STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2012

AGENCY OFFICIALS

President	Dr. Wayne Watson
Chief of Staff	Dr. Napoleon Moses (4/16/12 to Present)
Provost and Senior V.P. of Academic Affairs	Dr. Sandra Westbrooks
Vice President of Administration and Finance	Mr. Glenn Meeks
Associate V.P. of Administration and Finance	Ms. Maricela Aranda (8/8/11 to Present)
Associate V.P. of Administration and Finance	Mr. Lawrence Pinkelton (8/16/11 to Present)
Director of Accounting/Controller	Mr. Edward Lannon
Associate Director of Accounting	Ms. Louise Williams
Chief Internal Auditor	Mr. Ken Clow

University offices are located at:

9501 South Martin Luther King Drive
Chicago, IL 60628

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as findings 12-1, Uncollateralized Deposit Accounts, 12-2, Inaccurate Accounting of Accrued Compensated Absences, and 12-3, Financial Statement Adjustments.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on February 21, 2013. Attending were:

Representing Chicago State University

President	Dr. Wayne Watson
Chief of Staff	Dr. Napoleon Moses
Vice President of Administration and Finance	Mr. Glenn Meeks
Provost and Senior Vice President for Academic Affairs	Dr. Sandra Westbrooks
Associate Vice President Sponsored Programs	Dr. Yvonne Harris
Chief Internal Auditor	Mr. Ken Clow
Director of Compliance	Ms. Carla Davis
Vice President of Enrollment Management and Student Affairs	Ms. Angela M. Henderson
Vice President of Labor and Legal Affairs and General Counsel	Mr. Patrick B. Cage
Ethics and Diversity Officer and Special Counsel to the President	Ms. Bernetta D. Bush
Chief Information Officer	Mr. Prashant D. Shinde

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

EXIT CONFERENCE (continued)

Representing Borschnack, Pelletier & Co.	
Partner	Mr. Paul A. Pelletier, CPA
Manager	Mr. Robert Sikma, CPA
Senior Accountant	Ms. Kristin Stojcevski, CPA
IT Specialist	Mr. James Flanagan

Representing the Office of the Auditor General	
Audit Manager	Mr. Thomas L. Kizziah, CPA
IS Audit Manager (via teleconference)	Ms. Kathleen Devitt, C.I.S.A.

Responses to the recommendations were provided by Mr. Glenn Meeks in a correspondence dated February 22, 2013.

Borschnack Pelletier & Co.
Certified Public Accountants & Consultants

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

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Chicago State University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Chicago State University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2012, which collectively comprise Chicago State University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chicago State University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. The financial statements of the discretely presented component unit were audited by another auditor whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditor. The prior year partial comparative information has been derived from the University's June 30, 2011 financial statements and, in our reported dated March 2, 2012, we expressed unqualified opinions on the respective financial statements of the business-type activities of the University and its discretely presented component unit.

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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Chicago State University, as of June 30, 2012, and the respective changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2013 on our consideration of Chicago State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago State University's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 38 through 40 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described previously, the University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The "Unaudited" other information on pages 41 and 42 has not been subjected to the auditing procedures applied by us or the other auditor in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Borschnack, Pelletier & Co.

March 1, 2013

Introduction

This section of the Chicago State University (University) annual financial report presents management's discussion and analysis ("MD&A") of the financial performance of the University during the fiscal year ended June 30, 2012, with fiscal year 2011 prior year data presented for comparative purposes. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

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

Background

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

The University enrolled approximately 6,300 doctorate, graduate and undergraduate students during spring 2012 and employs approximately 860 employees consisting of faculty, civil service and administrators. The University offers a diverse range of degree programs from baccalaureate to doctoral levels. The University conferred approximately 1,060 graduate and undergraduate degrees per annum over the last 5 years.

Financial Highlights

The University's financial position remained strong at June 30, 2012, with assets of $196.1 million and liabilities of $38.1 million. Total Net Assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by $9.3 million in fiscal 2012 to $158.1 million at June 30, 2012. The increase in Total Net Assets is primarily attributable to increased tuition and fee revenue, an overall stronger revenue base than spending base and careful control and management of expenditures including a $753 thousand decrease in operating expenses from the prior year level.

Financial Highlights (continued)

Changes in net assets represent all financial results (primarily operating activities) of the University, which consist of revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2012 and 2011 as follows:

	2012		2011	
Total revenues	$	150,018,572	$	155,376,820
Total expenses		140,702,585		141,355,967
Change in net assets	$	9,315,987	$	14,020,853

Fiscal 2012 revenues decreased $5.4 million (3.4%) to $150.0 million and total expenditures decreased $653 thousand (0.5%) to $140.7 million, compared to the prior year. Overall, the University experienced a $4.7 million reduction in its "increase in net assets" for fiscal 2012.

Using the Financial Statements

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

Statement of Net Assets

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

A summary of the University's assets, liabilities and net assets for the year ended June 30, 2012 in comparison with June 30, 2011 is as follows:

Statement of Net Assets (continued)

	2012	2011*
Assets:		
Current assets	$ 39,440,063	$ 33,439,239
Noncurrent assets:		
Capital assets, net	148,046,447	147,215,084
Other	8,642,138	3,459,959
Total Assets	196,128,648	184,114,282
Liabilities:		
Current liabilities	17,664,324	13,355,808
Noncurrent liabilities	20,410,294	22,020,431
Total Liabilities	38,074,618	35,376,239
Net Assets:		
Invested in capital assets, net of related debt	131,102,715	129,198,926
Restricted - expendable	2,033,110	2,134,906
Unrestricted	24,918,205	17,404,211
Total Net Assets	$ 158,054,030	$ 148,738,043

* (Certain 2011 amounts were reclassified to agree to the current year presentation.)

A review of the University's Statement of Net Assets at June 30, 2012 and 2011 shows that the University maintains a strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, and conservative use of debt.

Current assets increased by $6.0 million to $39.4 million. This increase was primarily the result of timelier reimbursements by the State for the expenditure of appropriated funds.

Noncurrent assets increased $6.0 million to $156.7 million. Noncurrent assets are primarily capital assets which increased by $831 thousand to $148.0 million from fiscal year 2011 to fiscal year 2012 and noncurrent restricted cash which increased by $5 million to $7.8 million primarily due to three large grant deposits. Other noncurrent assets include $593 thousand in loans and notes receivable and $273 thousand in member capitalization contributions to the State University Risk Management Association which together reflect a net increase of $171 thousand.

Current liabilities increased by $4.3 million (32.3%) due to an increase in deferred revenue of $5.1 million (205.8%) partially offset by a $825 thousand (13.4%) decrease in accounts payable and accrued liabilities. Appropriations, auxiliary enterprises and grant funds account for the most significant decreases in accounts payable. The increase in deferred revenue is mainly from grant funds advanced by the Capital Development Board for capital projects such as the Douglas Hall renovation, emergency roof replacement and the Chicago State University westside campus.

Statement of Net Assets (continued)

Noncurrent liabilities decreased by $1.6 million (7.3%) due to scheduled payments on the University's debt and a $540 thousand decrease in the long term portion of accrued compensated absences. The decrease in accrued compensated absences was primarily due to sick and vacation leave payouts from employee turnover.

For the year ended June 30, 2012, the University's total assets increased $12.0 million (6.5%) to $196.1 million; total liabilities increased by $2.7 million (7.6%); and total net assets increased by $9.3 million (6.3%).

Statement of Revenues, Expenses and Changes in Net Assets

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

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

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

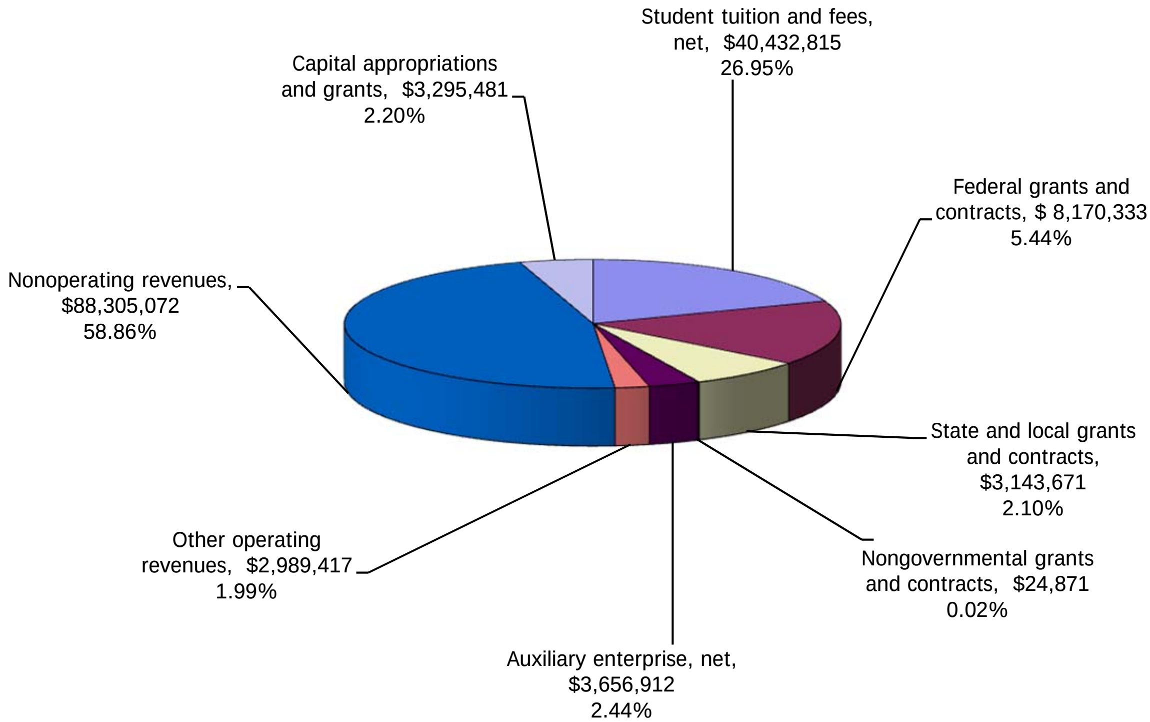
A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2012 in comparison with the year ended June 30, 2011 is as follows:

	2012	2011
Operating revenues	$ 58,418,019	$ 64,599,232
Operating expenses	139,656,002	140,409,492
Operating loss	(81,237,983)	(75,810,260)
Net non-operating revenues	87,453,778	86,414,145
Income before other revenues, expenses, gains or losses	6,215,795	10,603,885
Other revenues, expenses, gains or losses	3,100,192	3,416,968
Increase/(decrease) in net assets	9,315,987	14,020,853
Net assets, beginning of year	148,738,043	134,717,190
Net Assets, end of year	$ 158,054,030	$ 148,738,043

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

The following is a graphic illustration of revenues by source, which were used to fund the University's operations for the year ended June 30, 2012. The most significant source of revenue was the State of Illinois, totaling $73,789,526 (49.2% of total revenue), which included State appropriations of $39,491,674, State fringe benefits of $31,002,371, and capital appropriations and grants of $3,295,481.

Revenue by Source



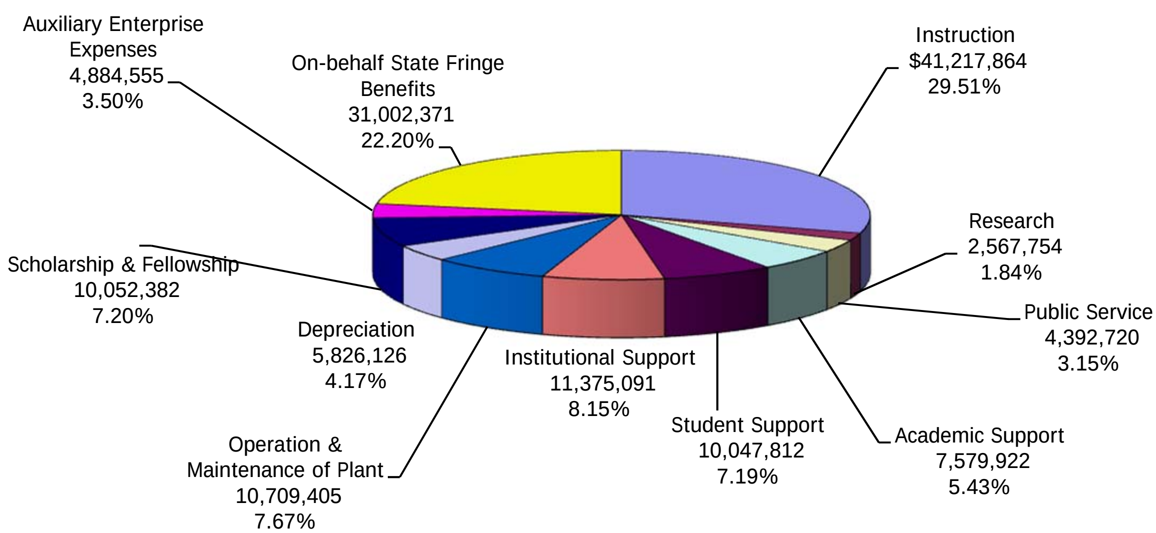
Statement of Revenues, Expenses and Changes in Net Assets (continued)

A summary of the University's operating expenses for the fiscal year ended June 30, 2012 in comparison with the fiscal year ended June 30, 2011 is as follows:

	2012	2011
Operating Expenses:		
Educational and General		
Instruction	$ 41,217,864	$ 41,762,045
Research	2,567,754	3,539,508
Public Service	4,392,720	5,603,164
Academic Support	7,579,922	6,265,881
Student Services	10,047,812	14,718,362
Institutional Support	11,375,091	9,594,423
Operations and Maintenance of Plant	10,709,405	10,849,699
Depreciation	5,826,126	5,857,473
Scholarship and Fellowship	10,052,382	11,101,360
Auxiliary Enterprise Expenses	4,884,555	4,580,166
On-behalf State Fringe Benefits	31,002,371	26,537,411
Total Operating Expenses	$ 139,656,002	$ 140,409,492

The following graphic illustration presents the operating expenses by function.

Operating Expense by Function



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

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets of $9.3 million for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

Student tuition and fees revenues increased by $2.7 million to $40.4 million due to the increase in tuition rates for new freshmen and transfer students plus pharmacy students (offset by a decline in enrollment numbers) and the reduction in the scholarship allowance. Federal grants and contract revenues decreased $7.2 million (46.8%) mainly due to a $5.1 million decrease in the Textbook and Learning Materials grant and another $2.1 million net decrease through a combination of six other grants.

State and local grants and contracts decreased $701 thousand (18.2%) due to a decline in funding for several grants.

Sales and services of auxiliary enterprises decreased by $848 thousand (18.8%) due to a $367 thousand decline in housing revenue (a result of reduced occupancy), a $140 thousand decline in bookstore commissions, and several lesser decreases elsewhere.

Overall operating revenues are down by $6.2 million (9.6%) primarily due to the Federal grants and contract revenue decreases discussed above.

Total operating expenses decreased by $753 thousand (0.5%). Expenses that increased included: (1) on-behalf State fringe benefits $4.5 million (16.8%), (2) academic support $1.3 million (21.0%), (3) institutional support $1.8 million (18.6%), and (4) auxiliary enterprise expenses $304 thousand (6.7%). Research expenses declined $972 thousand (27.5%) from last fiscal year, mainly due to a couple research grants that were completed or nearing completion. In public services, expenses declined $1.2 million dollars (21.6%) due to decreases in seven grants and programs. The key decreases are $477 thousand in Evidence Based Trauma Practice, $200 thousand in the Illinois Institute for Entrepreneurship Education, $183 thousand in Youth Empowerment Program and $171 thousand in Educational Talent Search plus three lesser decreases. Student services expenses declined significantly because of a $5.1 million decrease in the expenditures of the Textbooks and Learning Materials grant, which ended in fiscal year 2012, offset by some smaller increases. Scholarship and fellowship decreased by $1.0 million primarily due to a $3.0 million decrease in Federal Pell awards offset by the reduction of the scholarship allowance.

On-behalf State fringe benefits represent the expenses by the State for the benefit of the University. These increased $4.5 million or 16.8% based on higher group insurance costs and increased funding of higher education pensions.

There is a total operating loss increase of $5.4 million (7.2%) which was primarily the result of the increased on-behalf State fringe benefits which are reported as an operating expense, but as a nonoperating revenue.

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

Net nonoperating revenue increased $1.0 million (1.2%) to $87.5 million, mainly due to increases in on-behalf State fringe benefits of $4.5 million offset by a $3.0 million decrease in Federal nonoperating grants, and a $523 thousand (1.3%) decrease in State appropriations.

The University chooses to report expenses by functional classification in the Statement of Revenues, Expenses and Changes to Net Assets. The expenses are also reported by natural classification in Note 7, on page 32.

Statement of Cash Flows

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

A summary of the statement of cash flows for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011*
Cash provided by (used in):		
Operating activities	$ (47,115,130)	$ (46,878,389)
Noncapital financing activities	63,160,125	50,651,815
Capital and related financing activities	(250,165)	(5,962,608)
Investing activities	26,307	18,646
Net change in cash	15,821,137	(2,170,536)
Cash, beginning of year	7,791,816	9,962,352
Cash, end of year	$ 23,612,953	$ 7,791,816
Operating loss	$ (81,237,983)	$ (75,810,260)
Noncash expenses included in operating loss	36,828,497	32,394,884
Net change in assets and liabilities	(2,705,644)	(3,463,013)
Net cash used in operating activites	$ (47,115,130)	$ (46,878,389)

* (Certain 2011 amounts were *reclassified* to agree to the current year presentation.)

Economic Factors that will affect the Future

Looking forward into the future, the management of the University believes it is well positioned to continue its strong financial condition and level of excellence in service to its constituents. A crucial element to the University's future will continue to be its relationship with the State of Illinois as the University relies on State appropriations to finance its higher education mission which includes maintaining enrollment by providing a quality education at an affordable price. The University continues to monitor the State's financial condition and the factors that may influence the State economically and politically which may in turn impact the level of support the State is willing or able to continue to provide to its universities generally and to Chicago State University in particular.

The University continues efforts to remind the State of the importance of investing in the education of its citizens to continually improve their knowledge and skills levels so that Illinois remains attractive to businesses which seek a skilled workforce that will enable them to succeed in the increasingly global marketplace. Chicago State University seeks to make quality educational opportunities available to a diverse student population including economically disadvantaged students who need financial support to gain access to higher education. This goal is supported by the vision of the University as approved by the Board of Trustees on June 27, 2011: "Chicago State University will be recognized for innovations in teaching and research, and in promoting ethical leadership, entrepreneurship, and social and environmental justice. We will embrace, engage, educate, and empower our students and community to transform lives locally and globally."

Recently Illinois' Lieutenant Governor met with students and toured Chicago State University's state of the art physics lab as part of a statewide tour to promote affordable higher education. The Lieutenant Governor included the following in her statement: "Higher education costs should be a higher priority for our leaders. We've set a goal to have 60 percent of working-age adults hold college credentials by 2025. To reach our completion goal, we must make college more affordable." The Student Government Association has worked alongside faculty, staff, and administrators to improve affordability in higher education including a trip to Springfield on lobby day in the Spring of 2012 to speak about the need for MAP funding.

In the above vein, the University has consistently advocated on its own behalf to maintain and enhance State financial support that is critical to allow the University to continue its mission of providing access to higher education for students of diverse backgrounds and educational needs. The University is pleased to note that additional appropriation support to the University has already been earmarked in legislation related to State proceeds from the Illinois gaming industry. The beginning of such legislation has already been enacted into law; however, further steps are required to advance the process. The University continues to closely monitor the legislative action as part of its strategic planning process.

In addition to advocating for itself at the State level, the University has worked internally on a three-year strategic plan known as "Strategic Plan 2012 – 15". Work on the strategic plan began in October 2010 and continued through July of 2012. The plan is now in the implementation phase. Among the six strategic goals, the third goal is "Cost Efficiencies and Diverse Revenue Streams." This goal specifically addresses the aim of strengthening the financial resources of the University in order to lessen dependency on State support while also

Economic Factors that will affect the Future (Continued)

leveraging that support to continue the mission and maintain the financial strength of the University.

The University has also been engaged for over two years in the self study process aimed at reaccreditation and the Higher Learning Commission site visit in mid November, 2012 which is part of the reaccreditation process. The Higher Learning Commission is stepping up its ongoing monitoring process of the institutions it accredits which requires universities to be engaged in goal setting and assessment of outcomes in order to maximize strengths and identify and achieve successes in areas which are opportunities for improvement. These efforts support the overall health of the University and they include attention to financial strengths and opportunities for improvement aimed at financial sustainability.

These collaborative efforts aimed at conscious steps toward continuing success involve faculty, administrators and students in updating the strategic plan and in focusing energies toward a process of continuous quality improvement. They are signs that the University is alive and vibrant and is focused on continuing its mission by leveraging all the resources required to do so. Management believes these efforts focus the University on a path of enhancement and a path of financial sustainability.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2012
(With Comparative Totals as of June 30, 2011)

	2012		2011	
ASSETS	**University**	**Component Unit**	**University**	**Component Unit**
Current Assets				
Cash and cash equivalents (Note 2)	$ 15,836,239	$ 365,672	$ 5,026,611	$ 343,373
Cash and cash equivalents-restricted (Note 2)	-	547,374	-	-
Balance in State appropriation	11,916,336	-	17,800,065	-
Accounts receivable, net (Note 3)	10,970,182	-	10,035,804	-
Pledges receivable, net (Note 3)	-	3,037	-	538,120
Inventories	42,976	-	40,094	-
Loans and notes receivable, net (Note 3)	18,378	-	22,625	-
Prepaid expenses and other assets	655,952	6,276	514,040	3,735
Total current Assets	39,440,063	922,359	33,439,239	885,228
Noncurrent Assets				
Cash and cash equivalents-restricted (Note 2)	7,776,714	-	2,765,205	-
Certificates of deposit-restricted (Note 2)	-	1,429,618	-	1,415,373
Endowment investments (Note 2)	-	2,839,739	-	2,890,193
Loans and notes receivable, net (Note 3)	592,683	-	694,754	-
Other noncurrent assets	272,741	-	-	-
Capital assets, net (Note 4)	148,046,447	-	147,215,084	-
Total noncurrent assets	156,688,585	4,269,357	150,675,043	4,305,566
Total Assets	196,128,648	5,191,716	184,114,282	5,190,794
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	5,325,021	679,162	6,149,974	578,947
Accrued wages	2,527,698	-	2,637,234	-
Deferred revenue (Note 5)	7,584,553	-	2,480,061	-
Long-term liabilities-current portion (Note 6)	2,227,052	-	2,088,539	-
Total current liabilities	17,664,324	679,162	13,355,808	578,947
Noncurrent Liabilities				
Accrued compensated absences (Note 6)	4,731,642	-	5,271,299	-
Bonds payable (Note 6)	15,370,000	-	16,390,000	-
Premium on bonds (Note 6)	235,793	-	258,249	-
Intangible asset payable (Note 6)	72,859	-	-	-
Capital leases payable (Note 6)	-	-	100,883	-
Total noncurrent liabilities	20,410,294	-	22,020,431	-
Total Liabilities	38,074,618	679,162	35,376,239	578,947
NET ASSETS				
Invested in capital assets, net of related debt	131,102,715	-	129,198,926	-
Restricted for:				
Nonexpendable endowments (Note 14)	-	3,064,053	-	3,063,348
Expendable				
Direct programs and scholarships	-	1,651,319	-	1,630,305
Loans	640,533	-	717,834	-
Capital projects	1,392,577	-	1,417,072	-
Unrestricted	24,918,205	(202,818)	17,404,211	(81,806)
Total Net assets	$ 158,054,030	$ 4,512,554	$ 148,738,043	$ 4,611,847

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

	2012		2011	
	University	Component Unit	University	Component Unit
OPERATING REVENUES:				
Student tuition and fees (net of scholarship allowances of $ 12,382,142)	$ 40,432,815	$ -	$ 37,774,246	$ -
Federal grants and contracts	8,170,333	-	15,360,785	-
State and local grants and contracts	3,143,671	-	3,844,820	-
Nongovernmental grants and contracts	24,871	-	21,211	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $ 32,078)	3,656,912	-	4,505,372	-
Other operating revenues	2,989,417	150,256	3,092,798	75,663
Total operating revenues	58,418,019	150,256	64,599,232	75,663
OPERATING EXPENSES:				
Educational and General				
Instruction	41,217,864	-	41,762,045	-
Research	2,567,754	-	3,539,508	-
Public service	4,392,720	-	5,603,164	-
Academic support	7,579,922	-	6,265,881	-
Student services	10,047,812	-	14,718,362	-
Institutional support	11,375,091	568,957	9,594,423	1,067,473
Operations and maintenance of plant	10,709,405	-	10,849,699	-
Depreciation	5,826,126	-	5,857,473	-
Scholarship and fellowship	10,052,382	142,645	11,101,360	231,987
Auxiliary enterprise expenses	4,884,555	-	4,580,166	-
On-behalf State fringe benefits (See Note 8)	31,002,371	-	26,537,411	-
Total operating expenses	139,656,002	711,602	140,409,492	1,299,460
Operating loss	(81,237,983)	(561,346)	(75,810,260)	(1,223,797)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	39,491,674	-	40,014,775	-
State fringe benefits (Note 8)	31,002,371	-	26,537,411	-
Federal nonoperating grants	17,768,711	-	20,745,572	-
Gifts and contributions	16,009	387,946	-	304,154
Investment income (loss)	26,307	92,667	18,646	261,901
Interest on capital asset - related debt	(851,294)	-	(902,259)	-
Other nonoperating revenues (expenses)	-	(19,752)	-	288,889
Net nonoperating revenues	87,453,778	460,861	86,414,145	854,944
Income (loss) before other revenues, expenses, gains, or losses	6,215,795	(100,485)	10,603,885	(368,853)
Capital appropriations and grants	3,295,481	-	3,461,184	-
Endowment contributions	-	1,192	-	1,000,000
Loss on disposal of capital assets	(195,289)	-	(44,216)	-
Total other revenues	3,100,192	1,192	3,416,968	1,000,000
Increase in net assets	9,315,987	(99,293)	14,020,853	631,147
NET ASSETS				
Net assets-beginning of year	148,738,043	4,611,847	134,717,190	3,980,700
Net assets-end of year	$ 158,054,030	$ 4,512,554	$ 148,738,043	$ 4,611,847

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, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

	2012		2011	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$ 37,515,758	$ -	$ 36,524,934	$ -
Grants and contracts	11,368,588	-	20,509,159	-
Payment to suppliers for goods and services	(21,725,362)	(480,877)	(29,004,578)	(1,175,913)
Payments to employees for services	(70,150,947)	-	(68,458,886)	-
Payments for scholarships and fellowships	(10,576,060)	(146,019)	(13,997,745)	(231,987)
Loans issued to students	(70,750)	-	(83,326)	-
Loans collected from students	78,484	-	68,739	-
Sales and services of auxiliary enterprises	3,656,912	-	4,505,372	-
Other receipts (disbursements)	2,788,247	150,256	3,057,942	225,663
Net cash used by operating activities	(47,115,130)	(476,640)	(46,878,389)	(1,182,237)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	45,375,405	-	29,906,243	-
Gifts, contributions, and grants	16,009	1,440,043	-	1,776,625
Federal nonoperating grants	17,768,711	-	20,745,572	-
Other noncapital financing activities	-	(523,187)	-	(195,893)
Net cash provided by noncapital financing activities	63,160,125	916,856	50,651,815	1,580,732
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets	(4,789,882)	-	(4,923,571)	-
Capital grants	6,560,850	-	1,000,000	-
Principal paid on capital debt and leases	(1,143,686)	-	(1,114,321)	-
Interest paid on capital debt and leases	(877,447)	-	(924,716)	-
Net cash used by capital financing activities	(250,165)	-	(5,962,608)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and/or dividends on investments	26,307	81,483	18,646	68,167
Proceeds from sales and maturities of investments	-	1,555,629	-	1,468,475
Net increase in certificates of deposit investments	-	(14,245)	-	(109,827)
Purchase of investments and other	-	(1,493,410)	-	(2,468,378)
Net cash provided (used) by investing activities	26,307	129,457	18,646	(1,041,563)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,821,137	569,673	(2,170,536)	(643,068)
Cash and cash equivalents-beginning of the year	7,791,816	343,373	9,962,352	986,441
Cash and cash equivalents-end of the year	$ 23,612,953	$ 913,046	$ 7,791,816	$ 343,373
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	$ (81,237,983)	$ (561,346)	$ (75,810,260)	$ (1,223,797)
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation expense	5,826,126	-	5,857,473	-
State fringe benefits	31,002,371	-	26,537,411	-
Net changes in assets and liabilities:				
Accounts receivables, net	(934,378)	-	195,020	-
Inventories	(2,882)	-	13,512	-
Prepaid expenses and other assets	(414,653)	-	(138,576)	-
Loans to students and employees	106,318	-	60,819	-
Accounts payable and accrued liabilities	(821,256)	84,706	(3,211,649)	41,560
Accrued wages	(109,536)	-	(17,075)	-
Deferred revenue	(130,058)	-	630,758	-
Compensated absences	(399,199)	-	(995,822)	-
Net cash used by operating activities	$ (47,115,130)	$ (476,640)	$ (46,878,389)	$ (1,182,237)
NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES				
Capital appropriations	$ 1,969,181	$ -	$ 3,461,184	$ -
Intangible asset financed by vendor	$ 93,717	$ -	$ -	$ -
Unrealized gains on investments	$ -	$ 8,443	$ -	$ 98,058
State fringe benefits	$ 31,002,371	$ -	$ 26,537,411	$ -

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

Note 1 – Summary of Significant Accounting Policies

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

The financial statements include certain prior period comparative information, which has been derived from the University's 2011 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, 2011.

Reclassifications - Certain items in the June 30, 2011 comparative information have been reclassified to agree with the current year 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.

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

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

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

Prepaid Expenses and Other Assets – These assets consist of $655,952 which includes deposits and prepaid expenses.

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

Vacation Leave- (Increase)	$	126,664
Sick Leave (Decrease)		(525,863)
Net decrease in Compensated Absences	$	(399,199)

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Assets (Continued) –

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

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

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, 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 Foundation and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

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

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

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

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

New Accounting Pronouncements - The University will be adopting the provisions of GASB Statements No. 60, No. 61, No. 62, No. 63, No. 65, and No. 66, over the next two years. These statements will require some presentation changes but should have little accounting impact on the University. On July 1, 2014, the University will adopt GASB Statement No. 68. The University has not yet evaluated the impact of this statement 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 risks exposures of those investments. Investments exposed to credit risk, custodial credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk must be disclosed, and the deposit and investment policies (or the lack of a policy) that relate to these risks must be described if the reporting entity is exposed to them.

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

Deposits – At June 30, 2012, the carrying amount of the University and the Foundation's deposits with private financial institutions were $21,878,701 and $2,342,664, respectively. This amount consisted of cash and certificates of deposit deposited with the financial institutions. For financial reporting purposes, these deposits have been classified as cash and cash equivalents or investments, depending upon the original maturity of the financial instrument.

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

	University		Foundation	
Deposit Type	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash in bank	$ 21,878,701	$ 25,174,155	$ 857,190	$ 867,830
Money markets			55,856	55,856
Certificates of deposit			1,429,618	1,429,618
Total deposit accounts	21,878,701	$ 25,174,155	2,342,664	$ 2,353,304
Add: Investments classified as cash equivalents (maturity < 90 days) - Illinois Funds	1,734,252			
Less: Certificates of deposit classified	-			
as investments (maturity > 90 days)	-		(1,429,618)	
Total Cash and Cash Equivalents	$ 23,612,953		$ 913,046	
Cash and Cash Equivalents	$ 15,836,239		$ 365,672	
Cash and Cash Equivalents-Restricted	7,776,714		547,374	
Total	$ 23,612,953		$ 913,046	

Note 2 – Deposits and Investments (Continued)

Deposits (Continued) –

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The University requires that balances on deposit with financial institutions be either insured by 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 totaling $5,278,989 of the University and the Foundation at June 30, 2012. Another $3,614,844 in bank balances was covered by pledged collateral and $18,633,626 was not collateralized and subject to custodial credit risk.

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

Investments

The carrying value (and market value) of the investment portfolio of the Foundation and University at June 30, 2012 consisted of the following:

	University Fair Value	Foundation Fair Value
Money Funds and Other	$ -	221,385
US Treasury and Agency Obligations		713,472
Common Stock		1,492,328
Corporate and International Bonds		412,554
Illinois Funds (Standard & Poors AAAm)	1,734,252	-
Total	1,734,252	2,839,739
Add: Certificates of Deposit (maturity >90 days)		1,429,618
Less: Investments classified as cash equivalents (maturity < 90 days)	(1,734,252)	
Total Investments	$ -	$ 4,269,357

Custodial Credit Risk – Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2012, all investments held by the Foundation are insured or registered and held by the Foundation or its agent in the Foundation's name.

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

Note 2 – Deposits and Investments (Continued)

Investments (Continued) –

the three highest grades assigned by Moody's Investor Services, Inc. (Aaa, Aa or A) or by Standard & Poors (AAA, AA or A) and (3) bond mutual funds which invest primarily in bonds with rating of A and higher. The University's funds expected to be used within one year are invested in the Illinois Funds, which is fully collateralized and has a Standard & Poors credit rating of AAAm.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2012 are as follows:

	Maturity			
Debt Security	Less than 1 year	1 - 5 years	6 - 10 years	Total
US Treasury Obligations	$ 90,556	$ 188,680	$ 133,192	$ 412,428
US Agency/Guaranteed Obligations	-	163,511	137,533	301,044
Total US Treasury/Agency	90,556	352,191	270,725	713,472
Corporate & Int'l Bonds	-	216,908	195,645	412,553
Total Debt Security Investments	$ 90,556	$ 569,099	$ 466,370	$ 1,126,025

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

Note 2 – Deposits and Investments (Continued)

Investments (Continued) –

The Moody's Investor Service and Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2012 are as follows:

Credit Rating	Total Debt Securities
US Treasury Notes - no rating	$ 412,428
Aaa/AA+	301,044
Aa1/AA	9,524
Aa2/AA+	5,600
Aa2/AA	34,872
Aa2/AA-	12,211
Aa3/AA-	39,136
Aa3/A+	22,626
Aa3/A	11,765
Aa3/A-	13,877
A1/AA	5,933
A1/AA-	7,119
A2/AA	27,429
A2/A+	12,066
A2/A	25,098
A2/A-	42,985
A3/A	29,494
A3/A-	15,390
A3/BBB+	13,403
A3/BBB	14,566
Baa1/BBB+	14,135
Baa2/A-	15,528
Baa2/BBB	26,535
Baa2/BBB-	13,261
TOTAL	$ 1,126,025

Note 2 – Deposits and Investments (Continued)

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

The Foundation's exposure to foreign currency risk (valued in U.S. dollars) is as follows at June 30, 2012:

Investment	Currency	Maturity	Fair Value
Norvartis Secs Invest Ltd.	Bermudian dollar	2/10/2019	$ 12,212
Petrobras Intl Fin. Co.	Brazil Real	2/06/2017	14,566
Rabobank Nederland Utrec	European euro	1/19/2017	13,576
Royal Bank of Scotland PLC	British Sterling Pound	9/21/2015	15,342
Shell Int'l Fin B V-USD	European euro	3/22/2017	9,524
Total			$ 65,220

Note 3 – Accounts, Pledges and Loans Receivable

Accounts receivable consisted of the following at June 30, 2012:

Student tuition and fees	$ 11,968,824
Federal, state, and private grants and contracts	3,491,215
Third party and other receivables	2,558,122
Total Gross Receivable	18,018,161
Less allowance for doubtful accounts	(7,047,979)
Net Accounts Receivable	$ 10,970,182

The Foundation's net pledges receivable at June 30, 2012 was $3,037 and consisted of $6,737 of pledges expected to be collected within one year less an allowance for estimated uncollectible amounts of $3,700.

Loans receivable consisted of the following at June 30, 2012:

Loans receivable	$ 1,677,133
Less allowance for doubtful accounts	(1,066,072)
Net Loans Receivable	$ 611,061
Current portion	$ 18,378
Noncurrent portion	592,683
Net Loans Receivable	$ 611,061

Note 4 – Capital Assets

Following are the changes in capital assets for the year ended June 30, 2012:

	Amount in thousands				
	Balance June 30, 2011	Additions	Retirements	Net Transfers	Balance June 30, 2012
Capital assets not being depreciated					
Land	$ 9,611	$ -	$ -	$ -	$ 9,611
Construction in-progress	6,616	2,575	-	(4,758)	4,433
Total capital assets not being depreciated	16,227	2,575	-	(4,758)	14,044
Other capital assets:					
Site improvements	12,113	36	-	-	12,149
Building and building improvements	170,701	2,526	-	4,355	177,582
Equipment	30,216	1,243	(14,908)	403	16,954
Intangible Assets	399	146			545
Library books	11,658	355	-	-	12,013
Total other capital assets	225,087	4,306	(14,908)	4,758	219,243
Total	241,314	6,881	(14,908)	-	233,287
Less: Accumulated depreciation	(94,099)	(5,826)	14,684	-	(85,241)
Capital Assets, net	$ 147,215	$ 1,055	$ (224)	$ -	$ 148,046

As of June 30, 2012, intangible assets acquired under a capital lease had an original cost of $399 thousand and accumulated depreciation of $160 thousand. Fiscal year 2012 depreciation expense for these assets totaled $80 thousand.

Note 5 – Deferred Revenue

Deferred revenue consists of the following at June 30, 2012:

Tuition and fees	$ 1,031,886
Grants and contracts	6,552,667
Total Deferred Revenue	$ 7,584,553

Note 6 – Long Term Liabilities

Long-term liabilities as of June 30, 2012 consist of the following:

	June 30, 2012	Current Portion	Non-current Portion
Accrued compensated absences	$ 5,693,614	$ 961,972	$ 4,731,642
Revenue bonds payable	16,390,000	1,020,000	15,370,000
Premium on bonds	258,249	22,456	235,793
Capital lease payable	201,766	201,766	-
Intangible asset payable	93,717	20,858	72,859
Total Long Term Liabilities	$ 22,637,346	$ 2,227,052	$ 20,410,294

The changes in long-term liabilities are as follows:

	Beginning Balance	Additions	Payments	Ending Balance
Accrued compensated absences	$ 6,092,813	$ 758,235	$ (1,157,434) *	$ 5,693,614
Revenue bonds payable	17,365,000	-	(975,000)	16,390,000
Premium on bonds	280,705	-	(22,456)	258,249
Capital leases payable	370,452		(168,686)	201,766
Intangible asset payable	-	146,289	(52,572)	93,717
Total	$ 24,108,970	$ 904,524	$ (2,376,148)	$22,637,346

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

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. The license agreement is for 48 months and requires various payments over the term of the agreement and at certain milestones. Implicit interest is considered immaterial.

Revenue Bonds Payable

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

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

Note 6 – Long Term Liabilities (Continued)

Revenue Bonds Payable (Continued) –

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

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

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

The bonds are insured by MBIA Corp. and National Public Finance Guarantee. The Rating of MBIA is B and the National Public Finance Guarantee is BBB as of July 23, 2012.

Maturity Information

The scheduled maturities of the revenue bonds are as follows:

Fiscal Year	Revenue Bonds	Interest	Total Payments
2013	1,020,000	829,175	$ 1,849,175
2014	1,070,000	780,570	1,850,570
2015	1,120,000	727,425	1,847,425
2016	1,180,000	669,925	1,849,925
2017	1,240,000	609,425	1,849,425
2018-2022	7,255,000	1,989,975	9,244,975
2023-2024	3,505,000	195,388	3,700,388
Totals	$ 16,390,000	$ 5,801,883	$ 22,191,883

Note 6 – Long Term Liabilities (Continued)

Capital Leases Payable

The University leases equipment under capital lease purchase contracts with an interest rate of 0.00%. The capital leases payable are secured by the equipment being financed. The scheduled maturities of the capital lease is as follows:

Fiscal Year	Principal	Interest	Total Payments
2013	$ 201,766	$ -	$ 201,766
Totals	$ 201,766	$ -	$ 201,766

Note 7 – Natural Classifications

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

Compensation and benefits	$ 100,644,585
Contractual services	13,208,633
Commodities	3,508,275
Awards and grants	10,935,040
Telecommunication	556,496
Other operating expenses	4,976,846
Depreciation	5,826,127
Total Operating Expenses	$ 139,656,002

Note 8 - State Fringe Benefits

GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* requires the University to report "on behalf payments" for fringe benefits and salaries by legally separate entities as revenue and expenditures of the University. The University reported on behalf payments of $31,002,371 for year ended June 30, 2012 consisting of group insurance in the amount of $17,369,246 and pension contributions of $13,633,125.

State Universities Retirement System

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

Note 8 - State Fringe Benefits (Continued)

supplementary information. That report may be obtained by accessing the website at www.SURS.org, or calling 1-800-275-7877.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 34.51% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the years ended June 30, 2012, 2011, and 2010 were $13,975,933, $11,581,139, and $10,635,583, respectively, and is equal to the required contributions for each year.

Note 9 – Post employment Benefits

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

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

Over the past year, State government has been engaged in discussions aimed at addressing certain issues related to post employment benefits and pensions. The coverages described here were in effect throughout FY12. It is possible that the

Note 9 – Post employment Benefits (Continued)

benefit coverage portrayed here may be modified in some manner by State government at a future undetermined date .

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

Note 10 – Liability Insurance

The University participates in a statutory cooperative known as the Illinois Public Higher Education Cooperative (IPHEC). Through IPHEC the University has contracted with commercial insurance carriers to provide liability insurance coverages, including educators' legal and other general liability insurance. The University purchases commercial excess general liability coverage of $10.65 million. The University's liability coverages have a general $350,000 deductible per occurrence which is administered through the State University Risk Management Association (SURMA), a cooperative pool of certain State universities in which the University participates. In most cases, participant contributions to SURMA are based upon actuarial valuations. The University also has commercial general property insurance coverage for the replacement value of the University's property.

Note 11 – Related Party Transactions

A summary of related party transactions during the year ended June 30, 2012, is as follows:

The Chicago State University Foundation

The University and Foundation agreed to a master contract, effective June 30, 1983, and revised February 1, 1989, which specified the relationship between the two organizations, as required by the University Guidelines adopted on November 30, 1982, and revised September 10, 1997, by the Legislative Audit Commission. Under the terms of the contract, the Foundation is provided administrative support services by the University, such as maintenance, telephone, personnel, and property control. The Foundation does not directly pay the University for these services, which were valued at $424,730 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at $724,516 for the year ended June 30, 2012. Scholarships provided by the Foundation which benefited the University totaled $142,645 for the year ended June 30, 2012. The Foundation's liabilities include a payable to the University of $670,902, which includes payroll reimbursements totaling $565,175.

Note 12 – Segment Information

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

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

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

Condensed Statement of Net Assets	**As of June 30, 2012**
Assets:	
Current assets	$ 3,817,384
Capital assets, net	13,227,966
Total Assets	17,045,350
Liabilities	
Current liabilities	1,181,477
Noncurrent liabilities	15,714,530
Total Liabilities	16,896,007
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(3,420,283)
Unrestricted	3,569,626
Total Net Assets (Deficit)	$ 149,343

Note 12 – Segment Information - (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets (Deficit)	**Year Ended June 30, 2012**
Operating revenues	$ 6,084,510
Operating expenses	4,501,289
Operating income	1,583,221
Non-operating revenues and expenses, net	(852,419)
Increase in net assets	730,802
Net assets (deficit), beginning of the year	(581,459)
Net assets, end of the year	$ 149,343

Condensed Statement of Cash Flows	**Year Ended June 30, 2012**
Cash provided by (used in):	
Operating activities	$ 1,927,432
Capital financing activities	(1,999,535)
Investing activities	40
Net decrease in cash	(72,063)
Cash, beginning of the year	3,731,128
Cash, end of the year	$ 3,659,065

Note 13 – Commitments and Contingent Liabilities

The University is named as a defendant in approximately eighteen (18) 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.

The University 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 14 – Endowments

The Foundation Board resolved that an annual amount be taken from dividend and interest income on the endowment and that it be used for scholarships to the extent permitted by donor stipulation. The portion of dividends and interest available for scholarships in accordance with donor stipulations is transferred to the Expendable Restricted Funds. For the year ended June 30, 2012, endowment interest and dividends transferred to the Expendable Restricted Funds totaled $54,935.

Gains or losses on sales of investments are retained or absorbed by the endowment fund principal.

Note 15 – Pledged Revenues and Debt Service Requirements

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

Pledged Revenues

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.	$22,191,883	2024	9.37%

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

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

Note 16 – Subsequent Event

Subsequent to June 30, 2012, the University determined that the Robinson University Center (Center) was contaminated with mold and the building was required to be closed. The carrying amount on the University's books for the Center is $298,113. The University has obtained an estimate to remediate the mold and some asbestos floor tiles in the building at a cost of approximately $330,000. The University has included this in its $50 million FY 2014 capital appropriation request to the State which includes renovating the Center so it can be used as a "one-stop shop for student services."

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Net Assets (Deficit)
As of June 30, 2012
(With Comparative Totals as of June 30, 2011)

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,659,065	$ 3,731,128
Accounts receivable, net	23,699	52,436
Prepaid expenses	486	21,981
Other assets	134,134	93,825
Total Current Assets	3,817,384	3,899,370
Noncurrent Assets		
Land improvements	253,555	253,555
Buildings and improvements	19,914,617	19,868,617
Furniture and equipment	455,616	468,701
Less: accumulated depreciation	(7,395,822)	(7,012,965)
Total Noncurrent Assets	13,227,966	13,577,908
Total Assets	17,045,350	17,477,278
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	125,277	283,590
Deferred revenue	13,743	19,563
Long-term liabilities-current portion	1,042,457	997,456
Total Current Liabilities	1,181,477	1,300,609
Noncurrent Liabilities		
Accrued compensated absences	108,738	109,879
Bonds payable	15,370,000	16,390,000
Premium on bonds	235,792	258,249
Total Noncurrent Liabilities	15,714,530	16,758,128
Total Liabilities	16,896,007	18,058,737
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(3,420,283)	(4,067,797)
Unrestricted	3,569,626	3,486,338
Total Net assets (Deficit)	$ 149,343	$ (581,459)

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
For the year ended June 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

	2012	2011
OPERATING REVENUES		
Room and board, (net of scholarship allowances of $32,078)	$ 2,103,806	$ 2,502,757
Bookstore commissions	196,774	336,789
Vending and catering commissions	147,895	135,796
Child care center fees	-	1,279
Parking fees	1,110,749	1,101,771
University center fees	2,525,286	2,801,114
Total Operating Revenues	6,084,510	6,879,506
OPERATING EXPENSES		
Personal services	1,640,420	1,566,809
Expended for plant	110,034	70,359
Commodities	174,336	97,742
Contractual services	1,835,338	1,856,734
Depreciation	495,865	500,501
Miscellaneous	245,296	300,036
Total Operating Expenses	4,501,289	4,392,181
Operating income	1,583,221	2,487,325
NONOPERATING REVENUES (EXPENSES)		
Loss on disposal of capital assets	(3,796)	-
Investment income	40	140
Interest on capital asset - related debt	(848,663)	(891,785)
Net Nonoperating Revenues (Expenses)	(852,419)	(891,645)
Increase in net assets	730,802	1,595,680
NET ASSETS		
Net assets (deficit)-beginning of year	(581,459)	(2,177,139)
Net assets (deficit)-end of year	$ 149,343	$ (581,459)

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, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Room and board	$ 2,086,414	$ 2,502,697
Bookstore commissions	196,774	336,789
Vending and catering commissions	147,895	135,796
Child care center fees	-	1,279
Parking fees	1,110,749	1,101,771
University center fees	2,525,286	2,801,114
Payment to suppliers for goods and services	(2,498,125)	(3,387,653)
Payments to employees for services	(1,641,561)	(1,663,127)
Net cash provided by operating activities	1,927,432	1,828,666
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(149,719)	(216,322)
Principal paid on capital debt	(975,000)	(930,000)
Interest paid on capital debt	(874,816)	(917,691)
Net cash used by capital financing activities	(1,999,535)	(2,064,013)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	40	140
Net cash provided by investing activities	40	140
NET INCREASE (DECREASE) IN CASH	(72,063)	(235,207)
Cash and cash equivalents - beginning of the year	3,731,128	3,966,335
Cash and cash equivalents - end of the year	$ 3,659,065	$ 3,731,128
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,583,221	$ 2,487,325
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	495,865	500,501
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables, net	28,737	(17,125)
(Increase) decrease in prepaid expenses	21,495	(21,981)
(Increase) in other assets	(40,309)	-
(Decrease) in accounts payable and accrued liabilities	(154,616)	(1,040,801)
Increase (decrease) in deferred revenue	(5,820)	17,065
(Decrease) in accrued compensated absences	(1,141)	(96,318)
Net cash provided by operating activities:	$ 1,927,432	$ 1,828,666

OTHER INFORMATION

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2011	6,882	5,223
Spring session, 2012	6,262	4,767
Summer session, 2012	2,067	882

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, 2011	$ 186.00	$ 120.00
Spring session, 2012	186.00	120.00
Summer session, 2012	143.00	96.00

RENTAL DISCLOSURES (Unaudited)

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

SCHEDULE OF INSURANCE IN FORCE (Unaudited)

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

Fire and extended coverage ($25,000 deductible) of:		
Building	$	28,479,054
Contents	$	1,950,899
Business interruption	$	7,129,198
EDP	$	4,374,761
Boiler and machinery (Included in blanket coverage limit)	$	100,000,000
Earthquake	$	100,000,000
Flood	$	100,000,000
Basic general liability (SURMA)	$	350,000
Excess general liability	$	10,650,000

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

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Chicago State University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Chicago State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2012, which collectively comprise Chicago State University's basic financial statements and have issued our report thereon dated March 1, 2013. Our report was modified to include a reference to another auditor. 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. Another auditor audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as findings 12-1, 12-2, and 12-3 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

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

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

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

Borschnack, Pelletier & Co.

March 1, 2013

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

12-1 FINDING: UNCOLLATERALIZED DEPOSIT ACCOUNTS

Chicago State University (University) maintained deposits ($18,633,626) in excess of the Federal Deposit Insurance Coverage (FDIC) and pledged collateral.

The University's deposits (bank balances) at one of its financial institutions totaled $18,883,641 at June 30, 2012. The FDIC plus pledged collateral coverage for these accounts totaled $250,015, which left uninsured deposits of $18,633,626.

The State Finance Act (30 ILCS 105/6a-1c(6)) requires the University to obtain a bond or pledged security whenever the University deposits funds with a bank and the amount of the deposit exceeds the federal deposit insurance coverage.

University officials stated there was miscommunication between the bank and the University. The University was operating under the understanding that the collateralization was in place. The University discovered after June 30 that collateralization was not in place and collateralization was obtained.

Failure to obtain collateral puts State funds at risk in the event that the financial institution should incur financial difficulties. (Finding Code No. 12-1)

RECOMMENDATION

We recommend the University obtain sufficient collateral to cover its deposit accounts.

UNIVERSITY RESPONSE

The University has obtained sufficient collateral to cover its deposit accounts. The University has prepared written procedures to ensure compliance with the collateralization requirements of the State Finance Act. The University agrees with the recommendation.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

12-2 <u>FINDING:</u> INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES

Chicago State University (University) did not properly account for vested sick time absences of employees and did not properly calculate the accrued leave liability of the University.

We compared 100% of the employees' accrued sick leave days/hours as of June 30, 2012 to June 30, 2011 in order to ensure that there were not any increases in accrued vested sick days/hours for any employees. Since January 1, 1998, sick time no longer vests and should not be accrued as a compensated absence by the University. We noted 13 employees in which the accrued sick leave days/hours payable at June 30, 2011 was zero but a balance was present at June 30, 2012. The University had inadvertently left these employees' vested time off of the 2011 listing. We also noted another employee in which the number of days had been incorrectly transferred to the schedule used to calculate the accrued compensated absences liability. The schedule included the following for this employee:

Sick time payable at June 30, 2011	Sick time payable at June 30, 2012
234.16 days (correct amount)	239.16 days (incorrect amount)

These omissions of vested sick time at June 30, 2011 understated the accrued leave liability for the year ending June 30, 2011 and overstated the fiscal year 2012 expenses by approximately $60,396. The June 30, 2012 accrual overstated the liability and expense by $772. An adjusting entry was proposed to correct these misstatements.

We also tested a sample of 35 employees to determine if the University was properly accounting for leave time earned and used. The University maintains manual records to track employee leave days/hours. We noted two employees in our sample that were shorted sick time. One employee was shorted 7 hours and one employee was shorted 14 hours. Another employee's sick leave balance was overstated by 7 hours. One employee had a miscalculation of 1 day of over-accrued vacation. The amount of miscalculation was immaterial to the financial statements. Once brought to the University's attention, the employee records were corrected.

The State Finance Act (30 ILCS 105/14a(f)) states that sick leave accumulated on or after January 1, 1998 is not compensable at the time of the employee's death, retirement, resignation, or other termination of service.

Good business practices require the University to ensure controls are in place to properly record and summarize data correctly. This data is used for calculating compensation due to employees and determining compensated absence balances for financial reporting.

University officials stated that each one of the points mentioned above is currently a manual process. These exceptions are due to human error.

Failure to properly accumulate accrued leave records and calculate liabilities related to accrued compensated absences may cause errors in compensation to employees and results in inaccurate financial statements. (Finding Code Nos. 12-2, 11-3)

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

12-2 FINDING: INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES (Continued)

RECOMMENDATION

We recommend that the University improve its system for accumulating and calculating compensated absences to ensure records and reporting are accurate.

UNIVERSITY RESPONSE

The current manual process has been improved for the calculation and accumulation of compensated absences. In addition, the University will have an accounting firm to provide additional oversight and review until the implementation of an automated process. The automated process is scheduled to be in effect July 1, 2013. The University accepts the recommendation.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

12-3 FINDING: FINANCIAL STATEMENT ADJUSTMENTS

Chicago State University posted adjustments to its financial statements based on estimated liabilities for significant questioned costs that related to noncompliance with Federal Award programs' compliance requirements (when considered in combination with other proposed audit adjustments).

During our audit of major Federal award programs, we noted questioned costs relating to noncompliance with Federal Award programs. We were required to consider these questioned costs' potential impact on the University's financial statements. Based on the experience with Federal awarding agencies from prior years, we proposed adjustments to the University's financial statements to record liabilities related to the questioned costs noted. When considered in the aggregate with other errors and likely misstatements noted in the financial audit, it appeared likely that the University's financial statements, as originally prepared, were materially misstated. Therefore, the University posted an adjustment to record a liability and expense relating to the following questioned costs:

- An estimated liability ($191,117) for a questioned cost in the Head Start Cluster (which was passed through the City of Chicago), relating to in-kind matching requirements that were not complied with.
- An estimated liability ($167,865) for questioned costs related to the Student Financial Assistance (SFA) Cluster. The questioned costs noted in the SFA Cluster findings were discounted based on past experience with the Department of Education.

According to accounting principles generally accepted in the United States of America (GAAP) an error in recognition, measurement, presentation or disclosure in financial statements resulting from an oversight at the time the financial statements were prepared is a misstatement, that if material, either individually or in the aggregate, would result in an adverse audit opinion on the financial statements.

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

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that (4) 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 officials stated that adjusting entries were posted in order to ensure the integrity of the University's financial statements after the auditors' estimated liabilities, related to their audit of certain federal award programs, were noted.

In addition to jeopardizing future Federal funding, noncompliance with Federal regulations increases the likelihood that financial statements may be materially misstated due to the possibility of having to return Federal funding, or penalties that may be imposed. (Finding Code No. 12-3)

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

12-3 FINDING: FINANCIAL STATEMENT ADJUSTMENTS (Continued)

RECOMMENDATION

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

UNIVERSITY RESPONSE

The University has improved its procedures to ensure that the University complies with all requirements applicable to Federally funded programs. FY 2012-2013 is a year of transition as Grants Accounting has been moved to report to the Financial Affairs Department. Prior practices have been evaluated which identified the underlying issues resulting in shortfalls. Standard procedures and processes are being developed that document the accounting treatment and management of “in kind” costs. Procedures will ensure costs are captured in a timely manner allowing for adjustments/correct resulting from shortfalls.

The University has now adopted a revised SAP Policy which provides for a financial aid warning period for students who, for the first time, fail to make SAP, thus eliminating the necessity for those students to file an appeal. The policy has been posted to the Financial Aid website along with the revised SAP petition form. Additionally, advisors and staff members have received mandatory training on the new policy and procedure to ensure compliance with the regulation. The University agrees with the recommendation.

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

A **<u>FINDING:</u> Suspended Academic Policy Resulted in Overstated Liability on the Financial Statements**

Chicago State University had multiple policies addressing the requirement for a student's Satisfactory Academic Progress. As a result of a misapplication of the academic policy that had been suspended, the University determined that there were overawards made to students totaling $740,030. The University recorded this as an adjustment to their financial statements. These adjustments included a $134,836 reduction in receivables, a $605,194 increase in liabilities, and revenue and expenses adjustments netting to $740,030. (Finding Code No. 11-1)

<u>Status</u> – Not repeated

Our sample testing did not identify instances of the use of an academic policy that had been suspended.

B **<u>FINDING:</u> Inaccurate Accounting for Participation in Public Entity Risk Pool**

Chicago State University did not properly account for its participation in the State Universities Risk Management Association in accordance with accounting principles generally accepted in the United States of America. (Finding Code No. 11-2)

<u>Status</u> – Not repeated

Our testing indicated that the University accounted for its participation in the State Universities Risk Management Association in accordance with accounting principles generally accepted in the United States of America.