset, such as assets that cannot be used to extinguish liabilities outside of those allowed by the bond covenants.

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

University management stated they were of the opinion they were properly reporting the Revenue Bond net position and revenues under the generally accepted accounting principles. They were unaware of the different reporting requirements for "closed systems," which they fall under.

Failure to report the non-capital assets and net position related to the System as restricted resulted in a material misstatement of the University's financial statements and reduced the overall reliability of Statewide financial reporting. (Finding Code No. 2017-001)

Current Findings - *Government Auditing Standards* (Continued)

2017-001 - Inadequate Control over Reporting Restricted Accounts (Continued)

Recommendation

We recommend the University periodically review its internal controls over financial reporting to provide assurance accounts are properly classified under generally accepted accounting principles.

University Response

The University agrees with the finding and has commenced a review of internal controls over financial reporting, with special emphasis on bond covenant restrictions.

State of Illinois
Chicago State University
Schedule of Findings
June 30, 2017

Current Findings - *Government Auditing Standards* (Continued)

2017-002 - Noncompliance with Bond Covenants

The Chicago State University (University) did not comply with its revenue bond covenants.

As of June 30, 2017, the University's Auxiliary Facilities System (System) consisted of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- student services facilities, such as the Cordell Reed Student Union Building;
- health services, including student health related operations of the Wellness Center and Insurance Support services; and,
- parking facilities.

As of June 30, 2017, the University had outstanding revenue bond issues (Series 1998) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" where the revenues generated by the System could only be used for the following purposes:

1) expenses necessary for the operation and maintenance of the System;
2) payment of principal and/or interest amounts when due;
3) amounts set aside limited to and used for financing the costs of renovating or replacing capital assets of the System beyond ordinary maintenance and operation of the System;
4) amounts set aside limited to and used for constructing new space or additions to existing facilities within the System; and,
5) amounts set aside limited to and used for acquiring movable equipment to be installed in the facilities constituting the System;

with any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to fund the redemption of previously issued bonds when callable; the purchase of the University's bonds on the open market; advance refund any series of bonds then outstanding; credit funds to utility reserve to provide for the payment of the System's utilities; establish a self-insurance reserve in connection with claims against or damage to the System; or purchase of capital equipment for the System. Notably, resources within the System are unavailable for use by the University outside of the System.

In addition, we noted the System's activities were subject to *University Guidelines* adopted by the Legislative Audit Commission. The *University Guidelines* (Chapter V) requires the University, after fulfilling all of the reserve and debt service requirements of a revenue bond's indentures, determine if any of the excess funds exist under Chapter IV of the *University Guidelines.* The *University Guidelines* (Chapter IV) includes a calculation methodology (Figure 2) for determining if the System has current excess funds required to be transferred into

Current Findings - *Government Auditing Standards* (Continued)

2017-002 - Noncompliance with Bond Covenants (Continued)

the University's locally-held Income Fund. However, the *University Guidelines* (Chapter V, Section C) provides a priority order that in the case of a conflict between the University's bond indenture and the *University Guidelines,* the University's bond indenture will prevail.

During testing, we noted the University calculated excess funds under the *University Guidelines* and transferred moneys out of the System to the University's Income Fund in violation of its debt covenants. We reviewed the University's financial audits and compliance examinations dating back to Fiscal Year 1999 and concluded the following:

- $594,748 was calculated as excess funds within the System at the end of Fiscal Year 2012 and transferred from the System to the University's Income Fund during Fiscal Year 2013; and,
- $387,018 was calculated as excess funds within the System at the end of Fiscal Year 2016 and transferred from the System to the University's Income Fund during Fiscal Year 2017.

In order to remedy this default, the University returned $981,766 on January 29, 2018, to the System from the University's Income Fund. University management corrected the Fiscal Year 2012 and 2016 errors on its Fiscal Year 2017 financial statements by reclassifying $981,766 in unrestricted cash and cash equivalents within the Income Fund to restricted cash and cash equivalents for the System.

The Chicago State University Revenue Bond Law (110 ILCS 661/6-25) states, "the provisions of this Article and of any resolution or other proceeding authorizing the issuance of bonds shall constitute a contract with the holders of such bonds and the provisions thereof shall be enforceable by civil action, mandamus, injunction or other proceeding in the appropriate circuit court to enforce and compel the performance of all duties required by this Article and by any resolution authorizing the issuance of bonds adopted responsive hereto." Good internal controls over compliance include ensuring all bond covenants are strictly adhered to by the University.

University management stated that personnel familiar with both bond covenants and University Guidelines mistakenly believed the covenants allowed for these transfers and were executing them in accordance with the University Guidelines.

Failure to ensure all bond covenants were strictly adhered to by the University resulted in noncompliance with the University's revenue bond covenants. (Finding Code No. 2017-002)

Current Findings - *Government Auditing Standards* (Continued)

2017-002 - Noncompliance with Bond Covenants (Continued)

Recommendation

We recommend the University review its bond covenant compliance on a routine basis to identify and rectify any noncompliance conditions.

University Response

The University agrees with the finding and has implemented a process to annually review the bond covenants and ensure that transactions conducted, and related financial reporting, are compliant with those covenants. Additionally, in January 2018 the university transferred back to the System, the $982k previously transferred to the Income Fund.

Current Findings - *Government Auditing Standards* (Continued)

2017-003 - Financial Statement Adjustments

The Chicago State University (University) financial statements for the fiscal year ended June 30, 2017 contained inaccuracies.

During our audit of the University's financial statements, we noted the following:

- The University mistakenly recorded the loss on the disposal of capital assets, totaling $904,530, as an operating expense. As a result, operating expenses were overstated by $904,530 and loss on disposal of capital assets was understated by $904,530.

- The University incorrectly recorded two cash transactions, totaling $557,514, as restricted cash instead of unrestricted. As a result, the cash and cash equivalents – restricted balance was overstated by $557,514 and the cash and cash equivalents – unrestricted balance was understated by the same amount.

Proposed adjustments to correct these misstatements were recorded by the University.

Generally accepted accounting principles in the United States of America (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*, requires governments to present assets and liabilities in order of relative liquidity. Also, the Guide to Implementation of GASB Statement No. 34 on *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*, states that loss on disposal of a capital assets is not a direct expense of the program, thus losses should be included in general government-type expenses.

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 to 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.

University management stated the deficiencies noted were a result of the employee's misposting of these transactions.

Current Findings - *Government Auditing Standards* (Continued)

2017-003 - Financial Statement Adjustments (Continued)

Failure to accurately record financial transactions resulted in misstatements of the University's financial statements. (Finding Code No. 2017-003)

Recommendation

We recommend the University improve its controls over financial reporting to allow for the accurate preparation of its financial statements in accordance with GAAP.

University Response

The University agrees with the finding and will implement a process to review all significant and infrequently processed transactions on a quarterly basis, verifying that they were properly recorded in the original accounting records. This will ensure that they are properly reflected in the financial statements.

Current Findings - *Government Auditing Standards* (Continued)

2017-004 - Noncompliance with Unclaimed Property Act

The Chicago State University (University) did not fully comply with the Uniform Disposition of Unclaimed Property Act (Act).

At the end of each fiscal 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 nine years ago. The balance of checks older than five years old that remained as a liability on the University's Statement of Net Position as of June 30, 2017 was $288,869.

Good business practice would require procedures to monitor outstanding items during reconciliations of cash on a timely basis and promptly determine the proper disposition of stale checks.

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 five years, except as otherwise provided in the Act.

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 to provide assurance that all funds are safeguarded against waste, loss, unauthorized use and misappropriations.

University management stated the condition noted in this finding is mainly the result of an oversight to the change in the time period for reporting from 7 years to 5 years which took effect January 1, 2017.

Failure to review unclaimed monies could result in noncompliance with the Act. (Finding Code No. 2017-004)

Current Findings - *Government Auditing Standards* (Continued)

2017-004 - Noncompliance with Unclaimed Property Act (Continued)

Recommendation

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

University Response

The University agrees with the finding and in conjunction with our Director of Compliance, will train all applicable staff on current compliance requirements, especially those related to the Unclaimed Property Act. Additionally, we will take action to evaluate all stale checks that will have an initial issuance date of 5 years or greater, as of the end of June 30, 2018.

State of Illinois
Chicago State University
Prior Findings Not Repeated
For the Year Ended June 30, 2017

A. Inaccurate Accounting of Accrued Compensated Absences

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

Status: Not repeated
In the current year, compensated absences were properly recorded for sampled employees. (Finding Code No. 2016-001, 2015-001, 2014-002, 2013-001, 12-2, 11-3)

B. Improper Accounting of Unearned Revenue and Grant Receivables

The University did not properly account for its unearned revenue and grant receivables.

Status: Not repeated
In the current year, unearned revenue and grant receivables reviewed were properly recorded. (Finding Code No. 2016-002)