STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2011

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2011

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STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2011

AGENCY OFFICIALS

President	Dr. Wayne Watson
Provost and Senior V.P. of Academic and Student Affairs	Dr. Sandra Westbrooks
Vice President of Administration and Finance	Mr. Glenn Meeks
Associate V.P. of Administration and Finance	Ms. Maricela Aranda (8/8/11 to Present)
Associate V.P. of Administration and Finance	Mr. Larry Pinkelton (8/16/11 to Present)
Associate V.P. of Administration and Finance/Controller	Mr. Edward Lannon (to 3/31/11)
Director of Accounting/Controller	Mr. Edward Lannon (4/1/11 to Present)
Associate Director of Accounting	Ms. Louise Williams
Chief Internal Auditor	Mr. Ken Clow

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as finding 11-1, Suspended Academic Policy Resulted in Overstated Liability on the Financial Statements, 11-2, Inaccurate Accounting for Participation in Public Entity Risk Pool, and 11-3, Inaccurate Accounting for Accrued Compensated Absences.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on February 22, 2012. Attending were:

<u>Representing Chicago State University</u>

Chairman, Board of Trustees	Mr. Gary L. Rozier
Vice-Chairman, Board of Trustees	Ms. Zaldwaynaka Scott
President	Dr. Wayne Watson
Vice President of Administration and Finance	Mr. Glenn Meeks
Provost and Senior Vice President Academic & Student Affairs	Dr. Sandra Westbrooks
Interim Associate Vice President Sponsored Programs	Dr. Yvonne Harris
Chief Internal Auditor	Mr. Ken Clow
Director of Accounting / Controller	Mr. Edward Lannon
Director of Compliance	Ms. Carla Davis
Vice President of Enrollment Management	Ms. Angela M. Henderson
Chief of Police and University Services	Mr. Ronnie Watson
Associate Vice President of Administration & Finance	Mr. Lawrence Pinkelton

EXIT CONFERENCE (continued)

Representing Borschnack, Pelletier & Co.	
Partner	Mr. Paul A. Pelletier, CPA
Manager	Mr. Robert Sikma, CPA
Representing the Office of the Auditor General	
Audit Manager	Mr. Thomas L. Kizziah, CPA

Responses to the recommendations were provided by Mr. Glenn Meeks in a correspondence dated February 29, 2012.

Borschnack Pelletier & Co.
Certified Public Accountants & Consultants
200 East Court Street • Suite 608 • Kankakee, IL 60901
815.933.1771 • fax: 815.933.1163

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Chicago State University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Chicago State University (University) and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise Chicago State University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chicago State University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2010 financial statements and, in our reported dated March 10, 2011, we expressed unqualified opinions on the respective financial statements of the business-type activities of the University and its discretely presented component unit. We did not audit the financial statements of the discretely presented component unit, as described in Note 1 of the financial statements. Those statements were audited by other auditors whose report thereon has been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Chicago State University, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 2, 2012 on our consideration of Chicago State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago State University's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The University Auxiliary Facilities Revenue Bond Fund, Series 1998 financial statements on pages 37 through 39 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The "Unaudited" supplementary information on pages 40 and 41 has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Borschnack, Pelletier & Co.

March 2, 2012

Introduction

This section of the Chicago State University (University) annual financial report presents management's discussion and analysis ("MD&A") of the financial performance of the University during the fiscal year ended June 30, 2011, with fiscal year 2010 prior year data presented for comparative purposes. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

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

Background

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

The University enrolled approximately 7,200 doctorate, graduate and undergraduate students during Spring 2011 and employs approximately 900 employees consisting of faculty, civil service and administrators. The University offers a diverse range of degree programs from baccalaureate through doctoral levels. The University has conferred approximately 994 graduate and undergraduate degrees per annum over the last five years.

Financial Highlights

The University's financial position remained strong at June 30, 2011, with assets of $184.1 million and liabilities of $35.4 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by $14.0 million in fiscal 2011 to $148.7 million at June 30, 2011. The increase in net assets is primarily attributable to tuition and fee revenue and capital appropriations.

Financial Highlights (continued)

Changes in net assets represent all financial results (primarily operating activities) of the University, which consist of revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2011 and 2010 as follows:

	2011	2010
Total revenues	$ 155,376,820	$ 141,435,168
Total expenses	141,355,967	134,610,114
Change in net assets	$ 14,020,853	$ 6,825,054

Fiscal year 2011 revenues increased $13.9 million or 9.9% to $155.4 million and total expenditures increased $6.7 million or 5.0% to $141.4 million, compared to the prior year. Overall, the University experienced an increase in net assets of $14.0 million for fiscal year 2011 primarily due to student tuition and fees, net, and capital appropriations.

Using the Financial Statements

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

Statement of Net Assets

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

Statement of Net Assets (continued)

A summary of the University's assets, liabilities and net assets for the year ended June 30, 2011 in comparison with June 30, 2010 is as follows:

	2011	2010
Assets:		
Current assets	$ 36,204,444	$ 28,334,758
Noncurrent assets:		
Capital assets, net	147,215,084	144,732,018
Other	694,754	757,219
Total Assets	184,114,282	173,823,995
Liabilities:		
Current liabilities	13,355,808	14,992,120
Noncurrent liabilities	22,020,431	24,114,685
Total Liabilities	35,376,239	39,106,805
Net Assets:		
Invested in capital assets, net of related debt	129,198,926	125,579,083
Restricted - expendable	2,134,906	2,943,852
Unrestricted	17,404,211	6,194,255
Total Net Assets	$ 148,738,043	$ 134,717,190

A review of the University's Statement of Net Assets at June 30, 2011 and 2010 shows that the University maintains a strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, and conservative use of debt.

Current assets increased by $7.9 million to $36.2 million. This primarily is the net result of the $10.1 million increase in the balance of State appropriation and the $2.2 million decrease in cash and cash equivalents. The balance in State appropriations increased $10.1 million to $17.8 million, due to the timing of processing and slow reimbursements from the State of Illinois.

Noncurrent assets are primarily capital assets which increased by $2.5 million because the fiscal year 2011 purchases and State capital appropriations exceeded depreciation and disposals.

The University's total assets increased $10.3 million to $184.1 million at June 30, 2011.

Statement of Net Assets (continued)

Total Current Liabilities decreased by $1.6 million (10.9%) due to a $3.2 million (34.3%) decrease in accounts payable and accrued liabilities offset by a $1.6 million (192.0%) increase in deferred revenue. The accounts payable and accrued liabilities decreases are mainly due to a $1.2 million decrease in Local Income Fund liabilities, a $673 thousand decrease in the liability for student health insurance, a $278 thousand liability decrease for the Douglas Hall renovation, and a decrease of $305 thousand in liabilities for the Alliance for Minority Participation grant. Deferred revenue increased $1.6 million due to a $213 thousand increase in deferred tuition and a $1.4 million increase in various cash advances in grant programs.

Total Noncurrent Liabilities decreased by $2.1 million (8.7 %) due to scheduled payments on the University's debt and a $928 thousand reduction of accrued compensated absences. The decrease in accrued compensated absences was primarily due to sick and vacation leave payouts from employee turnover.

Total Liabilities overall decreased by $3.7 million (9.5%).

Total Net Assets increased by $14.0 million for fiscal year 2011 primarily due to student tuition and fees, net, and capital appropriations.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

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

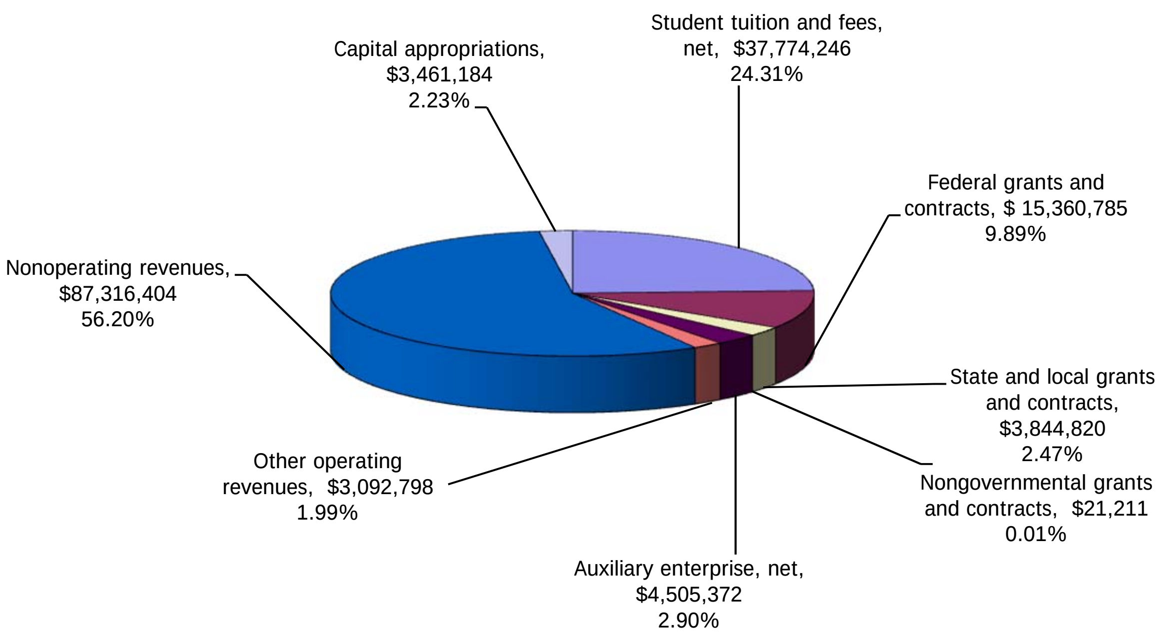
Statement of Revenues, Expenses and Changes in Net Assets (continued)

A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2011 in comparison with the year ended June 30, 2010 is as follows:

	2011	2010
Operating revenues	$ 64,599,232	$ 55,973,538
Operating expenses	140,409,492	133,397,046
Operating loss	(75,810,260)	(77,423,508)
Net non-operating revenues	86,414,145	83,822,923
Income before other revenues, expenses, gains or losses	10,603,885	6,399,415
Other revenues, expenses, gains or losses	3,416,968	425,639
Increase in net assets	14,020,853	6,825,054
Net assets, beginning of year	134,717,190	127,892,136
Net Assets, end of year	$ 148,738,043	$ 134,717,190

The following is a graphic illustration of revenues by source, which were used to fund the University's operations for the year ended June 30, 2011. The most significant source of revenue was the State of Illinois, totaling $70,013,370 which included State appropriations of $40,014,775, State fringe benefits of $26,537,411, and capital grants and appropriations expended by CDB of $3,461,184 or 45.1% percent of total revenue.

Revenue by Source



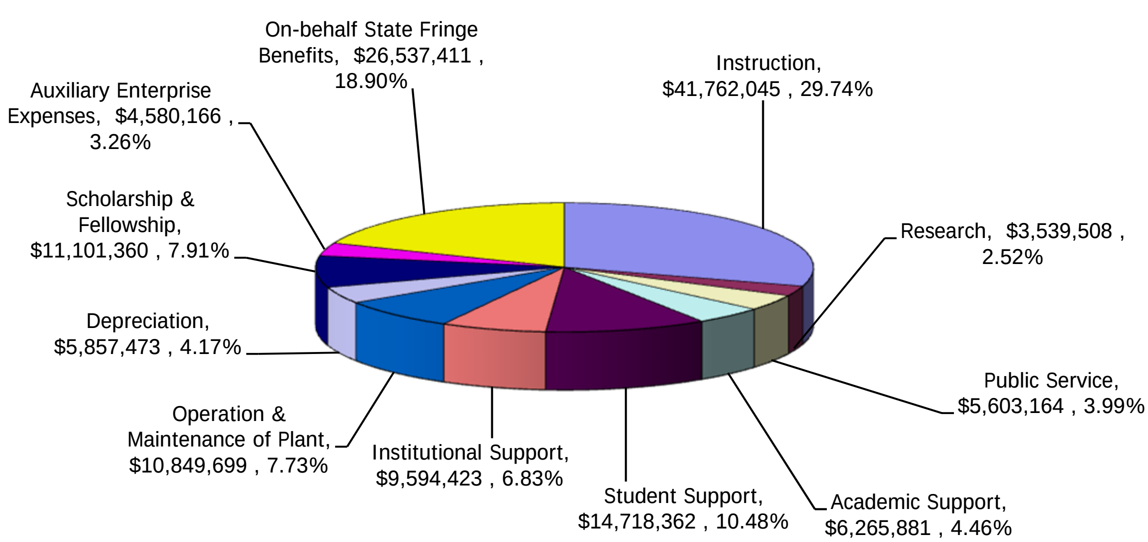
Statement of Revenues, Expenses and Changes in Net Assets (continued)

A summary of the University's operating expenses for the fiscal year ended June 30, 2011 in comparison with the fiscal year ended June 30, 2010 is as follows:

	2011	2010
Operating Expenses:		
Educational and General		
Instruction	$ 41,762,045	$ 41,130,797
Research	3,539,508	4,219,192
Public Service	5,603,164	5,573,365
Academic Support	6,265,881	8,053,543
Student Services	14,718,362	8,122,443
Institutional Support	9,594,423	9,991,980
Operations and Maintenance of Plant	10,849,699	9,820,404
Depreciation	5,857,473	5,761,265
Scholarship and Fellowship	11,101,360	11,445,302
Auxiliary Enterprise Expenses	4,580,166	4,759,591
On-behalf State Fringe Benefits	26,537,411	24,519,164
Total Operating Expenses	$ 140,409,492	$ 133,397,046

The following graphic illustration presents the operating expenses by function.

Operating Expense by Function



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

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets of $14.0 million at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

Student tuition and fees revenues increased by $4.0 million to $37.8 million due to a 23.8% increase in tuition revenue for non-resident second bachelor degree students and a modest increase in enrollment. Federal grants and contract revenues increased by $4.9 million due to an increase in the Textbook and Learning Materials Program of $5.4 million offset by other decreases including $1.2 million for the Alliance for Minority Participation. State and local grants and contracts decreased $948 thousand due to a decline in funding of several grants.

Other income increased by $349 thousand mainly due to increases of $440 thousand in Athletics and $658 thousand in the Chicagoland Regional College Program (CRCP) revenue offset by decreases of $598 thousand in the Local Income Fund and $132 thousand in Contract Courses. There was an overall net increase of $8.6 million (15.4%) in total operating revenues due to the changes explained above.

Total operating expenses increased by $7.0 million as result of offsetting increases and decreases in the functional expense lines. Instruction increased by $631 thousand (1.5%) primarily due to an increase in the CRCP costs. Research decreased $680 thousand (16.1%) primarily due to a $923 thousand decrease in the Fuel Cell Mobile Robotic System program, offset by a $246 thousand increase implementing the HIV / STD Prevention and Re-engineering Transitional Research programs. Academic Support decreased $1.8 million (22.2%) primarily due to lower compensated absence expenses and lower contractual services expense. Student services increased by $6.6 million (81.2%) due to higher Textbooks and Learning Materials for Ghana grant expenses of $5.4 million, mainly in printing. On-behalf State fringe benefit expense increased 8.23% by $2.0 million following the trend of higher health insurance and retirement costs.

Total operating loss decreased $1.6 million (2.1%).

Net non-operating revenue increased $2.6 million (3.1%) to $86 million. The increase was primarily due to a $2 million increase in State Fringe benefits paid by the State; a $3.2 million increase in Federal PELL grants; and a $2.7 million (6.3%) decrease in State appropriations. Capital appropriations increased by $2.8 million due to increased spending on infrastructure, roof repairs, and asbestos abatement projects.

The University chooses to report expenses by functional classification in the Statement of Revenues, Expenses and Changes to Net Assets. The expenses are also reported by natural classification in Note 7, on page 31.

Statement of Cash Flows

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

A summary of the statement of cash flows for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Cash provided by (used in):		
Operating activities	$ (45,878,389)	$ (45,221,137)
Noncapital financing activities	50,651,815	54,584,117
Capital and related financing activities	(6,962,608)	(4,960,455)
Investing activities	18,646	24,676
Net change in cash	(2,170,536)	4,427,201
Cash, beginning of year	9,962,352	5,535,151
Cash, end of year	$ 7,791,816	$ 9,962,352
Operating loss	$ (75,810,260)	$ (77,423,508)
Noncash expenses included in operating loss	32,394,884	30,280,429
Net change in assets and liabilities	(2,463,013)	1,921,942
Net cash used in operating activites	$ (45,878,389)	$ (45,221,137)

Economic Factors that will affect the Future

Looking forward into the future, the management of the University believes it is well positioned to continue its strong financial condition and level of excellence in service to its constituents. A crucial element to the University's future will continue to be its relationship with the State of Illinois as the University relies on State appropriations to finance its higher education mission; and maintaining enrollment by providing quality education at an affordable price.

Chicago State University has consistently advocated on its own behalf to maintain and enhance state financial support that is critical to allow the University to continue its mission of providing

Economic Factors that will affect the Future (continued)

access to higher education for students of diverse backgrounds and educational needs. The University is committed to teaching, research, service and to community development that includes social justice, leadership and entrepreneurship. The University has reason to be encouraged by the positive response it has observed that shows the advocacy efforts are having a favorable impact. While it is not appropriate to quantify renewed or enhanced state support at this time, the University is pleased to note that additional appropriation support to the University is already being earmarked in legislation related to State proceeds from the Illinois gaming industry. The beginning of such legislation has already been enacted into law. The University is closely monitoring the legislative process as part of its strategic planning process.

The University's overall financial situation is strong and reflects prudent use of financial resources, including careful cost control and management of appropriated operating and capital resources. While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather known economic uncertainties.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2011
(With Comparative Totals as of June 30, 2010)

	2011		2010	
ASSETS	**University**	**Component Unit**	**University**	**Component Unit**
Current Assets				
Cash and cash equivalents (Note 2)	$ 7,791,816	$ 343,373	$ 9,962,352	$ 613,727
Cash and cash equivalents-restricted (Note 2)	-	-	-	372,714
Balance in State appropriation	17,800,065	-	7,691,533	-
Accounts receivable, net (Note 3)	10,035,804	-	10,230,824	150,000
Pledges receivable, net (Note 3)	-	538,120	-	545,020
Inventories	40,094	-	53,606	-
Loans and notes receivable, net (Note 3)	22,625	-	20,979	-
Prepaid expenses and other assets	514,040	3,735	375,464	3,088
Total current Assets	36,204,444	885,228	28,334,758	1,684,549
Noncurrent Assets				
Certificates of deposit-restricted (Note 2)	-	1,415,373	-	1,305,546
Endowment investments (Note 2)	-	2,890,193	-	1,697,203
Loans and notes receivable, net (Note 3)	694,754	-	757,219	-
Capital assets, net (Note 4)	147,215,084	-	144,732,018	-
Total noncurrent assets	147,909,838	4,305,566	145,489,237	3,002,749
Total Assets	184,114,282	5,190,794	173,823,995	4,687,298
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	6,149,974	578,947	9,361,623	706,598
Accrued wages	2,637,234	-	2,654,309	-
Deferred revenue (Note 5)	2,480,061	-	849,303	-
Long-term liabilities-current portion (Note 6)	2,088,539	-	2,126,885	-
Total current liabilities	13,355,808	578,947	14,992,120	706,598
Noncurrent Liabilities				
Accrued compensated absences (Note 6)	5,271,299	-	6,199,410	-
Bonds payable (Note 6)	16,390,000	-	17,365,000	-
Premium on bonds (Note 6)	258,249	-	280,706	-
Capital leases payable (Note 6)	100,883	-	269,569	-
Total noncurrent liabilities	22,020,431	-	24,114,685	-
Total Liabilities	35,376,239	578,947	39,106,805	706,598
NET ASSETS				
Invested in capital assets, net of related debt	129,198,926	-	125,579,083	-
Restricted for:				
Nonexpendable endowments (Note 14)	-	3,063,348	-	1,881,234
Expendable				
Direct programs and scholarships	-	1,630,305	-	1,714,227
Loans	717,834	-	830,930	-
Capital projects	1,417,072	-	2,112,922	-
Unrestricted	17,404,211	(81,806)	6,194,255	385,239
Total Net assets	$ 148,738,043	$ 4,611,847	$ 134,717,190	$ 3,980,700

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	2011		2010	
	University	Component Unit	University	Component Unit
OPERATING REVENUES:				
Student tuition and fees (net of scholarship allowances of $ 14,588,733)	$ 37,774,246	$ -	$ 33,786,262	$ -
Federal grants and contracts	15,360,785	-	10,507,573	-
State and local grants and contracts	3,844,820	-	4,792,609	-
Nongovernmental grants and contracts	21,211	-	59,704	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $ 35,341)	4,505,372	-	4,083,970	-
Other operating revenues	3,092,798	75,663	2,743,420	239,433
Total operating revenues	64,599,232	75,663	55,973,538	239,433
OPERATING EXPENSES:				
Educational and General				
Instruction	41,762,045	-	41,130,797	-
Research	3,539,508	-	4,219,192	-
Public service	5,603,164	-	5,573,365	-
Academic support	6,265,881	-	8,053,543	-
Student services	14,718,362	-	8,122,443	-
Institutional support	9,594,423	1,067,473	9,991,980	1,049,303
Operations and maintenance of plant	10,849,699	-	9,820,404	-
Depreciation	5,857,473	-	5,761,265	-
Scholarship and fellowship	11,101,360	231,987	11,445,302	275,674
Auxiliary enterprise expenses	4,580,166	-	4,759,591	-
On-behalf State fringe benefits (See Note 8)	26,537,411	-	24,519,164	-
Total operating expenses	140,409,492	1,299,460	133,397,046	1,324,977
Operating loss	(75,810,260)	(1,223,797)	(77,423,508)	(1,085,544)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	40,014,775	-	42,725,974	-
State fringe benefits (Note 8)	26,537,411	-	24,519,164	-
Federal nonoperating grants	20,745,572	-	17,508,026	-
Gifts and contributions	-	304,154	-	639,617
Investment income (loss)	18,646	261,901	24,676	156,196
Interest on capital asset - related debt	(902,259)	-	(954,917)	-
Other nonoperating revenues (expenses)	-	288,889	-	(52)
Net nonoperating revenues	86,414,145	854,944	83,822,923	795,761
Income (loss) before other revenues, expenses, gains, or losses	10,603,885	(368,853)	6,399,415	(289,783)
Capital appropriations	3,461,184	-	683,790	-
Endowment contributions	-	1,000,000	-	100
Loss on disposal of capital assets	(44,216)	-	(258,151)	-
Total other revenues	3,416,968	1,000,000	425,639	100
Increase in net assets	14,020,853	631,147	6,825,054	(289,683)
NET ASSETS				
Net assets-beginning of year (as previously reported)	134,717,190	3,980,700	126,033,731	4,270,383
Prior period adjustment	-	-	1,858,405	-
Net assets-beginning of year (as restated)	134,717,190	3,980,700	127,892,136	4,270,383
Net assets-end of year	$ 148,738,043	$ 4,611,847	$ 134,717,190	$ 3,980,700

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	2011		2010	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$ 36,524,934	$ -	$ 31,897,396	$ -
Grants and contracts	21,509,159	-	18,800,181	-
Payment to suppliers for goods and services	(29,004,578)	(1,175,913)	(24,788,732)	(1,382,467)
Payments to employees for services	(68,458,886)	-	(67,680,020)	-
Payments for scholarships and fellowships	(13,997,745)	(231,987)	(10,520,241)	(275,674)
Loans issued to students	(83,326)	-	(79,672)	-
Loans collected from students	68,739	-	58,097	-
Sales and services of auxiliary enterprises	4,505,372	-	4,083,970	-
Other receipts (disbursements)	3,057,942	225,663	3,007,884	89,433
Net cash used by operating activities	(45,878,389)	(1,182,237)	(45,221,137)	(1,568,708)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	29,906,243	-	37,076,091	-
Gifts, contributions, and grants	-	1,776,625	-	6,195,614
Federal nonoperating grants	20,745,572	-	17,508,026	-
Other noncapital financing activities	-	(195,893)	-	(4,673,686)
Net cash provided by noncapital financing activities	50,651,815	1,580,732	54,584,117	1,521,928
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets	(4,923,571)	-	(3,035,344)	-
Principal paid on capital debt and leases	(1,114,321)	-	(947,738)	(2,623)
Interest paid on capital debt and leases	(924,716)	-	(977,373)	(52)
Net cash used by capital financing activities	(6,962,608)	-	(4,960,455)	(2,675)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and/or dividends on investments	18,646	68,167	24,676	74,013
Proceeds from sales and maturities of investments	-	1,468,475	-	1,354,641
Net increase in certificates of deposit investments	-	(109,827)	-	(686,965)
Purchase of investments and other	-	(2,468,378)	-	(1,353,899)
Net cash provided (used) by investing activities	18,646	(1,041,563)	24,676	(612,210)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,170,536)	(643,068)	4,427,201	(661,665)
Cash and cash equivalents-beginning of the year	9,962,352	986,441	5,535,151	1,648,106
Cash and cash equivalents-end of the year	$ 7,791,816	$ 343,373	$ 9,962,352	$ 986,441
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	$ (75,810,260)	$ (1,223,797)	$ (77,423,508)	$ (1,085,544)
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation expense	5,857,473	-	5,761,265	-
State fringe benefits	26,537,411	-	24,519,164	-
Other income transferred from fiscal agent account	-	-	-	(150,000)
Net changes in assets and liabilities:				
Accounts receivables, net	195,020	-	3,825,275	-
Inventories	13,512	-	41,460	-
Prepaid expenses and other assets	(138,576)	-	153,385	-
Loans to students and employees	60,819	-	231,283	-
Accounts payable and accrued liabilities	(3,211,649)	41,560	(2,124,537)	(333,164)
Accrued wages	(17,075)	-	280,345	-
Deferred revenue	1,630,758	-	(285,025)	-
Compensated absences	(995,822)	-	(200,244)	-
Net cash used by operating activities	$ (45,878,389)	$ (1,182,237)	$ (45,221,137)	$ (1,568,708)

NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES

Capital appropriations	$ 3,461,184	$ -	$ 683,790	$ -
Capital assets acquired by capital leases	$ -	$ -	$ 403,532	$ -
Unrealized gains on investments	$ -	$ 98,058	$ -	$ 8,988
State fringe benefits	$ 26,537,411	$ -	$ 24,519,164	$ -

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

Note 1 – Summary of Significant Accounting Policies

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

The financial statements include certain prior period comparative information, which has been derived from the University's 2010 financial statements. Such information does not include all of the information required to constitute a complete presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2010.

Reclassifications - Certain items in the June 30, 2010 comparative information have been reclassified to agree with the current year presentation.

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

Prepaid Expenses and Other Assets – These assets consist of $514,040 which includes deposits and prepaid expenses.

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

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

Deferred Revenues – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that are related to the subsequent accounting period. Deferred revenues also include amounts received

Note 1 – Summary of Significant Accounting Policies (Continued)

Deferred Revenues (Continued) –

from grant and contract sponsors that have not yet been recognized because eligibility requirements have not been met.

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

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

Vacation Leave- (Decrease)	$	(357,256)
Sick Leave (Decrease)		(638,566)
Net decrease in Compensated Absences	$	(995,822)

Non-current Liabilities – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital leases with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; (3) the premium on the revenue bonds payable (which are being amortized over the term of the bonds using the straight line method); and (4) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

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

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

Invested in capital assets, net of related debt – This represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Assets (Continued) –

debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of "invested in capital assets".

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

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

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

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

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

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

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

New Accounting Pronouncements – The University adopted the provisions of GASB Statement No. 59, *Financial Instruments Omnibus* as of July 1, 2010. This statement had no impact on the University's financial statements.

Note 2 – Deposits and Investments

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

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

Deposits – At June 30, 2011, the carrying amount of the University and the Foundation's deposits with private financial institutions were $2,363,486 and $1,758,746, respectively. This amount consisted of cash and certificates of deposit deposited with the financial institutions. For financial reporting purposes, these deposits have been classified as cash and cash equivalents or investments, depending upon the original maturity of the financial instrument.

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

	University		Foundation	
Deposit Type	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash in bank	$ 2,363,486	$ 5,925,146	$ 287,793	$ 296,807
Money markets			55,580	55,580
Certificates of deposit			1,415,373	1,415,373
Total deposit accounts	2,363,486	$ 5,925,146	1,758,746	$ 1,767,760
Add: Investments classified as cash equivalents (maturity < 90 days) - Illinois Funds	5,428,330			
Less: Certificates of deposit classified as investments (maturity > 90 days)	-		(1,415,373)	
Total Cash and Cash Equivalents	$ 7,791,816		$ 343,373	

Note 2 – Deposits and Investments (Continued)

Deposits (Continued) –

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The University requires that balances on deposit with financial institutions be either insured by the Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name. The University maintains cash deposits at certain Chicago-area financial institutions. The FDIC insured bank balances totaling $6,643,561 of the University and the Foundation at June 30, 2011. The remaining bank balances as of June 30, 2011 were fully collateralized.

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

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

Investments

The carrying value (and market value) of the investment portfolio of the Foundation and University at June 30, 2011 consisted of the following:

	University Fair Value	Foundation Fair Value
Money Funds and Other	$ -	260,345
US Treasury and Agency Obligations		709,698
Common Stock		1,532,209
Corporate and International Bonds		387,941
Illinois Funds (Standard & Poors AAAm)	5,428,330	-
Total	5,428,330	2,890,193
Add: Certificates of Deposit (maturity >90 days)		1,415,373
Less: Investments classified as cash equivalents (maturity < 90 days)	(5,428,330)	
Total Investments	$ -	$ 4,305,566

Custodial Credit Risk – Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2011, all investments held by the Foundation are insured or registered and held by the Foundation or its agent in the Foundation's name.

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

Note 2 – Deposits and Investments (Continued)

Investments (Continued) –

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

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2011 are as follows:

	Maturity			
Debt Security	Less than 1 year	1 - 5 years	6 - 10 years	Total
US Treasury Obligations	$ -	$ 251,688	$ 147,334	$ 399,022
US Agency/Guaranteed Obligations	4,996	230,716	74,964	310,676
Total US Treasury/Agency	4,996	482,404	222,298	709,698
Corporate & Int'l Bonds	25,700	172,896	189,345	387,941
Total Debt Security Investments	$ 30,696	$ 655,300	$ 411,643	$ 1,097,639

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

Note 2 – Deposits and Investments (Continued)

Investments (Continued) –

The Moody's Investor Service and Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2011 are as follows:

Credit Rating	Total Debt Securities
US Treasury Notes - no rating	$ 399,022
Aaa/AAA	336,376
Aa1/AA	22,694
Aa2/AA	11,793
Aa2/AA-	23,009
Aa3/AA	24,973
Aa3/AA-	24,850
Aa3/A+	77,871
Aa3/A-	13,645
A1/AA	12,810
A1/AA-	11,058
A1/A	10,883
A2/A+	13,934
A2/A	26,750
A2/A-	25,482
A3/BBB+	13,725
Baa1/BBB+	10,767
Baa2/BBB	14,619
Baa2/BBB-	12,833
Baa3/BBB-	10,545
TOTAL	$ 1,097,639

Note 2 – Deposits and Investments (Continued)

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

The Foundation's exposure to foreign currency risk (valued in U.S. dollars) is as follows at June 30, 2011:

Investment	Currency	Maturity	Fair Value
Norvartis Secs Invest Ltd.	Bermudian dollar	2/10/2019	$ 11,068
Shell Int'l Fin B V-USD	European euro	3/22/2017	9,093
Total			$ 20,161

Note 3 – Accounts, Pledges and Loans Receivable

Accounts receivable consisted of the following at June 30, 2011:

Student tuition and fees	$ 9,915,415
Federal, state, and private grants and contracts	3,670,545
Third party and other receivables	1,675,109
Total Gross Receivable	15,261,069
Less allowance for doubtful accounts	(5,225,265)
Net Accounts Receivable	$ 10,035,804

The Foundation's net pledges receivable at June 30, 2011 was $538,120 and consisted of $538,620 of pledges expected to be collected within one year less an allowance for estimated uncollectible amounts of $500.

Loans receivable consisted of the following at June 30, 2011:

Loans receivable	$ 1,690,443
Less allowance for doubtful accounts	(973,064)
Net Loans Receivable	$ 717,379
Current portion	$ 22,625
Noncurrent portion	694,754
Net Loans Receivable	$ 717,379

Note 4 – Capital Assets

Following are the changes in capital assets for the year ended June 30, 2011:

	Amount in thousands				
	Balance June 30, 2010	Additions	Retirements	Net Transfers	Balance June 30, 2011
Capital assets not being depreciated					
Land	$ 9,611	$ -	$ -	$ -	$ 9,611
Construction in-progress	2,521	4,305	-	(210)	6,616
Total capital assets not being depreciated	12,132	4,305	-	(210)	16,227
Other capital assets:					
Site improvements	12,113	-	-	-	12,113
Building and building improvements	167,682	2,809	-	210	170,701
Equipment	29,525	996	(305)	-	30,216
Intangible Assets	399	-			399
Library books	11,383	275	-	-	11,658
Total other capital assets	221,102	4,080	(305)	210	225,087
Total	233,234	8,385	(305)	-	241,314
Less: Accumulated depreciation	(88,502)	(5,858)	261	-	(94,099)
Capital Assets, net	$ 144,732	$ 2,527	$ (44)	$ -	$ 147,215

Note 5 – Deferred Revenue

Deferred revenue consists of the following at June 30, 2011:

Tuition and fees	$ 1,028,470
Grants and contracts	1,451,591
Total Deferred Revenue	$ 2,480,061

Note 6 – Long Term Liabilities

Long-term liabilities as of June 30, 2011 consist of the following:

	June 30, 2011	Current Portion	Non-current Portion
Accrued compensated absences	$ 6,092,813	$ 821,514	$ 5,271,299
Revenue bonds payable	17,365,000	975,000	16,390,000
Premium on bonds	280,705	22,456	258,249
Capital lease payable	370,452	269,569	100,883
Total Long Term Liabilities	$ 24,108,970	$ 2,088,539	$ 22,020,431

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

	Beginning Balance	Additions	Payments	Ending Balance
Accrued compensated absences	$ 7,088,635	$ 494,347	$ (1,490,169) *	$ 6,092,813
Revenue bonds payable	18,295,000	-	(930,000)	17,365,000
Premium on bonds	303,162	-	(22,457)	280,705
Capital leases payable	554,773	-	(184,321)	370,452
Total	$ 26,241,570	$ 494,347	$ (2,626,947)	$24,108,970

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

Revenue Bonds Payable

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

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

Note 6 – Long Term Liabilities (Continued)

Revenue Bonds Payable (Continued) –

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

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

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

The bonds are insured by MBIA Corp. and National Public Finance Guarantee. The Rating of MBIA is B3 and the National Public Finance Guarantee is Baa1 as of September 30, 2011.

Maturity Information

The scheduled maturities of the revenue bonds are as follows:

Fiscal Year	Revenue Bonds	Interest	Total Payments
2012	$ 975,000	$ 874,816	$ 1,849,816
2013	1,020,000	829,175	1,849,175
2014	1,070,000	780,570	1,850,570
2015	1,120,000	727,425	1,847,425
2016	1,180,000	669,925	1,849,925
2017-2021	6,885,000	2,362,350	9,247,350
2022-2024	5,115,000	432,438	5,547,438
Totals	$ 17,365,000	$ 6,676,699	$ 24,041,699

Note 6 – Long Term Liabilities (Continued)

Capital Leases Payable

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

Fiscal Year	Principal	Interest	Total Payments
2012	$ 269,569	$ 2,631	$ 272,200
2013	100,883	-	100,883
Totals	$ 370,452	$ 2,631	$ 373,083

Note 7 – Natural Classifications

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

Compensation and benefits	$ 93,983,401
Contractual services	14,799,554
Commodities	7,859,753
Awards and grants	13,997,745
Telecommunication	694,628
Other operating expenses	3,216,938
Depreciation	5,857,473
Total Operating Expenses	$ 140,409,492

Note 8 - State Fringe Benefits

GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* requires the University to report "on behalf payments" for fringe benefits and salaries by legally separate entities as revenue and expenditures of the University. The University reported on behalf payments of $26,537,411 for year ended June 30, 2011 consisting of group insurance in the amount of $15,333,395 and pension contributions of $11,204,016.

State Universities Retirement System

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

Note 8 - State Fringe Benefits (Continued)

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

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 24.21% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the years ended June 30, 2011, 2010, and 2009 were $11,581,139, $10,635,583, and $6,944,063, respectively, and is equal to the required contributions for each year.

Note 9 – Post employment Benefits

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

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

Note 9 – Post employment Benefits (Continued)

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

Note 10 – Liability Insurance

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

Note 11 – Related Party Transactions

A summary of related party transactions during the year ended June 30, 2011, is as follows:

The Chicago State University Foundation

The University and Foundation agreed to a master contract, effective June 30, 1983, and revised February 1, 1989, which specified the relationship between the two organizations, as required by the University Guidelines adopted on November 30, 1982, and revised September 10, 1997, by the Legislative Audit Commission. Under the terms of the contract, the Foundation is provided administrative support services by the University, such as maintenance, telephone, personnel, and property control. The Foundation does not directly pay the University for these services, which were valued at $58,405 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at $1,066,722 for the year ended June 30, 2011. Scholarships provided by the Foundation which benefited the University totaled $231,987 for the year ended June 30, 2011. The Foundation's liabilities include a payable to the University of $570,861, which includes payroll reimbursements totaling $565,175.

Note 12 – Segment Information

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

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

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

Condensed Statement of Net Assets	**As of June 30, 2011**
Assets:	
Current assets	$ 3,899,370
Capital assets, net	13,577,908
Total Assets	17,477,278
Liabilities	
Current liabilities	1,300,609
Noncurrent liabilities	16,758,128
Total Liabilities	18,058,737
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(4,067,797)
Unrestricted	3,486,338
Total Net Assets (Deficit)	$ (581,459)

Note 12 – Segment Information - (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets (Deficit)	**Year Ended June 30, 2011**
Operating revenues	$ 6,879,506
Operating expenses	4,392,181
Operating income	2,487,325
Non-operating revenues and expenses, net	(891,645)
Increase in net assets	1,595,680
Net assets (deficit), beginning of the year	(2,177,139)
Net assets (deficit), end of the year	$ (581,459)

Condensed Statement of Cash Flows	**Year Ended June 30, 2011**
Cash provided by (used in):	
Operating activities	$ 1,828,666
Capital financing activities	(2,064,013)
Investing activities	140
Net increase in cash	(235,207)
Cash, beginning of the year	3,966,335
Cash, end of the year	$ 3,731,128

Note 13 – Commitments and Contingent Liabilities

The University is named as a defendant in approximately twenty-one (21) pending lawsuits. The University believes that these matters will generally be settled in favor of the University and will not result in any significant liabilities to the University.

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

Note 14 – Endowments

The Foundation Board resolved that an annual amount be taken from dividend and interest income on the endowment and that it be used for scholarships to the extent permitted by donor stipulation. The portion of dividends and interest available for scholarships in accordance with donor stipulations is transferred to the Expendable Restricted Funds. For the year ended June 30, 2011, endowment interest and dividends transferred to the Expendable Restricted Funds totaled $43,701.

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

Note 15 – Pledged Revenues and Debt Service Requirements

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

Pledged Revenues

Bond Issue	Purpose	Source of Revenue Pledged	Future Net Revenues Pledged (1)	Term of Commitment	Current Year Pledged Net Revenue to Debt Service (2)
Auxiliary Facilities System Revenue Bonds, Series 1998	Advance refund the Series 1994 Bonds and various improvements to the University facilities.	Net revenues of the University Center, Housing, Bookstore, Child Care, Facilities Rental and Parking.	$24,041,699	2024	12.43%

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

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

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Net Assets (Deficit)
As of June 30, 2011
(With Comparative Totals as of June 30, 2010)

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,731,128	$ 3,966,335
Accounts receivable, net	52,436	35,311
Prepaid expenses	21,981	-
Other assets	93,825	93,825
Total Current Assets	3,899,370	4,095,471
Noncurrent Assets		
Land improvements	253,555	228,055
Buildings and improvements	19,868,617	19,710,762
Furniture and equipment	468,701	447,882
Less: accumulated depreciation	(7,012,965)	(6,524,612)
Total Noncurrent Assets	13,577,908	13,862,087
Total Assets	17,477,278	17,957,558
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	283,590	1,327,840
Deferred revenue	19,563	2,498
Long-term liabilities-current portion	997,456	999,563
Total Current Liabilities	1,300,609	2,329,901
Noncurrent Liabilities		
Accrued compensated absences	109,879	159,090
Bonds payable	16,390,000	17,365,000
Premium on bonds	258,249	280,706
Total Noncurrent Liabilities	16,758,128	17,804,796
Total Liabilities	18,058,737	20,134,697
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(4,067,797)	(4,736,075)
Unrestricted	3,486,338	2,558,936
Total Net assets (Deficit)	$ (581,459)	$(2,177,139)

Certain 2010 amounts were reclassified to agree with the 2011 presentation.

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
For the year ended June 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	2011	2010
OPERATING REVENUES		
Room and board, (net of scholarship allowances of $35,341)	$ 2,502,757	$ 2,538,213
Bookstore commissions	336,789	291,911
Vending and catering commissions	135,796	125,008
Child care center fees	1,279	45,529
Parking fees	1,101,771	1,005,602
University center fees	2,801,114	2,739,069
Total Operating Revenues	6,879,506	6,745,332
OPERATING EXPENSES		
Personal services	1,566,809	2,214,938
Expended for plant	70,359	905,897
Commodities	97,742	132,552
Contractual services	1,856,734	2,045,690
Depreciation	500,501	491,825
Miscellaneous	300,036	232,198
Total Operating Expenses	4,392,181	6,023,100
Operating income	2,487,325	722,232
NONOPERATING REVENUES (EXPENSES)		
Loss on disposal of capital assets	-	(7,080)
Investment income	140	36
Interest on capital asset - related debt	(891,785)	(932,057)
Net Nonoperating Revenues (Expenses)	(891,645)	(939,101)
Increase (decrease) in net assets	1,595,680	(216,869)
NET ASSETS		
Net assets (deficit)-beginning of year (as previously reported)	(2,177,139)	611,319
Prior period adjustment	-	(2,571,589)
Net assets (deficit)-beginning of year (as restated)	(2,177,139)	(1,960,270)
Net assets (deficit)-end of year	$ (581,459)	$ (2,177,139)

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Cash Flows
For the year ended June 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Room and board	$ 2,502,697	$ 2,536,635
Bookstore commissions	336,789	291,911
Vending and catering commissions	135,796	125,008
Child care center fees	1,279	45,529
Parking fees	1,101,771	1,005,602
University center fees	2,801,114	2,739,069
Payment to suppliers for goods and services	(3,387,653)	(2,341,040)
Payments to employees for services	(1,663,127)	(2,203,105)
Net cash provided by operating activities	1,828,666	2,199,609
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(216,322)	-
Principal paid on capital debt	(930,000)	(890,000)
Interest paid on capital debt	(917,691)	(957,738)
Net cash used by capital financing activities	(2,064,013)	(1,847,738)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	140	36
Net cash provided by investing activities	140	36
NET INCREASE (DECREASE) IN CASH	(235,207)	351,907
Cash and cash equivalents - beginning of the year	3,966,335	3,614,428
Cash and cash equivalents - end of the year	$ 3,731,128	$ 3,966,335
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,487,325	$ 722,232
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	500,501	491,825
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables, net of deposits	(17,125)	2,278
(Increase) in prepaid expenses	(21,981)	-
Decrease in other assets	-	1,500
Increase (decrease) in accounts payable and accrued liabilities	(1,040,801)	975,297
Increase (decrease) in deferred revenue	17,065	(5,356)
Increase (decrease) in accrued compensated absences	(96,318)	11,833
Net cash provided by operating activities:	$ 1,828,666	$ 2,199,609

Certain 2010 amounts were reclassified to agree with the 2011 presentation.

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2010	7,362	5,227
Spring session, 2011	7,165	5,087
Summer session, 2011	2,793	1,486

University Center Fee (Unaudited)

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

	Full-Time Student	Part-Time Student
Fall session, 2010	$ 186.00	$ 120.00
Spring session, 2011	186.00	120.00
Summer session, 2011	143.00	96.00

RENTAL DISCLOSURES (Unaudited)

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

SCHEDULE OF INSURANCE IN FORCE (Unaudited)

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

Fire and extended coverage ($25,000 deductible) of:		
Building	$	28,316,554
Contents	$	1,950,899
Business interruption	$	7,129,198
EDP	$	4,374,761
Boiler and machinery (Included in blanket coverage limit)	$	100,000,000
Earthquake	$	100,000,000
Flood	$	100,000,000
Basic general liability (SURMA)	$	350,000
Excess general liability	$	10,650,000

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

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Chicago State University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Chicago State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise Chicago State University's basic financial statements and have issued our report thereon dated March 2, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in findings 11-1, 11-2, and 11-3 in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

Borschnack, Pelletier & Co.

March 2, 2012

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

11-1 <u>FINDING:</u> SUSPENDED ACADEMIC POLICY RESULTED IN OVERSTATED LIABILITY ON THE FINANCIAL STATEMENTS

Federal Department:	**U.S. Department of Education**
CFDA Numbers:	**84.063, 84.268**
Program Name:	**Student Financial Assistance Cluster (Federal Pell Grant Program) (Federal Direct Loan Program)**
Questioned Cost:	**$21,668 (known)**

Chicago State University (University) had multiple policies addressing the requirement for a student's Satisfactory Academic Progress. As a result of a misapplication of the academic policy that had been suspended, the University determined that there were overawards made to students totaling $740,030. The University recorded this as an adjustment to their financial statements. These adjustments included a $134,836 reduction in receivables, a $605,194 increase in liabilities, and revenue and expenses adjustments netting to $740,030.

In August 2011, the Department of Education (ED) requested the University to look into and report back to ED, as to whether the University improperly awarded Federal aid to students during the past four years.

The University's enrollment management department was assigned responsibility to address possible overawards made to students and report back on the issue. Based on an academic standing policy in the University's 2008 – 2010 Undergraduate Catalog (a similar policy was in place in the University's on-line 2010 – 2012 Undergraduate Catalog until it was amended in July, 2011) which could lead to a student's dismissal from the University for poor scholarship, the University calculated Federal and Illinois MAP overawards to 126 unduplicated students from fiscal years 2008 through 2011 of $740,030. The University's internal audit department was asked to verify the results determined by enrollment management.

In October 2011, the University reported the results of this analysis back to ED and recorded various entries on the University financial statements to record these results. In December of 2011, it was determined that the policy used for this analysis had in fact been suspended by previous administrations of the University since June 2008. We were provided various memos and communications that support that this policy had been suspended and that students were no longer being dismissed from the University for poor scholarship.

In order to satisfy ourselves with the University's compliance relative to its Student Financial Assistance Cluster and the accuracy of the entries recorded on the University's financial statements, we performed the following procedures:

- On December 22, 2011, we contacted ED to discuss the inquiry and the University's response noted above. ED confirmed that they had received the University's initial submission noted above but had not received any further communications from the University regarding the matter. ED also verified that there are no Federal requirements that require the University to dismiss students for poor scholarship, so if the University suspended their policy, it is acceptable as long as the University was complying with the satisfactory academic progress requirements governing the awarding of Federal student financial aid noted in Code of Federal Regulations (34 CFR 668.34, 668.32(f), and 668.16(e)).

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

11-1 FINDING: SUSPENDED ACADEMIC POLICY RESULTED IN OVERSTATED LIABILITY ON THE FINANCIAL STATEMENTS (Continued)

- We verified that the University's policy governing satisfactory academic progress for the awarding Federal student financial aid complied with the requirements of the Code of Federal Regulations that were in place during fiscal year 2011.

- We selected a sample of 20 students from the 126 students identified by the University above as students who improperly received aid. Based on the suspension of the policy requiring dismissal for poor scholarship and application of the policy for awarding of Federal student financial aid alone, we noted two students who received a total of $28,992 (of which $21,668 was aid awarded in fiscal year 2011) of Federal student financial aid and $4,160 of Illinois MAP awards when they were not eligible. Extrapolation of the improper aid noted in our sample to the population identified by the University resulted in an estimated total improper aid awarded of $103,685. We proposed adjustments totaling $636,345 to correct the adjustments that were made by the University on its financial statements.

- As part of our single audit testing and financial audit testing, we tested 65 students at random that received Federal student financial aid during fiscal year 2011, noting no students who would be ineligible for aid due to lack of satisfactory academic progress.

Generally accepted accounting principles requires the University to record assets, liabilities, revenue and expenses when they occur.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Prudent business practices would require the University to establish, publish and enforce policies that have a bearing on the students attending (or considering attending) the University.

University officials stated the new University administration discovered that students were not being dismissed according to the academic standing policy. Upon review of what was thought to be the current academic standing policy, the President gave a directive that effective spring 2011, the policy was to be enforced and students dismissed accordingly. The University's enrollment management and internal audit departments reviewed student data from July, 2007 through June, 2011. The result of the analysis was that $740,030 had been awarded to students who did not meet the guidelines of the academic policy. That review was based on the perception that the academic standing policy noted above had not been properly executed. The University administration later discovered that the academic standing policy had actually been suspended years earlier. At this point it was too late to revise the financial statements.

Failure to effectively communicate policies to employees hinders the ability of University employees to properly perform their tasks, resulted in inaccurate financial reporting, and miscommunications with Federal awarding agencies that could lead to a loss in Federal funding. (Finding Code No. 11-1)

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

11-1 FINDING: SUSPENDED ACADEMIC POLICY RESULTED IN OVERSTATED LIABILITY ON THE FINANCIAL STATEMENTS (Continued)

RECOMMENDATION

We recommend the University improve its administrative controls to ensure that policies are clearly stated, communicated and enforced. We further recommend the University report accurate amounts on their financial statements and submit a revised analysis to ED.

UNIVERSITY RESPONSE

The University had two policies addressing satisfactory academic progress: academic standing and financial assistance. The academic standing policy had been suspended by previous University administrations since academic year 2007/2008 and it resulted in no students being dismissed for poor scholarship. The current administration moved immediately (Spring 2011) to reinstate the academic standing policy requiring the dismissal of students for poor scholarship. An estimation regarding the number of students who may have been over-awarded in the four academic years was reported on the financial statements. The University's internal investigation led to the discovery of the suspended academic standing policy and another review of student records was completed. As a result, a revised analysis was submitted to the Department of Education in January 2012 showing that twenty students had been over-awarded over the four academic years totaling $122,852 and thirteen students had been over-awarded MAP awards from the Illinois Student Assistance Commission totaling $20,151. The University accepts the recommendation.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

11-2 FINDING: INACCURATE ACCOUNTING FOR PARTICIPATION IN PUBLIC ENTITY RISK POOL

Chicago State University (University) did not properly account for its participation in the State Universities Risk Management Association (SURMA) in accordance with accounting principles generally accepted in the United States of America (GAAP).

The University has been a member of SURMA since its inception on February 1, 1996. SURMA was created as a successor to the Board of Governors' Self-Insurance Liability Program. SURMA was initially funded by the surplus of the Board of Governors' Self-Insurance Liability Program upon its termination (treated as capital contributions of the original participants), as well as additional contributions which were assessed to the members. The SURMA members are Chicago State University, Eastern Illinois University, Governors State University, Northeastern Illinois University, and Western Illinois University. Each university has an employee appointed as a member to the SURMA Board.

While all past payments made by the University to SURMA have been recorded to prepaid insurance and amortized over the term of the current insurance policies, the capital contributions to SURMA have not been recorded as an asset on the books of the University. The University's share of the excess capital contributions to SURMA was $268,783 and $265,475 as of June 30, 2011 and June 30, 2010, respectively. SURMA's bylaws state that in the event of termination, if there are surplus funds available, such surplus shall be distributed to the then-existing members in the same proportion that each existing member's contributions over the immediately previous five years were in proportion to the contributions of all members. Similar provisions also apply to members who elect to withdraw (if approved by the remaining participants) prior to the termination of SURMA. An adjusting entry was proposed to the University to correct this error, which the University did not record.

Further, we noted the University did not adequately monitor SURMA to ensure SURMA underwent a timely annual audit of fiscal year 2010 to provide assurance as to the accuracy of financial information required to be reported by the University.

Governmental Accounting Standards Board (GASB) Interpretation No. 4 - *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools* was issued in February 1996 with an effective date of periods beginning after June 15, 1996. It states, "A capitalization contribution to a public entity risk pool with transfer or pooling of risk should be reported as a deposit if it is probable that the contribution will be returned to the entity upon either the dissolution of or approved withdrawal from the pool. An entity's determination that a return of the contribution is probable should be based on the provisions of the pooling agreement and an evaluation of the pool's financial capacity to return the contribution."

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system of fiscal and administrative controls to ensure resources are properly recorded and accounted for to permit the preparation of accounts, reliable financial and statistical reports, and to maintain accountability over the State's resources.

University officials stated the SURMA By-Laws were adopted cooperatively by the five universities formerly under the Board of Governors and SURMA. The member universities have been operating under those By-Laws since 1995, prior to the issuance of GASB Interpretation No. 4. The condition

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

11-2 FINDING: INACCURATE ACCOUNTING FOR PARTICIPATION IN PUBLIC ENTITY RISK POOL (Continued)

found is the result of SURMA's failure to review and revise the By-Laws and the member institutions' interpretation that the return of the funds is not probable and hence the failure to record the related accounting entries, as pointed out in the new audit finding this year.

Failure to adequately monitor SURMA's activities and properly account for the University's participation in SURMA resulted in an understatement of assets on the University's financial statements. (Finding Code No. 11-2)

RECOMMENDATION

We recommend the University implement controls to monitor the activities of SURMA and properly account for its participation in SURMA in accordance with GAAP.

UNIVERSITY RESPONSE

The University agrees with the finding and will implement controls to monitor the activities of SURMA and properly account for its participation in SURMA in accordance with GAAP.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

11-3 FINDING: INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES

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

We compared 100% of the employees' accrued sick leave days/hours as of June 30, 2011 to June 30, 2010 in order to ensure that there were not any increases in accrued vested sick days/hours for any employees. Since January 1, 1998, sick time no longer vests and should not be accrued as a compensated absence by the University. We noted 17 employees in which the accrued sick leave days/hours payable at June 30, 2010 was zero but a balance was present at June 30, 2011. The University had inadvertently left the employees off of the 2010 listing. We also noted another employee in which the number of days had been transposed in the schedule. The schedule included the following:

Sick time payable at June 30, 2010	Sick time payable at June 30, 2011
103.40 days (correct amount)	130.40 days (incorrect amount)

These understatements of vested sick time at June 30, 2010 understated the accrued leave liability for the year ending June 30, 2010 and overstated the fiscal year 2011 expenses by approximately $159,473. The overstatement of the June 30, 2011 accrual overstated the liability and expense by $8,591. An adjusting entry was proposed to correct the misstatement.

We also tested a sample of 30 employees to determine if the University was properly accounting for leave time earned and used. The University maintains manual records to track employee leave days/hours. We noted one employee was shorted 8 hours of sick time. Once brought to the University's attention, the records were corrected.

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

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

University officials stated that the current process utilizes a paper card system. The errors noted were clerical errors inherent to this manual system.

Failure to properly accumulate accrued leave records and calculate liabilities related to accrued compensated absences may cause errors in compensation to employees and results in inaccurate financial statements. (Finding Code No. 11-3)

RECOMMENDATION

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

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

11-3 FINDING: INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES (Continued)

UNIVERSITY RESPONSE

The current process is manual and paper based. The corrective action will include employee re-training and the acquisition of an automated platform that will calculate and track these balances going forward. The manual process has been modified to include additional oversight and review until the implementation of an automated process. The automated process is scheduled to be in effect July 1, 2012.

Chicago State University's new administrative leadership is committed to achieving operational excellence through an enhanced commitment to process improvement, systems automation and a strengthened infrastructure. The University accepts the recommendation as stated.

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

A **FINDING: Financial Statement Adjustments**

Chicago State University (University) did not perform accounting reconciliations of certain receivables, payables, prepaid expenses, and capital assets at the end of the accounting period. We also noted errors reported in prior reporting periods that resulted in prior period adjustments recorded by the University. (Finding Code No. 10-1)

Status – Not repeated

Our testing indicated that the University performed accounting reconciliations of all material accounts. We did not note any errors related to prior reporting periods.

B **FINDING: Noncompliance with the Unclaimed Property Act and Write-Off of Accounting Errors**

Chicago State University did not fully comply with the Uniform Disposition of Unclaimed Property Act and recorded a prior period adjustment for old accounting errors. (Finding Code Nos. 10-2, 09-1, 08-4, and 07-12)

Status – Not repeated

Our sample testing did not identify any unclaimed property (held 7 years or more) that was required to be transferred to the State. In addition, we did not identify any adjustments for prior accounting errors made by the University.

C **FINDING: Inaccurate Financial Reporting for the University Auxiliary Facilities System Revenue Bond Fund**

Chicago State University did not properly report financial information of the University Auxiliary Facilities System Revenue Bond Fund. (Finding Code No. 10-3)

Status – Not repeated

Our testing did not identify errors in the University Auxiliary Facilities System Revenue Bond Fund accounting.

D **FINDING: Purchasing Card Procedures**

Chicago State University did not process certain expenditures in compliance with its Purchasing Card Policy and Procedures. (Finding Code Nos. 10-4, 09-3, and 08-8)

Status – Moved to Immaterial Findings Letter as Finding IM 11-1

Our sample testing did not identify exceptions as significant as the prior year.