

State of Illinois
Illinois State University
Financial Audit
(In Accordance with the Single Audit Act
and OMB Circular A-133)
For the Years Ended June 30, 2011 and 2010
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois



State of Illinois
Illinois State University
Financial Audit
For the Years Ended June 30, 2011 and 2010

Table of Contents

Agency Officials 1

Financial Statement Report

 Summary 2

 Independent Auditor’s Report..... 4

 Management’s Discussion and Analysis 6

 Basic Financial Statements

 Statement of Net Assets..... 16

 Statement of Revenues, Expenses and Changes in Net Assets..... 17

 Statement of Cash Flows 18

 Notes to the Basic Financial Statements..... 20

Other Reports Issued Under a Separate Cover

The University’s Compliance Examination (including the Single Audit) for the year ended June 30, 2011, which includes the reports of independent auditors, Schedule of Findings and Questioned Costs, and Supplementary Information for State Compliance Purposes, has been issued under separate cover.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover entitled Report Required Under *Government Auditing Standards* for the Year Ended June 30, 2011 on our consideration of the Illinois State University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

State of Illinois
Illinois State University
Financial Audit
June 30, 2011

Agency Officials

President	Dr. C. Alvin Bowman
Vice President for Finance and Planning	Dr. Daniel Layzell
Vice President for Academic Affairs and Provost	Dr. Sheri Everts
Vice President for Student Affairs	Mr. Steve Adams
Vice President for University Advancement	Ms. Erin Minne'
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
Director - Internal Audit	Mr. Robert Blemler

Board of Trustees (as of June 30, 2011)

Chair	Hon. Judge Michael McCuskey
Secretary	Ms. Joanne Maitland
Member	Mr. Jay D. Bergman
Member	Ms. Anne Davis
Member	Mr. Bob Dobski
Member	Ms. Betty Kinser
Student Member	Mr. Sean Palmer

Office Locations

Agency offices are located at:

Hovey Hall
Campus Box 1100
Normal, IL 61790-1100

State of Illinois
Illinois State University
Financial Statement Report Summary
June 30, 2011

Summary

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

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

Summary of Findings

The auditors identified one matter involving the State of Illinois – Illinois State University's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in a report released under separate cover entitled Report Required Under Government Auditing Standards for the Year Ended June 30, 2011 as Finding 11-1, *Inadequate Controls over Accounts Receivable*.

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

Exit Conference

Findings and recommendations appearing in this report were discussed with University personnel at an exit conference on February 6, 2012. Attending were:

Representing Illinois State University

Vice President for Finance and Planning	Dr. Daniel Layzell
Comptroller	Mr. Greg Alt
Assistant Comptroller	Ms. JoEllen Bahnsen
Director - Internal Audit	Mr. Robert Blemler
Associate Vice President for Administrative Technology	Ms. Andrea Ballinger
Associate Vice President – Chief Technology Officer	Mr. Mark Walbert

Representing BKD LLP

Manager	Ms. Heather M. Powell, CPA
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State of Illinois
Illinois State University
Financial Statement Report Summary
June 30, 2011

Representing the Office of the Auditor General

Audit Manager

Mr. Daniel J. Nugent, CPA

Information Systems Audit Manager (via phone)

Ms. Kathleen A. Devitt

Responses to the recommendations were provided by Mr. Greg Alt, Comptroller, in an e-mail dated February 10, 2012.

Independent Auditors' Report

The Honorable William G. Holland
Auditor General – State of Illinois

and

Board of Trustees
State of Illinois – Illinois State University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the State of Illinois – Illinois State University (University) and its aggregate 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 the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Illinois State University as of and for the year ended June 30, 2010, before they were retroactively restated for the matter discussed in Note 23, were audited by other accountants whose report dated March 30, 2011, expressed an unqualified opinion on those statements. We did not audit the 2011 financial statements and the prior year auditor did not audit the 2010 financial statements of Illinois State University Foundation. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Illinois State University Foundation, 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 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 opinion.

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

We also audited the adjustment described in Note 23 that was applied to restate the 2010 financial statements. In our opinion, such adjustment was appropriate and has been properly applied.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated March 2, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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. Finding 11-1, referenced within that report (page 6) contains a discussion of a material weakness in internal control over financial reporting which resulted in the restatement of the June 30, 2010 financial statements, as discussed in the preceding paragraph.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

BKD, LLP

March 2, 2012

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Illinois State University (the "University") for the year ended June 30, 2011 with selective comparative information for the years ended June 30, 2011 and 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

As required by generally accepted accounting principles, these financial statements present the financial position and financial activities of the University (the primary unit) and its component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, an amendment of GASB Statement No. 14.

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

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

Overview of the Financial Statements and Financial Analysis

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

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

Statements of Net Assets

The Statements of Net Assets present the assets, liabilities, and net assets of the University as of the end of the fiscal years. The Statements of Net Assets are point in time financial statements. The purpose of the Statements of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Illinois State University at June 30, 2011 and 2010. The Statements of Net Assets present end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

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

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

Following are condensed Statements of Net Assets at June 30, 2011, 2010 and 2009:

	(Thousands of dollars)		
	2011	2010 (as restated)	2009 (as restated)
Assets:			
Current assets	\$ 114,816	\$ 127,426	\$ 122,377
Noncurrent assets:			
Capital assets, net	420,890	398,771	354,783
Other noncurrent assets	99,339	67,409	81,899
Total assets	<u>635,045</u>	<u>593,606</u>	<u>559,059</u>
Liabilities:			
Current liabilities	41,090	45,675	42,538
Noncurrent liabilities	141,569	133,302	140,240
Total liabilities	<u>182,659</u>	<u>178,977</u>	<u>182,778</u>
Net Assets:			
Invested in capital assets, net of related debt	298,586	285,373	263,690
Restricted	9,467	9,455	9,422
Unrestricted	144,333	119,801	103,169
Total net assets	<u>\$ 452,386</u>	<u>\$ 414,629</u>	<u>\$ 376,281</u>

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

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

	(Thousands of dollars)	
2011	2010 (as restated)	2009 (as restated)
$114,816 / 41,090 = 2.79$	$127,426 / 45,675 = 2.79$	$122,377 / 42,538 = 2.88$

Noncurrent assets are comprised primarily of net capital assets. Net capital assets increased \$22.1 million and \$44.0 million from June 30, 2010 to 2011 and 2009 to 2010, respectively. The increases are primarily attributable to construction and major renovation of University buildings.

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

Statements of Revenues, Expenses, and Changes in Net Assets

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

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

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

Following are condensed Statements of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2011, 2010 and 2009:

	(Thousands of dollars)		
	2011	2010 (as restated)	2009 (as restated)
Operating revenues			
Student tuition and fees, net	\$ 167,142	\$ 151,104	\$ 135,912
Grants and contracts	20,682	20,379	19,544
Auxiliary facilities	83,018	80,914	73,079
Other	26,090	26,369	25,141
Total operating revenues	<u>296,932</u>	<u>278,766</u>	<u>253,676</u>
Operating expenses	<u>455,896</u>	<u>438,910</u>	<u>396,862</u>
Operating (loss)	<u>(158,964)</u>	<u>(160,144)</u>	<u>(143,186)</u>
Non-operating revenues			
State appropriations	79,790	85,146	82,991
Payments on behalf of the University	87,676	79,868	60,803
Other, net	26,070	24,967	22,979
Net non-operating revenues	<u>193,536</u>	<u>189,981</u>	<u>166,773</u>
Capital appropriations	710	7,583	5,770
Capital gifts and grants	2,475	928	997
Increase in net assets	37,757	38,348	30,354
Net assets – beginning of year	414,629	376,281	348,243
Prior period adjustment (see Note 23)			<u>(2,316)</u>
Net assets – end of year	<u>\$ 452,386</u>	<u>\$ 414,629</u>	<u>\$ 376,281</u>

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

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

	(Thousands of dollars)		
2011	2010 (as restated)	2009 (as restated)	
<u>37,757 / 414,629 = 9.11%</u>	<u>38,348 / 376,281 = 10.19%</u>	<u>30,354 / 345,927 = 8.77%</u>	

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

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

	(Thousands of dollars)		
2011	2010 (as restated)	2009 (as restated)	
<u>34,572 / 494,888 = 6.99%</u>	<u>29,837 / 472,027 = 6.32%</u>	<u>23,587 / 423,285 = 5.57%</u>	

State appropriations revenue has remained in a range from approximately \$79 million to \$85 million for fiscal years 2009, 2010 and 2011. The University enacted tuition and fee increases for fiscal years 2009, 2010 and 2011 to help offset the State appropriation funding trend.

Payments on behalf of the University are comprised of payments by the State of Illinois for University employees to the State Universities Retirement System and to Central Management Services for the Department of Healthcare and Family Services.

Operating Expenses	(Thousands of dollars)		
	2011	2010	2009
Expenses by Function			
Instruction	\$ 113,992	\$ 109,970	\$ 106,796
Research	13,991	14,202	14,317
Public service	15,695	15,099	16,374
Academic support	18,134	14,191	13,628
Student services	35,748	35,310	33,846
Institutional support	29,544	27,230	28,556
Operation and maintenance of plant	24,246	29,536	27,500
Depreciation	19,779	17,939	16,720
Staff benefits	1,911	1,220	1,574
Student aid	36,921	31,674	23,817
Payments on behalf of the University	86,470	78,553	59,581
Auxiliary facilities	57,127	61,584	51,785
Other	2,338	2,402	2,368
Total operating expenses	\$ <u>455,896</u>	\$ <u>438,910</u>	\$ <u>396,862</u>
Expenses by Natural Classification			
Compensation and benefits	\$ 289,775	\$ 276,972	\$ 254,001
Supplies and services	114,657	116,722	106,265
Scholarships	31,685	27,277	19,876
Depreciation	19,779	17,939	16,720
Total operating expenses	\$ <u>455,896</u>	\$ <u>438,910</u>	\$ <u>396,862</u>

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

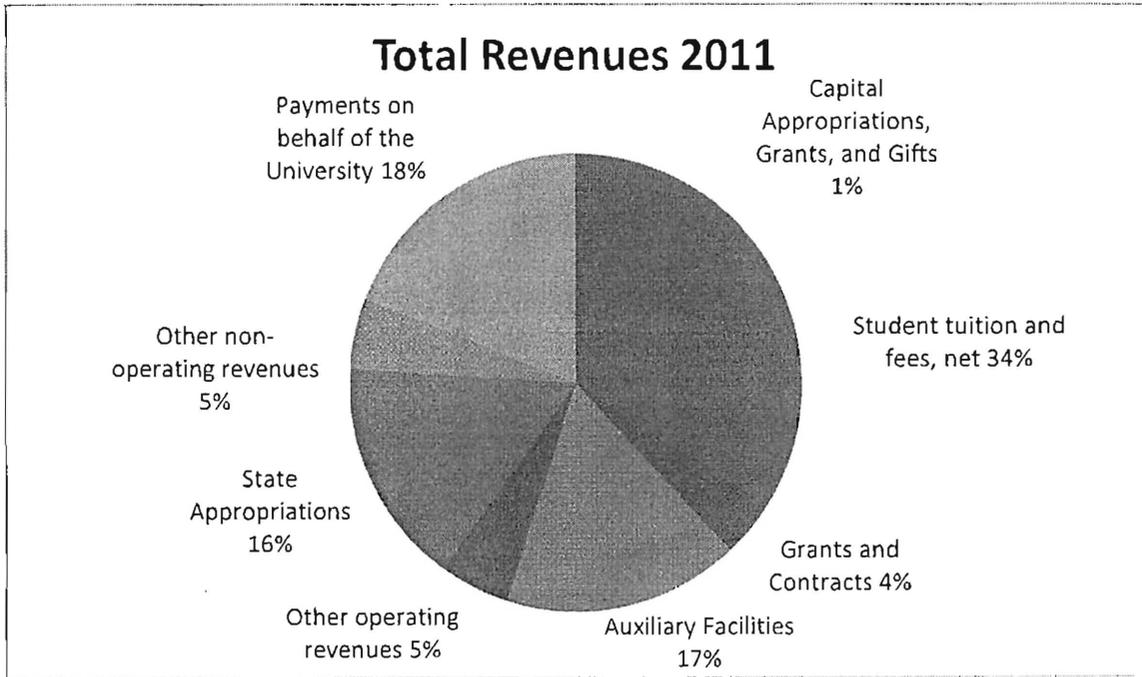
The Primary Reserve Ratio (unrestricted and expendable net assets / total expenses) is:

2011	(Thousands of dollars) 2010 (as restated)	2009 (as restated)
<u>153,800 / 460,316 = 33.41%</u>	<u>129,255 / 442,190 = 29.23%</u>	<u>112,590 / 399,698 = 28.17%</u>

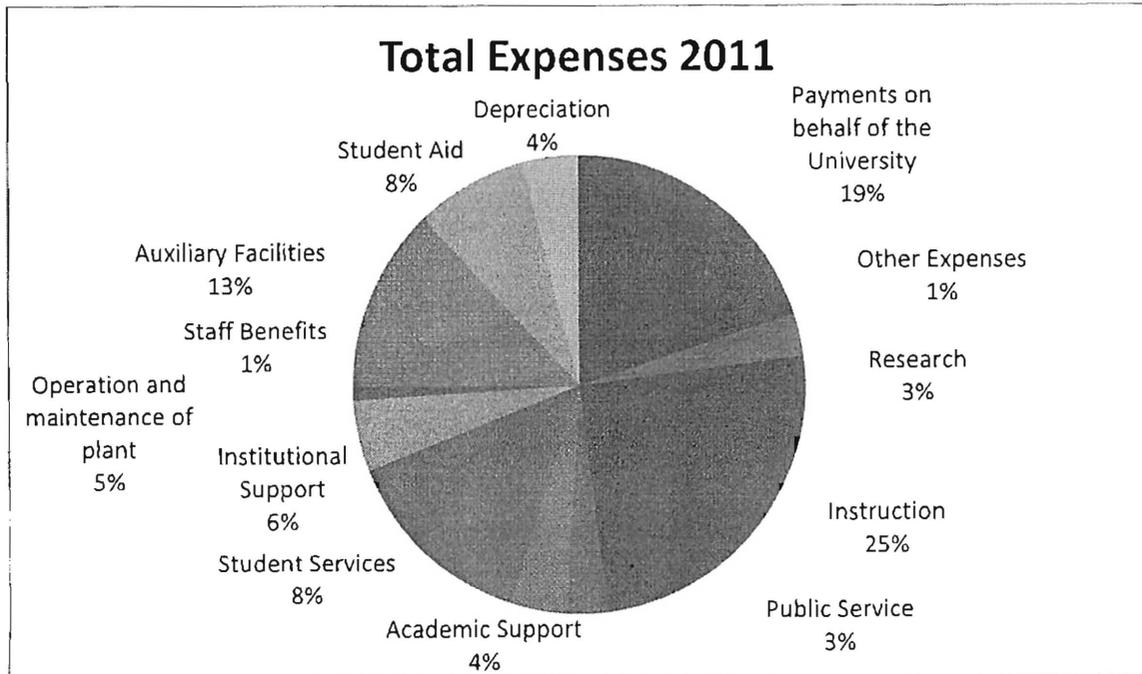
The following summarizes a comparative table of total revenues and total expenses by source/function and percentage:

	Percentage		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues by Source			
Student tuition and fees, net	34%	32%	32%
Grants and contracts	4	4	4
Auxiliary facilities	17	17	17
Other operating revenues	5	5	6
State appropriations	16	18	19
Payments on behalf of the University	18	16	14
Other non-operating revenues	5	6	6
Capital appropriations, gifts, and grants	<u>1</u>	<u>2</u>	<u>2</u>
Total revenues percentage	<u>100%</u>	<u>100%</u>	<u>100%</u>
Expenses by Function			
Instruction	25%	25%	27%
Research	3	3	4
Public service	3	3	4
Academic support	4	3	3
Student services	8	8	8
Institutional support	6	6	7
Operation and maintenance of plant	5	7	7
Depreciation	4	4	4
Staff Benefits	1	1	1
Student Aid	8	7	6
Payments on behalf of the University	19	18	15
Auxiliary facilities	13	14	13
Other	<u>1</u>	<u>1</u>	<u>1</u>
Total expenses percentage	<u>100%</u>	<u>100%</u>	<u>100%</u>
Expenses by Natural Classification			
Compensation and benefits	64%	63%	64%
Supplies and services	25	27	27
Scholarships	7	6	5
Depreciation	<u>4</u>	<u>4</u>	<u>4</u>
Total operating percentage	<u>100%</u>	<u>100%</u>	<u>100%</u>

The following graph illustrates total revenues by source:



The following graph illustrates total expenditures by function:



Statements of Cash Flows

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

Following are condensed Statements of Cash Flows for the Years ended June 30, 2011, 2010 and 2009:

	(Thousands of dollars)		
	2011	2010	2009
Net cash used by operating activities	\$ (50,554)	\$ (62,725)	\$ (70,435)
Cash flows from noncapital financing activities	93,506	122,768	68,567
Cash flows from capital and related financing activities	(39,191)	(59,753)	(63,061)
Cash flows from investing activities	(28,108)	12,726	17,809
Net increase (decrease) in cash and cash equivalents	(24,347)	13,016	(47,120)
Cash – beginning of year	61,029	48,013	95,133
Cash – end of year	\$ 36,682	\$ 61,029	\$ 48,013

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

Cash and cash equivalents decreased \$24.3 million from 2010 to 2011. Approximately \$14.6 million of the decrease is attributable to the appropriations due from the State at June 30, 2011, of \$35.0 million compared to \$20.4 million at June 30, 2010. In addition, at June 30, 2011, the University had an increase in its allocation of cash to longer term investments of \$29 million.

Capital Asset and Debt Administration

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

The following summarizes a table of capital assets, accumulated depreciation and depreciation expense for fiscal years ended June 30, 2011, 2010 and 2009.

	(Thousands of dollars)		
	2011	2010	2009
Capital Assets	\$ 753,516	\$ 716,806	\$ 656,418
Accumulated Depreciation	332,626	318,035	301,635
Capital Assets, Net	<u>\$ 420,890</u>	<u>\$ 398,771</u>	<u>\$ 354,783</u>
 Depreciation Expense	 \$ 19,779	 \$ 17,939	 \$ 16,720

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

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

The following summarizes a table of long-term debt for fiscal years ended June 30, 2011, 2010 and 2009.

	(Thousands of dollars)		
	2011	2010	2009
Revenue Bonds	\$ 97,833	\$ 103,279	\$ 107,609
Certificates of Participation	\$ 35,532	21,321	22,142

In March 2008, the University issued Revenue Bond Series 2008 in the amount of \$30.6 million. This funding includes capital projects for auxiliary facilities system buildings.

In June 2008, the University issued Certificates of Participation in the amount of \$22.2 million.

In May 2011, the University issued Certificates of Participation in the amount of \$15 million.

On March 31, 2011, the University's bond credit rating from Moody's Investors Service was confirmed as A2 with a negative outlook and the rating from Standard & Poor's was confirmed as A+ with a negative outlook. These ratings reflect the cash flow stress at all State universities from delays in receiving reimbursement for appropriated expenditures from the State of Illinois.

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

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

	(Thousands of dollars)		
2011	2010	2009	
<u>11,841 / 443,252= 2.67%</u>	<u>10,991 / 430,456= 2.55%</u>	<u>10,256 / 388,436= 2.64%</u>	

Economic Outlook

In January 2012, the Comptroller of the State of Illinois issued a report that the State's backlog persists despite new revenue. With \$3.798 billion in fiscal year 2011 payables on June 30 to start the new fiscal year and \$1.353 billion in additional fiscal year 2011 payments presented during the lapse period, over \$5.15 billion in fiscal year 2012 revenues will be used to pay last year's bills.

The General Assembly appropriated \$78.8 million to the University for operating support in fiscal year 2012, which is a reduction from appropriations of \$79.8 million in fiscal year 2011.

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

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

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

	2011		2010	
	University	Foundation	University (restated)	Foundation
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 25,621,673	\$ 5,749,271	\$ 49,826,109	\$ 6,298,635
Restricted cash and cash equivalents	11,060,733	-	11,202,703	-
Investments	21,612,550	-	28,505,635	-
Investments Restricted	4,431,054	-	-	-
Accrued interest receivable	451,994	-	670,500	-
Accrued interest receivable restricted	19,897	-	-	-
Accounts receivable, net	9,062,810	15,708	8,472,970	272,874
Student loans receivable, net	921,929	-	928,736	-
Pledges receivable, net	-	1,197,737	-	455,336
Appropriations receivable from State	35,047,150	-	20,390,047	-
Inventories	2,950,152	-	3,585,799	-
Prepaid expenses, deposits and other	3,635,581	-	3,843,510	-
Total current assets	114,815,523	6,962,716	127,426,009	7,026,845
Noncurrent Assets:				
Restricted cash and cash equivalents	-	442,202	-	2,840,041
Investments	83,703,480	19,832,017	54,621,670	12,817,071
Investments Restricted	3,244,036	-	-	-
Endowment investments	-	69,194,754	-	59,521,293
Student loans receivable, net	8,450,775	-	8,827,664	-
Pledges receivable, net	-	416,400	-	553,755
Debt issuance costs	2,141,076	-	1,859,646	-
Capital assets not depreciated	40,858,095	980,000	101,319,767	980,000
Capital assets, net of depreciation	380,031,529	8,441,780	297,450,979	8,863,116
Other noncurrent assets	1,800,000	1,283,414	2,100,000	1,166,563
Total noncurrent assets	520,228,991	100,590,567	466,179,726	86,741,839
Total assets	635,044,514	107,553,283	593,605,735	93,768,684
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	21,510,325	444,889	25,968,104	445,458
Assets held in custody for others and deposits	3,512,424	-	3,604,740	-
Deferred revenue	6,998,466	-	7,344,044	-
Certificates of participation	1,198,237	-	850,297	-
Revenue bonds payable	6,134,984	-	6,151,471	-
Accrued compensated absences	1,735,598	-	1,756,753	-
Other	-	391,590	-	405,919
Total current liabilities	41,090,034	836,479	45,675,409	851,377
Noncurrent Liabilities:				
Assets held in custody for others and deposits	215,484	-	228,701	-
Certificates of participation	34,334,008	-	20,471,234	-
Revenue bonds payable	91,697,562	-	97,127,359	-
Accrued compensated absences	15,321,701	-	15,474,492	-
Other	-	5,047,272	-	5,539,259
Total noncurrent liabilities	141,568,755	5,047,272	133,301,786	5,539,259
Total liabilities	182,658,789	5,883,751	178,977,195	6,390,636
NET ASSETS				
Invested in capital assets, net of related debt	298,585,566	6,299,489	285,373,087	6,656,076
Restricted for:				
Nonexpendable	-	68,904,359	-	59,611,136
Expendable	9,467,386	24,698,256	9,455,338	23,071,363
Unrestricted	144,332,773	1,767,428	119,800,115	(1,960,527)
Total net assets	\$ 452,385,725	\$ 101,669,532	\$ 414,628,540	\$ 87,378,048

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

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

	2011		2010	
	University	Foundation	University (restated)	Foundation
OPERATING REVENUES				
Student tuition and fees, net	\$ 167,142,161	\$ -	\$ 151,104,041	\$ -
Federal grants and contracts	13,355,923	-	12,513,264	-
State and local grants and contracts	3,074,534	1,755,690	3,221,832	1,907,897
Nongovernmental grants and contracts	4,251,390	-	4,643,825	-
Sales and services of educational activities	2,570,384	-	2,634,827	-
Auxiliary enterprises:				
Auxiliary facilities	83,018,067	-	80,914,263	-
Other operating revenues	23,520,035	605,526	23,734,054	601,858
Total operating revenues	296,932,494	2,361,216	278,766,106	2,509,755
OPERATING EXPENSES				
Educational and General:				
Instruction	113,991,733	-	109,969,512	-
Research	13,991,116	-	14,202,048	-
Public service	15,695,327	-	15,098,876	-
Academic support	18,133,671	-	14,190,544	-
Student services	35,748,251	-	35,310,245	-
Institutional support	29,543,894	-	27,229,921	-
Operations	-	2,771,802	-	2,784,149
Operation and maintenance of plant	24,246,285	-	29,536,156	-
Depreciation	19,779,251	421,336	17,939,398	422,750
Staff benefits	1,911,309	-	1,220,296	-
Student aid	36,920,437	2,525,397	31,674,364	2,061,522
Payments on behalf of the University	86,469,651	-	78,553,377	-
Auxiliary facilities:				
Student housing, activity facilities, and parking	57,126,802	-	61,583,757	-
Other operating expenditures	2,338,291	50,728	2,401,736	243,819
Expenditures on behalf of the University	-	4,225,461	-	4,308,456
Total operating expenses	455,896,018	9,994,724	438,910,230	9,820,696
Operating loss	(158,963,524)	(7,633,508)	(160,144,124)	(7,310,941)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	79,789,500	-	85,146,430	-
Payments on behalf of the University - State	86,469,651	-	78,553,377	-
Payments on behalf of the University - Foundation	1,205,883	-	1,314,581	-
Laboratory Schools	9,085,803	-	7,731,508	-
Gifts and donations	320,767	7,670,530	256,484	5,169,552
Investment income, net of investment expenses	1,561,596	13,426,171	2,352,613	7,643,982
Interest expense	(4,419,723)	(205,251)	(3,280,279)	(209,315)
Other nonoperating revenues	19,522,828	734,848	17,906,543	708,346
Other nonoperating expenses	-	(3,185,936)	-	(241,951)
Net nonoperating revenues (expenses)	193,536,305	18,440,362	189,981,257	13,070,614
Income before capital items	34,572,781	10,806,854	29,837,133	5,759,673
Capital appropriations	709,628	-	7,583,879	-
Capital grants and gifts	2,474,776	-	927,928	-
Additions to permanent endowments	-	3,484,630	-	7,075,315
Total capital items	3,184,404	3,484,630	8,511,807	7,075,315
Increase in net assets	37,757,185	14,291,484	38,348,940	12,834,988
NET ASSETS				
Net assets - beginning of year, as previously stated	414,628,540	87,378,048	379,953,643	74,543,060
Adjustment applicable to previous years, see Note 23				
Correction of error in amounts recorded as Accts Rec.	-	-	(3,674,043)	-
Net assets - end of year	\$ 452,385,725	\$ 101,669,532	\$ 414,628,540	\$ 87,378,048

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

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

	<u>2011</u>	<u>2010</u>
	<u>University</u>	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 161,329,778	\$ 147,214,874
Grants and contracts	22,700,853	21,723,888
Payments to suppliers	(97,183,825)	(100,509,112)
Payments to employees for salaries and benefits	(213,016,684)	(209,707,402)
Payments for scholarships and fellowships	(31,684,858)	(27,277,142)
Student loans issued	(1,307,339)	(1,144,269)
Collection of student loans	1,176,424	1,087,240
Auxiliary enterprise charges:		
Auxiliary Facilities	82,950,314	80,936,805
Sales and service of educational activities	2,570,384	2,634,827
Payments to internal service departments	(16,984,553)	(15,970,441)
Internal service departments receipts	16,984,553	15,970,441
Agency custodial receipts	104,702,557	98,303,606
Agency custodial disbursements	(104,920,456)	(98,256,283)
Other receipts	22,128,670	22,267,654
	<u>(50,554,182)</u>	<u>(62,725,314)</u>
Net cash used by operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	65,132,398	97,906,771
Gifts and grants for other than capital purposes	853	2,557
Student direct lending receipts	108,352,602	99,549,539
Student direct lending disbursements	(108,352,602)	(99,549,539)
Other receipts	19,529,059	16,788,053
Laboratory schools	8,843,349	8,070,211
	<u>93,505,659</u>	<u>122,767,592</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt:		
Capital long-term debt	15,061,380	-
Gifts and grants for capital purposes	1,432,297	992,134
Net purchases of capital assets	(43,409,165)	(49,754,662)
Principal paid on capital debt and leases:		
Capital debt and leases	(7,135,000)	(6,205,000)
Interest paid on capital debt and leases	(4,706,264)	(4,785,439)
Payments of debt issuance costs	(433,786)	-
	<u>(39,190,538)</u>	<u>(59,752,967)</u>
Net cash used by capital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	28,000,000	24,494,624
Interest on investments	2,580,373	3,687,229
Purchase of investments	(58,687,718)	(15,455,469)
	<u>(28,107,345)</u>	<u>12,726,384</u>
Net cash provided/(used) by investing activities		
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	(24,346,406)	13,015,695
Balance - beginning of year	61,028,812	48,013,117
	<u>61,028,812</u>	<u>61,028,812</u>
Balance - end of year	\$ <u>36,682,406</u>	\$ <u>61,028,812</u>

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

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

	<u>2011</u> <u>University</u>	<u>2010</u> <u>University</u> <u>(restated)</u>
RECONCILIATION		
Operating (loss)	\$ (158,963,524)	\$ (160,144,124)
Adjustments to reconcile operating (loss) to net cash used by operating activities:		
Depreciation expense	19,779,251	17,939,398
Payments on behalf of the University	87,675,534	79,867,958
Donated equipment below capitalization threshold	319,917	253,927
Changes in assets and liabilities:		
Accounts receivables, net	(70,158)	1,148,418
Student loans receivable, net	383,696	190,175
Inventories	635,647	(252,928)
Other assets	528,709	(557,481)
Accounts payable and accrued liabilities	(218,197)	(651,686)
Deferred revenue	(345,578)	854,701
Assets held in custody for others and deposits	(105,533)	(508,435)
Compensated absences	(173,946)	(865,237)
Net cash used by operating activities	<u>\$ (50,554,182)</u>	<u>\$ (62,725,314)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Payments on behalf of the University	\$ 87,675,534	\$ 79,867,958
Donated capital assets	870,596	64,372
Capital appropriation acquisitions	709,628	7,583,879
Bond accretion	840,022	1,056,360
Donated equipment below capitalization threshold	319,917	253,927
Tuition and fee waivers where services were provided	5,255,400	4,334,200
Construction costs in accounts payable	4,349,733	8,764,965
Investment income unrealized gain (loss) and amortization	(1,694,310)	2,057,820
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and cash equivalents classified as current assets	\$ 25,621,673	\$ 49,826,109
Restricted cash and cash equivalents classified as current assets	<u>11,060,733</u>	<u>11,202,703</u>
	<u>\$ 36,682,406</u>	<u>\$ 61,028,812</u>

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

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

Illinois State University, which is governed by the Board of Trustees, was founded in 1857 and is the oldest public institution of higher learning in Illinois. As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary government) and its discretely presented component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, an amendment of GASB Statement No. 14.

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

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

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

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

Financial Statements Presentation: The University's financial statements include the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. The financial statements are prepared in accordance with GASB principles and presented on an entity-wide basis.

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

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

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

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

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

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

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

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

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

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

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

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

Capitalization of Interest: Interest is charged to expense as incurred except for interest related to borrowings used for construction projects which is capitalized net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially complete. During fiscal years ended 2011 and 2010, the University capitalized \$1,321,062 and \$2,677,817 net interest expense for construction projects, respectively.

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

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

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

Employment Contracts for Certain Academic Personnel: Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was \$4,612,969 and \$4,589,394 at June 30, 2011 and 2010, respectively, and is recorded in the accompanying financial statements.

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

Net Assets: 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 outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net 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 principal.

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

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

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

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

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

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

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

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

	2011	2010 (as restated)
Student tuition and fees	\$ 205,333,387	\$ 184,921,407
Less scholarship discounts and allowances	(37,457,227)	(33,167,914)
Less discounts for employee waivers	(733,999)	(649,452)
Net student tuition and fees	<u>\$ 167,142,161</u>	<u>\$ 151,104,041</u>
Auxiliary facilities	\$ 94,045,056	\$ 91,464,201
Less scholarship discounts and allowances	(11,026,989)	(10,549,938)
Net auxiliary facilities	<u>\$ 83,018,067</u>	<u>\$ 80,914,263</u>

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

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

Note 2. Deposits

At June 30, 2011 and 2010, the University's bank balances were \$18,992,077 and \$14,453,270, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral.

Foundation Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation or the Security Investor Protection Corporation insured account had a balance of \$467,530 and \$85,196 at June 30, 2011 and 2010, respectively. Bank balances of \$5,915,585 at June 30, 2011 and \$10,070,264 at June 30, 2010 were invested in investment sweep funds secured by U.S. government obligations. In addition, at June 30, 2011, \$430,000 was in uninsured cash awaiting investment and was subsequently invested as of July 31, 2011. The Foundation does not have a formal deposit policy for custodial credit risk.

DEPOSITS:	2011		2010	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
<u>University</u>				
Bank Checking Funds	\$ 18,992,077	\$ 14,922,095	\$ 14,453,270	\$ 11,815,458
<u>Foundation</u>				
Cash in bank	\$ 6,383,119	\$ 6,191,473	\$ 10,155,460	\$ 9,138,676

Reconciliation of cash and cash equivalents to deposits:

	2011	
	University	Foundation
Cash and cash equivalents		
Current	\$ 36,682,406	\$ 5,749,271
Noncurrent	-	442,202
Total cash and cash equivalents	36,682,406	6,191,473
Less: Vault cash and change funds	(241,658)	-
Less: Money market mutual funds classified as investments for purposes of categorization	(21,518,653)	-
Carrying amount of deposits	\$ 14,922,095	\$ 6,191,473
	2010	
	University	Foundation
Cash and cash equivalents		
Current	\$ 61,028,812	\$ 6,298,635
Noncurrent	-	2,840,041
Total cash and cash equivalents	61,028,812	9,138,676
Less: Vault cash and change funds	(186,742)	-
Less: Money market mutual funds classified as investments for purposes of categorization	(49,026,612)	-
Carrying amount of deposits	\$ 11,815,458	\$ 9,138,676

Note 3. Investments

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

UNIVERSITY INVESTMENTS

As of June 30, 2011, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 6 Years	S&P/Moody's Rating
U.S. Treasuries	\$ 34,124,860	\$ 3,124,110	\$ 31,000,750	
Federal Farm Credit Bank	29,406,120	8,183,140	21,222,980	AAA/Aaa
Federal National Mortgage Association	7,700,094	1,015,154	6,684,940	AAA/Aaa
Federal Home Loan Bank	40,465,525	13,721,200	26,744,325	AAA/Aaa
Federal Home Loan Mortgage Corporation	1,294,521	-	1,294,521	
Illinois Funds Investment Pool	10,457,505	10,457,505	-	AAAm
Bank Money Market Funds	11,061,148	11,061,148	-	Not Rated
Total University	\$ <u>134,509,773</u>	\$ <u>47,562,257</u>	\$ <u>86,947,516</u>	

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

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (21.9%), Federal Home Loan Bank (30.1%), and Federal National Mortgage Association (5.7%).

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

As of June 30, 2010, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 6 Years	S&P/Moody's Rating
U.S. Treasuries	\$ 23,822,750	\$ 5,007,050	\$ 18,815,700	
Federal Farm Credit Bank	27,117,200	2,039,380	25,077,820	AAA/Aaa
Federal National Mortgage Association	5,132,800	5,132,800	-	AAA/Aaa
Federal Home Loan Bank	27,054,555	16,326,405	10,728,150	AAA/Aaa
Illinois Funds Investment Pool	37,823,909	37,823,909	-	AAAm
Bank Money Market Funds	11,202,703	11,202,703	-	Not Rated
Total University	\$ <u>132,153,917</u>	\$ <u>77,532,247</u>	\$ <u>54,621,670</u>	

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (20.5%) and Federal Home Loan Bank (20.5%).

FOUNDATION INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
U.S. Treasury Notes	\$ 62,650	\$ 62,505
Common Stock	303,007	246,945
Mutual Funds – investing in:		
Stocks	33,370,541	27,671,503
Bonds	8,192,968	8,499,223
Commodities	3,149,112	1,969,652
International	15,302,637	9,065,614
U.S. Government Securities	212,376	2,463,669
Limited Partnerships	9,906,598	7,711,138
Hedged and Alternative Funds	17,926,251	14,047,484
Real Estate Investment	600,631	600,631
	<u>89,026,771</u>	<u>72,338,364</u>
Total Foundation	\$ 89,026,771	\$ 72,338,364

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

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

As of June 30, 2011, the Foundation had \$14,551,741 in U.S. dollar balances of international mutual fund investments exposed to foreign currency risk. Listed below are the U.S dollar balances of the Foundation's international mutual fund investments exposed to foreign currency risk as of June 30, 2011:

	<u>International Equity</u>	<u>Emerging Markets</u>	<u>Total</u>
Euro	\$ 1,932,372	\$ -	\$ 1,932,372
British Pound	1,879,739	-	1,879,739
Japanese Yen	1,541,386	-	1,541,386
Brazilian Real	22,557	1,018,716	1,041,273
Chinese Yuan	338,353	1,321,148	1,659,501
South Korean Won	22,557	819,748	842,305
Other (individually below 5% of total)	1,556,423	4,098,742	5,655,165
	<u>7,293,387</u>	<u>7,258,354</u>	<u>14,551,741</u>
Total	\$ 7,293,387	\$ 7,258,354	\$ 14,551,741

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

As of June 30, 2011, the Foundation had the following investments exposed to interest rate risk and credit risk:

	<u>Fair Market Value</u>	<u>Weighted Average Life</u>	<u>S&P Rating</u>
U.S. Treasury Notes	\$ 62,650	4.0 years	
Bond Mutual Funds	8,192,968	8.5 years	AA
Commodities Mutual Fund	3,149,112	0.9 years	AA+
U.S. Government Securities Fund	212,376	0.14 years	

As of June 30, 2010, the Foundation had the following investments exposed to interest rate risk and credit risk:

	<u>Fair Market Value</u>	<u>Weighted Average Life</u>	<u>S&P Rating</u>
U.S. Treasury Notes	\$ 62,505	4.9 years	
Bond Mutual Funds	8,499,223	7.1 years	AA
Commodities Mutual Fund	1,969,652	1.3 years	AA+
U.S. Government Securities Fund	2,463,669	8.8 years	

INVESTMENTS CONSIST OF THE FOLLOWING:

	<u>2011</u>		<u>2010</u>	
	<u>University</u>	<u>Foundation</u>	<u>University</u>	<u>Foundation</u>
Current:				
Investments	\$ 26,043,604	\$ -	\$ 28,505,635	\$ -
Noncurrent:				
Investments	86,947,516	19,832,017	54,621,670	12,817,071
Endowment investments	-	69,194,754	-	59,521,293
	<u>112,991,120</u>	<u>89,026,771</u>	<u>83,127,305</u>	<u>72,338,364</u>
Money market mutual funds classified as cash and cash equivalents	<u>21,518,653</u>	<u>-</u>	<u>49,026,612</u>	<u>-</u>
Total	\$ <u>134,509,773</u>	\$ <u>89,026,771</u>	\$ <u>132,153,917</u>	\$ <u>72,338,364</u>

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

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

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2011 and 2010:

	2011	2010 (as restated)
Student tuition and fees	\$ 5,828,862	\$ 5,002,784
Auxiliary facilities and other operating activities	2,102,240	2,118,687
Other	1,193,840	1,016,535
Federal, state, and private grants and contracts	<u>2,599,411</u>	<u>2,793,724</u>
Sub-total	11,724,353	10,931,730
Less allowance for uncollectible accounts	<u>(2,661,543)</u>	<u>(2,458,760)</u>
Net Accounts Receivable	<u>\$ 9,062,810</u>	<u>\$ 8,472,970</u>

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2011 and 2010 are summarized as follows:

	2011	2010
Perkins student loan fund	\$ 9,929,554	\$ 10,286,404
Nursing loan fund	384,729	387,787
University loan fund	<u>52,205</u>	<u>55,993</u>
Sub-total	10,366,488	10,730,184
Less allowance for uncollectible accounts	<u>(993,784)</u>	<u>(973,784)</u>
Net Student Loans Receivable	<u>\$ 9,372,704</u>	<u>\$ 9,756,400</u>
Estimated current portion	\$ 921,929	\$ 928,736
Estimated noncurrent portion	<u>8,450,775</u>	<u>8,827,664</u>
Total	<u>\$ 9,372,704</u>	<u>\$ 9,756,400</u>

Note 6. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Pledges to be collected	\$ 1,773,460	\$ 1,175,186
Less discount for the time value of money	(26,313)	(44,206)
Less allowance for uncollectible accounts	<u>(133,010)</u>	<u>(121,889)</u>
Net Foundation Pledges Receivable	\$ <u>1,614,137</u>	\$ <u>1,009,091</u>
Estimated current portion	\$ 1,197,737	\$ 455,336
Estimated noncurrent portion	<u>416,400</u>	<u>553,755</u>
Total	\$ <u>1,614,137</u>	\$ <u>1,009,091</u>

Note 7. Deferred Revenue

Deferred revenue consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Prepaid tuition and fees	\$ 4,913,146	\$ 4,800,148
Auxiliary facilities	542,025	656,249
Grants and contracts	1,470,250	1,808,116
Other	<u>73,045</u>	<u>79,531</u>
Deferred Revenue	\$ <u>6,998,466</u>	\$ <u>7,344,044</u>

Note 8. Capital Assets

Capital assets activity for the year ended June 30, 2011 is summarized as follows:

University

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 14,158,006	\$ -	\$ -	\$ -	\$ 14,158,006
Construction in progress	80,378,947	25,381,831		(89,173,178)	16,587,600
Intangible -internally generated software	6,782,814	3,600,933	-	(271,258)	10,112,489
Total capital assets not being depreciated	<u>\$ 101,319,767</u>	<u>\$ 28,982,764</u>	<u>\$ -</u>	<u>\$ (89,444,436)</u>	<u>\$ 40,858,095</u>
Capital assets being depreciated					
Land Improvements	\$ 33,063,588	\$ 17,804	\$ (188,039)	\$ 419,978	\$ 33,313,331
Infrastructure	12,682,559	-	-	-	12,682,559
Buildings	422,051,885	2,302,912	(3,435,290)	88,753,200	509,672,707
Equipment	73,351,021	6,945,041	(1,689,535)	271,258	78,877,785
Library Materials	74,336,701	3,774,371	-	-	78,111,072
Total capital assets being depreciated	<u>\$ 615,485,754</u>	<u>\$ 13,040,128</u>	<u>\$ (5,312,864)</u>	<u>\$ 89,444,436</u>	<u>\$ 712,657,454</u>
Less Accumulated Depreciation for					
Land Improvements	\$ 9,756,015	\$ 994,422	\$ (188,040)	\$ -	\$ 10,562,397
Infrastructure	6,071,004	311,507	-	-	6,382,511
Buildings	186,555,250	9,976,032	(3,421,534)	-	193,109,748
Equipment	57,770,472	5,263,786	(1,578,527)	-	61,455,731
Library Materials	57,882,034	3,233,504	-	-	61,115,538
Total Accumulated Depreciation	<u>\$ 318,034,775</u>	<u>\$ 19,779,251</u>	<u>\$ (5,188,101)</u>	<u>\$ -</u>	<u>\$ 332,625,925</u>
Total capital assets being depreciated, net	<u>\$ 297,450,979</u>	<u>\$ (6,739,123)</u>	<u>\$ (124,763)</u>	<u>\$ 89,444,436</u>	<u>\$ 380,031,529</u>
Capital assets, net	<u>\$ 398,770,746</u>	<u>\$ 22,243,641</u>	<u>\$ (124,763)</u>	<u>\$ -</u>	<u>\$ 420,889,624</u>

Foundation

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	\$ 980,000	\$ -	\$ -	\$ -	\$ 980,000
Capital assets being depreciated	10,410,371	-	-	-	10,410,371
Less accumulated depreciation	1,547,255	421,336	-	-	1,968,591
Total capital assets being depreciated	<u>\$ 8,863,116</u>	<u>\$ (421,336)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,441,780</u>
Capital assets, net	<u>\$ 9,843,116</u>	<u>\$ (421,336)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,421,780</u>

Capital assets activity for the year ended June 30, 2010 is summarized as follows:

University	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 14,158,006	\$ -	\$ -	\$ -	\$ 14,158,006
Construction in progress	78,676,407	51,926,302	(5,202,357)	(45,021,405)	80,378,947
Intangible -internally generated software	2,570,906	4,211,908	-	-	6,782,814
Total capital assets not being depreciated	<u>\$ 95,405,319</u>	<u>\$ 56,138,210</u>	<u>\$ (5,202,357)</u>	<u>\$ (45,021,405)</u>	<u>\$ 101,319,767</u>
Capital assets being depreciated					
Land Improvements	\$ 26,519,625	\$ 425,566	\$ (24,999)	\$ 6,143,396	\$ 33,063,588
Infrastructure	12,682,559	-	-	-	12,682,559
Buildings	381,427,798	1,746,078	-	38,878,009	422,051,885
Equipment	69,758,543	5,220,226	(1,627,748)	-	73,351,021
Library Materials	70,624,011	3,712,690	-	-	74,336,701
Total capital assets being depreciated	<u>\$ 561,012,536</u>	<u>\$ 11,104,560</u>	<u>\$ (1,652,747)</u>	<u>\$ 45,021,405</u>	<u>\$ 615,485,754</u>
Less Accumulated Depreciation for					
Land Improvements	\$ 8,851,556	\$ 920,161	\$ (15,702)	\$ -	\$ 9,756,015
Infrastructure	5,759,775	311,229	-	-	6,071,004
Buildings	178,351,503	8,203,747	-	-	186,555,250
Equipment	54,077,564	5,217,102	(1,524,194)	-	57,770,472
Library Materials	54,594,875	3,287,159	-	-	57,882,034
Total Accumulated Depreciation	<u>\$ 301,635,273</u>	<u>\$ 17,939,398</u>	<u>\$ (1,539,896)</u>	<u>\$ -</u>	<u>\$ 318,034,775</u>
Total capital assets being depreciated, net	<u>\$ 259,377,263</u>	<u>\$ (6,834,838)</u>	<u>\$ (112,851)</u>	<u>\$ 45,021,405</u>	<u>\$ 297,450,979</u>
Capital assets, net	<u>\$ 354,782,582</u>	<u>\$ 49,303,372</u>	<u>\$ (5,315,208)</u>	<u>\$ -</u>	<u>\$ 398,770,746</u>
Foundation					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated	\$ 980,000	\$ -	\$ -	\$ -	\$ 980,000
Capital assets being depreciated	10,410,371	-	-	-	10,410,371
Less accumulated depreciation	1,124,505	422,750	-	-	1,547,255
Total capital assets being depreciated	<u>\$ 9,285,866</u>	<u>\$ (422,750)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,863,116</u>
Capital assets, net	<u>\$ 10,265,866</u>	<u>\$ (422,750)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,843,116</u>

Note 9. Long-term Liabilities

UNIVERSITY LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	\$ 17,231,245	\$ 1,498,027	\$ 1,671,973	\$ 17,057,299
Certificates of participation	21,321,531	15,061,380	850,666	35,532,245
Revenue bonds payable	103,278,830	840,022	6,286,306	97,832,546
Total	\$ 141,831,606	\$ 17,399,429	\$ 8,808,945	\$ 150,422,090
Current portion				
Accrued compensated absences	\$ 1,756,753			\$ 1,735,598
Certificates of participation	850,297			1,198,237
Revenue bonds payable, net	6,151,471			6,134,984
Total current portion	\$ 8,758,521			\$ 9,068,819
Noncurrent portion				
Accrued compensated absences	\$ 15,474,492			\$ 15,321,701
Certificates of participation	20,471,234			34,334,008
Revenue bonds payable, net	97,127,359			91,697,562
Total noncurrent portion	\$ 133,073,085			\$ 141,353,271

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	\$ 18,096,482	\$ 934,485	\$ 1,799,722	\$ 17,231,245
Certificates of participation	22,141,828	-	820,297	21,321,531
Revenue bonds payable	107,608,777	1,056,360	5,386,307	103,278,830
Total	\$ 147,847,087	\$ 1,990,845	\$ 8,006,326	\$ 141,831,606
Current portion				
Accrued compensated absences	\$ 1,761,291			\$ 1,756,753
Certificates of participation	820,298			850,297
Revenue bonds payable, net	5,251,695			6,151,471
Total current portion	\$ 7,833,284			\$ 8,758,521
Noncurrent portion				
Accrued compensated absences	\$ 16,335,191			\$ 15,474,492
Certificates of participation	21,321,530			20,471,234
Revenue bonds payable, net	102,357,082			97,127,359
Total noncurrent portion	\$ 140,013,803			\$ 133,073,085

Revenue bonds payable at June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Revenue Bonds, Series 1989:		
Capital Appreciation Bonds	\$ 648,239	\$ 4,293,260
Insured Revenue Bonds, Series 1993:		
Capital Appreciation Bonds	1,615,439	1,521,229
Revenue Bonds, Series 1996:		
Capital Appreciation Bonds	10,072,628	9,506,794
Revenue Bonds, Series 2003:		
New Project Bonds	4,909,579	5,347,115
Current Refunding Bonds	9,477,445	9,530,862
Revenue Bonds, Series 2006:		
New Project Bonds	38,869,120	38,830,847
Current Refunding Bonds	2,450,096	3,613,723
Revenue Bonds, Series 2008		
New Project Bonds	<u>29,790,000</u>	<u>30,635,000</u>
Total revenue bonds payable	<u>\$ 97,832,546</u>	<u>\$ 103,278,830</u>

Maturities and interest requirements on revenue bonds payable at June 30, 2011, are as follows:

Year Ending		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>				
2012	\$	6,190,000	3,757,986	9,947,986
2013		6,330,000	3,617,701	9,947,701
2014		6,625,000	3,347,217	9,972,217
2015		7,025,000	3,101,776	10,126,776
2016		<u>7,075,000</u>	<u>3,054,511</u>	<u>10,129,511</u>
Sub-total		33,245,000	16,879,191	50,124,191
2017-2021		18,300,000	13,600,624	31,900,624
2022-2026		20,845,000	9,442,876	30,287,876
2027-2031		24,685,000	4,525,524	29,210,524
2032-2033		<u>4,105,000</u>	<u>310,250</u>	<u>4,415,250</u>
Sub-total		101,180,000	<u>\$ 44,758,465</u>	<u>\$ 145,938,465</u>
Additions(Deductions):				
Unaccrued Appreciation		(2,743,694)		
Unamortized Discounts		(775,784)		
Unamortized Premiums		172,024		
Total	\$	<u>97,832,546</u>		

The Series 1989, 1993, 1996, 2003, 2006, and 2008 bonds are secured by a pledge of the net revenue of auxiliary facilities, as well as the pledged portion of the tuition, health service and athletic & service fees charged to students.

On October 1, 1989, \$11,702,450 in Revenue Bonds, Series 1989 were issued. The Series 1989 Bonds consisted of \$7,770,000 in Current Interest Bonds and \$3,932,450 in Capital Appreciation Bonds. The Current Interest Bonds mature annually on April 1, commencing April 1, 2013, through April 1, 2014, and bear interest at 7.40%. Interest is payable on April 1 and October 1 of each year, commencing April 1, 1990. The Capital Appreciation Bonds have a principal at maturity of \$17,065,000 and an original issue discount of \$13,132,550. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation bonds mature semi-annually commencing April 1, 2008, through October 1, 2012. The Capital Appreciation bonds were issued at prices to yield 7.30% to 7.35% at maturity.

On June 23, 1993, \$10,221,971 in Insured Revenue Bonds, Series 1993 were issued. The Series 1993 Bonds consisted of \$9,675,000 in Current Interest Bonds and \$546,971 in Capital Appreciation Bonds. The Current Interest Bonds were called and redeemed in full on April 10, 2003. The Capital Appreciation Bonds have a principal at maturity of \$1,665,000 and an original issue discount of \$1,118,029. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation Bonds yield 6.10% interest and mature October 1, 2011, and April 1, 2012.

On December 10, 1996, \$18,101,018 in Revenue Bonds, Series 1996 were issued. The Series 1996 Bonds consisted of \$13,760,000 in Current Interest Bonds and \$4,341,018 in Capital Appreciation Bonds. The Current Interest Bonds mature beginning April 1, 1999, and continuing through April 1, 2013. These Current Interest Bonds bear interest from 4.30% to 5.40%. Interest is payable on April 1 and October 1 of each year, commencing April 1, 1997. The Capital Appreciation Bonds have a principal at maturity of \$12,755,000 and an original issue discount of \$8,413,982. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation Bonds yield 5.80% to 5.90% interest and mature annually commencing April 1, 2014, through April 1, 2016.

On March 11, 2003, \$16,905,000 in Revenue Bonds, Series 2003 were issued. The Series 2003 Bonds consisted of \$7,570,000 of New Project Bonds and \$9,335,000 in Current Refunding Bonds. The New Project Bonds mature beginning April 1, 2004, and continuing through April 1, 2023. These New Project Bonds bear interest from 2.00% to 4.70%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2003. The Current Refunding Bonds mature beginning April 1, 2012, and continuing through April 1, 2014. The Current Refunding Bonds bear interest from 4.00% to 5.00%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2003.

On March 21, 2006, \$45,595,000 in Revenue Bonds, Series 2006 were issued. The Series 2006 Bonds consisted of \$39,625,000 of New Project Bonds and \$5,970,000 in Current Refunding Bonds. The New Project Bonds mature beginning April 1, 2017, and continuing through April 1, 2031. These New Project Bonds bear interest from 3.90% to 4.40%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2006. The Current Refunding Bonds mature beginning April 1, 2007, and continuing through April 1, 2013. The Current Refunding Bonds bear interest from 3.35% to 3.70%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2006.

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

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

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

PLEGDED REVENUES & DEBT SERVICE REQUIRMENTS

The University has pledged fees relating to tuition, health services, athletics, health insurance, student activities and all other fees (excluding laboratory, and library fees) collected from students, to repay the principal and interest of revenue bonds. A total of \$145,938,466 of future revenues is pledged through 2033. Debt service to pledged revenues for the current year is 6.43%.

DEFEASED BONDS

In June 1993, the University defeased a portion of the Series 1989 bonds by creating a separate irrevocable trust fund. New debt (series 1993 bonds) was issued and the proceeds used to purchase U.S. Treasury securities that were placed in the trust fund. The investments and fixed earnings from the investment are sufficient to service the defeased amount until the debt matures. For financial reporting purposes, the debt has been considered defeased and removed as a liability on the Statements of Net Assets. The defeased debt outstanding for the years ended June 30, 2011 and 2010 was \$10,948,993 and \$10,727,614, respectively.

CERTIFICATES OF PARTICIPATION PAYABLE

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

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

Maturities and interest requirements on certificates of participation at June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 1,200,000	\$ 1,449,363	\$ 2,649,363
2013	1,515,000	1,499,567	3,014,567
2014	1,555,000	1,443,518	2,998,518
2015	1,620,000	1,385,992	3,005,992
2016	<u>1,675,000</u>	<u>1,323,630</u>	<u>2,998,630</u>
Sub-total	7,565,000	7,102,070	14,667,070
2017-2021	9,410,000	5,559,613	14,969,613
2022-2026	11,675,000	3,362,860	15,037,860
2027-2031	6,195,000	899,525	7,094,525
2032	<u>705,000</u>	<u>37,894</u>	<u>742,894</u>
Sub-total	35,550,000	\$ <u>16,961,962</u>	\$ <u>52,511,962</u>
Additions(Deductions):			
Unamortized Discounts	(78,767)		
Unamortized Premiums	61,012		
Total	\$ <u>35,532,245</u>		

ACCRUED COMPENSATED ABSENCES

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

	Vacation	Sick	Total
2011	\$ 10,522,155	\$ 6,535,144	\$ 17,057,299
2010	\$ 10,114,061	\$ 7,117,184	\$ 17,231,245

FOUNDATION LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	\$ 358,138	\$ -	\$ 141,567	\$ 216,571
Deferred rent	2,400,000	-	300,000	2,100,000
Contract-for-deed payable	3,187,040	-	64,749	3,122,291
Total	\$ 5,945,178	\$ -	\$ 506,316	\$ 5,438,862
Current portion				
Beneficiary payments	\$ 41,170			\$ 22,505
Deferred rent	300,000			300,000
Contract-for-deed payable	64,749			69,085
Total current portion	\$ 405,919			\$ 391,590
Noncurrent portion				
Beneficiary payments	\$ 316,968			\$ 194,066
Deferred rent	2,100,000			1,800,000
Contract-for-deed payable	3,122,291			3,053,206
Total noncurrent portion	\$ 5,539,259			\$ 5,047,272

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	\$ 354,080	\$ 50,554	\$ 46,496	\$ 358,138
Deferred rent	2,700,000	-	300,000	2,400,000
Contract-for-deed payable	3,247,724	-	60,684	3,187,040
Total	\$ 6,301,804	\$ 50,554	\$ 407,180	\$ 5,945,178
Current portion				
Beneficiary payments	\$ 34,525			\$ 41,170
Deferred rent	300,000			300,000
Contract-for-deed payable	60,684			64,749
Total current portion	\$ 395,209			\$ 405,919
Noncurrent portion				
Beneficiary payments	\$ 319,555			\$ 316,968
Deferred rent	2,400,000			2,100,000
Contract-for-deed payable	3,187,040			3,122,291
Total noncurrent portion	\$ 5,906,595			\$ 5,539,259

FOUNDATION CONTRACT-FOR-DEED PAYABLE

A contract at June 30, 2011 consisted of a \$3,300,000 installment contract-for-deed secured by the Alumni Center building. The contract requires 119 monthly payments of \$22,500 at 6.5% interest with a final payment of the remaining outstanding balance.

Maturities and Interest Requirements on the contract payable at June 30, 2011, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 69,085	\$ 200,915	\$ 270,000
2013	73,712	196,288	270,000
2014	78,649	191,351	270,000
2015	83,916	186,084	270,000
2016-2019	<u>2,816,929</u>	<u>536,706</u>	<u>3,353,635</u>
Total	<u>\$ 3,122,291</u>	<u>\$ 1,311,344</u>	<u>\$ 4,433,635</u>

Note 10. Leases

CAPITALIZED LEASES

Certain leases in which the Board of Trustees, the governing board of the University, is the lessee are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date as required by Financial Accounting Standards Board (FASB) Statement No. 13.

On March 30, 2011, the University entered into a capital lease agreement in an amount not to exceed \$2,410,000 with Banc of America Public CapitalCorp to finance equipment and IT costs for the Mennonite Lab Building. The available funds are on deposit in an escrow account held by Deutsche Bank Trust. A total of \$153,548 was paid during fiscal year 2011 to various vendors for progress payments related to the contract.

Year Ending <u>June 30</u>	
2012	\$ 521,401
2013	521,401
2014	521,401
2015	521,401
2016	<u>521,400</u>
Total minimum lease payments	<u>2,607,004</u>
Less amount representing interest	197,004
Present value of future minimum lease payments	<u>\$ 2,410,000</u>

OPERATING LEASES

The University has entered into agreements to lease recreational space and office space that the University is treating as operating leases. Rent expense for the years ended June 30, 2011 and 2010 was \$1,349,250 and \$912,323, respectively. The leases expire between July 2011 and June 2018. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Building</u>
2012	1,315,504
2013	1,093,342
2014	863,339
2015	863,339
2016	300,000
2017-2018	<u>600,000</u>
Total	\$ <u>5,035,524</u>

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporations, and Foundation networks. Lease payments for the Chicago office were \$56,532 in 2011 and \$64,103 in 2010. The current lease expires on December 31, 2014.

Year Ending <u>June 30</u>	<u>Building</u>
2012	\$ 75,401
2013	76,809
2014	78,216
2015	<u>39,460</u>
Total	\$ <u>269,886</u>

The University leases fifteen vehicles for the Athletic Department employees at a cost of \$65,670 in fiscal year 2011 and \$64,526 in fiscal year 2010. The Foundation makes the payments on these leased vehicles. One, two and twelve vehicle leases expire during fiscal years 2012, 2013, and 2014, respectively. Following is a schedule of future minimum lease payments.

Year Ending <u>June 30</u>	<u>Vehicles</u>
2012	\$ 52,248
2013	50,040
2014	<u>44,685</u>
Total	\$ <u>146,973</u>

Note 11. State Universities Retirement System (SURS)

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

Funding Policy: Plan members are required to contribute 8.0% (up to 9.5% for police officers) of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 24.21% (for FY 2012) of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ending June 30, 2011, 2010, and 2009, were \$35,249,606, \$31,104,831, and \$19,954,109, respectively, equal to the required contributions for each year.

Note 12. Post-employment Benefits

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

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of 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 Ave., Springfield, Illinois, 62763-3838.

Note 13. Transactions with Related Organizations

Illinois State University Foundation (The Foundation) is a related organization formed to support in various ways the University's instructional, research, and public service missions. The University and the Foundation entered into a three year Support Agreement effective July 1, 2009, whereby the University agrees to provide to the Foundation fair and reasonable compensation in exchange for development and fundraising services up to a maximum value of \$2,200,000 during the first year of the agreement. For the year ended June 30, 2010 the University made a cash payment to the Foundation of \$200,000 for these services. In additional consideration for these services, the University provided office space, clerical, accounting and computer support estimated to be \$1,755,690 and \$1,707,897 during fiscal years 2011 and 2010, respectively. During fiscal years 2011 and 2010 the Foundation contributed services and expenditures of \$8,012,794 and \$6,611,929, respectively that were for the direct and/or indirect support of the University.

In June 2007, Launching Futures II invested in real estate for \$600,631 for use by the University as a remote parking lot. Concurrently, Launching Futures II signed a lease agreement with the University for the real estate providing for annual payments of \$49,992 from the University to Launching Futures II. The lease has a five year term with the University having the option to extend the lease term for an additional five year period.

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

The Illinois Institute for Entrepreneurship Education (IIEE) was created by an act of the Illinois General Assembly in 1988. The purpose of the IIEE is to foster growth and development of entrepreneurship by educating Illinois citizens to the viability of entrepreneurship as a career option and to the role and contributions of entrepreneurs in economic development and job creation. The IIEE is mandated to reach all areas of the State, all ages, all ethnic groups, and income levels. The IIEE was created under the oversight of Illinois State University and, by working cooperatively with the University, the IIEE offers Illinois teachers two university-accredited graduate courses in entrepreneurship. During fiscal year 2010, the University contributed \$184,000 of revenue and direct public service expenditures to the IIEE. These amounts are discretely blended in the University financial statements. During fiscal year 2011, \$200,000 was transferred to Chicago State University who is now overseeing IIEE.

Note 14. Student Health Insurance

The University contracts with Aetna Student Health (ASH) formerly known as The Chickering Group, an Aetna Company of Cambridge, Massachusetts for administration of the Aetna Accident and Sickness Plan to provide insurance benefits to students of the University. Students enrolled in 9 or more semester hours of credit pay a premium for this coverage. As part of the contractual agreement between the University and ASH, the University has a premium stabilization reserve (PSR) which is used to minimize future plan year increases in the premium based on unexpectedly high claims utilization. As each Plan Year is finalized, costs are debited (gains are credited) to an account funded by the University each year (15% of expected premium at the initial deposit, but adjusted to 15% of actual premium upon reconciliation). The reserve for 2008-2009 of \$1,144,323 became available upon final calculation in November 2010, a portion of the reserve, \$1,016,735, was rolled over to complete funding of 2011-2012 Plan Year, with an additional \$130,325 available to the University, which can be returned or held to fund future periods. Potential refunds are still at risk for unexpected claims losses, they are not recorded as assets. Assuming a 10% trend, no plan design changes, and no change in enrollment, the University estimates \$1,028,500 to be needed to fund 2012-2013.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded \$108,352,602 and \$99,549,539 in Direct Student Loans for the years ended June 30, 2011 and 2010, respectively. The University classified this loan program as noncash federal awards, and it is disclosed in the footnotes to the Office of Management and Budget (OMB) Circular A-133 Schedule of Expenditures of Federal Awards. Accordingly, no revenue or expenditures are included in the financial statements of the University.

Note 16. Risk-Management

The University is exposed to various loss related exposures. These exposures include torts, theft, damages, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University purchases commercial insurance for these loss exposures. During the years ended June 30, 2011 and 2010, there were no significant reductions in coverage.

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

To augment existing State and commercial coverage, and to assist in addressing potential risks and liabilities incurred through its operations, the University is self-funded. In accordance with the requirement of GASB Statement No. 10, a liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. At June 30, 2011 and 2010 the liability was \$0. There were no settlements which exceeded insurance coverage for the last three years. Following is a schedule of changes in self-insurance for fiscal year 2010:

		2010
Beginning Balance	\$	1,115,707
Revenue		15,158
Expenses		(12,374)
Reclassification from liability reserve to board designated self-insurance		(1,118,491)
Ending Balance	\$	-

Note 17. Net Assets

UNIVERSITY NET ASSETS

University restricted net assets are comprised of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Expendable Student loans	\$ 9,467,386	\$ 9,455,338

The University's Board of Trustees designated unrestricted net assets are comprised of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Capital asset renewal and replacement for the internal service departments	\$ 254,511	\$ 376,427
Self- Insurance	<u>1,118,491</u>	<u>1,118,491</u>
Total	\$ <u>1,373,002</u>	\$ <u>1,494,918</u>

FOUNDATION NET ASSETS

The Foundation's restricted net assets are comprised of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Nonexpendable		
Scholarship and fellowship	\$ 40,686,811	\$ 35,190,065
College and academic department support	14,717,890	9,943,241
Faculty and staff compensation	6,260,595	7,321,387
Other	<u>7,239,063</u>	<u>7,156,443</u>
Total nonexpendable	\$ <u>68,904,359</u>	\$ <u>59,611,136</u>
Expendable		
Scholarship and fellowship	\$ 8,823,050	\$ 7,647,477
Instructional departmental uses	9,761,855	10,739,698
University capital projects	2,050,018	3,104,929
Other restricted expendable	<u>4,063,333</u>	<u>1,579,259</u>
Total expendable	\$ <u>24,698,256</u>	\$ <u>23,071,363</u>

Note 18. Foundation Donor Restricted Endowments

If a donor has not provided specific instructions, state law permits the Foundation to authorize expenditure from available endowment funds. The Foundation Investment Committee has adopted a weighted average spending policy based on the following components:

1. Prior year spending amount plus 4.5% of the value of new gifts. The sum is adjusted by the Higher Education Price Index inflation factor for the past 12 months then weighted at 70%.
2. End of the year market value times 4.5%, then weighted at 30%.
3. A fundraising fee of .8%, based on the end of the year market value, is assessed each endowed fund to help support Foundation fundraising and general operations.

Due to the market value of the Foundation's endowed investments declining 20.4% during the year ended June 30, 2009, the Foundation Board decided not to make a distribution for fiscal year 2010.

The Investment Committee reinstated the distribution for fiscal year 2011 which resulted in \$2,868,470 being distributed on July 1, 2010. \$2,395,330 was distributed to expendable for endowed funds and \$473,140 was distributed to the Foundation for fundraising and general operations expenses.

In September of 2010, the Foundation reached a verbal agreement to return to a donor, who is a Foundation Board member, \$1.924 million in gifts to an endowed fund, which will be terminated at the donor's request. These funds were returned to the donor during fiscal year 2011.

On June 30, 2009, the Illinois Governor signed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) into law. UPMIFA replaced the Uniform Management of Institutional Funds Act (UMFIA) and eliminated the historic dollar value rule with respect to endowment fund spending. UPMIFA also updated the prudence standard for the management and investment of charitable funds. In accordance with UPMIFA, the Foundation Board considers the factors in Section 3(e)(1) and 4(a) of the act in determining the investment, management and disbursement of endowment funds.

Note 19. Commitments

The University entered into two real estate deposit and option agreements during 2005, with one of the agreements being amended in 2006 and 2008. The agreements grant the University an irrevocable seven year option period to purchase the properties. The agreements provide that the option periods may be renewed for up to two additional periods of seven years. The University has made non-refundable option deposit payments of \$1,955,250 at June 30, 2010 (\$610,000 in 2010, and \$1,345,250 in 2008, 2007, 2006 and 2005 collectively) which can be credited toward the purchase price. The deposit extends the option period agreement to August 2014 with the option to renew an additional period of five years. If the University exercises the option agreements, the purchase price for the properties will be \$4,180,000. The agreements also require annual maintenance fees which will not be credited toward the purchase price. In October 2011, the Board of Trustees authorized the exercise of options on the properties located at 302 N. School St. and 209, 211, 213, and 215 N. Fell Streets.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are \$29,026,881, approximately \$14,645,691 (50.5 percent) of the work has been completed as of June 30, 2011. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

In June 2010, the University entered into a 40 year ground lease agreement with Collegiate Housing Foundation – Normal, LLC (lessee), a non-profit limited liability company, for the purpose of financing, constructing, furnishing and equipping a new 896 bed student housing facility at the current Cardinal Court Apartment complex site. The construction cost of the project is estimated at \$47,000,000 and will be financed with revenue bonds issued by the Illinois Finance Authority as debt of the lessee. Construction began in February 2011 with completion expected by

August 2012. The facility will house Illinois State University students and be managed by the University. The lessee will pay the University rent on the ground lease on an annual basis as defined by the terms of the agreement.

In October 2010, University Board of Trustees approved a \$5.5 million capital improvement project to Hovey Hall as well as an energy conservation measures contract at a project cost of \$8.5 million. The Series 2011 Certificates of Participation were issued to finance the cost of these improvements.

The University has secured natural gas and electricity at a fixed price for fiscal years 2012 through mid-2014 by executing forward fixed price purchase contracts with Integrys Energy, IMGA, and MidAmerican Energy. As of June 30, 2011, the University's commitment to these contracts is approximately \$11,638,990 for natural gas and \$17,572,973 for electricity. These are considered normal purchase contracts.

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest \$20,196,457 and \$16,296,457 as of June 30, 2011 and 2010, respectively. As of June 30, 2011 and 2010, the Foundation had invested \$10,378,030 and \$9,074,772, respectively and has future investment commitments of \$9,818,427 and \$7,221,685, respectively.

In October 2011, the University purchased the property at 216 N. Main for \$173,816. An estimated \$50,000 will be spent on demolition costs and site improvements.

In February 2012, the University Board of Trustees approved additional expenditures of up to \$23.5 million for capital improvements to Hancock Stadium. Previously, the Board had authorized expenditures of up to \$1.5 million for planning improvements to Hancock Stadium. The cost of the additional project expenditures will be funded by a combination of \$21.5 million of bond proceeds, \$1.0 million of University funds and \$2.5 million of anticipated private contributions.

Note 20. Contingencies

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

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters on the financial condition or results of operations of the University is necessary at June 30, 2011, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

Note 21. Crosswalk of Natural Classification with Functional Classifications

Natural Classification for the Year Ended June 30, 2011

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 97,901,819	\$ 16,089,914	\$ -	\$ -	\$ 113,991,733
Research	10,190,860	3,800,256	-	-	13,991,116
Public Service	7,524,860	8,170,467	-	-	15,695,327
Academic Support	11,492,493	6,641,178	-	-	18,133,671
Student Services	18,419,496	17,328,755	-	-	35,748,251
Institutional Support	16,895,834	12,648,060	-	-	29,543,894
Operation of Plant	11,547,231	12,699,054	-	-	24,246,285
Depreciation	-	-	-	19,779,251	19,779,251
Staff Benefits	1,864,382	-	46,927	-	1,911,309
Student Aid	-	5,282,507	31,637,930	-	36,920,437
Payments on Behalf	86,469,651	-	-	-	86,469,651
Auxiliary Facilities	25,176,579	31,950,223	-	-	57,126,802
Other	2,292,074	46,217	-	-	2,338,291
Total University	\$ 289,775,279	\$ 114,656,631	\$ 31,684,857	\$ 19,779,251	\$ 455,896,018

Natural Classification for the Year Ended June 30, 2010

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 95,898,643	\$ 14,070,869	\$ -	\$ -	\$ 109,969,512
Research	10,549,779	3,652,269	-	-	14,202,048
Public Service	7,239,160	7,859,716	-	-	15,098,876
Academic Support	11,503,250	2,687,294	-	-	14,190,544
Student Services	17,989,802	17,320,443	-	-	35,310,245
Institutional Support	16,171,660	11,058,261	-	-	27,229,921
Operation of Plant	12,018,186	17,517,970	-	-	29,536,156
Depreciation	-	-	-	17,939,398	17,939,398
Staff Benefits	1,178,173	-	42,123	-	1,220,296
Student Aid	-	4,439,345	27,235,019	-	31,674,364
Payments on Behalf	78,553,377	-	-	-	78,553,377
Auxiliary Facilities	23,527,036	38,056,721	-	-	61,583,757
Other	2,343,212	58,524	-	-	2,401,736
Total University	\$ 276,972,278	\$ 116,721,412	\$ 27,277,142	\$ 17,939,398	\$ 438,910,230

Note 22. Additional Auxiliary Facilities System Disclosure Information

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

Following are condensed financial statements for the Auxiliary Facilities System:

Condensed Statements of Net Assets at June 30

	2011	2010 (as restated)
Assets:		
Current assets	\$ 26,448,178	\$ 41,802,002
Noncurrent assets:		
Capital assets, net	193,742,160	180,493,574
Other noncurrent assets	62,381,412	55,966,756
Total assets	<u>282,571,750</u>	<u>278,262,332</u>
Liabilities:		
Current liabilities	14,385,736	20,334,795
Noncurrent liabilities	93,724,613	99,140,744
Total liabilities	<u>108,110,349</u>	<u>119,475,539</u>
Net assets:		
Invested in capital assets, net of related debt	97,209,831	82,473,843
Unrestricted	77,251,570	76,312,950
Total net assets	<u>\$ 174,461,401</u>	<u>\$ 158,786,793</u>

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the year ended at June 30

Operating revenues	\$ 83,018,067	\$ 80,914,263
Depreciation expense	(6,074,942)	(4,973,799)
Other operating expenses	(57,126,802)	(61,583,757)
Operating income	<u>19,816,323</u>	<u>14,356,707</u>
Non-operating revenues	239,706	1,225,117
Non-operating expenses	(4,381,421)	(3,280,279)
Increase in net assets	<u>15,674,608</u>	<u>12,301,545</u>
Net assets – beginning of year	158,786,793	146,762,195
Prior period adjustment		(276,947)
Net assets – end of year	<u>\$ 174,461,401</u>	<u>\$ 158,786,793</u>

Condensed Statements of Cash Flows for the year ended June 30

Net cash flows provided by operating activities	\$ 24,357,802	\$ 17,278,246
Net cash flows provided by non-capital financing activities	239,643	246,299
Net cash flows provided by (used in) capital and related financing activities	(32,478,188)	(30,491,077)
Net cash flows provided by (used in) investing activities	323,810	(2,946,219)
Net increase (decrease) in cash and cash equivalents	<u>(7,556,933)</u>	<u>(15,912,751)</u>
Cash and cash equivalents, beginning of year	7,844,425	23,757,176
Cash and cash equivalents, end of year	<u>\$ 287,492</u>	<u>\$ 7,844,425</u>

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

RESERVES FOR DEBT SERVICE, REPAIR AND REPLACEMENT, AND DEVELOPMENT

Debt Service

A portion of the Debt Service Reserve Account (DSRA) that was established under the terms of the Revenue Bond Series 1989, 1992, 1993 and 1996 indentures was used to purchase a Surety Bond. This Surety Bond constitutes a Reserve Account Credit Instrument under the requirements of the Bond Resolution. The Surety Bond is payable to the Bond Registrar. The proceeds of the Surety Bond held in the DSRA may be used solely for the purpose of paying principal and interest on the Series 1989, 1992, 1993 and 1996 Bonds and any outstanding Parity Bonds.

Repair and Replacement and Development

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

	2011		2010	
	Repair and Replacement Reserve	Develop- ment Reserve	Repair and Replacement Reserve	Develop- ment Reserve
Maximum Allowable Deposits at June 30	\$ 39,024,111	\$ N/A	\$ 36,775,944	\$ N/A
Assets Reserved	27,626,970		25,935,606	1,319,295
Project Amount Approved by Board	N/A		N/A	1,250,000

During 2011, the Development Reserve balance of \$1,328,533 was used for the renovation of McCormick Hall in conjunction with the construction of the Student Fitness Center.

Note 23. Prior Period Adjustment

Subsequent to the issuance of the fiscal year 2010 financial statements, the University determined that certain receivables related to State funded scholarships were uncollectible. This resulted in the previously recorded Total Assets, as presented in the fiscal year 2010 Statement of Net Assets, being overstated by \$5,189,664. These receivables were related to State of Illinois military scholarship programs for fiscal years 2006 through 2010. With the determination that the State of Illinois will not be paying on these receivables, it was necessary to reduce the previously recorded Total Assets and corresponding Net Assets by the uncollectible balance of \$5,189,664. The fiscal year 2010 amounts are properly presented in the fiscal year 2011 comparative Statement of Net Assets.

The following financial statement line items for fiscal year 2010 were affected by the correction.

	As Previously Reported	Adjustment	As Restated
Statement of Net Assets			
Accounts Receivable	\$ 13,662,634	\$ (5,189,664)	\$ 8,472,970
Unrestricted Net Assets	124,989,779	(5,189,664)	119,800,115
Statement of Revenues, Expenses, and Changes in Net Assets			
Student tuition and fees, net	152,516,115	(1,412,074)	151,104,041
Auxiliary facilities	81,017,810	(103,547)	80,914,263
Operating loss	(158,628,503)	(1,515,621)	(160,144,124)
Income before capital items	31,352,754	(1,515,621)	29,837,133
Increase in net assets	39,864,561	(1,515,621)	38,348,940
Statement of Cash Flows - Reconciliation			
Operating loss	(158,628,503)	(1,515,621)	(160,144,124)
Accounts Receivables, net	(367,203)	1,515,621	1,148,418

This information is an integral part of the accompanying financial statements.