

State of Illinois
Illinois State University

Financial Audit

(In Accordance with the Single Audit Act
and OMB Circular A-133)

For the Years Ended June 30, 2013 and 2012

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



State of Illinois
Illinois State University
Financial Audit
For the Years Ended June 30, 2013 and 2012

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Other Reports Issued Under a Separate Cover

The University’s Compliance Examination (including the Single Audit) for the year ended June 30, 2013, which includes the reports of independent auditors, Schedule of Findings and Questioned Costs, and Supplementary Information for State Compliance Purposes, will be issued at a later date under a separate cover.

In accordance with *Government Auditing Standards*, we have also issued a report under a separate cover entitled Report Required Under Government Auditing Standards for the Year Ended June 30, 2013 on our consideration of the Illinois State University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

State of Illinois
Illinois State University
Financial Audit
June 30, 2013

Agency Officials

President	Dr. C. Alvin Bowman (07/01/12 - 05/15/13)
President (Interim)	Dr. Sheri Noren Everts (05/15/13 - 08/14/13)
President	Dr. Timothy Flanagan (08/15/13 - Current)
Vice President for Finance and Planning	Dr. Daniel Layzell
Vice President for Academic Affairs and Provost	Dr. Sheri Noren Everts
Vice President for Student Affairs	Dr. Larry Dietz
Vice President for University Advancement	Ms. Erin Minne´
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
Director - Internal Audit	Mr. Robert Blemler

Board of Trustees (as of June 30, 2013)

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

Office Locations

Agency offices are located at:

Hovey Hall
Campus Box 1100
Normal, IL 61790-1100

State of Illinois
Illinois State University
Financial Statement Report Summary
June 30, 2013

Summary

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

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

Summary of Findings

The auditors identified one matter involving the Illinois State University's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in a report released under separate cover entitled Report Required Under Government Auditing Standards for the Year Ended June 30, 2013 as Finding 2013-001, *Inadequate Control over Reporting Investments*.

Number of	Current Report	Prior Report
Findings	1	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	1

Exit Conference

The Illinois State University waived an exit conference and provided a response to the finding and recommendation in an e-mail from Mr. Greg Alt, Comptroller, dated November 1, 2013.

Independent Auditor's Report

The Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Illinois State University

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Report on Summarized Comparative Information

We have previously audited the Illinois State University's 2012 financial statements and, based on our audit and the report of other auditors, we expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component unit of the Illinois State University in our report dated February 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, 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 6-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

State of Illinois
Illinois State University
Financial Statement Report Summary
June 30, 2013

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013 on our consideration of the Illinois State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois State University's internal control over financial reporting and compliance.

BKD, LLP

Decatur, Illinois
November 5, 2013

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Illinois State University (the "University") for the year ended June 30, 2013 with selective comparative information for the years ended June 30, 2012, and 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Illinois State University is governed by the Board of Trustees and is the first institution of higher learning in Illinois, being founded in 1857. The University is a residential university of approximately 21,000 students with six colleges and thirty-five academic departments that offer more than one hundred sixty programs of study. The Graduate School coordinates forty-seven masters, specialist, and doctoral programs.

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary unit) and its component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61.

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois' Legislative Audit Commission in 1982, as amended. The Illinois State University Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Campus Box 8000, Normal, Illinois 61790-8000.

The Foundation was incorporated in May 1948 under the "General Not-for-Profit Corporation Act" for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. The Foundation is an organization as described in Section 501c(3) of the Internal Revenue Code and, is accordingly, exempt from federal income tax.

Overview of the Financial Statements and Financial Analysis

Illinois State University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are also included in the State of Illinois' Comprehensive Annual Financial Report. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871 or accessing its website at www.ioc.state.il.us.

Financial Statements Presentation: The University's financial statements include the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and presented on an entity-wide basis. Several ratios have been included in the financial analysis to help assess the University's financial health.

Statements of Net Position

The Statements of Net Position present the assets, liabilities, and net position of the University as of the end of the fiscal years. The Statements of Net Position are point in time financial statements. The purpose of the Statements of Net Position is to present to the readers of the financial statements a fiscal snapshot of Illinois State University at June 30, 2013 and 2012. The Statements of Net Position present end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities).

From the data presented, readers of the Statements of Net Position are able to determine the assets available to continue the operations of the institution. Readers should also be able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statements of Net Position provide a picture of the net position and their availability for expenditure by the institution.

Net position is divided into three major categories. The first category, invested in capital assets, net of related debt, shows the institution's equity in the property, plant and equipment owned by the institution. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time and/or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is that net position available to the institution for any lawful purpose of the institution.

Following are condensed Statements of Net Position at June 30, 2013, 2012 and 2011:

	(Thousands of dollars)		
	2013	2012	2011
Assets:			
Current assets	\$ 120,848	\$ 121,752	\$ 114,816
Noncurrent assets:			
Capital assets, net	456,844	439,664	420,890
Other noncurrent assets	<u>129,937</u>	<u>126,091</u>	<u>99,339</u>
Total assets	<u>707,629</u>	<u>687,507</u>	<u>635,045</u>
Liabilities:			
Current liabilities	44,063	44,817	41,090
Noncurrent liabilities	<u>144,489</u>	<u>157,723</u>	<u>141,569</u>
Total liabilities	<u>188,552</u>	<u>202,540</u>	<u>182,659</u>
Net Position:			
Invested in capital assets, net of related debt	337,674	295,964	298,586
Restricted	9,523	9,481	9,467
Unrestricted	<u>171,880</u>	<u>179,522</u>	<u>144,333</u>
Total net position	<u>\$ 519,077</u>	<u>\$ 484,967</u>	<u>\$ 452,386</u>

Current liabilities are obligations of the University coming due in less than one year. Current liabilities consist primarily of accounts payable and accrued liabilities, assets held in custody for others, deferred revenues, and current portion of long-term debt. The following ratio is intended to give an indication of the University's ability to meet its obligations the following year:

The Current Ratio (current assets/current liabilities) is:

(Thousands of dollars)		
2013	2012	2011
$\frac{120,848}{44,063} = 2.74$	$\frac{121,752}{44,817} = 2.72$	$\frac{114,816}{41,090} = 2.79$

Noncurrent assets are comprised primarily of net capital assets. Net capital assets increased \$17.2 million and \$18.8 million from June 30, 2012 to 2013 and 2011 to 2012, respectively. The increases are primarily attributable to construction and major renovation of University buildings.

Noncurrent liabilities are comprised primarily of Bonds Payable, Certificates of Participation, and Accrued Compensated Absences.

Statements of Revenues, Expenses, and Changes in Net Position

Changes in total net position presented on the Statements of Net Position are based upon the activity presented in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of the Statements of Revenues, Expenses, and Changes in Net Position is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. These are called non-exchange transactions. For example, State appropriations are classified as non-operating because they are provided by the General Assembly to the institution without the General Assembly directly receiving commensurate goods and services for those revenues.

Student tuition and fees, grants and contracts, the Auxiliary facilities system, State appropriations and payments by the State of Illinois on behalf of the University are the primary sources of funding.

Following are condensed Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2013, 2012 and 2011:

	(Thousands of dollars)		
	2013	2012	2011
Operating revenues			
Student tuition and fees, net	\$ 189,118	\$ 180,763	\$ 167,142
Grants and contracts	27,532	24,298	20,682
Auxiliary facilities	81,205	85,908	83,018
Other	27,917	25,936	26,090
Total operating revenues	<u>325,772</u>	<u>316,905</u>	<u>296,932</u>
Operating expenses	<u>524,457</u>	<u>493,834</u>	<u>455,896</u>
Operating loss	<u>(198,685)</u>	<u>(176,929)</u>	<u>(158,964)</u>
Non-operating revenues			
State appropriations	74,082	78,874	79,790
Payments on behalf of the University	132,507	102,129	87,676
Other, net	23,681	27,238	26,070
Net non-operating revenues	<u>230,270</u>	<u>208,241</u>	<u>193,536</u>
Capital appropriations	1,058	73	710
Capital gifts and grants	<u>1,467</u>	<u>1,196</u>	<u>2,475</u>
Increase in net position	34,110	32,581	37,757
Net position – beginning of year	<u>484,967</u>	<u>452,386</u>	<u>414,629</u>
Net position – end of year	<u>\$ 519,077</u>	<u>\$ 484,967</u>	<u>\$ 452,386</u>

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

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

(Thousands of dollars)		
<u>2013</u>	<u>2012</u>	<u>2011</u>
34,110 / 484,967 = 7.03%	32,581 / 452,386 = 7.20%	37,757 / 414,629 = 9.11%

The net operating revenues ratio indicates whether the University is living within available resources. The ratio is computed by comparing operating income (loss) and net non-operating revenues to total operating revenues and total non-operating revenues. These continuing positive ratios demonstrate that University expenditures do not exceed available revenues.

The Net Operating Revenues Ratio (operating income (loss) plus net non-operating revenues (expenses) / operating revenues plus non-operating revenues) is:

(Thousands of dollars)		
<u>2013</u>	<u>2012</u>	<u>2011</u>
31,585 / 561,354 = 5.63%	31,312 / 530,492 = 5.90%	34,572 / 494,888 = 6.99%

State appropriations revenue has remained in a range from approximately \$74 million to \$80 million for fiscal years 2011, 2012 and 2013. The University enacted tuition and fee increases for fiscal years 2011, 2012 and 2013 to help offset the State appropriation funding trend. Payments on behalf of the University are comprised of payments by the State of Illinois for University employees to the State Universities Retirement System and to the State of Illinois, Department of Central Management Services.

Operating Expenses	(Thousands of dollars)		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Expenses by Function			
Instruction	\$ 116,827	\$ 116,825	\$ 113,992
Research	14,516	14,624	13,991
Public service	14,695	14,318	15,695
Academic support	15,151	15,066	18,134
Student services	38,377	37,093	35,748
Institutional support	37,207	34,841	29,544
Operation and maintenance of plant	33,550	33,948	24,246
Depreciation	23,248	22,183	19,779
Staff benefits	2,265	3,107	1,911
Student aid	42,341	38,003	36,921
Payments on behalf of the University	130,781	100,385	86,470
Auxiliary facilities	53,263	60,476	57,127
Other	<u>2,236</u>	<u>2,965</u>	<u>2,338</u>
Total operating expenses	\$ <u>524,457</u>	\$ <u>493,834</u>	\$ <u>455,896</u>
Expenses by Natural Classification			
Compensation and benefits	\$ 343,227	\$ 313,113	\$ 289,775
Supplies and services	123,676	126,351	114,657
Scholarships	34,306	32,187	31,685
Depreciation	<u>23,248</u>	<u>22,183</u>	<u>19,779</u>
Total operating expenses	\$ <u>524,457</u>	\$ <u>493,834</u>	\$ <u>455,896</u>

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

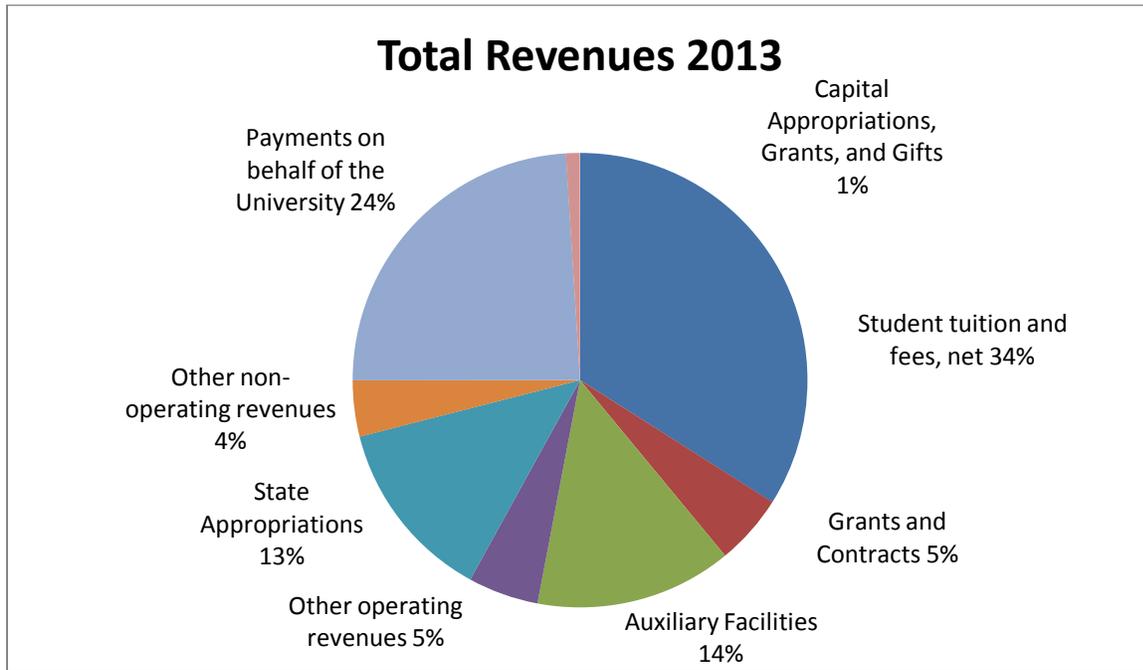
The Primary Reserve Ratio (unrestricted and expendable net position / total expenses) is:

(Thousands of dollars)		
2013	2012	2011
$181,403 / 529,769 = 34.24\%$	$189,003 / 499,180 = 37.86\%$	$153,800 / 460,316 = 33.41\%$

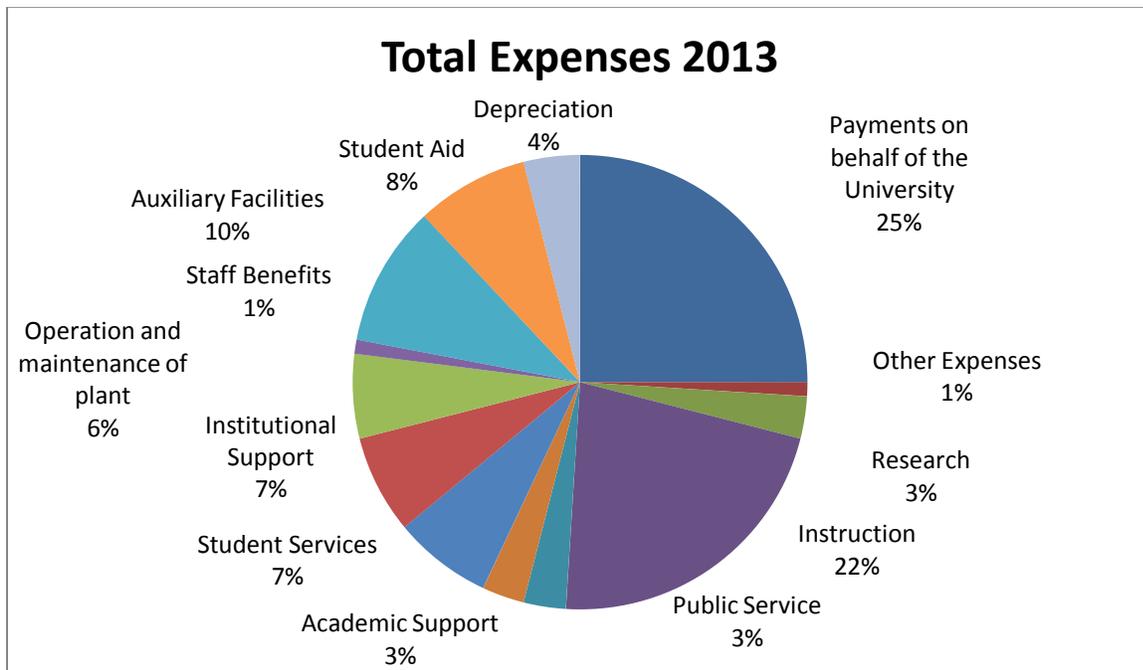
The following summarizes a comparative table of total revenues and total expenses by source/function and percentage:

	Percentage		
	2013	2012	2011
Revenues by Source			
Student tuition and fees, net	34%	34%	34%
Grants and contracts	5	5	4
Auxiliary facilities	14	16	17
Other operating revenues	5	5	5
State appropriations	13	15	16
Payments on behalf of the University	24	19	18
Other non-operating revenues	4	5	5
Capital appropriations, gifts, and grants	1	1	1
Total revenues percentage	100%	100%	100%
Expenses by Function			
Instruction	22%	24%	25%
Research	3	3	3
Public service	3	3	3
Academic support	3	4	4
Student services	7	7	8
Institutional support	7	7	6
Operation and maintenance of plant	6	6	5
Depreciation	4	4	4
Staff Benefits	1	1	1
Student Aid	8	8	8
Payments on behalf of the University	25	20	19
Auxiliary facilities	10	12	13
Other	1	1	1
Total expenses percentage	100%	100%	100%
Expenses by Natural Classification			
Compensation and benefits	65%	63%	64%
Supplies and services	24	26	25
Scholarships	7	7	7
Depreciation	4	4	4
Total operating percentage	100%	100%	100%

The following graph illustrates total revenues by source:



The following graph illustrates total expenditures by function:



Statements of Cash Flows

The Statements of Cash Flows provide information about the University's cash receipts and cash payments. The statements are divided into five sections. The first section deals with operating cash flows and shows the net cash used for the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and noncapital financing purposes. The third section shows the cash flows from capital and related financing activities. This section shows the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The last section reconciles the operating loss shown on the Statements of Revenues, Expenses, and Changes in Net Position to the cash used by operating activities on the Statements of Cash Flows.

Following are condensed Statements of Cash Flows for the Years ended June 30, 2013, 2012 and 2011:

	(Thousands of dollars)		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net cash used by operating activities	\$ (40,687)	\$ (49,034)	\$ (50,554)
Cash flows from noncapital financing activities	104,225	118,372	93,506
Cash flows used by capital and related financing activities	(58,234)	(29,719)	(39,191)
Cash flows from/(used by) investing activities	<u>19,922</u>	<u>(39,927)</u>	<u>(28,108)</u>
Net increase (decrease) in cash and cash equivalents	25,226	(308)	(24,347)
Cash – beginning of year	<u>36,374</u>	<u>36,682</u>	<u>61,029</u>
Cash – end of year	<u>\$ 61,600</u>	<u>\$ 36,374</u>	<u>\$ 36,682</u>

The Statements of Cash Flows include cash transactions of internal service departments, gross receipts and disbursements of the agency custodial accounts, and direct lending receipts and disbursements that are not included in the Statements of Revenues, Expenses, and Changes in Net Position.

Capital Asset and Debt Administration

The University's capital assets include land, land improvements, infrastructure, buildings, equipment, library books and construction in progress.

The following summarizes a table of capital assets, accumulated depreciation and depreciation expense for fiscal years ended June 30, 2013, 2012 and 2011.

	(Thousands of dollars)		
	2013	2012	2011
Capital Assets	\$ 830,239	\$ 792,097	\$ 753,516
Accumulated Depreciation	373,395	352,433	332,626
Capital Assets, Net	<u>\$ 456,844</u>	<u>\$ 439,664</u>	<u>\$ 420,890</u>
Depreciation Expense	\$ 23,248	\$ 22,183	\$ 19,779

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

The University primarily uses revenue bonds and certificates of participation to fund construction projects. The University also occasionally uses capital leases for certain equipment.

The following summarizes a table of long-term debt, including current principal, for fiscal years ended June 30, 2013, 2012 and 2011.

	(Thousands of dollars)		
	2013	2012	2011
Revenue Bonds	\$ 100,075	\$ 114,127	\$ 97,833
Certificates of Participation	\$ 32,821	34,334	35,532
Capital Leases	\$ 1,484	1,953	-

On August 9, 2013, Moody's Investors Service downgraded Illinois State University's ratings to "A3" from "A2" on its Auxiliary Facilities System Revenue Bonds and Certificates of Participation and concluded its review for possible downgrade.

The debt burden ratio examines the dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenditures. It compares the level of current debt service with the University's total expenditures.

The Debt Burden Ratio (debt service / total expenses) is:

	(Thousands of dollars)		
2013	2012	2011	
<u>22,411 / 517,796 = 4.33%</u>	<u>13,118 / 479,497 = 2.74%</u>	<u>11,841 / 443,252 = 2.67%</u>	

Economic Outlook

In October 2013, the Comptroller of the State of Illinois provided the University with information, via email, that the State's backlog persists despite new revenue. With \$3.280 billion in fiscal year 2013 payables on June 30 to start the new fiscal year and \$897.7 million in additional vouchers submitted during the lapse period, over \$4.178 billion in fiscal year 2014 revenues will be used to pay last year's bills.

The General Assembly appropriated \$74.1 million to the University for operating support in fiscal year 2014, which is a minimal change from the 2013 State appropriations.

The University continues to benefit from record levels of student enrollment demand and student retention.

The University is not aware of any additional facts, decisions, or conditions that might be expected to have a significant effect on the financial position or results of operations during this and future fiscal years.

**ILLINOIS STATE UNIVERSITY
STATEMENTS OF NET POSITION
AS OF JUNE 30,**

	2013		2012	
	University	Foundation	University	Foundation
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 47,873,949	\$ 9,046,935	\$ 31,612,806	\$ 9,981,349
Restricted cash and cash equivalents	13,725,653	-	4,761,278	-
Investments	17,189,770	-	18,349,690	-
Investments Restricted	-	-	23,729,284	-
Accrued interest receivable	623,238	-	569,854	-
Accrued interest receivable restricted	-	-	100,340	-
Accounts receivable, net	13,538,610	16,604	12,646,680	21,728
Student loans receivable, net	1,117,374	-	994,628	-
Pledges receivable, net	-	1,701,053	-	988,632
Appropriations receivable from State	22,218,746	-	23,664,174	-
Inventories	2,721,334	-	3,157,861	-
Prepaid expenses, deposits and other	1,839,673	-	2,165,675	-
Total current assets	120,848,347	10,764,592	121,752,270	10,991,709
Noncurrent Assets:				
Restricted cash and cash equivalents	-	818,695	-	625,809
Investments	118,942,690	19,936,161	114,159,945	17,875,536
Investments Restricted	-	-	-	-
Endowment investments	-	75,723,420	-	67,288,958
Student loans receivable, net	7,719,064	-	8,142,977	-
Pledges receivable, net	-	1,461,752	-	849,270
Debt issuance costs	2,075,068	-	2,287,560	-
Capital assets not depreciated	53,093,818	980,000	59,323,965	980,000
Capital assets, net of depreciation	403,750,178	7,780,752	380,340,515	8,201,773
Other noncurrent assets	1,200,000	1,391,373	1,500,000	1,306,265
Total noncurrent assets	586,780,818	108,092,153	565,754,962	97,127,611
Total assets	707,629,165	118,856,745	687,507,232	108,119,320
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	23,349,998	413,858	23,250,315	1,082,645
Obligations under capital leases	481,664	-	469,103	-
Assets held in custody for others and deposits	6,954,625	-	3,628,336	-
Deferred revenue	7,154,939	-	7,861,103	-
Certificates of participation	1,553,238	-	1,513,238	-
Revenue bonds payable	2,688,574	-	6,367,013	-
Accrued compensated absences	1,880,264	-	1,727,659	-
Other	-	400,763	-	395,827
Total current liabilities	44,063,302	814,621	44,816,767	1,478,472
Noncurrent Liabilities:				
Assets held in custody for others and deposits	23,033	-	124,025	-
Certificates of participation	31,267,532	-	32,820,770	-
Revenue bonds payable	97,386,844	-	107,760,365	-
Accrued compensated absences	14,809,488	-	15,534,263	-
Obligations under capital leases	1,002,365	-	1,484,028	-
Other	-	4,299,160	-	4,682,463
Total noncurrent liabilities	144,489,262	4,299,160	157,723,451	4,682,463
Total liabilities	188,552,564	5,113,781	202,540,218	6,160,935
NET POSITION				
Invested in capital assets, net of related debt	337,673,461	4,281,258	295,964,372	4,328,567
Restricted for:				
Nonexpendable	-	76,402,866	-	68,170,678
Expendable	9,523,449	27,021,822	9,480,965	25,693,618
Unrestricted	171,879,691	6,037,018	179,521,677	3,765,522
Total net position	\$ 519,076,601	\$ 113,742,964	\$ 484,967,014	\$ 101,958,385

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

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

	2013		2012	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees, net	\$ 189,117,793	\$ -	\$ 180,762,671	\$ -
Federal grants and contracts	20,645,891	-	16,822,641	-
State and local grants and contracts	3,655,741	2,134,917	3,685,018	2,041,570
Nongovernmental grants and contracts	3,230,104	-	3,790,182	-
Sales and services of educational activities	2,752,015	-	3,102,528	-
Auxiliary enterprises:				
Auxiliary facilities	81,205,250	-	85,907,708	-
Other operating revenues	25,164,465	597,776	22,834,186	585,406
Total operating revenues	325,771,259	2,732,693	316,904,934	2,626,976
OPERATING EXPENSES				
Educational and General:				
Instruction	116,826,820	-	116,825,381	-
Research	14,516,214	-	14,624,301	-
Public service	14,695,460	-	14,317,742	-
Academic support	15,150,598	-	15,066,330	-
Student services	38,376,694	-	37,092,691	-
Institutional support	37,207,027	-	34,841,184	-
Operations	-	3,172,405	-	3,177,587
Operation and maintenance of plant	33,549,702	-	33,948,219	-
Depreciation	23,247,668	421,021	22,183,031	423,373
Staff benefits	2,265,327	-	3,106,979	-
Student aid	42,340,787	2,929,838	38,003,092	2,366,570
Payments on behalf of the University	130,780,750	-	100,384,826	-
Auxiliary facilities:				
Student housing, activity facilities, and parking	53,263,130	-	60,475,545	-
Other operating expenditures	2,236,549	328,394	2,965,135	348,043
Expenditures on behalf of the University	-	4,635,193	-	4,546,917
Total operating expenses	524,456,726	11,486,851	493,834,456	10,862,490
Operating loss	(198,685,467)	(8,754,158)	(176,929,522)	(8,235,514)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	74,082,400	-	78,874,400	-
Payments on behalf of the University - State	130,780,750	-	100,384,826	-
Payments on behalf of the University - Foundation	1,726,723	-	1,744,159	-
Laboratory Schools	8,581,839	-	8,864,902	-
Gifts and donations	478,067	8,827,711	782,235	7,359,825
Investment income (loss), net of investment expenses	(239,477)	9,844,137	3,523,641	(3,575,163)
Interest expense	(5,073,272)	(196,288)	(5,346,370)	(200,915)
Other nonoperating revenues	19,933,315	544,132	19,413,888	653,840
Other nonoperating expenses	-	(1,739,181)	-	(744,170)
Net non-operating revenues	230,270,345	17,280,511	208,241,681	3,493,417
Income (loss) before capital items	31,584,878	8,526,353	31,312,159	(4,742,097)
Capital appropriations	1,058,267	-	73,167	-
Capital grants and gifts	1,466,442	-	1,195,963	-
Additions to permanent endowments	-	3,258,226	-	5,030,950
Total capital items	2,524,709	3,258,226	1,269,130	5,030,950
Increase in net position	34,109,587	11,784,579	32,581,289	288,853
NET POSITION				
Net position - beginning of year	484,967,014	101,958,385	452,385,725	101,669,532
Net position - end of year	\$ 519,076,601	\$ 113,742,964	\$ 484,967,014	\$ 101,958,385

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

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

	<u>2013</u>	<u>2012</u>
	<u>University</u>	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 181,916,861	\$ 174,282,022
Grants and contracts	28,283,165	25,266,365
Payments to suppliers	(122,816,861)	(125,755,421)
Payments to employees for salaries and benefits	(224,521,732)	(220,369,687)
Payments for scholarships and fellowships	(34,307,665)	(32,159,149)
Student loans issued	(939,436)	(1,195,607)
Collection of student loans	1,243,896	1,124,958
Auxiliary enterprise charges:		
Auxiliary Facilities	81,193,656	85,078,196
Sales and service of educational activities	2,752,015	3,102,528
Payments to internal service departments	(17,704,062)	(16,984,553)
Internal service departments receipts	17,704,062	16,984,553
Agency custodial receipts	129,767,277	105,624,889
Agency custodial disbursements	(126,152,971)	(104,274,303)
Other receipts	42,894,287	40,241,115
	<u>(40,687,508)</u>	<u>(49,034,094)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	75,527,828	90,257,376
Gifts and grants for other than capital purposes	362	1,264
Student direct lending receipts	114,485,294	118,718,731
Student direct lending disbursements	(114,485,294)	(118,718,731)
Other receipts	19,933,312	19,410,987
Laboratory schools	8,763,723	8,702,037
	<u>104,225,225</u>	<u>118,371,664</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt:		
Capital long-term debt	-	24,379,912
Gifts and grants for capital purposes	(1,463,528)	77,163
Net purchases of capital assets	(34,359,700)	(40,742,885)
Principal paid on capital debt and leases	(16,574,103)	(7,846,869)
Interest paid on capital debt and leases	(5,836,583)	(5,271,881)
Payments of debt issuance costs	-	(314,827)
	<u>(58,233,914)</u>	<u>(29,719,387)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	41,483,000	21,000,000
Interest on investments	4,046,024	2,275,850
Purchase of investments	(25,607,309)	(63,202,355)
	<u>19,921,715</u>	<u>(39,926,505)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Balance - beginning of year	25,225,518	(308,322)
	<u>36,374,084</u>	<u>36,682,406</u>
Balance - end of year	\$ <u>61,599,602</u>	\$ <u>36,374,084</u>

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

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

	<u>2013</u> <u>University</u>	<u>2012</u> <u>University</u>
RECONCILIATION		
Operating loss	\$ (198,685,467)	\$ (176,929,522)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	23,247,668	22,183,031
Payments on behalf of the University	132,507,473	102,128,985
Donated equipment below capitalization threshold	477,705	-
Changes in assets and liabilities:		
Accounts receivables, net	844,307	(2,445,814)
Student loans receivable, net	301,167	235,099
Inventories	436,527	(207,709)
Other assets	599,016	1,769,906
Accounts payable and accrued liabilities	(2,362,868)	3,140,217
Deferred revenue	(706,164)	862,637
Assets held in custody for others and deposits	3,225,297	24,453
Compensated absences	(572,169)	204,623
Net cash used by operating activities	<u>\$ (40,687,508)</u>	<u>\$ (49,034,094)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Payments on behalf of the University	\$ 132,507,473	\$ 102,128,985
Donated capital assets	1,466,442	1,195,963
Capital appropriation acquisitions	1,058,267	73,167
Bond accretion	539,803	660,841
Donated equipment below capitalization threshold	338,129	280,971
Tuition and fee waivers where services were provided	8,087,800	5,848,500
Construction costs in accounts payable	6,157,118	3,610,780
Investment income unrealized loss and amortization	(3,377,175)	(461,416)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and cash equivalents classified as current assets	\$ 47,873,949	\$ 31,612,806
Restricted cash and cash equivalents classified as current assets	<u>13,725,653</u>	<u>4,761,278</u>
	<u>\$ 61,599,602</u>	<u>\$ 36,374,084</u>

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

Note 1. Summary of Significant Accounting Policies**THE FINANCIAL REPORTING ENTITY AND COMPONENT UNIT DISCLOSURES**

Illinois State University, which is governed by the Board of Trustees, was founded in 1857 and is the oldest public institution of higher learning in Illinois. As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary government) and its discretely presented component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61.

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois' Legislative Audit Commission in 1982. The Illinois State University Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Campus Box 8000, Normal, Illinois 61790-8000.

The Foundation was incorporated in May 1948 under the "General Not-for-Profit Corporation Act" for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. The Foundation is an organization as described in Section 501(c)(3) of the Internal Revenue Code and, accordingly, exempt from federal income tax. See *Note 13, Transactions with Related Organizations*.

The Foundation has formed two limited liability companies (LLC) to carry out the Foundation's mission to assist the University. The Foundation is a sole member of each of these LLC's. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consists of the executive officers of the Foundation. This LLC activity is included as part of the Foundation's financial statements.

Illinois State University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are also included in the State of Illinois' Comprehensive Annual Financial Report. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871 or assessing its website at www.ioc.state.il.us.

Financial Statements Presentation: The University's financial statements include the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. The financial statements are prepared in accordance with GASB principles and presented on an entity-wide basis. The University has implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* (an amendment of GASB Statements No. 14 and No. 34), GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents: In accordance with GASB Statement No. 9, cash equivalents are defined as short-term, highly liquid investments that are both:

- a. Readily convertible to known amounts of cash.
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less meet this definition.

Restricted Cash and Cash Equivalents: Included in restricted cash and cash equivalents is the unspent proceeds from revenue bonds and certificates of participation.

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

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary facilities service provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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

Inventories: Inventories are carried at the lower of cost or market on either the first-in, first-out; weighted average; or average cost methods.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than two years. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 40 years for infrastructure and land improvements, 10 years for library books, and 3 to 7 years for equipment.

Capitalization of Interest: Interest is charged to expense as incurred except for interest related to borrowings used for construction projects which is capitalized net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially complete. During fiscal years ended 2013 and 2012, the University capitalized \$1,355,959 and \$862,508 net interest expense for construction projects, respectively.

Deferred Revenue: Deferred revenue includes amounts received for tuition and fees, advance ticket sales, and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: Employee vacation and sick pay is accrued at fiscal year-end for financial statement purposes. The liability is recorded at year-end as current and long-term liabilities (*see Note 9*) in the Statements of Net Position. The expense is recorded in the Statements of Revenues, Expenses, and Changes in Net Position as a component of operating expenses.

Debt issuance costs: The costs related to the issuance of revenue bonds and certificates of participation are being amortized over the life of the bonds and/or certificates using the straight line method.

Employment Contracts for Certain Academic Personnel: Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was \$5,206,902 and \$5,068,833 at June 30, 2013 and 2012, respectively, and is recorded in the accompanying financial statements.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, certificates of participation, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Position: The University's net position is classified as follows:

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

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

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

Unrestricted net position: Unrestricted net position represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary facilities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary facilities, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Income Taxes: Certain activities of the University are subject to State sales tax and some activities may be subject to taxation as unrelated business income under the Internal Revenue Code.

Classification of Revenue: The University has classified its revenue as either operating or non-operating revenue according to the following criteria:

Operating revenue: Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary facilities, net of scholarship discounts and allowances, (3) most Federal, State and local grants and contracts except for training and (4) interest on institutional student loans.

Non-operating revenue: Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenue by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as State appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Position using the National Association of College and University Business Officers Advisory Report 2000-05 alternate method calculations. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or nongovernmental programs, are recorded as either operating or non-operating revenue in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

	<u>2013</u>	<u>2012</u>
Student tuition and fees	\$ 233,094,566	\$ 221,977,047
Less scholarship discounts and allowances	(43,072,864)	(40,404,901)
Less discounts for employee waivers	<u>(903,909)</u>	<u>(809,475)</u>
Net student tuition and fees	<u>\$ 189,117,793</u>	<u>\$ 180,762,671</u>
Auxiliary facilities	\$ 93,045,415	\$ 97,245,221
Less scholarship discounts and allowances	<u>(11,840,165)</u>	<u>(11,337,513)</u>
Net auxiliary facilities	<u>\$ 81,205,250</u>	<u>\$ 85,907,708</u>

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

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentations.

Note 2. Deposits

At June 30, 2013 and 2012, the University's bank balances were \$22,515,813 and \$25,398,629, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral.

Foundation Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation or the Security Investor Protection Corporation insured account had a balance of \$1,068,695 and \$875,809 at June 30, 2013 and 2012, respectively. Bank balances of \$9,305,411 at June 30, 2013 and \$8,000,000 at June 30, 2012 were invested in investment sweep funds secured by U.S. government obligations.

DEPOSITS:	2013		2012	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
<u>University</u>				
Bank Checking Funds	<u>\$ 22,515,813</u>	<u>\$ 16,291,600</u>	<u>\$ 25,398,629</u>	<u>\$ 19,215,359</u>
<u>Foundation</u>				
Cash in bank	<u>\$ 10,144,495</u>	<u>\$ 9,865,630</u>	<u>\$ 10,802,463</u>	<u>\$ 10,607,158</u>

Reconciliation of cash and cash equivalents to deposits:

	2013	
	University	Foundation
Cash and cash equivalents		
Current	\$ 61,599,602	\$ 9,046,935
Noncurrent	-	818,695
Total cash and cash equivalents	<u>\$ 61,599,602</u>	<u>\$ 9,865,630</u>
Less: Vault cash and change funds	(220,706)	-
Less: Money market mutual funds classified as investments for purposes of categorization	<u>(45,087,296)</u>	<u>-</u>
Carrying amount of deposits	<u>\$ 16,291,600</u>	<u>\$ 9,865,630</u>
	2012	
	University	Foundation
Cash and cash equivalents		
Current	\$ 36,374,084	\$ 9,981,349
Noncurrent	-	625,809
Total cash and cash equivalents	<u>\$ 36,374,084</u>	<u>\$ 10,607,158</u>
Less: Vault cash and change funds	(222,543)	-
Less: Money market mutual funds classified as investments for purposes of categorization	<u>(16,936,182)</u>	<u>-</u>
Carrying amount of deposits	<u>\$ 19,215,359</u>	<u>\$ 10,607,158</u>

Note 3. Investments

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

UNIVERSITY INVESTMENTS

As of June 30, 2013, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 6 Years	S&P/Moody's Rating
U.S. Treasuries	\$ 36,268,000	\$ 5,039,050	\$ 31,228,950	AAA
Federal Farm Credit Bank	28,503,770	12,150,720	16,353,050	AA+/AAA
Federal National Mortgage Association	5,162,300	-	5,162,300	AA+/AAA
Federal Home Loan Bank	66,198,390	-	66,198,390	AA+/AAA
Illinois Funds Investment Pool	31,361,213	31,361,213	-	AAAm
Bank Money Market Funds	13,726,083	13,726,083	-	Not Rated
Total University	<u>\$ 181,219,756</u>	<u>\$ 62,277,066</u>	<u>\$ 118,942,690</u>	

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

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (15.7%) and Federal Home Loan Bank (36.5%).

Credit Risk: State law authorizes investments of U.S. Government Securities (Treasuries and Agencies), commercial paper (not more than 33% of total cash and investments), money market mutual funds and repurchase agreements. The University's investments are rated by Moody's Investors Service and Standard and Poor's Corporation.

As of June 30, 2012, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 6 Years	S&P/Moody's Rating
U.S. Treasuries	\$ 52,750,763	\$ 15,806,463	\$ 36,944,300	AAA/Aaa
Federal Farm Credit Bank	39,485,188	10,146,018	29,339,170	AA+/Aaa
Federal National Mortgage Association	9,679,661	4,416,411	5,263,250	AAA/Aaa
Federal Home Loan Bank	49,099,710	6,486,485	42,613,225	AAA/Aaa
Federal Home Loan Mortgage Corporation	5,223,597	5,223,597	-	
Illinois Funds Investment Pool	12,174,482	12,174,482	-	AAAm
Bank Money Market Funds	4,761,700	4,761,700	-	Not Rated
Total University	<u>\$ 173,175,101</u>	<u>\$ 59,015,156</u>	<u>\$ 114,159,945</u>	

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (22.8%), Federal Home Loan Bank (28.4%), and Federal National Mortgage Association (5.6%).

FOUNDATION INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2013 and 2012 is as follows:

	2013	2012
U.S. Treasury Notes	\$ 47,411	\$ 52,468
Common Stock	355,582	302,925
Mutual Funds-investing in:		
Stocks	49,154,631	29,241,726
Bonds	9,683,714	10,160,068
Commodities	1,257,495	2,330,540
International	54,893	11,087,406
U.S. Government Securities	132,331	100,076
Real Assets Marketable Funds	6,766,855	6,739,396
Hedged and Alternative Funds	27,606,038	24,549,258
Real Estate Investment	600,631	600,631
Total Foundation	<u>\$ 95,659,581</u>	<u>\$ 85,164,494</u>

Interest Rate Risk: The Foundation's investment policy requires the average duration of the fixed income portfolio to be within 20% of the duration of the index to which the portfolio is benchmarked.

Foreign Currency Risk. Foreign currency risk exists when there is a possibility that changes in exchange rates could adversely affect investments denominated in foreign currencies. The Foundation does not have a formal policy that addresses foreign currency risk.

As of June 30, 2013, the Foundation had \$25,647,839 in U.S. dollar balances of international mutual fund investments exposed to foreign currency risk. Listed below are the U.S dollar balances of the Foundation's international mutual fund investments exposed to foreign currency risk as of June 30, 2013:

	Global Equity
Japanese Yen	\$ 7,082,968
British Pound	5,300,510
Euro	4,780,766
Hong Kong Dollar	1,963,378
Swiss Franc	1,522,446
Other (individually below 5% of total)	<u>4,997,771</u>
Total	<u>\$ 25,647,839</u>

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy states that no more than 25% of the fixed income portfolio may be rated below investment grade.

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

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

As of June 30, 2012, the Foundation had the following investments exposed to interest rate risk and credit risk:

	<u>Fair Market Value</u>	<u>Weighted Average Life</u>	<u>S&P Rating</u>
U.S. Treasury Notes	\$ 52,468	2.1 years	AAA
Bond Mutual Funds	10,160,068	8.6 years	AA-
Commodities Mutual Funds	2,330,540	0.5 year	AA-
U.S. Government Funds	100,076	0.1 year	AAA

INVESTMENTS CONSIST OF THE FOLLOWING:

	<u>2013</u>		<u>2012</u>	
	<u>University</u>	<u>Foundation</u>	<u>University</u>	<u>Foundation</u>
Current:				
Investments	\$ 17,189,770	\$ -	\$ 42,078,974	\$ -
Noncurrent:				
Investments	118,942,690	19,936,161	114,159,945	17,875,536
Endowment investments	-	75,723,420	-	67,288,958
	<u>136,132,460</u>	<u>95,659,581</u>	<u>156,238,919</u>	<u>85,164,494</u>
Money market mutual funds classified as cash and cash equivalents	<u>45,087,296</u>	<u>-</u>	<u>16,936,182</u>	<u>-</u>
Total	<u>\$ 181,219,756</u>	<u>\$ 95,659,581</u>	<u>\$ 173,175,101</u>	<u>\$ 85,164,494</u>

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

Foundation policy states that assets are to be invested in a diversified portfolio of equity, fixed income, and alternative strategies. No investment is to be made that will cause the total investment in equities or fixed income securities issued or guaranteed by any one person, firm, or corporation to exceed five percent of the then fair market value of the Foundation; provided, this restriction is not to apply to either well diversified mutual funds, pooled funds, unit trust, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies. Equity investments have an asset allocation range from 47% to 67% of the portfolio with a target weight of 57%; fixed income investments have an asset allocation range from 3% to 15% with a target weight of 5%; marketable alternative investments have an asset allocation range from 10% to 30% with a target weight of 20%; and real assets have an asset allocation range from 5% to 28% with a target weight of 18%.

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Student tuition and fees	\$ 5,744,357	\$ 6,464,856
Auxiliary facilities and other operating activities	2,539,428	2,533,629
Other	594,679	1,019,211
Federal, state, and private grants and contracts	<u>6,728,766</u>	<u>4,679,706</u>
Sub-total	15,607,230	14,697,402
Less allowance for uncollectible accounts	<u>(2,068,620)</u>	<u>(2,050,722)</u>
Net Accounts Receivable	<u>\$ 13,538,610</u>	<u>\$ 12,646,680</u>

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Perkins student loan fund	\$ 9,333,936	\$ 9,660,308
Nursing loan fund	418,825	428,298
University loan fund	<u>38,461</u>	<u>37,783</u>
Sub-total	9,791,222	10,126,389
Less allowance for uncollectible accounts	<u>(954,784)</u>	<u>(988,784)</u>
Net Student Loans Receivable	<u>\$ 8,836,438</u>	<u>\$ 9,137,605</u>
Estimated current portion	\$ 1,117,374	\$ 994,628
Estimated noncurrent portion	<u>7,719,064</u>	<u>8,142,977</u>
Total	<u>\$ 8,836,438</u>	<u>\$ 9,137,605</u>

Note 6. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Pledges to be collected	\$ 3,464,533	\$ 2,017,430
Less discount for the time value of money	(41,888)	(28,221)
Less allowance for uncollectible accounts	<u>(259,840)</u>	<u>(151,307)</u>
Net Foundation Pledges Receivable	<u>\$ 3,162,805</u>	<u>\$ 1,837,902</u>
Estimated current portion	\$ 1,701,053	\$ 988,632
Estimated noncurrent portion	<u>1,461,752</u>	<u>849,270</u>
Total	<u>\$ 3,162,805</u>	<u>\$ 1,837,902</u>

Note 7. Deferred Revenue

Deferred revenue consists of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Prepaid tuition and fees	\$ 5,542,991	\$ 5,440,925
Auxiliary facilities	675,078	614,849
Grants and contracts	854,917	1,723,529
Other	<u>81,953</u>	<u>81,800</u>
Deferred Revenue	<u>\$ 7,154,939</u>	<u>\$ 7,861,103</u>

Note 8. Capital Assets

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

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

Capital assets activity for the year ended June 30, 2012 is summarized as follows:

University					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 14,158,006	\$ -	\$ -	\$ 331,413	\$ 14,489,419
Construction in progress	16,587,600	29,877,948	-	(1,631,002)	44,834,546
Intangible-internally generated software	10,112,489	-	-	(10,112,489)	-
Total capital assets not being depreciated	\$ 40,858,095	\$ 29,877,948	\$ -	\$ (11,412,078)	\$ 59,323,965
Capital assets being depreciated					
Land Improvements	\$ 33,313,331	\$ -	\$ -	\$ -	\$ 33,313,331
Infrastructure	12,682,559	-	-	-	12,682,559
Buildings	509,672,707	1,087,200	-	1,299,590	512,059,497
Equipment	78,877,785	5,871,799	(2,460,197)	10,112,488	92,401,875
Library Materials	78,111,072	4,205,665	-	-	82,316,737
Total capital assets being depreciated	\$ 712,657,454	\$ 11,164,664	\$ (2,460,197)	\$ 11,412,078	\$ 732,773,999
Less Accumulated Depreciation for					
Land Improvements	\$ 10,562,397	\$ 993,127	\$ -	\$ -	\$ 11,555,524
Infrastructure	6,382,511	311,247	-	-	6,693,758
Buildings	193,109,748	10,896,688	-	-	204,006,436
Equipment	61,455,731	6,673,665	(2,375,473)	-	65,753,923
Library Materials	61,115,538	3,308,305	-	-	64,423,843
Total Accumulated Depreciation	\$ 332,625,925	\$ 22,183,032	\$ (2,375,473)	\$ -	\$ 352,433,484
Total capital assets being depreciated, net	\$ 380,031,529	\$ (11,018,368)	\$ (84,724)	\$ 11,412,078	\$ 380,340,515
Capital assets, net	\$ 420,889,624	\$ 18,859,580	\$ (84,724)	\$ -	\$ 439,664,480
Foundation					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	\$ 980,000	\$ -	\$ -	\$ -	\$ 980,000
Capital assets being depreciated	10,410,371	183,366	-	-	10,593,737
Less accumulated depreciation	1,968,591	423,373	-	-	2,391,964
Total capital assets being depreciated	\$ 8,441,780	\$ (240,007)	\$ -	\$ -	\$ 8,201,773
Capital assets, net	\$ 9,421,780	\$ (240,007)	\$ -	\$ -	\$ 9,181,773

Note 9. Long-term Liabilities

UNIVERSITY LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013 was as follows:

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

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	\$ 17,057,299	\$ 1,895,296	\$ 1,690,673	\$ 17,261,922
Certificates of participation	35,532,245	-	1,198,237	34,334,008
Revenue bonds payable	97,832,546	22,491,138	6,196,306	114,127,378
Total	<u>\$ 150,422,090</u>	<u>\$ 24,386,434</u>	<u>\$ 9,085,216</u>	<u>\$ 165,723,308</u>
Current portion				
Accrued compensated absences	\$ 1,735,598			\$ 1,727,659
Certificates of participation	1,198,237			1,513,238
Revenue bonds payable, net	6,134,984			6,367,013
Total current portion	<u>\$ 9,068,819</u>			<u>\$ 9,607,910</u>
Noncurrent portion				
Accrued compensated absences	\$ 15,321,701			\$ 15,534,263
Certificates of participation	34,334,008			32,820,770
Revenue bonds payable, net	91,697,562			107,760,365
Total noncurrent portion	<u>\$ 141,353,271</u>			<u>\$ 156,115,398</u>

Revenue bonds payable at June 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Revenue Bonds, Series 1996:		
Capital Appreciation Bonds	11,307,320	10,672,147
Revenue Bonds, Series 2003:		
New Project Bonds	-	4,592,044
Current Refunding Bonds	-	7,964,028
Revenue Bonds, Series 2006:		
New Project Bonds	38,945,664	38,907,392
Current Refunding Bonds	-	1,246,470
Revenue Bonds, Series 2008:		
New Project Bonds	28,020,000	28,915,000
Revenue Bonds, Series 2012:		
New Project Bonds	18,752,434	18,780,297
New Project Bonds, Taxable	<u>3,050,000</u>	<u>3,050,000</u>
Total revenue bonds payable	<u>\$ 100,075,418</u>	<u>\$ 114,127,378</u>

Maturities and interest requirements on revenue bonds payable at June 30, 2013, are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2014	\$ 2,755,000	\$ 3,719,771	\$ 6,474,771
2015	7,160,000	3,683,831	10,843,831
2016	7,195,000	3,644,031	10,839,031
2017	3,950,000	3,599,571	7,549,571
2018	<u>4,070,000</u>	<u>3,463,911</u>	<u>7,533,911</u>
Sub-total	25,130,000	18,111,115	43,241,115
2019-2023	22,815,000	14,834,671	37,649,671
2024-2028	28,050,000	9,598,973	37,648,973
2029-2033	<u>25,685,000</u>	<u>2,996,073</u>	<u>28,681,073</u>
Sub-total	101,680,000	<u>\$ 45,540,832</u>	<u>\$ 147,220,832</u>
Additions (Deductions):			
Unaccreted Appreciation	(1,447,680)		
Unamortized Discounts	(679,336)		
Unamortized Premiums	<u>522,434</u>		
Total	<u>\$ 100,075,418</u>		

The Series 1996, 2006, 2008, and 2012 bonds are secured by a pledge of the net revenue of auxiliary facilities, as well as the pledged portion of the tuition, health service, and athletic & service fees charged to students.

On December 10, 1996, \$18,101,018 in Revenue Bonds, Series 1996 were issued. The Series 1996 Bonds consisted of \$13,760,000 in Current Interest Bonds and \$4,341,018 in Capital Appreciation Bonds. The Current Interest Bonds matured on April 1, 2013. The Capital Appreciation Bonds have a principal at maturity of \$12,755,000 and an original issue discount of \$8,413,982. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation Bonds yield 5.80% to 5.90% interest and mature annually commencing April 1, 2014, through April 1, 2016.

On March 11, 2003, \$16,905,000 in Revenue Bonds, Series 2003 were issued. The Series 2003 Bonds consisted of \$7,570,000 of New Project Bonds and \$9,335,000 in Current Refunding Bonds. On April 1, 2013 \$8,260,000 of Revenue Bonds, Series 2003 were called for full redemption at a redemption price of 100% plus unpaid accrued interest to April 1, 2013. This included \$4,235,000 of New Project Bonds and \$4,025,000 of Current Refunding Bonds. The early redemption resulted in total interest savings of \$1,327,455. This consisted of \$1,128,705 from New Project Bonds and \$198,750 for Current Refunding Bonds.

On March 21, 2006, \$45,595,000 in Revenue Bonds, Series 2006 were issued. The Series 2006 Bonds consisted of \$39,625,000 of New Project Bonds and \$5,970,000 in Current Refunding Bonds. The New Project Bonds mature beginning April 1, 2017, and continuing through April 1, 2031. These New Project Bonds bear interest from 3.90% to 4.40%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2006. The Current Refunding Bonds matured on April 1, 2013.

Proceeds from the sale of the Series 2006 Current Refunding Bonds, were used to provide for the advance refunding of a portion of the Series 1996 Bonds and to pay certain expenses related to the issuance of the bonds. The Series 1996 Current Interest Bonds were redeemed with a call premium of 2% for a total of \$5,829,300 on October 1, 2006. The Series 1996 Bonds had a book value of \$5,674,321 and unamortized issuance costs of \$45,332. Although the advanced refunding resulted in the recognition of an accounting loss of \$227,321 for the year ended June 30, 2006, the issuance of the 2006 refunding bonds at lower interest rates will cause aggregate debt service payments to be decreased by \$209,511 and will result in an economic gain or present value gain of \$190,972 over the life of the refunded bonds.

On March 1, 2008, \$30,635,000 in Revenue Bonds, Series 2008 were issued. The New Project Bonds mature beginning April 1, 2011, and continuing through April 1, 2033. These New Project Bonds bear interest from 2.70% to 5.00%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2008.

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

As a requirement of issuing revenue bonds the University is subject to certain covenants. The University monitors its compliance with these covenants and is not aware of violations of these covenants.

PLEGGED REVENUES & SERVICE REQUIRMENTS

The University has pledged fees relating to tuition, health services, athletics, health insurance, student activities, and all other fees (excluding laboratory and library fees) collected from students, to repay the principal and interest of revenue bonds. A total of \$147,220,832 of future revenues is pledged through 2033. Debt service to pledged revenues for the current year is 6.053%.

DEFEASED BONDS

In June 1993, the University defeased a portion of the Series 1989 bonds by creating a separate irrevocable trust fund. New debt (series 1993 bonds) was issued and the proceeds used to purchase U.S. Treasury securities that were placed in the trust fund. The investments and fixed earnings from the investment are sufficient to service the defeased amount until the debt matures. For financial reporting purposes, the debt has been considered defeased and removed as a liability on the Statements of Net Position. The defeased debt outstanding for the years ended June 30, 2013 and 2012 was \$4,095,000 and \$7,917,327, respectively.

CERTIFICATES OF PARTICIPATION PAYABLE

On June 4, 2008, \$22,230,000 in Certificates of Participation were issued. The Series 2008 Certificates of Participation mature beginning April 1, 2010 and continuing through April 1, 2028. These Certificates of Participation bear interest from 3.00% to 4.50%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2008.

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

Maturities and interest requirements on certificates of participation at June 30, 2013, are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2014	\$ 1,555,000	\$ 1,443,518	\$ 2,998,518
2015	1,620,000	1,385,992	3,005,992
2016	1,675,000	1,323,630	2,998,630
2017	1,730,000	1,256,630	2,986,630
2018	<u>1,805,000</u>	<u>1,187,430</u>	<u>2,992,430</u>
Sub-total	8,385,000	6,597,200	14,982,200
2019-2023	10,230,000	4,767,737	14,997,737
2024-2028	11,625,000	2,291,900	13,916,900
2029-2032	<u>2,595,000</u>	<u>356,194</u>	<u>2,951,194</u>
Sub-total	32,835,000	<u>\$ 14,013,031</u>	<u>\$ 46,848,031</u>
Additions (Deductions):			
Unamortized Discounts	(69,362)		
Unamortized Premiums	<u>55,132</u>		
Total	<u>\$ 32,820,770</u>		

ACCRUED COMPENSATED ABSENCES

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

	<u>Vacation</u>	<u>Sick</u>	<u>Total</u>
2013	\$ 11,500,212	\$ 5,189,540	\$ 16,689,752
2012	\$ 11,180,303	\$ 6,081,619	\$ 17,261,922

FOUNDATION LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013 was as follows:

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

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	\$ 216,571	\$ 21,258	\$ 12,745	\$ 225,084
Deferred rent	2,100,000	-	300,000	1,800,000
Contract-for-deed payable	<u>3,122,291</u>	<u>-</u>	<u>69,085</u>	<u>3,053,206</u>
Total	<u>\$ 5,438,862</u>	<u>\$ 21,258</u>	<u>\$ 381,830</u>	<u>\$ 5,078,290</u>
Current portion				
Beneficiary payments	\$ 22,505			\$ 22,115
Deferred rent	300,000			300,000
Contract-for-deed payable	<u>69,085</u>			<u>73,712</u>
Total current portion	<u>\$ 391,590</u>			<u>\$ 395,827</u>
Noncurrent portion				
Beneficiary payments	\$ 194,066			\$ 202,969
Deferred rent	1,800,000			1,500,000
Contract-for-deed payable	<u>3,053,206</u>			<u>2,979,494</u>
Total noncurrent portion	<u>\$ 5,047,272</u>			<u>\$ 4,682,463</u>

FOUNDATION CONTRACT-FOR-DEED PAYABLE

A contract at June 30, 2013 consisted of a \$3,300,000 installment contract-for-deed secured by the Alumni Center building. The contract requires 119 monthly payments of \$22,500 at 6.5% interest with a final payment of the remaining outstanding balance.

Maturities and Interest Requirements on the contract payable at June 30, 2013, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	78,648	191,352	\$ 270,000
2015	83,916	186,084	270,000
2016	89,536	180,464	270,000
2017	95,532	174,468	270,000
2018	101,930	168,070	270,000
2019	2,529,932	13,703	2,543,635
Total	<u>\$ 2,979,494</u>	<u>\$ 914,141</u>	<u>\$ 3,893,635</u>

Note 10. Leases**CAPITALIZED LEASES**

Certain leases in which the Board of Trustees, the governing board of the University, is the lessee are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date as required by Governmental Accounting Standards Board (GASB) Statement No. 62.

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

Maturities on capital leases at June 30, 2013, are as follows:

Year Ending <u>June 30</u>	
2014	\$ 521,401
2015	521,401
2016	<u>521,400</u>
Total minimum lease payments	<u>1,564,202</u>
Less amount representing interest	80,173
Present value of future minimum lease payments	<u>\$ 1,484,029</u>

OPERATING LEASES

The University has entered into agreements to lease recreational space and office space that the University is treating as operating leases. Rent expense for the years ended June 30, 2013 and 2012 was \$1,483,125 and \$1,394,967, respectively. The leases expire between July 2013 and June 2018. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Building</u>
2014	\$ 992,189
2015	992,189
2016	425,582
2017	425,582
2018	<u>300,000</u>
Total	<u>\$ 3,135,542</u>

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporations, and Foundation networks. Lease payments for the Chicago office were \$69,513 in 2013 and \$64,439 in 2012. The current lease expires on December 31, 2014. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Building</u>
2014	\$ 78,216
2015	<u>39,460</u>
Total	<u>\$ 117,676</u>

The University leases twelve vehicles for the Athletic Department employees at a cost of \$50,640 in fiscal year 2013 and \$52,348 in fiscal year 2012. The Foundation makes the payments on these leased vehicles. One, eight and three vehicle leases expire during fiscal years 2014, 2016, and 2017, respectively. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Vehicles</u>
2014	\$ 44,690
2015	43,500
2016	40,850
2017	<u>4,875</u>
Total	<u>\$ 133,915</u>

Note 11. State Universities Retirement System (SURS)

Plan Description: Illinois State University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org, or by calling 1-800-275-7877.

Funding Policy: Plan members are required to contribute 8.0% (up to 9.5% for police officers) of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 35.20% (for FY 2014) 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 ending June 30, 2013, 2012, and 2011, were \$63,500,755, \$44,252,981, and \$35,249,606, respectively, equal to the required contributions for each year.

Note 12. Post-employment Benefits

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

The State pays Illinois 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.

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

Note 13. Transactions with Related Organizations

Illinois State University Foundation (Foundation) is a related organization formed to support in various ways the University's instructional, research, and public service missions. The University and the Foundation entered into a three year Support Agreement effective July 1, 2012, whereby the University agrees to provide to the Foundation fair and reasonable compensation in exchange for development and fundraising services up to a maximum value of \$2,350,000 during the first year of the agreement. In additional consideration for these services, the University provided office space, clerical, accounting and computer support estimated to be \$2,143,917 and \$2,041,570 during fiscal years 2013 and 2012, respectively. During fiscal years 2013 and 2012, the Foundation contributed services and expenditures of \$9,304,212 and \$7,657,657, respectively, that were for the direct and/or indirect support of the University.

In June 2007, Launching Futures II invested in real estate for \$600,631 for use by the University as a remote parking lot. Concurrently, Launching Futures II signed a lease agreement with the University for the real estate providing for annual payments of \$49,992 from the University to Launching Futures II. The lease had a five year term that the University renewed for an additional five years during May 2013.

In fiscal year 2009, Launching Futures, LLC acquired real estate for approximately \$6.3 million that was being leased by the University from an outside party. Once the sales contract was signed, the University continued to lease the property from the seller until the initial closing. The acquired real estate serves as the University's Alumni Center. To assist with construction improvement costs, the University made a \$3 million prepaid rent payment in July 2008. The LLC leases the property to the University at \$19,167 per month. Also, the University and Foundation are amortizing the \$3 million prepaid rent over a ten-year period at \$300,000 per year.

Note 14. Student Health Insurance

The University contracts with Aetna Student Health (ASH) formerly known as The Chickering Group, an Aetna Company of Medford, Massachusetts for administration of the Aetna Student Health Insurance Plan to provide insurance benefits to students of the University. Students enrolled in 9 or more semester hours of credit pay a premium for this coverage. As part of the contractual agreement between the University and ASH, the University has a premium stabilization reserve (PSR) which is used to minimize future plan year increases in the premium based on unexpectedly high claims utilization. As each Plan Year is finalized, costs are debited (gains are credited) to an account funded by the University each year (15% of expected premium at the initial deposit, but adjusted to 15% of actual premium upon reconciliation). The reserve for 2010-2011 of \$827,800 became available upon final calculation in October 2012. The entire reserve of \$827,800 plus experience surplus \$1,090,258 was distributed as follows: a) \$31,364 was rolled over to complete funding for 2012-2013, and b) \$1,886,694 (increased to \$1,932,098 after premium tax adjustment) was refunded to the University. Potential refunds are still at risk for unexpected claims losses; they are not recorded as assets. Assuming a 10% trend, no plan design changes, and no change in enrollment, the University estimates \$840,000 to be needed to fund 2013-2014.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded \$114,485,294 and \$118,718,731 in Direct Student Loans for the years ended June 30, 2013 and 2012, respectively. The University classified this loan program as noncash federal awards, and it is disclosed in the footnotes to the Office of Management and Budget (OMB) Circular A-133 Schedule of Expenditures of Federal Awards. Accordingly, no revenue or expenditures are included in the financial statements of the University.

Note 16. Risk-Management

The University is exposed to various loss related exposures. These exposures include torts, theft, damages, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University purchases various commercial insurance policies for these loss exposures. During the years ended June 30, 2013 and 2012, there were no significant reductions in coverage.

As a public University in the State of Illinois, Illinois State University enjoys certain statutory protections from liability through the Illinois Court of Claims statute and the State Employee Indemnification Act. In addition, the University purchases liability insurance that covers related claims subject to a \$350,000 self-insured retention. The educator's legal liability policy has aggregate and occurrence limits of \$5,000,000. The general liability insurance policy has a per occurrence limit of \$10,650,000 and an aggregate of \$19,650,000.

To augment existing State and commercial coverage, and to assist in addressing potential risks and liabilities incurred through its operations, the University is self-funded. In accordance with the requirement of GASB Statement No. 10, a liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. At June 30, 2013 and 2012 the liability was \$0. There were no settlements which exceeded insurance coverage for the last three years.

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

University restricted net position is comprised of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Expendable Student Loans	\$ 9,523,449	\$ 9,480,965

The University's Board of Trustees designated unrestricted net position is comprised of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Capital asset renewal and replacement for the internal service departments	\$ 257,545	\$ 256,536
Self-Insurance	<u>1,118,491</u>	<u>1,118,491</u>
Total	<u>\$ 1,376,036</u>	<u>\$ 1,375,027</u>

FOUNDATION NET POSITION

The Foundation's restricted net position is comprised of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Nonexpendable		
Scholarship and fellowship	\$ 46,213,065	\$ 40,365,437
College and academic department support	16,862,656	15,514,864
Faculty and staff compensation	5,996,759	5,594,193
Other	<u>7,330,386</u>	<u>6,696,184</u>
Total nonexpendable	<u>\$ 76,402,866</u>	<u>\$ 68,170,678</u>
Expendable		
Scholarship and fellowship	\$ 10,130,166	\$ 9,388,644
Instructional and departmental uses	10,904,200	10,330,419
University capital projects	2,472,633	2,559,621
Other restricted expendable	<u>3,514,823</u>	<u>3,414,934</u>
Total expendable	<u>\$ 27,021,822</u>	<u>\$ 25,693,618</u>

Note 18. Foundation Donor Restricted Endowments

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

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

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

A fundraising fee of 1.1%, of the year-end market value, is assessed from each endowed fund's annual distribution (as calculated above) to help support Foundation's fundraising and general operations.

On July 1, 2012, a total of \$3,306,983 was distributed to endowed funds' expendable balances and fundraising fees of \$829,814 were distributed to the Foundation budget. On July 1, 2011, a total of \$2,370,402 was distributed to endowed funds' expendable balances, and fundraising fees of \$661,507 were distributed to the Foundation budget.

Note 19. Commitments

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are \$10,846,349, approximately \$7,016,565 (64.69 percent) of the work has been completed as of June 30, 2013. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

In June 2010, the University entered into a 40 year ground lease agreement with Collegiate Housing Foundation – Normal, LLC (lessee), a non-profit limited liability company, for the purpose of financing, constructing, furnishing and equipping a new 896 bed student housing facility at the current Cardinal Court Apartment complex site. The construction was completed in August 2012 with a cost of \$49,937,170 and was financed with revenue bonds issued by the Illinois Finance Authority as debt of the lessee. The facility houses Illinois State University students and is managed by the University. The lessee pays the University rent on the ground lease on an annual basis as defined by the terms of the agreement.

The University has secured natural gas and electricity at a fixed price for fiscal years 2014 through mid-2016 by executing forward fixed price purchase contracts with Integrys Energy, IMGGA, and MidAmerican Energy. As of June 30, 2013, the University's commitment to these contracts is approximately \$6,688,940 for natural gas and \$13,110,731 for electricity. These are considered normal purchase contracts.

On July 9, 2012, the University contracted for the purchase of 210 & 212 North Main not to exceed \$750,000 plus reasonable closing and related costs including a relocation allowance of up to \$25,000. Per the agreement, the University will take possession of the property on or before July 1, 2015.

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest \$27,876,457 and \$25,376,457 as of June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, the Foundation had invested \$15,774,023 and \$13,788,009, respectively and has future investment commitments of \$12,102,434 and \$11,588,448, respectively.

Note 20. Contingencies

The University is, from time to time, subject to various claims, legal actions, and inquiries related to compliance with environmental and other governmental laws and regulations. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the University's future financial condition or results of operations.

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters on the financial condition or results of operations of the University is necessary at June 30, 2013, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

Note 21. Crosswalk of Natural Classification with Functional Classifications

Natural Classification for the Year Ended June 30, 2013

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

Natural Classification for the Year Ended June 30, 2012

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 100,055,516	\$ 16,769,865	\$ -	\$ -	\$ 116,825,381
Research	10,710,911	3,913,390	-	-	14,624,301
Public Service	8,015,267	6,302,475	-	-	14,317,742
Academic Support	12,227,364	2,838,966	-	-	15,066,330
Student Services	18,521,801	18,570,890	-	-	37,092,691
Institutional Support	19,167,455	15,673,729	-	-	34,841,184
Operation of Plant	12,899,504	21,048,715	-	-	33,948,219
Depreciation	-	-	-	22,183,031	22,183,031
Staff Benefits	3,062,678	-	44,301	-	3,106,979
Student Aid	-	5,870,386	32,132,706	-	38,003,092
Payments on Behalf	100,384,826	-	-	-	100,384,826
Auxiliary Facilities	24,558,613	35,906,432	10,500	-	60,475,545
Other	3,508,925	(543,790)	-	-	2,965,135
Total University	<u>\$ 313,112,860</u>	<u>\$ 126,351,058</u>	<u>\$ 32,187,507</u>	<u>\$ 22,183,031</u>	<u>\$ 493,834,456</u>

Note 22. Additional Auxiliary Facilities System Disclosure Information

The University operates auxiliary facilities that include student housing, student activities and parking.

Following are condensed financial statements for the Auxiliary Facilities System:

Condensed Statements of Net Position at June 30	2013	2012
Assets:		
Current assets	\$ 30,753,538	\$ 43,505,252
Noncurrent assets:		
Capital assets, net	215,628,376	203,319,838
Other noncurrent assets	72,534,821	67,778,209
Total assets	318,916,735	314,603,299
Liabilities:		
Current liabilities	13,173,126	15,023,997
Noncurrent liabilities	98,715,480	109,206,602
Total liabilities	111,888,606	124,230,599
Net position:		
Invested in capital assets, net of related debt	124,760,923	90,118,591
Unrestricted	82,267,206	100,254,109
Total net position	\$ 207,028,129	\$ 190,372,700
 Condensed Statements of Revenues, Expenses and Changes in Net Position for the year ended at June 30		
Operating revenues	\$ 81,205,250	\$ 85,907,708
Depreciation expense	(7,148,270)	(6,322,755)
Other operating expenses	(53,263,130)	(60,475,546)
Operating income	20,793,850	19,109,407
Non-operating revenues	44,468	1,216,358
Non-operating expenses	(4,182,889)	(4,414,466)
Increase in net positions	16,655,429	15,911,299
Net position - beginning of year	190,372,700	174,461,401
Net position - end of year	\$ 207,028,129	\$ 190,372,700
 Condensed Statements of Cash Flows for the year ended June 30		
Net cash flows provided by operating activities	\$ 26,738,650	\$ 27,517,446
Net cash flows provided by non-capital financing activities	174,125	208,777
Net cash flows used in capital and related financing activities	(33,900,191)	(4,356,251)
Net cash flows provided by (used in) investing activities	15,866,094	(21,576,328)
Net increase in cash and cash equivalents	8,878,678	1,793,644
Cash and cash equivalents, beginning of year	2,081,136	287,492
Cash and cash equivalents, end of year	\$ 10,959,814	\$ 2,081,136

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

RESERVES FOR DEBT SERVICE, REPAIR AND REPLACEMENT, AND DEVELOPMENT

Debt Service

A portion of the Debt Service Reserve Account (DSRA) that was established under the terms of the Revenue Bond Series 1996 indentures was used to purchase a Surety Bond. This Surety Bond constitutes a Reserve Account Credit Instrument under the requirements of the Bond Resolution. The Surety Bond is payable to the Bond Registrar. The proceeds of the Surety Bond held in the DSRA may be used solely for the purpose of paying principal and interest on the Series 1996 Bonds and any outstanding Parity Bonds.

Repair and Replacement and Development

The Bond indentures also require a deposit be made in the Repair and Replacement Reserve Account. The sum of the deposit shall be greater than 10% of the Maximum Debt Service and shall not exceed the sum of 5% of the replacement cost of the auxiliary facilities' structures plus 20% of the replacement cost of their equipment plus 10% of either the historical cost of the parking lots or 100% of the estimated cost of resurfacing any existing auxiliary facilities' parking lot.

	<u>2013</u>	<u>2012</u>
	Repair and Replacement Reserve	Repair and Replacement Reserve
Maximum Allowable Deposits at June 30	\$ 41,673,515	\$ 40,020,637
Assets Reserved	24,619,467	29,426,772
Project Amount Approved by Board	N/A	N/A

Note 23. Future Change in Accounting Principle

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

Note 24. Subsequent Events

On August 9, 2013, Moody's Investors Service downgraded Illinois State University's ratings to "A3" from "A2" on its Auxiliary Facilities System Revenue Bonds and Certificates of Participation and concluded its review for possible downgrade.