STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2014

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, 2014

TABLE OF CONTENTS

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2014

AGENCY OFFICIALS

President	Dr. Wayne Watson
Provost and Senior V.P. for Academic Affairs	Dr. Angela M. Henderson (11/24/14 to present)
Interim Provost and Senior V.P. for Academic Affairs	Dr. Angela M. Henderson (to 11/23/14)
Interim V.P. of Administration and Finance	Mr. Lawrence A. Pinkelton
Associate V.P. of Administration and Finance	Ms. Maricela Aranda
Executive Director/Controller	Mr. Raul Garcia, CPA (8/16/13 to present)
Director of Accounting/Controller	Mr. Edward J. Lannon, CPA (to 8/15/13)
Director of Accounting	Mr. Edward J. Lannon, CPA (8/16/13 to 6/30/14)
Associate Director of Accounting	Ms. Louise Williams, CPA
Chief Internal Auditor	Mr. Kenneth K. Clow (to 1/23/14)
Interim Chief Internal Auditor	Mr. Michael N. Mayo, CPA (2/13/14 to present)

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 unmodified 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 2014-001, Noncompliance and Inadequate Controls Over Travel Advances to Employees, 2014-002 Inaccurate Accounting of Accrued Compensated Absences, and 2014-003, Inadequate Controls Over Payroll and Purchasing Cards.

EXIT CONFERENCE

The University waived holding an exit conference to discuss the financial audit and the findings and recommendations appearing in this report in a communication dated December 15, 2014.

The responses to the recommendations were provided by Mr. Lawrence Pinkelton in a correspondence dated December 19, 2014.

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Report on Summarized Comparative Information

We have previously audited the Chicago State University's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and the discretely presented component unit of the Chicago State University in our report dated January 3, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago State University's basic financial statements. The University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 36 through 38 and the other information on pages 39 and 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 36 through 38 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements on pages 36 through 38 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The "Unaudited" other information on pages 39 and 40 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Chicago State University's internal control over financial reporting and compliance.

Borschnack, Pelletier & Co.

December 19, 2014

Background

Chicago State University (CSU) was founded as a teacher-training school over 140 years ago. It is located in a residential community on the south side of Chicago, approximately 12 miles south of downtown Chicago. Today the University is composed of five colleges - the College of Arts & Sciences, the College of Business, the College of Education, the College of Health Sciences, and the College of Pharmacy. CSU offers thirty-six undergraduate degrees, twenty-two graduate degrees, and two doctoral degrees (the Doctorate of Education in Educational Leadership and the Doctor of Pharmacy). It also offers an interdisciplinary Honors College for highly motivated students in all areas of study and has a Division of Continuing Education. CSU has once again been accredited through the 2022 – 2023 academic year by the Higher Learning Commission.

Operational and Financial Highlights

The University continues to remain competitive in the Chicagoland higher education market by offering a quality education with an affordable tuition and by building on-demand niches, such as our Pharmacy program. The University continues to allocate resources for student recruiting, retention and academic programs with proven results. Our academic performance includes the following:

- CSU's six-year graduation rate of 21% captures steady improvements over the last several years. This is a 49% improvement from full-time freshman that graduated in 2011.
- The 2012 student cohort rate of 54.8% for first-time full-time students increased by approximately 14% relative to the 2011 cohort rate of 48% during the fall of 2013.
- Among the 2007 cohort, African-Americans made up 82% of graduates. Furthermore, female students represent 62% of the cohort graduates.

The fiscal year 2014 operating loss ($107.9 million) increased by $2.3 million relative to the previous fiscal year's operating loss ($105.6 million). This increased operating loss is due to continued pressures for maintaining affordable tuition and retaining and enhancing the quality of education for enrolled students. The increase of $1.4 million in non-operating revenues (expenses) from fiscal year 2013 to fiscal year 2014 is mainly driven by the University's continued pursuit of alternative financial resources other than student tuition and fees to fund the University's operations. The Statement of Revenues, Expenses and Changes in Net Position section below provides further details relating to the University's operating loss, non-operating revenues (expenses) and other revenues.

	2014 (in thousands)	2013 (in thousands)	Change
Operating Loss	$ (107,926)	$ (105,653)	$ (2,273)
Non-operating Revenues (Expenses)	98,793	97,376	1,417
Other Revenues	3,026	2,394	632
Decrease in net position	$ (6,107)	$ (5,883)	$ (224)

Management's Discussion and Analysis

The management's discussion and analysis (MD&A) section of this report presents Chicago State University's financial information in a condensed financial presentation format for fiscal years ended June 30, 2014, and 2013. This section of the report is designed to provide an overview of the changes in financial activities from one year to the next, and should be read in conjunction with the University's basic financial statements. Chicago State University's management is responsible for the completeness and fairness of this information.

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 the Notes to the Financial Statement Note 1 on page 17 for information on how to obtain the financial statements of the component unit.

Using the Financial Statements

The Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows emulate the corporate financial statement presentation model. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35. The financial statements report the financial position and activities of the University and it's discretely presented component unit.

Statement of Net Position

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

A summary of the University's assets, liabilities and net position for the year ended June 30, 2014 in comparison with June 30, 2013 is as follows:

	2014 (in millions)	2013 (in millions)	Change
Assets:			
Current assets	$ 26.0	$ 32.1	$ (6.1)
Noncurrent assets:			
Capital assets, net	149.1	150.0	(0.9)
Other	6.0	8.1	(2.1)
Total Assets	181.1	190.2	(9.1)
Liabilities:			
Current liabilities	16.5	18.6	(2.1)
Noncurrent liabilities	18.5	19.4	(0.9)
Total Liabilities	35.0	38.0	(3.0)
Net Position:			
Invested in capital assets, net of related debt	134.3	134.2	0.1
Restricted - expendable	1.0	1.2	(0.2)
Unrestricted	10.8	16.8	(6.0)
Total Net Position	$ 146.1	$ 152.2	$ (6.1)

Current Assets
Current assets decreased by $6.1 million from the balance one year ago ($32.1 million) to the current balance ($26.0 million). This decrease is attributable to the University's net loss of $6.1 million for fiscal year 2014.

Noncurrent Assets (Other)
Noncurrent assets (other) decreased by $2.1 million from the balance one year ago ($8.1 million) to the current balance ($6.0 million). The change is mainly attributed to the reduction in the restricted cash used to fund deferred maintenance costs during fiscal year 2014.

Total Liabilities
Total liabilities decreased by $3.0 million from the balance one year ago ($38.0 million) to the current balance ($35.0 million). This decrease is mainly due to the following:

- The expenditure of restricted cash resulted in decrease of $1.2 million of unearned grant revenue.
- Accounts payable and accrued expenses decreased. This was due to $743 thousand of capital cost that were in accounts payable at June 30, 2013 with no similar amounts in accounts payable at June 30, 2014.
- The long term financing liabilities decreased by $1.0 million as payments and amortization ($1.3 million) of these liabilities were offset by $0.3 million of new capital lease financing.

Net Position (Unrestricted)
Unrestricted net position ($10.8 million) decreased $6.0 million from the balance one year ago ($16.8 million). This is attributed to declining student enrollment, increased scholarship allowances as a strategy to level tuition enrollment, and the write-off of old student receivables.

Student enrollment declined by eight percent from fiscal year 2013 to 2014 resulting in a $1.5 million decrease in tuition revenue. The University also adopted new enrollment strategies in fiscal year 2014, offering deeper tuition discounts to students.

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

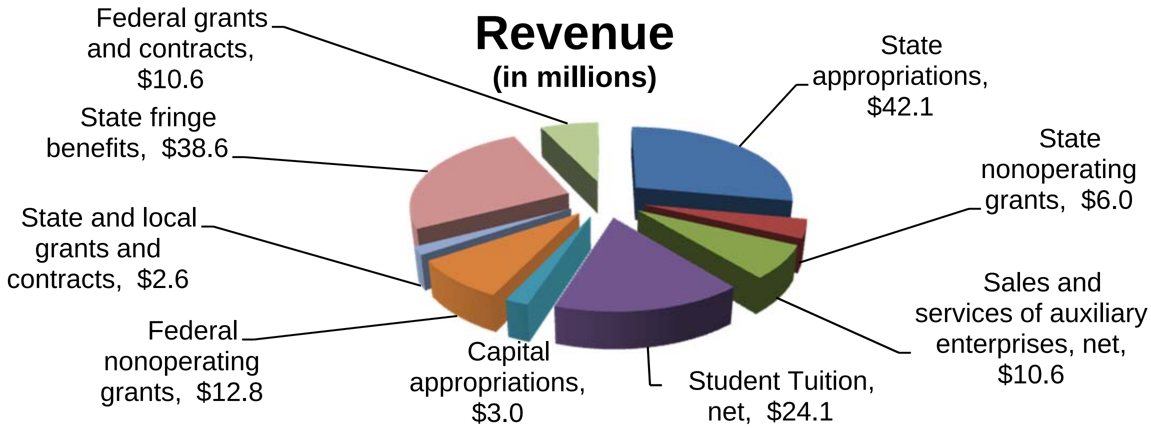
Revenues

A summary of the University's revenues for the year ended June 30, 2014 in comparison with June 30, 2013 is as follows:

	2014 (in millions)	2013 * (in millions)	Change
Operating revenues			
Student Tuition, net	$ 24.1	$ 30.1	$ (6.0)
Federal grants and contracts	10.6	7.8	2.8
State and local grants and contracts	2.6	2.8	(0.2)
Sales and services of auxiliary enterprises, net	10.6	11.3	(0.7)
Total Operating revenues	47.9	52.0	(4.1)
Nonoperating Revenues			
State appropriations	42.1	37.0	5.1
State fringe benefits	38.6	41.0	(2.4)
State nonoperating grants	6.0	6.1	(0.1)
Federal nonoperating grants	12.8	14.0	(1.2)
Total Nonoperating revenues	99.5	98.1	1.4
Other Revenues			
Capital appropriations	3.0	2.0	1.0
Total Revenues	$ 150.4	$ 152.1	$ (1.7)

* (Certain 2013 amounts were reclassified to agree to the current year presentation.)

The following graphic illustration presents the revenue by source.



Student Enrollment

Terms	Head Count FY 2014	FY 2013	% Change	Credit Hours FY 2014	FY 2013	% Change
Fall	5,701	6,107	-6.6%	61,500	65,659	-6.3%
Spring	5,297	5,821	-9.0%	56,567	62,729	-9.8%
Summer	1,585	1,765	-10.2%	9,415	10,108	-6.9%

Operating Revenues:

Operating revenues ($47.9 million) decreased by $4.1 million from the total one year ago ($52.0 million) for the following main reasons:

- Student tuition decreased ($6.0 million) due to declining tuition and fee revenue ($1.5 million) driven by the eight percent decrease in student enrollment and student bad debt write-offs ($4.0 million), and an increased scholarship allowance ($1.1 million).
- Federal grants and contracts increased ($2.8 million) primarily due to an extension of the Textbook and Learning Materials Program funded by the U.S. Agency for International Development. The program's objectives include coordinating and distributing educational materials for use by kindergarten and primary 3 classrooms, as well as related faculty training in 10 districts of Ghana, Africa.

Nonoperating Revenues

Nonoperating revenues ($99.5 million) increased by $1.4 million from the total one year ago ($98.1 million) for the following main reasons:

- The State appropriations revenue increase ($5.1 million) is mainly attributed to the $4.6 million (including a one-time funding of $3 million) appropriation and receipt of monies that were collected by the Illinois Gaming Board (a new funding stream) designated for Chicago State University.
- State fringe benefits revenues decreased by $2.4 million. The revenue represents the State of Illinois' direct contributions towards the University's employees' retirement and healthcare benefits. The change in the level of State funding is determined by the cost of the benefits

and the State of Illinois' ability to pay for the benefits. Lastly, the related employee benefit cost is reported as On-behalf State Fringe Benefits of the Operating Expense section of the report.

- Federal nonoperating grants decreased by $1.2 million. Federal Pell grants to students decreased in fiscal year 2014 due to declining student enrollment.

Capital Appropriations and Grants

Capital appropriations and grants revenue increased $1.0 million. Various capital projects were in process during the year including Douglas Hall repairs ($1.5 million), the Convocation Center ($744 thousand), electrical system upgrades ($220 thousand), exploratory construction costs for a new child care center ($176 thousand), and several smaller projects.

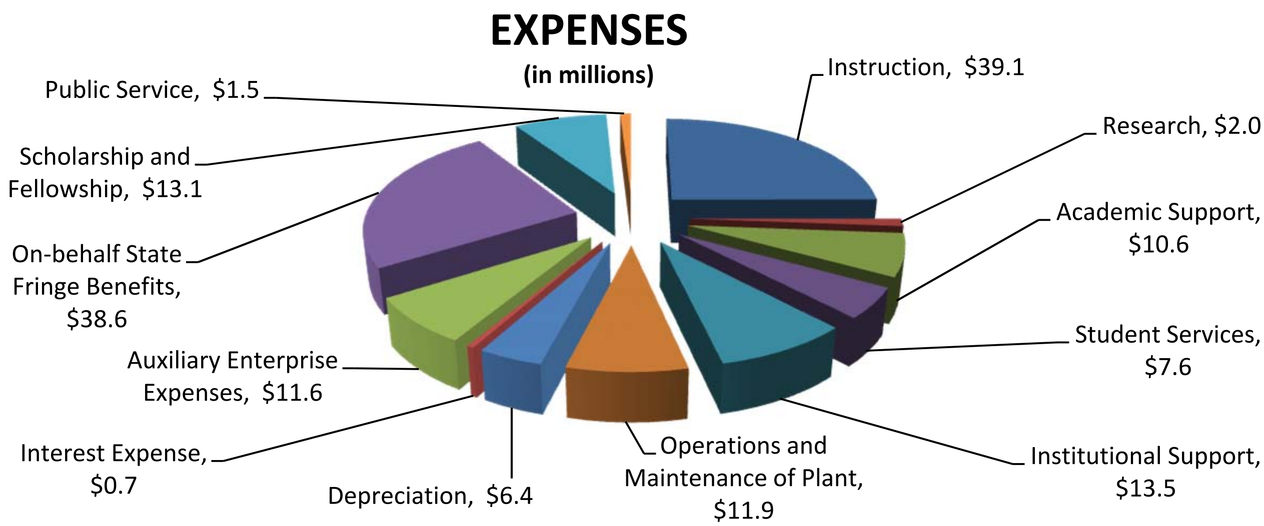
Expenses:

A summary of the University's expenses for the fiscal year ended June 30, 2014 in comparison with the fiscal year ended June 30, 2013 is as follows:

	2014 (in millions)	2013 * (in millions)	Change
Operating Expenses:			
Educational and General			
Instruction	$ 39.1	$ 37.1	$ 2.0
Research	2.0	2.0	-
Public Service	1.5	1.4	0.1
Academic Support	10.6	11.2	(0.6)
Student Services	7.6	8.4	(0.8)
Institutional Support	13.5	14.6	(1.1)
Operations and Maintenance of Plant	11.9	11.0	0.9
Depreciation	6.4	6.0	0.4
Scholarship and Fellowship	13.1	13.8	(0.7)
Auxiliary Enterprise Expenses	11.6	11.2	0.4
On-behalf State Fringe Benefits	38.6	41.0	(2.4)
Total Operating Expenses	155.9	157.7	(1.8)
Other Non-operating Expenses:			
Interest Expense	0.7	0.8	(0.1)
Other Expenses:			
(Gain) Loss on disposal of capital assets	-	(0.4)	0.4
Total Expenses	$ 156.6	$ 158.1	$ (1.5)

* (Certain 2013 amounts were reclassified to agree to the current year presentation.)

The following graphic illustration presents the operating expenses by function.



Operating Expenses:
Operating expenses ($155.9 million) decreased by $1.8 million from the total one year ago ($157.7 million) for the following main reasons:

Instruction:
Instruction increased by $2.0 million from the total one year ago ($37.1 million) to the current year ($39.1 million) mainly due to the $2.8 million increased spending for the Textbooks and Learning Materials Program mentioned previously.

Institutional Support:
Institutional support decreased by $1.1 million from the result one year ago ($14.6 million) to the current result ($13.5 million). The decrease is mainly attributed to cost containment initiatives in response to declining tuition revenues.

On-behalf State Fringe Benefits
The decrease in On-behalf State fringe benefits ($2.4 million) is attributed to a number of factors including assumptions about employees' mortality, health care cost trends, future employment and the State of Illinois' efforts to meet their annual contributions to the plan. Since the benefit is managed and funded by the State of Illinois, under generally accepted accounting principles, the expense relating to University employees is reflected in the financial statements with an offset to revenue on the State fringe benefits line item in the Nonoperating revenue (expenses) section of the financial statements.

Economic Factors that will affect the Future
Higher Education will continue to play a vital role in supporting the growth of the local and state economy by aligning education programs with the needs of the workforce, and offering educational programs that create pathways for work in the healthcare, information technology, distribution and logistics, and manufacturing industries to name a few. In order to support this

vision, the University will continue to diversify its revenue streams including tuition and fees, state appropriations, Title IV federal financial aid, federal and state grants and endowments.

The University is highly dependent on funding from the State of Illinois which accounted for over half of the University's funding stream in fiscal year 2014. Accordingly, the University continues to advocate on its own behalf to maintain and enhance State financial support that is critical in allowing 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 demonstrated in legislation recently enacted related to State proceeds from the Illinois gaming industry. Commencing with fiscal year 2014, the University is to receive an annual appropriation of $1.6 million funded by gaming receipts. The University will continue to advocate for the continuance of this funding stream. Lastly, Governor Pat Quinn shared his vision, during the fiscal year 2015 State Budget Address, whereby he indicated that education is a priority, but funding continues to be a challenge. This will continue to place increased pressures on tuition and fees and require downward pressures on operating costs.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2014
(With Comparative Totals as of June 30, 2013)

	2014		2013	
	University	**Component Unit**	**University**	**Component Unit**
ASSETS				
Current Assets				
Cash equity wih the State Treasurer	$ 88,274	$ -	$ -	$ -
Cash and cash equivalents (Note 2)	9,887,484	178,553	9,077,133	414,115
Cash and cash equivalents-restricted (Note 2)	-	1,076,818	-	1,478,323
Balance in State appropriation	7,255,692	-	11,275,504	-
Accounts receivable, net (Note 3)	8,127,737	-	11,110,648	-
Pledges receivable, net (Note 3)	-	6,828	-	126,750
Inventories	44,253	-	40,945	-
Loans receivable, net (Note 3)	13,325	-	20,987	-
Prepaid expenses and other assets	632,366	8	555,555	2,388
Total current Assets	26,049,131	1,262,207	32,080,772	2,021,576
Noncurrent Assets				
Cash and cash equivalents-restricted (Note 2)	4,930,001	-	7,213,787	-
Certificates of deposit-restricted (Note 2)	-	2,000	-	1,056,575
Endowment investments (Note 2)	-	5,072,313	-	3,158,632
Loans receivable, net (Note 3)	739,278	-	687,056	-
Other noncurrent assets	253,801	-	280,627	-
Capital assets, net (Note 4)	149,110,491	-	149,978,828	-
Total noncurrent assets	155,033,571	5,074,313	158,160,298	4,215,207
Total Assets	181,082,702	6,336,520	190,241,070	6,236,783
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	6,200,294	571,211	7,070,696	849,653
Accrued wages	2,205,698	-	2,339,306	-
Unearned revenue (Note 6)	5,691,455	-	6,901,165	-
Long-term liabilities-current portion (Note 7)	2,443,223	-	2,312,574	-
Total current liabilities	16,540,670	571,211	18,623,741	849,653
Noncurrent Liabilities				
Accrued compensated absences (Note 7)	4,946,853	-	4,852,111	-
Bonds payable (Note 7)	13,180,000	-	14,300,000	-
Premium on bonds (Note 7)	190,880	-	213,336	-
Intangible asset payable (Note 7)	8,286	-	56,858	-
Capital leases payable (Note 7)	152,146	-	24,073	-
Total noncurrent liabilities	18,478,165	-	19,446,378	-
Total Liabilities	35,018,835	571,211	38,070,119	849,653
NET POSITION				
Invested in capital assets, net of related debt	134,320,584	-	134,176,049	-
Restricted for:				
Nonexpendable endowments (Note 15)	-	2,943,897	-	2,941,544
Expendable				
Direct programs and scholarships	40,377	2,792,921	194,208	2,414,953
Research and instructional department uses	-	-	90,590	-
Loans	749,536	-	744,420	-
Capital projects	126,052	-	120,822	-
Unrestricted	10,827,318	28,491	16,844,862	30,633
Total Net position	$ 146,063,867	$ 5,765,309	$ 152,170,951	$ 5,387,130

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014
(With Comparative Totals for the Year Ended June 30, 2013)

	2014		2013	
	University	**Component Unit**	**University**	**Component Unit**
OPERATING REVENUES:				
Student tuition and fees (net of scholarship allowances of $ 14,227,833 for 2014 and $13,104,519 for 2013)	$ 24,091,689	$ -	$ 30,066,721	$ -
Federal grants and contracts	10,649,241	-	7,791,743	-
State and local grants and contracts	2,600,095	-	2,819,726	-
Nongovernmental grants and contracts	7,433	-	18,611	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $ 525 for 2014 and $16,421 for 2013)	10,599,857	-	11,337,664	-
Other operating revenues	2,421	547,996	2,840	382,815
Total operating revenues	47,950,736	547,996	52,037,305	382,815
OPERATING EXPENSES:				
Educational and General:				
Instruction	39,152,593	-	37,112,398	-
Research	1,950,884	-	1,976,438	-
Public service	1,497,384	-	1,424,036	-
Academic support	10,581,254	-	11,208,877	-
Student services	7,572,746	-	8,357,301	-
Institutional support	13,492,998	2,366,553	14,626,379	2,031,897
Operations and maintenance of plant	11,919,117	-	10,968,704	-
Depreciation	6,456,366	-	6,050,828	-
Scholarship and fellowship	13,076,323	103,457	13,755,029	148,242
Auxiliary enterprise expenses	11,582,937	-	11,227,006	-
On-behalf State fringe benefits (See Note 9)	38,593,745	-	40,982,998	-
Total operating expenses	155,876,347	2,470,010	157,689,994	2,180,139
Operating loss	(107,925,611)	(1,922,014)	(105,652,689)	(1,797,324)
NONOPERATING REVENUES (EXPENSES):				
State appropriations	42,108,205	-	37,019,788	-
State fringe benefits (Note 9)	38,593,745	-	40,982,998	-
State nonoperating grants	6,034,575	-	6,100,973	-
Federal nonoperating grants	12,762,578	-	14,041,386	-
Gifts and contributions	-	340,314	-	529,284
Investment income	49,491	509,318	34,011	408,984
Interest on capital asset - related debt	(755,195)	-	(803,023)	-
Other nonoperating revenues (expenses)	-	1,450,561	-	1,432,378
Net nonoperating revenues	98,793,399	2,300,193	97,376,133	2,370,646
Income (loss) before other revenues, expenses, gains, or losses	(9,132,212)	378,179	(8,276,556)	573,322
Capital appropriations and grants	3,017,640	-	1,987,662	-
Endowment contributions	-	-	-	301,254
Gain (loss) on disposal of capital assets	7,488	-	405,815	-
Total other revenues	3,025,128	-	2,393,477	301,254
Increase (decrease) in net position	(6,107,084)	378,179	(5,883,079)	874,576
NET POSITION				
Net position-beginning of year	152,170,951	5,387,130	158,054,030	4,512,554
Net position-end of year	$ 146,063,867	$ 5,765,309	$ 152,170,951	$ 5,387,130

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, 2014
(With Comparative Totals for the Year Ended June 30, 2013)

	2014 University	2013 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 27,358,074	$ 31,364,946
Grants and contracts	11,967,133	9,772,098
Payment to suppliers for goods and services	(25,790,225)	(22,302,724)
Payments to employees for services	(73,092,760)	(72,680,121)
Payments for scholarships and fellowships	(13,076,323)	(13,755,029)
Loans issued to students	(169,527)	(155,705)
Loans collected from students	87,938	138,265
Sales and services of auxiliary enterprises	11,068,840	11,167,433
Other receipts (disbursements)	281,693	269,185
Net cash used by operating activities	(61,365,157)	(56,181,652)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	46,128,017	37,660,620
State nonoperating grants	6,034,575	6,100,973
Federal nonoperating grants	12,796,533	14,015,116
Net cash provided by noncapital financing activities	64,959,125	57,776,709
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(3,811,661)	(6,968,243)
Capital grants	816,156	-
Principal paid on capital debt and leases	(1,251,272)	(1,153,468)
Interest paid on capital debt and leases	(781,843)	(829,390)
Net cash used by capital financing activities	(5,028,620)	(8,951,101)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and/or dividends on investments	49,491	34,011
Net cash provided by investing activities	49,491	34,011
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,385,161)	(7,322,033)
Cash and cash equivalents-beginning of the year	16,290,920	23,612,953
Cash and cash equivalents-end of the year	$ 14,905,759	$ 16,290,920
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (107,925,611)	$ (105,652,689)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	6,456,366	6,050,828
State fringe benefits	38,593,745	40,982,998
Net changes in assets and liabilities:		
Accounts receivables, net	2,265,956	862,320
Inventories	(3,308)	2,031
Prepaid expenses and other assets	(76,811)	100,397
Loans to students	(17,734)	(104,868)
Accounts payable and accrued liabilities	(866,211)	1,749,585
Accrued wages	(133,608)	(188,392)
Unearned revenue	166,751	(246,421)
Compensated absences	175,308	262,559
Net cash used by operating activities	$ (61,365,157)	$ (56,181,652)
NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES		
Capital appropriations	$ 1,508,023	$ 574,179
State fringe benefits	$ 38,593,745	$ 40,982,998
Capital assets acquired by capital lease	$ 260,857	$ 34,971
Trade value received for capital assets	$ 40,265	$ 784,288

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 the Governmental Accounting Standards Board ("GASB"), consists of the primary government entity, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of all agencies of Chicago State University, as the primary government, the accounts of the Chicago State University Foundation, 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* and subsequent amendments. This statement requires the University's resources be classified into net position categories and reported in the Statement of Net Position. These categories are defined as (a) Invested in capital assets, net of related debt (b) Restricted nonexpendable – net position restricted by externally imposed stipulations (c) Restricted expendable – net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted – net position not subject to externally imposed stipulations but may be designated for specific purposes by action of the Board of Trustees. The University first applies restricted resources when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The financial statements include certain prior period comparative information, which has been derived from the University's 2013 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, 2013.

Reclassifications - Certain items in the June 30, 2013 comparative information have been reclassified to conform with the current year presentation.

During 2007, the Government Accounting Standards Board stated in its *Comprehensive Implementation Guide* (Guide) that due to the University's administrative involvement in awarding Pell grants to students, Pell grants should be reported as non-operating revenue and amounts applied to student receivable accounts should be reported as a scholarship allowance. However, the Guide did not address applicability to similar programs. For 2014, the University has decided to apply this position to the Monetary Awards Program (MAP) funded by the Illinois Student Assistance Commission and the Federal Supplemental Educational Opportunity Grants (FSEOG) because they operate in a similar manner. Accordingly, the 2013 financial statements include adjustments to report MAP awards of $6,100,973 and FSEOG awards of $365,227 as described above.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

Investments – The University accounts for its investments at fair value in accordance with GASB Statement No. 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 Position.

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Unearned Revenues – Unearned 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. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been recognized because eligibility requirements have not been met.

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

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

Vacation Leave Increase	$ 441,334
Sick Leave (Decrease)	(266,026)
Net increase in Compensated Absences	$ 175,308

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

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position – GASB Statement No. 35 (as amended by GASB Statement No. 63) reports equity as “Net Position” rather than “fund balance.” The University’s net position is classified as follows:

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

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

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

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees, sales and service of educational departments and auxiliary enterprises, and unrestricted gifts from donors. These resources are used for transactions relating to the educational and general operations of the University and 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) certain federal, state and local grants and contracts, and (4) interest on institutional student loans.

Note 1 – Summary of Significant Accounting Policies (Continued)

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 Statements Nos. 9, 24 and 35, such as State appropriations, pass through grants, and investment income.

New Accounting Pronouncements - The University adopted the provisions of GASB Statements No. 65, No. 66, and No. 70 during the fiscal year ended June 30, 2014. These statements had little accounting impact on the University's current fianancial statements.

On July 1, 2014, the University will adopt GASB Statements No. 68, No. 69, and No 71. The University has not yet fully evaluated the impact of these statements on its financial statements, although the adoption of GASB Statement No. 68 is expected to require significant accounting adjustments to recognize the unfunded pension liability.

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, 2014, the carrying amount of the University and the Foundation's deposits with private financial institutions were $9,177,697 and $1,257,371, 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.

Note 2 – Deposits and Investments (Continued)

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	$ 9,177,697	$ 11,970,422	$ 1,204,572	$ 1,239,794
Money markets	-	-	50,799	50,799
Certificates of deposit	-	-	2,000	2,000
Total deposit accounts	9,177,697	$ 11,970,422	1,257,371	$ 1,292,593
Add: Investments classified as cash equivalents (maturity < 90 days) -				
Illinois Funds	5,602,583		-	
Cash on hand	37,205			
Less: Certificates of deposit classified as investments (maturity > 90 days)	-		(2,000)	
Total Cash and Cash Equivalents	$ 14,817,485		$ 1,255,371	
Cash and Cash Equivalents	$ 9,887,484		$ 178,553	
Cash and Cash Equivalents-Restricted	4,930,001		1,076,818	
Total	$ 14,817,485		$ 1,255,371	

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 $1,725,909 of the University and the Foundation at June 30, 2014. The remaining bank balances was covered by pledged collateral in the University's and 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 Illinois Funds has a weighted average maturity of less than one year.

Note 2 – Deposits and Investments (Continued)

Investments

The carrying value (and market value) of the investment portfolio of the Foundation and University at June 30, 2014 consisted of the following:

	University Fair Value	Foundation Fair Value
Money Funds and Other	$ -	$ 1,755,049
US Treasury and Agency Obligations	-	649,483
Common Stock	-	2,231,456
Corporate and International Bonds	-	436,325
Illinois Funds (Standard & Poors AAAm)	5,602,583	-
Total	5,602,583	5,072,313
Add: Certificates of Deposit (maturity >90 days)	-	2,000
Less: Investments classified as cash equivalents (maturity < 90 days)	(5,602,583)	-
Total Investments	$ -	$ 5,074,313

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, 2014, 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 requires assets to be invested with the care, skill, prudence, and diligence which a prudent person acting in a like capacity and familiar with such matters would make under conditions prevailing at the time. In order to minimize the risk of large losses, equity positions should not exceed 65% of the total portfolio. Investments in short-term fixed income securities are primarily to be (1) securities issued or guaranteed by the U.S. government or its agencies, (2) certificates of deposit, or (3) high quality money market funds or commingled short-term funds of banks. 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.

Note 2 – Deposits and Investments (Continued)

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2014 are as follows:

	Maturity			
Debt Security	Less than 1 year	1 - 5 years	6 - 10 years	Total
US Treasury Obligations	$ -	$ 227,916	$ 72,641	$ 300,557
US Agency/Guaranteed Obligations	-	273,076	75,850	348,926
Total US Treasury/Agency	-	500,992	148,491	649,483
Corporate & Int'l Bonds	-	242,803	193,522	436,325
Total Debt Security Investments	$ -	$ 743,795	$ 342,013	$ 1,085,808

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.

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, 2014 are as follows:

Credit Rating	Total Debt Securities
US Treasury/Agency/Guaranteed Obligations - no rating	$ 300,557
Aaa/AAA	13,033
Aaa/AA+	348,926
Aa1/AA+	23,472
Aa1/AA	13,324
Aa1/AA-	11,900
Aa2/AA	23,959
Aa2/AA-	13,767
Aa3/A+	38,002
Aa3/AA	10,225
Aa3/AA-	37,290
A1/A+	21,348
A2/AA	27,291
A2/A+	24,807
A2/A-	14,117
A3/A	15,297
A3/A-	27,917
Baa1/A-	28,592
Baa1/BBB+	35,731
Baa1/BBB-	26,989
Baa2/A-	14,849
Baa2/BBB	14,415
TOTAL	$ 1,085,808

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, 2014:

Investment	Currency	Maturity	Fair Value
Petrobras Intl Fin Co. Rating: Baa1/BBB-	Brazil Real	2/06/2017	$ 14,370
Norvatis Secs. Invest Ltd Rating: Aa3/AA-	Bermudian Dollar	2/10/2019	11,389
Rabobank Nederland Utrec Rating: Aa2/AA-	European Euro	1/19/2017	13,767
Rio Tinto Fin USA Rating: A3/A-	European Euro	8/21/2017	14,165
Shell Int'l Fin B V-USD Rating: Aa1/AA	European Euro	3/22/2017	13,324
Toronto Dominion Bank Rating: Aa1/AA-	Canadian Dollar	4/30/2018	11,900
Total			$ 78,915

Note 3 – Accounts, Pledges and Loans Receivable

Accounts receivable consisted of the following at June 30, 2014:

Student tuition and fees	$ 11,426,448
Federal, state, and private grants and contracts	6,103,477
Third party and other receivables	1,175,951
Total Gross Receivable	18,705,876
Less allowance for doubtful accounts	(10,578,139)
Net Accounts Receivable	$ 8,127,737

The Foundation's net pledges receivable at June 30, 2014 was $6,828 and consisted of $6,878 of pledges expected to be collected within one year less an allowance for estimated uncollectible amounts of $50.

Loans receivable (Federal Perkins Loans) consisted of the following at June 30, 2014:

Loans receivable	$ 1,725,808
Less allowance for doubtful accounts	(973,205)
Net Loans Receivable	$ 752,603
Current portion	$ 13,325
Noncurrent portion	739,278
Net Loans Receivable	$ 752,603

Note 4 – Capital Assets

Following are the changes in capital assets for the year ended June 30, 2014:

	Amount in thousands				
	Balance June 30, 2013	Additions	Retirements	Net Transfers	Balance June 30, 2014
Capital assets not being depreciated					
Land	$ 9,611	$ -	$ -	$ -	$ 9,611
Construction in-progress	7,392	3,883	-	(4,075)	7,200
Total capital assets not being depreciated	17,003	3,883	-	(4,075)	16,811
Other capital assets:					
Site improvements	12,149	285	-	2,571	15,005
Building and building improvements	177,171	292	-	1,304	178,767
Equipment	19,596	781	(978)	200	19,599
Intangible assets	545	-	-	-	545
Library books	12,452	379	-	-	12,831
Total other capital assets	221,913	1,737	(978)	4,075	226,747
Total	238,916	5,620	(978)	-	243,558
Less: Accumulated depreciation	(88,937)	(6,456)	945	-	(94,448)
Capital Assets, net	$ 149,979	$ (836)	$ (33)	$ -	$ 149,110

Note 5 – Accrued Wages

Accrued wages includes employee contracts for certain academic personnel that provide for twelve monthly salary payments, although the contracted services are rendered during a nine-month period, and services provided by hourly employees that were paid after June 30. The liability for those employees who are on a deferred pay schedule and those that have completed their contracted services, but have not yet received final payment totaled $2,205,698 and $2,339,306 at June 30, 2014 and 2013, respectively.

Note 6 – Unearned Revenue

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

Tuition and fees	$ 1,073,447
Grants and contracts	4,618,008
Total Unearned Revenue	$ 5,691,455

Note 7 – Long Term Liabilities

Long-term liabilities as of June 30, 2014 consist of the following:

	June 30, 2014	Current Portion	Non-current Portion
Accrued compensated absences	$ 6,131,481	$ 1,184,628	$ 4,946,853
Revenue bonds payable	14,300,000	1,120,000	13,180,000
Premium on bonds	213,336	22,456	190,880
Capital lease payable	259,999	107,853	152,146
Intangible asset payable	16,572	8,286	8,286
Total Long Term Liabilities	$ 20,921,388	$ 2,443,223	$ 18,478,165

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

	Beginning Balance	Additions	Payments	Ending Balance
Accrued compensated absences	$ 5,956,173	$ 1,177,818	$ (1,002,510) *	$ 6,131,481
Revenue bonds payable	15,370,000	-	(1,070,000)	14,300,000
Premium on bonds	235,793	-	(22,457)	213,336
Capital leases payable	131,842	260,857	(132,700)	259,999
Intangible asset payable	65,144	-	(48,572)	16,572
Total	$ 21,758,952	$ 1,438,675	$ (2,276,239)	$20,921,388

*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 7 – 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 Public Finance Guarantee rating to municipal bonds subject to the reinsurance agreement with MBIA Corp.

The bonds are insured by MBIA Corp. and National Public Finance Guarantee. As of June 30, 2014, the S&P rating of MBIA is B and the rating for National Public Finance Guarantee is AA-. The Moody's ratings are Ba1 for MBIA Corp and A3 for National Public Finance Guarantee.

Maturity Information

The scheduled maturities of the revenue bonds are as follows:

Fiscal Year	Revenue Bonds	Interest	Total Payments
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	1,305,000	545,800	1,850,800
2019	1,370,000	478,925	1,848,925
2020-2024	8,085,000	1,160,638	9,245,638
Totals	$ 14,300,000	$ 4,192,138	$ 18,492,138

Note 7 – Long Term Liabilities (Continued)

Capital Leases Payable

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

Fiscal Year	Principal	Interest	Total Payments
2015	$ 107,853	$ 3,247	$ 111,100
2016	77,797	1,817	79,614
2017	71,393	591	71,984
2018	2,956	9	2,965
Totals	$ 259,999	$ 5,664	$ 265,663

Note 8 – Natural Classifications

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

Compensation and benefits	$ 111,891,546
Contractual services	16,956,458
Commodities	4,261,827
Awards and grants	13,064,934
Telecommunication	730,339
Other operating expenses	2,514,877
Depreciation	6,456,366
Total Operating Expenses	$ 155,876,347

Note 9 - State Fringe Benefits

GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* requires the University to report "on behalf payments" for fringe benefits and salaries by legally separate entities as revenue and expenditures of the University. The University reported on behalf payments of $38,593,745 for year ended June 30, 2014 consisting of group insurance in the amount of $17,295,336 and pension contributions of $21,298,409.

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

Note 9 - State Fringe Benefits (Continued)

employers. SURS was established July 21, 1941, to provide retirement annuities and other benefits for staff members and employees of State universities, certain affiliated organizations, and certain other State educational and scientific agencies, and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by section 5/15, chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org, or 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 35.80% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ended June 30, 2014, 2013, and 2012 were $21,646,473, $20,434,939, and $13,975,933, respectively, and are equal to the required contributions for each year.

Note 10 – Post employment Benefits

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

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

Note 10 – Post employment Benefits (Continued)

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

Note 11 – 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 12 – Related Party Transactions

A summary of related party transactions during the year ended June 30, 2014, 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 $623,085 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at $1,199,419 for the year ended June 30, 2014. Scholarships provided by the Foundation which benefited the University totaled $103,457 for the year ended June 30, 2014. The Foundation's liabilities include a payable to the University of $237,019.

Note 13 – Segment Information

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

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

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

Condensed Statement of Net Position	**As of June 30, 2014**
Assets:	
Current assets	$ 1,936,958
Capital assets, net	13,101,504
Total Assets	15,038,462
Liabilities	
Current liabilities	1,361,239
Noncurrent liabilities	13,484,152
Total Liabilities	14,845,391
Net Position	
Invested in capital assets, net of related debt	(1,411,832)
Unrestricted	1,604,903
Total Net Position	$ 193,071

Note 13 – Segment Information - (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position	Year Ended June 30, 2014
Operating revenues	$ 5,550,478
Operating expenses	4,695,599
Operating income	854,879
Non-operating revenues and expenses, net	(756,552)
Increase in net position	98,327
Net position, beginning of the year	94,744
Net position, end of the year	$ 193,071

Condensed Statement of Cash Flows	Year Ended June 30, 2014
Cash provided by (used in):	
Operating activities	$ 888,370
Capital financing activities	(2,272,035)
Net decrease in cash	(1,383,665)
Cash, beginning of the year	3,031,771
Cash, end of the year	$ 1,648,106

Note 14 – Commitments and Contingent Liabilities

The University is named as a defendant in approximately twenty (20) 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 15 – 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, 2014, endowment interest and dividends transferred to the Expendable Restricted Funds totaled $56,509.

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

Note 16 – 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.	$18,492,138	2024	7.50%

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

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

Note 17 – Subsequent Events

The University has made a decision to restructure and realign a portion of its fundraising efforts. The current Chicago State University Foundation is a university-related non-profit organization that is governed by a separate Board of Directors and is responsible for external fund raising activities that benefit the University's students and the University as a whole. After a thorough review and assessment of the current Foundation, the University believes that a new foundation structure is needed to maximize such external fundraising efforts. The University has initiated measures to terminate the relationship with the current Chicago State University Foundation, in addition to establishing a new foundation.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Net Positon
As of June 30, 2014
(With Comparative Totals as of June 30, 2013)

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,648,106	$ 3,031,771
Accounts receivable, net	99,050	28,181
Prepaid expenses	189,802	100
Total Current Assets	1,936,958	3,060,052
Noncurrent Assets		
Land improvements	538,481	253,555
Buildings and improvements	20,472,557	20,341,678
Furniture and equipment	409,736	468,248
Less: accumulated depreciation	(8,319,270)	(7,849,513)
Total Noncurrent Assets	13,101,504	13,213,968
Total Assets	15,038,462	16,274,020
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	197,259	407,288
Unearned revenue	21,524	31,192
Long-term liabilities-current portion	1,142,456	1,092,457
Total Current Liabilities	1,361,239	1,530,937
Noncurrent Liabilities		
Accrued compensated absences	113,272	135,003
Bonds payable	13,180,000	14,300,000
Premium on bonds	190,880	213,336
Total Noncurrent Liabilities	13,484,152	14,648,339
Total Liabilities	14,845,391	16,179,276
NET POSITION		
Invested in capital assets, net of related debt	(1,411,832)	(2,391,825)
Unrestricted	1,604,903	2,486,569
Total Net Position	$ 193,071	$ 94,744

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2014
(With Comparative Totals for the Year Ended June 30, 2013)

	2014	2013
OPERATING REVENUES		
Room and board, (net of scholarship allowances of $525)	$ 2,150,834	$ 2,194,846
Bookstore commissions	175,000	175,000
Vending and catering commissions	176,903	244,675
Parking fees	954,981	1,108,075
University center fees	2,092,760	2,256,458
Total Operating Revenues	5,550,478	5,979,054
OPERATING EXPENSES		
Personal services	1,728,679	1,787,318
Expended for plant	72,010	53,734
Commodities	148,238	155,852
Contractual services	2,093,644	1,926,617
Depreciation	531,299	500,315
Miscellaneous	121,729	219,137
Total Operating Expenses	4,695,599	4,642,973
Operating income	854,879	1,336,081
NONOPERATING REVENUES (EXPENSES)		
Loss on disposal of capital assets	(2,629)	6,795
Investment income	-	82
Transfers out	-	(594,748)
Interest on capital asset - related debt	(753,923)	(802,809)
Net Nonoperating Revenues (Expenses)	(756,552)	(1,390,680)
Increase (Decrease) in Net Position	98,327	(54,599)
NET POSITION		
Net position-beginning of year	94,744	149,343
Net position-end of year	$ 193,071	$ 94,744

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, 2014
(With Comparative Totals for the Year Ended June 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Room and board	$ 2,158,552	$ 2,341,947
Bookstore commissions	160,856	175,000
Vending and catering commissions	176,903	244,675
Parking fees	954,669	1,108,075
University center fees	2,018,961	2,256,458
Payment to suppliers for goods and services	(2,831,161)	(2,069,033)
Payments to employees for services	(1,750,410)	(1,761,053)
Net cash provided by operating activities	888,370	2,296,069
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to local income fund	-	(594,748)
Net cash used by noncapital financing activities	-	(594,748)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(421,465)	(479,522)
Principal paid on capital debt	(1,070,000)	(1,020,000)
Interest paid on capital debt	(780,570)	(829,175)
Net cash used by capital financing activities	(2,272,035)	(2,328,697)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	-	82
Net cash provided by investing activities	-	82
NET INCREASE (DECREASE) IN CASH	(1,383,665)	(627,294)
Cash and cash equivalents - beginning of the year	3,031,771	3,659,065
Cash and cash equivalents - end of the year	$ 1,648,106	$ 3,031,771
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 854,879	$ 1,336,081
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	531,299	500,315
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables, net	(70,869)	(4,482)
(Increase) decrease in prepaid expenses	(189,702)	386
(Increase) decrease in other assets	-	134,134
Increase (decrease) in accounts payable and accrued liabilities	(205,838)	285,921
Increase (decrease) in unearned revenue	(9,668)	17,449
Increase (decrease) in accrued compensated absences	(21,731)	26,265
Net cash provided by operating activities:	$ 888,370	$ 2,296,069

OTHER INFORMATION

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2013	5,701	4,316
Spring session, 2014	5,297	3,983
Summer session, 2014	1,664	673

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, 2013	$ 186.00	$ 120.00
Spring session, 2014	186.00	120.00
Summer session, 2014	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	$	29,397,220
Contents	$	2,007,873
Business interruption	$	7,343,074
EDP	$	4,502,522
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

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 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Chicago State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Chicago State University's basic financial statements, and have issued our report thereon dated December 19, 2014. Our report includes a reference to another auditor who audited the financial statements of the Chicago State 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

In planning and performing our audit of the financial statements, we considered the Chicago State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Chicago State University's internal control. Accordingly, we do not express an opinion on the effectiveness of the Chicago State University's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2014-001, 2014-002, and 2014-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chicago State University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2014-001 and 2014-003.

Chicago State University's Responses to Findings

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

Purpose of this Report

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

Borschnack, Pelletier & Co.

December 19, 2014

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2014-001 FINDING: NONCOMPLIANCE AND INADEQUATE CONTROLS OVER ADVANCES TO EMPLOYEES

Chicago State University (University) did not maintain appropriate controls over advances made to employees that were provided to pay for University expenses and did not comply with Internal Revenue Service (IRS) regulations related to amounts advanced that were not substantiated under an accountable plan.

The University made advances of approximately $260,000 and $224,000 to employees (primarily athletics coaches) during fiscal years 2013 and 2012, respectively. In fiscal year 2014, the University made two adjusting journal entries totaling $228,095 to write off the remaining amounts that were outstanding as of June 30, 2013 in which the University had not received appropriate documentation from the employees to substantiate the use of the funds for University business. The University informed us they were not pursuing recovery of these amounts or reporting it as compensation to those employees who failed to substantiate the use of the advances.

IRS Treasury Regulation 1.62-2(c) allows an employer to exclude from an employee's gross income amounts paid under an "accountable plan" under which the employer requires the employee to substantiate all expenses and repay any amounts received in excess of documented expenses. If not paid under an "accountable plan" such amounts are includable in the employee's gross income and is subject to all payroll taxes.

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

University officials stated documentation substantiating the travel expenses could not be obtained from Athletics Department staff that are no longer employed by the University. The University did not have sufficient controls in place to insure timely submission of all travel receipts or other documentation relating to travel expenditures by athletic staff.

Failure to implement adequate controls over travel advances and failure to comply with IRS regulations could result in misappropriation of State funds and additional payroll tax liabilities and penalties. (Finding Code No. 2014-001)

RECOMMENDATION

We recommend that the University establish adequate controls over travel advances and comply with the IRS regulations.

UNIVERSITY RESPONSE

The University accepts the Auditors' recommendation. The Athletics Department staff is being expanded to include a dedicated Business Officer to oversee the process of submitting timely documentation for all travel. The Athletics Department staff will also receive training to ensure the proper documentation is submitted to the Business Officer. Finally, the Accounting Department will revise its workflows to ensure effective monitoring of travel advance outstanding balances.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2014-002 FINDING: INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES

Chicago State University (University) did not properly account for accrued compensated absences and did not properly calculate the accrued leave liability of the University.

We obtained the University's schedule of accrued compensated absences and performed the following tests:

- From the University's directory, we selected a sample of 5 employees from employment categories that do not vest accrued leave (athletic coaches, one year contract employees, and employees funded by grants) and noted that 3 of the employees were included on the accrued compensated absences schedule. We brought this information to the attention of the University and asked them to go through their records and remove all individuals that were not allowed to accrue absences. A total of 56 employees were removed from the schedule, totaling $332,866. The University posted an adjusting entry to correct their financial statements for this error.

- We also tested a sample of 24 employees to determine if the University was properly accounting for leave time earned and used during the year. We noted seven employees in our sample that had accrued leave time that was not correctly accumulated. The miscalculation ranged from under accruing by 60.79 hours to over accruing by 40 hours. Once brought to the University's attention, these employees' records were corrected. The projected understatement based on our sample was $20,092.

- We also noted the University failed to include payouts that were made to employees during the month of July 2014 in the year-end liability balances given to the auditors. An adjusting journal entry ($163,340) was posted to correct this misstatement.

The University's Human Resource Policy manual states that coaches must use all accrued vacation by the end of each contract year or it shall be lost. There is no accrued leave payout for one-year contract employees and employees funded by grants.

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

University officials stated that misinterpretation of inter-departmental reporting contributed to improperly including certain employees in the compensated absences calculation. The new automated system also required the initial input of historical data, which was subsequently determined to be partially inaccurate.

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. 2014-002, 2013-001, 12-2, 11-3)

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2014-002 FINDING: INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES (continued)

RECOMMENDATION

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

UNIVERSITY RESPONSE

The University accepts the Auditors' recommendation. All employees from the Human Resources and Accounting functions that are integral to this process will receive training to expand their knowledge of the entire process. The Accounting function will also collaborate with Human Resources and the University's Information Technology Department to develop reporting that details all employee information required for this calculation. This reporting will also be validated throughout the fiscal year for integrity. Human Resources will continue efforts to reinforce the timeliness and accuracy of employee time inputs into its automated Web Time Entry system.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2014-003 <u>FINDING:</u> INADEQUATE CONTROLS OVER PAYROLL AND PURCHASING CARDS

Chicago State University (University) did not have sufficient controls in place over certain payroll and purchasing card functions.

During our fieldwork, the University informed the auditors that there was an employee in a supervisory position (employee A) who was allowed to hire a relative (employee Z). Employee A then approved time sheets for employee Z and submitted them to payroll. According to University officials, there was little evidence that employee Z had actually performed services for the University. University officials stated that employee Z attended all training and orientation sessions and had all of the required forms in employee Z's personnel file. University officials stated they discovered a timesheet reporting problem. Before the timesheet reporting problem was discovered, employee Z received 5 paychecks totaling $4,450. University officials state that both employees were terminated, the matter has been reported to the State's Attorney.

We also selected a sample of four purchasing card transactions entered into by employee A. The transactions that were selected were each over $1,000 and represented a total of 43% of employee A's purchasing card expenditures. Our testing identified two purchases that were not allowed by the terms of the University's Purchasing Card policies. We noticed that a down payment and final balance related to a split transaction were both paid via Paypal on April 19, 2014. Subsequent to the transactions being processed on the P-card, Employee A made attempts to establish a contract via CSU Buy (the University's purchasing system). When we looked closer at the transaction trail related to this purchase, we noted that Employee A had initiated and approved the requisition in several departments outside her scope of authority. The current requisition approval process does provide for this dual level of authority (requestor / approver), but should only be applied to departments or organizations under the employee's direct supervision. Two senior Administrators and the Purchasing Department became aware of this attempt and the requisition was never completed. The University is currently in the process of requesting these funds back from the vendor.

The University Purchasing Card Policy and Procedures Manual Section 5.3 requires that purchases made via the internet must follow proper internal procedures consistent with University policies and procedures to obtain authorization to make the purchase. Sections 7.4 states that the splitting of orders is strictly prohibited. The description of controls over purchasing and cash disbursement provided by the University states that each requisition is reviewed and approved by the purchasing department. It further states that the purchasing director or purchasing agent reviews all requisitions for workflow approvals and if the required approvals are not obtained, it is routed to required approvers.

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

University officials stated that Employee A was well versed on the University's Policies and Procedures for Payroll and the Purchasing Card. However, the University believes the employee made a conscious decision to disregard the procedures.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2014-003 FINDING: INADEQUATE CONTROLS OVER PAYROLL AND PURCHASING CARDS (continued)

Lack of appropriate internal controls over payroll and purchasing cards resulted in misuse of State funds. It may also result in the University having to expend more funds in order to recoup the misused funds. (Finding Code No. 2014-003)

RECOMMENDATION

We recommend the University improve its internal controls to ensure that State funds are not misused and proper segregation of duties is maintained.

UNIVERSITY RESPONSE

The University accepts the Auditors' recommendation. The University has reviewed its policies and procedures around onboarding staff and made changes that will identify any relationship to current staff. Steps will also be taken to reinforce protocol for verifying employee time worked, in addition to ensuring the appropriate supervisory approval.

Chicago State University is also expanding efforts to tighten the requisition approval process within the University's purchasing system.

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

There were no prior findings not repeated that related to *Government Auditing Standards.*