

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

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

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT**

For the Year Ended June 30, 2006

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**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY
FINANCIAL STATEMENT REPORT
SUMMARY**

The audit of the accompanying financial statements of Chicago State University and its discretely presented component unit was performed by Nykiel, Carlin & Co., Ltd.

Based on their audit, the auditors expressed unqualified opinions on Chicago State University's basic financial statements.

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Chicago State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of Chicago State University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from Chicago State University's basic financial statements as of and for the year ended June 30, 2005, on which we expressed unqualified opinions on the basic financial statements in our report dated December 20, 2005.

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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chicago State University and its discretely presented component unit as of June 30, 2006 and the respective changes in net assets and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, a report on our consideration of Chicago State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chicago State University's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The University Auxiliary Facilities Revenue Bond Fund, Series 1998 financial statements on pages 34 – 36 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in relation to the basic financial statement taken as a whole. The "Unaudited" supplementary information on pages 37 and 38 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Nykiel, Carlin & Co., Ltd.

NYKIEL, CARLIN & CO., LTD.
Kankakee, Illinois

December 18, 2006

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2006

Introduction

This section of the Chicago State University (University) annual financial report presents management's discussion and analysis ("MD&A") of the financial performance of the University during the fiscal year ended June 30, 2006, with fiscal year 2005 prior year data presented for comparative purposes. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

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

Background

The University is a public, comprehensive, urban institution of higher learning and strives for excellence in teaching, research, creative expression and community service. The University is located in a residential community on the south side of Chicago, approximately 12 miles from downtown Chicago. The 161-acre campus has contemporary buildings attractively placed in a carefully preserved woodland setting. The mission of the University is to: 1) provide access to higher education for residents of the region, the State and beyond, with an emphasis on meeting the educational needs of promising graduates from outstanding secondary schools, as well as educating students where academic and personal growth and promise may have been inhibited by lack of economic, social, or educational opportunity; and 2) produce graduates who are responsible, discerning, and informed global citizens with a commitment to lifelong learning and service. The University enrolled approximately 6,700 doctorate, graduate and undergraduate students during Spring 2006 and employs approximately 1,000 employees consisting of faculty, civil service and administrators. The University offers a diverse range of degree programs from baccalaureate to graduate levels. The University confers approximately 1,000 graduate and undergraduate degrees per annum.

Financial Highlights

The University's financial position remained strong at June 30, 2006, with assets of \$156.8 million and liabilities of \$44.6 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by \$33.6 million in fiscal 2006 to \$112.2 million at June 30, 2006. The increase in net assets is primarily attributable to investment in capital assets, net of accumulated depreciation and related debt.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2006

Financial Highlights (continued)

Changes in net assets represent the operating activities of the University, which results from revenues, expenses, gains and losses, and is summarized for the years ended June 30 as follows:

	<u>2006</u>	<u>2005</u>
Total revenues	\$ 141,242,683	\$ 119,018,950
Total expenses	107,611,929	101,817,917
Increase in net assets	<u>\$ 33,630,754</u>	<u>\$ 17,201,033</u>

Fiscal 2006 revenues increased \$22.2 million or 19% to \$141.2 million and total expenditures increased \$5.8 million or 6% to \$107.6 million, compared to the prior year. Overall, the University experienced an increase in revenues of \$33.6 million primarily the result of \$21.3 million of on-behalf capital appropriation revenue received from the Capital Development Board (CDB) and a \$7.0 million capital grant for the construction of the Convocation Center.

Using the Financial Statements

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

Statement of Net Assets

The Statement of Net Assets presents the assets and liabilities of the University using the accrual basis of accounting and reflects the financial position of the University at the end of the fiscal year. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the University, while the change in net assets that occurs over time is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost, less an allowance for depreciation. Net Assets has been further categorized as (i) Invested in capital assets, net of related debt, (ii) Restricted nonexpendable – net assets that are permanently restricted by externally imposed stipulations, (iii) Restricted expendable – net assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2006

Statement of Net Assets (continued)

stipulations or that expire by the passage of time and (iv) Unrestricted – net assets that are not subject to externally imposed stipulations and may be used at the discretion of the governing board to meet current expenses for any purpose.

A summary of the University's assets, liabilities and net assets for the year ended June 30, 2006 in comparison with June 30, 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 19,559,388	\$ 18,822,505
Noncurrent assets:		
Capital assets, net	136,396,279	103,457,913
Other	873,037	776,460
Total Assets	<u>156,828,704</u>	<u>123,056,878</u>
Liabilities:		
Current liabilities	14,732,513	12,604,994
Noncurrent liabilities	29,906,634	31,893,081
Total Liabilities	<u>44,639,147</u>	<u>44,498,075</u>
Net Assets:		
Invested in capital assets, net of related debt	112,468,827	79,075,094
Restricted - expendable	4,156,022	6,620,216
Unrestricted	(4,435,292)	(7,136,507)
Total Net Assets	<u>\$ 112,189,557</u>	<u>\$ 78,558,803</u>

A review of the University's Statement of Net Assets at June 30, 2006 and 2005 shows that the University maintains a strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, and conservative use of debt.

Current assets increased by \$0.7 million to \$19.6 million. This is the net result of the \$6.9 million increase in cash and cash equivalents, the \$3.3 million decrease in the balance of State appropriation, the \$1.3 million increase in accounts receivable, and the \$4.2 million decrease in prepaid expenses and other assets. The balance in State appropriations decreased \$3.3 million to \$0.3 million, due to the timing of expenditures processing and rapid reimbursements from the State of Illinois. Accounts receivable were up \$1.3 million to \$8.7 million (18%) mainly due to an increase in grant receivables and student tuition and fees receivable. Prepaid expenses and other assets decreased by \$4.2 million as the amounts that were prepaid for the construction of the new Convocation Center were used in Fiscal 2006.

The University's total assets increased \$33.8 million to \$156.8 million at June 30, 2006 due to the increase in Capital Assets, specifically by \$32.9 million for the construction of the new Academic Library and the Convocation Center.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

Statement of Revenues, Expenses and Changes in Net Assets

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

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

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

A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2006 in comparison with the year ended June 30, 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 60,869,158	\$ 51,119,197
Operating expenses	<u>(106,102,036)</u>	<u>(100,514,277)</u>
Operating loss	(45,232,878)	(49,395,080)
Net non-operating revenues	<u>50,647,950</u>	<u>52,022,660</u>
Income before other revenues, expenses, gains or losses	5,415,072	2,627,580
Other revenues, expenses, gains or losses	<u>28,215,682</u>	<u>14,573,453</u>
Increase in net assets	33,630,754	17,201,033
Net assets, beginning of year	<u>78,558,803</u>	<u>61,357,770</u>
Net Assets, end of year	<u><u>\$ 112,189,557</u></u>	<u><u>\$ 78,558,803</u></u>

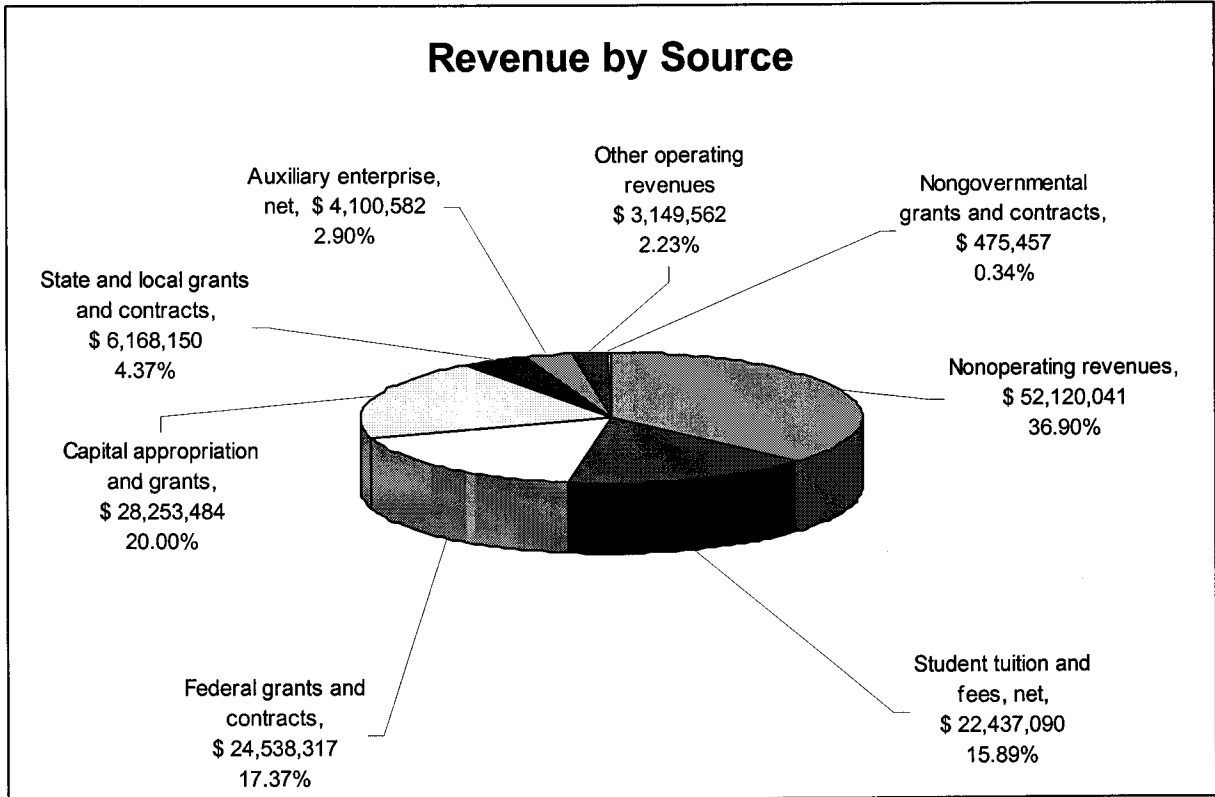
The following is a graphic illustration of revenues by source, which were used to fund the University's operations for the year ended June 30, 2006. The most significant source of revenue was the State of Illinois, totaling \$80,316,454 which included State appropriations of \$38,660,300, State fringe benefits of \$13,402,670, and capital grants and appropriations expended by CDB of \$28,253,484 or 57% percent of total revenue.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2006

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



**STATE OF ILLINOIS
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MANAGEMENT'S DISCUSSION AND ANALYSIS

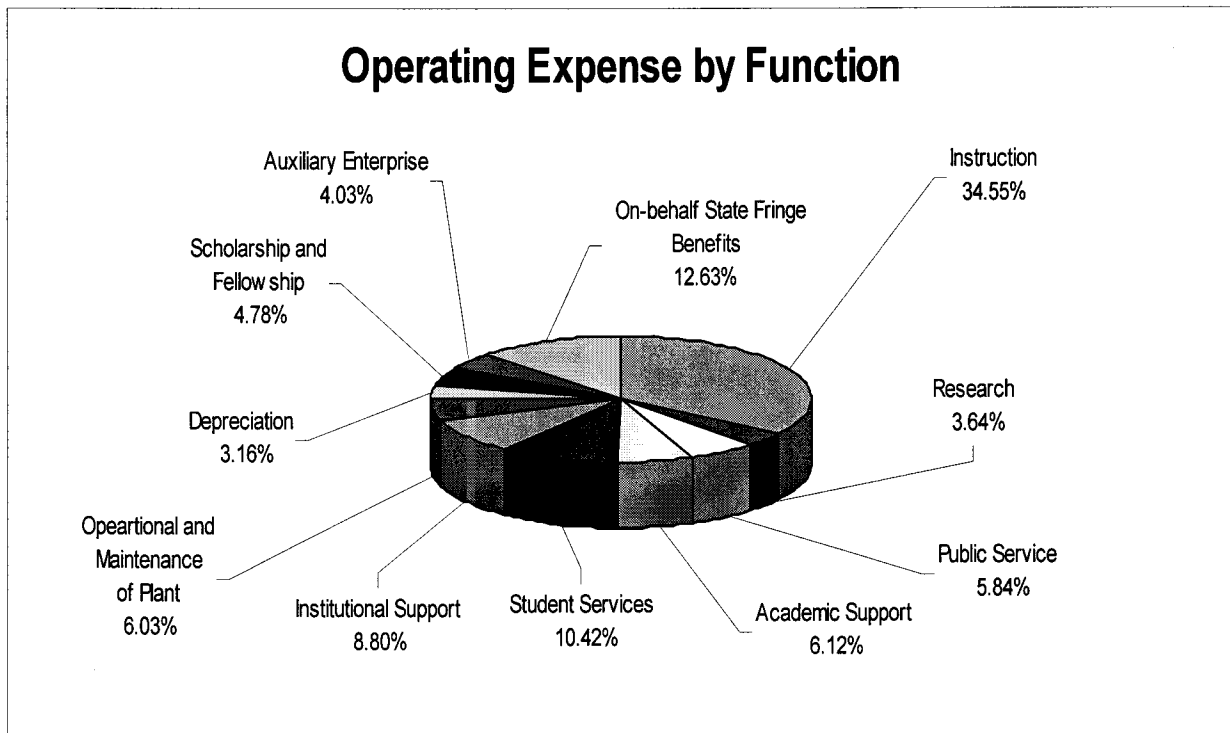
FOR THE YEAR ENDED JUNE 30, 2006

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

A summary of the University's operating expenses for the year ended June 30, 2006 in comparison with the year ended June 30, 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Operating Expenses:		
Educational and General		
Instruction	\$ 36,655,375	\$ 34,181,896
Research	3,863,448	2,340,702
Public Service	6,192,057	6,261,285
Academic Support	6,491,124	6,220,476
Student Services	11,056,396	8,781,577
Institutional Support	9,336,983	8,270,646
Operations and Maintenance of Plant	6,402,239	8,204,625
Depreciation	3,348,005	2,958,195
Scholarship and Fellowship	5,075,461	5,086,431
Auxiliary Enterprise Expenses	4,278,278	3,781,413
On-behalf State Fringe Benefits	13,402,670	14,427,031
Total Operating Expenses	\$ 106,102,036	\$ 100,514,277

The following graphic illustration presents the operating expenses by function.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2006

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

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

Student tuition and fees revenues increased by \$2.9 million to \$22.4 million due to the 15% increase in tuition for new students and 5% increase for returning students. The increases to some extent help off-set reductions in state appropriation revenues. Federal grants and contracts revenues increased by \$5.2 million, due to new federal grants awarded to promote science, engineering and mathematics programs. State and local grant revenues were up \$1.1 million due to increases in various grants received from several state sources. Private grants increased \$0.334 million due to increased funding levels from private sources. Other income increased by \$0.389 million due to an increase in other revenue generated from Teacher Certification and Distance Learning Programs.

Total operating expenses, increased \$5.6 million or 6% to \$106.1 million. Expenses associated with instruction, research, student services and institutional support increased by \$7.3 million or 14%. Research increased \$1.5 million or 65% to \$3.9 million due to increased funding of the MBRS grant as well as other grants. Academic Support increased \$271 thousand or 4%. Student services expenditures increased \$2.3 million or 26% to \$11.1 million due to additional expenses of the CRCP grant. Institutional Support expenses increased 13% to \$9.3 million compared to the prior year because of a new disaster recovery grant and higher telecommunication expenses funded by increased state grants. Operation and Maintenance of Plant expenditures decreased by 22% to \$6.4 million. Scholarship and Fellowship expenses were down \$11 thousand. Auxiliary enterprise expenditures increased 13% to \$4.3 million due to higher spending related to the bookstore relocation, parking improvements and central stores activity.

Net non-operating revenue decreased \$1.4 million to \$50.6 million. The decrease was due to the decreased retirement expenses incurred by the State University Retirement System on-behalf of the University employees during fiscal 2006.

State of Illinois appropriations, the largest source of revenue, declined \$185 thousand or 0.5% to \$38.7 million. The decrease was due to a 0.5% cut in the General Revenue Fund appropriation, which was partially off-set by several one-time special appropriations.

Revenues from Capital appropriations and grants increased by \$13.7 million to \$28.3 million. The increase is associated primarily with the construction of the convocation center and the completion of the new academic Library.

The University chooses to report expenses by functional classification in the Statement of Revenues, Expenses and Changes to Net Assets. The expenses are also reported by natural classification in Note 7, on page 29.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2006

Statement of Cash Flows

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

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

	<u>2006</u>	<u>2005</u>
Cash provided by (used in):		
Operating activities	\$ (25,123,987)	\$ (31,435,414)
Noncapital financing activities	41,965,930	36,964,240
Capital and related financing activities	(9,950,126)	(6,689,918)
Investing activities	<u>57,071</u>	<u>33,727</u>
Net change in cash	6,948,888	(1,127,365)
Cash, beginning of year	<u>3,356,958</u>	<u>4,484,323</u>
Cash, end of year	<u>\$ 10,305,846</u>	<u>\$ 3,356,958</u>
	<u>2006</u>	<u>2005</u>
Operating loss	\$ (45,232,878)	\$ (49,395,080)
Noncash expenses included in operating loss	16,750,675	17,385,226
Net change in assets and liabilities	<u>3,358,216</u>	<u>574,440</u>
Net cash used in operating activities	<u>\$ (25,123,987)</u>	<u>\$ (31,435,414)</u>

Economic Factors that will affect the Future

Looking forward into the future, the management of the University believes it is well positioned to continue its strong financial condition and level of excellence in service to its constituents. A crucial element to the University's future will continue to be its relationship with the State of Illinois as the University relies on State appropriations to finance its operations. The University's overall financial situation is strong and reflects prudent use of financial resources, including careful cost control, management of appropriated operating and capital resources. While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather all known economic uncertainties.

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

STATEMENT OF NET ASSETS

**JUNE 30, 2006
(With Comparative Totals as of June 30, 2005)**

	2006		2005	
	University	Component Unit	University	Component Unit
ASSETS				
Current Asset				
Cash and cash equivalents (Note 2)	\$ 10,305,846	\$ 614,533	\$ 3,356,958	\$ 211,047
Cash and cash equivalents-restricted (Note 2)	-	2,771,389	-	640,290
Investments (Notes 1 & 2)	-	-	-	110,290
Balance in State Appropriation	294,601	-	3,600,231	-
Accounts receivable, net (Notes 1 & 3)	8,658,800	378,538	7,352,422	64,262
Inventories (Note 1)	59,592	-	66,493	-
Loans and notes receivable, net (Note 3)	17,523	-	17,532	-
Prepaid expenses and other assets (Note 1)	223,026	-	4,428,869	-
Total Current Assets	<u>19,559,388</u>	<u>3,764,460</u>	<u>18,822,505</u>	<u>1,025,889</u>
Non-current Assets				
Restricted investments (Notes 1 & 2)	-	139,698	-	334,607
Endowment investments (Notes 1 & 2)	-	1,774,769	-	1,742,884
Loans and notes receivable, net (Note 3)	873,037	-	776,460	-
Capital assets, net (Notes 1 & 4)	136,396,279	-	103,457,913	-
Total Non-current Assets	<u>137,269,316</u>	<u>1,914,467</u>	<u>104,234,373</u>	<u>2,077,491</u>
Total Assets	<u>156,828,704</u>	<u>5,678,927</u>	<u>123,056,878</u>	<u>3,103,380</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	6,879,017	2,471,390	5,941,890	282,773
Accrued wages	2,085,177	-	1,872,542	-
Deferred revenue (Notes 1 & 5)	1,617,160	-	1,296,982	-
Long-term liabilities-current portion (Note 6)	4,151,159	-	3,493,580	-
Total Current Liabilities	<u>14,732,513</u>	<u>2,471,390</u>	<u>12,604,994</u>	<u>282,773</u>
Non-current Liabilities				
Accrued compensated absences (Notes 1 & 6)	6,459,426	-	6,941,439	-
Performance contract notes payable (Notes 1 & 6)	2,216,677	-	2,884,117	-
Bonds payable (Notes 1 & 6)	20,860,000	-	21,645,000	-
Premium on bonds (Note 6)	370,531	-	392,988	-
Capital leases payable (Notes 1 & 6)	-	-	29,537	-
Total Non-current Liabilities	<u>29,906,634</u>	<u>-</u>	<u>31,893,081</u>	<u>-</u>
Total Liabilities	<u>44,639,147</u>	<u>2,471,390</u>	<u>44,498,075</u>	<u>282,773</u>
NET ASSETS (Note 1)				
Invested in capital assets, net of related debt	112,468,827	-	79,075,094	-
Restricted for:				
Nonexpendable				
Endowments (Note 15)	-	1,871,390	-	1,847,690
Expendable				
Direct Programs and Scholarships	883,000	886,367	-	735,091
Research and instructional department uses	115,099	-	(56,861)	-
Loans	840,778	-	769,192	-
Capital projects	-	-	4,312,516	-
Debt service	2,317,145	-	1,595,369	-
Unrestricted	<u>(4,435,292)</u>	<u>449,780</u>	<u>(7,136,507)</u>	<u>237,826</u>
Total Net Assets	<u>\$ 112,189,557</u>	<u>\$ 3,207,537</u>	<u>\$ 78,558,803</u>	<u>\$ 2,820,607</u>

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

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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	2006		2005	
	University	Component Unit	University	Component Unit
OPERATING REVENUES:				
Student tuition and fees (net of scholarship allowances of \$ 7,721,000)	\$ 22,437,090	\$ -	\$ 19,572,632	\$ -
Federal grants and contracts	24,538,317	-	19,359,175	-
State and local grants and contracts	6,168,150	-	5,067,637	-
Nongovernmental grants and contracts	475,457	-	141,795	-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ 35,336)	4,100,582	-	4,217,015	-
Other operating revenues	3,149,562	429,857	2,760,943	112,254
Total operating revenues	<u>60,869,158</u>	<u>429,857</u>	<u>51,119,197</u>	<u>112,254</u>
OPERATING EXPENSES:				
Educational and General				
Instruction	36,655,375	-	34,181,896	-
Research	3,863,448	-	2,340,702	-
Public service	6,192,057	-	6,261,285	-
Academic support	6,491,124	-	6,220,476	-
Student services	11,056,396	-	8,781,577	-
Institutional support	9,336,983	725,671	8,270,646	322,255
Operations and maintenance of plant	6,402,239	-	8,204,625	-
Depreciation	3,348,005	-	2,958,195	-
Scholarship and fellowship	5,075,461	410,913	5,086,431	1,238,197
Auxiliary enterprise expenses	4,278,278	-	3,781,413	-
On-behalf State fringe benefits (See Note 8)	13,402,670	-	14,427,031	-
Total operating expenses	<u>106,102,036</u>	<u>1,136,584</u>	<u>100,514,277</u>	<u>1,560,452</u>
Operating loss	<u>(45,232,878)</u>	<u>(706,727)</u>	<u>(49,395,080)</u>	<u>(1,448,198)</u>
NONOPERATING REVENUES (EXPENSES):				
State appropriations	38,660,300	-	38,845,285	-
State fringe benefits	13,402,670	-	14,427,031	-
Gifts, contributions and grants	-	990,097	-	1,513,617
Investment income	57,071	100,973	33,727	94,215
Interest on capital asset - related debt	(1,472,091)	-	(1,283,383)	-
Other nonoperating revenues (expenses)	-	(14,611)	-	80,609
Net nonoperating revenues	<u>50,647,950</u>	<u>1,076,459</u>	<u>52,022,660</u>	<u>1,688,441</u>
Income before other revenues, expenses, gains, or losses	<u>5,415,072</u>	<u>369,732</u>	<u>2,627,580</u>	<u>240,243</u>
OTHER REVENUES, EXPENSES, GAINS OR LOSSES:				
Capital appropriations and grants	28,253,484	-	14,593,710	-
Endowment contributions	-	17,198	-	408,634
Loss on disposal of capital assets	(37,802)	-	(20,257)	-
Total other revenues, expenses, gains and losses	<u>28,215,682</u>	<u>17,198</u>	<u>14,573,453</u>	<u>408,634</u>
Increase in net assets	33,630,754	386,930	17,201,033	648,877
NET ASSETS				
Net assets-beginning of year	78,558,803	2,820,607	61,357,770	2,171,730
Net assets-end of year	<u>\$ 112,189,557</u>	<u>\$ 3,207,537</u>	<u>\$ 78,558,803</u>	<u>\$ 2,820,607</u>

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

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED JUNE 30, 2006
(With Comparative Totals for the Year Ended 2005)**

	2006		2005	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 22,200,727	\$ -	\$ 18,376,730	\$ -
Grants and contracts	30,432,087	-	24,159,606	-
Payment to suppliers for goods and services	(18,975,620)	(1,309,134)	(17,218,412)	(2,771,632)
Payments to employees for services	(56,922,372)	-	(56,079,028)	-
Payments for scholarships and fellowships	(6,992,343)	(264,017)	(6,698,142)	(337,515)
Loans issued to students and employees	(96,568)	-	(61,763)	-
Sales and service of auxiliary enterprises	4,100,582	-	4,217,015	-
Other receipts	1,129,520	99,582	1,868,580	111,264
Net cash used in operating activities	<u>(25,123,987)</u>	<u>(1,473,569)</u>	<u>(31,435,414)</u>	<u>(2,997,883)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	41,965,930	-	36,964,240	-
Gifts, contributions and grants	-	7,794,042	-	2,135,062
Other noncapital financing activities	-	(4,162,920)	-	(219,685)
Net cash provided by noncapital financing activities	<u>41,965,930</u>	<u>3,631,122</u>	<u>36,964,240</u>	<u>1,915,377</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchases of capital assets	(15,070,688)	-	(8,946,753)	-
Capital Grants	7,000,000	-	4,500,000	-
Principal paid on capital debt and leases	(785,079)	-	(755,080)	-
Interest paid on capital debt and leases	(1,094,359)	-	(1,488,085)	-
Net cash provided (used) by capital financing activities	<u>(9,950,126)</u>	<u>-</u>	<u>(6,689,918)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and/or dividends on investments	57,071	74,966	33,727	51,346
Proceeds from sales and maturities of investments	-	2,045,846	-	991,227
Net decrease (increase) in certificates of deposit investments	-	305,199	-	(53,646)
Purchase of investments and other	-	(2,048,979)	-	(1,488,402)
Net cash provided (used) by investing activities	<u>57,071</u>	<u>377,032</u>	<u>33,727</u>	<u>(499,475)</u>
NET INCREASE (DECREASE) IN CASH and CASH EQUIVALENTS				
Cash and Cash Equivalents-beginning of the year	6,948,888	2,534,585	(1,127,365)	(1,581,981)
Cash and Cash Equivalents-end of the year	<u>\$ 10,305,846</u>	<u>\$ 3,385,922</u>	<u>\$ 3,356,958</u>	<u>\$ 851,337</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	\$ (45,232,878)	\$ (706,727)	\$ (49,395,080)	\$ (1,448,198)
Adjustments to reconcile net loss to net cash used by operating activities				
Depreciation expense	3,348,005	-	2,958,195	-
State fringe benefits	13,402,670	-	14,427,031	-
Other income transferred from fiscal agent account	-	(330,275)	-	-
Net changes in assets and liabilities:				
Accounts receivables, net	(1,306,378)	(292,688)	(1,195,902)	(60,372)
Inventories	6,901	-	(6,673)	-
Prepaid expenses and other assets	4,205,843	-	3,179,775	-
Loans to students and employees	(96,568)	-	(192,374)	-
Accounts payable	536,937	(143,879)	(938,110)	(1,488,323)
Accrued wages	212,635	-	(281,870)	-
Deferred revenues	320,178	-	(409,001)	(990)
Compensated absences	(521,332)	-	418,595	-
Net cash used by operating activities	<u>\$ (25,123,987)</u>	<u>\$ (1,473,569)</u>	<u>\$ (31,435,414)</u>	<u>\$ (2,997,883)</u>
NONCASH INVESTING, CAPITAL AND NONCAPITAL FINANCING ACTIVITIES				
Capital appropriations	\$ 21,253,484	\$ -	\$ 10,093,710	\$ -
Unrealized gains (losses) on investments	-	(12,771)	-	530
Write-off of due to balances	-	-	-	100,000
State fringe benefits	13,402,670	-	14,427,031	-
Total noncash investing, capital and noncapital financing activities	<u>\$ 34,656,154</u>	<u>\$ (12,771)</u>	<u>\$ 24,520,741</u>	<u>\$ 100,530</u>

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies

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

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

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

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

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

Prepaid Expenses and Other Assets – These assets consist of deposits and prepaid expenses.

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

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

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

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued) –

Vacation Leave	\$ (97,364)
Sick Leave	<u>(423,968)</u>
Total Decrease in Compensated Absences	<u><u>\$ (521,332)</u></u>

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

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

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

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

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Assets (Continued) –

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

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and service of educational departments and auxiliary enterprises. 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 enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

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

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

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

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 35, such as State appropriations and investment income.

Note 2 – Deposits and Investments

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 2 – Deposits and Investments (Continued)

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

Deposits – At June 30, 2006, the carrying amount of the University and the Foundation's deposits with private financial institutions were \$10,305,846 and \$3,385,922 respectively. This amount consisted of cash and certificates of deposit deposited with the financial institutions. For financial reporting purposes, these deposits have been classified as cash and cash equivalents or investments, depending upon the original maturity of the financial instrument.

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

<u>Deposit Type</u>	<u>University</u>		<u>Foundation</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in Bank	\$ 1,098,690	\$ 4,022,393	\$ 2,910,980	\$ 3,191,719
Money Markets	-	-	369,285	369,285
Certificates of Deposit	-	-	<u>245,355</u>	<u>245,355</u>
Total deposit accounts	1,098,690	4,022,393	3,525,620	3,806,359
Add: Investments classified as cash equivalents (maturity < 90 days)	9,207,156		-	
Less: Certificates of deposit classified as investments (maturity > 90 days)	-		<u>139,698</u>	
Total Cash and Cash Equivalents	<u>\$ 10,305,846</u>		<u>\$ 3,385,922</u>	

The University requires that balances on deposit with financial institutions be either insured by Federal Deposit Insurance, collateralized by securities held by the Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name.

The University maintains cash deposits at certain Chicago-area financial institutions. Bank balances at year-end have been categorized and consisted of:

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 2 – Deposits and Investments (Continued)

Deposits (Continued) –

	<u>University</u>	<u>Foundation</u>
No Custodial Credit Risk	\$ 387,907	\$ 460,727
Custodial Credit Risk		
Collateral held by pledging financial institution	3,634,486	2,393,803
Custodial Credit Risk		
Uncollateralized	-	951,829
Total Deposits	<u>\$ 4,022,393</u>	<u>\$ 3,806,359</u>

Investments - Investments in the Illinois Funds have not been classified as to credit risk because the investments are not evidenced by securities that exist in physical or book entry form.

All investments held by the Foundation, a component unit of the University, are insured or registered and held by the Foundation or its agent in the Foundation's name. The carrying value (and market value) of the investment portfolio of the Foundation and University at June 30, 2006 consisted of the following:

	<u>University</u>	<u>Foundation</u>
	Fair Value	Fair Value
Money Funds and Other	\$ -	\$ 108,604
US Treasury and Agency Obligations	-	499,888
Common Stock	-	964,888
Corporate and International Bonds	-	201,389
Public Treasurer's Investment Pool (IL Funds)	9,207,156	-
Total	9,207,156	1,774,769
Add: Certificates of Deposit (maturity > 90 days)	-	139,698
Less: Investments classified as cash equivalents (maturity < 90 days)	(9,207,156)	-
Total Investments	<u>\$ -</u>	<u>\$ 1,914,467</u>

Interest rate risk and credit risk - The Foundation's statement of investment objectives and guidelines states that investments in non-convertible fixed-income securities other than short-term securities will be restricted to issues within a maximum fixed or expected average maturity of ten years and will be made primarily in (1) securities issued or guaranteed by the U.S. government or its agencies, (2) marketable issues of non-nuclear utility companies rated at the time of purchase within the three highest grades assigned by Moody's Investor Services, Inc (Aaa, Aa or A) or by Standard & Poors

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 2 – Deposits and Investments (Continued)

Investments (Continued) –

Interest rate risk and credit risk (Continued)-

(AAA, AA or A) and (3) bond mutual funds which invest primarily in bonds with rating of A and higher.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2006 are as follows:

	<u>Maturity</u>			<u>Total</u>
	<u>Less than</u> <u>1 year</u>	<u>1 – 5</u> <u>years</u>	<u>6 - 10</u> <u>years</u>	
<u>Debt Security</u>				
US Treasury Obligations	\$ -	\$ 157,992	\$ 66,490	\$ 224,482
US Agency/Guaranteed Obligations	-	<u>210,877</u>	<u>64,529</u>	<u>275,406</u>
Total US Treasury/Agency	-	368,869	131,019	499,888
Corporate & Int'l Bonds	<u>14,956</u>	<u>115,730</u>	<u>70,703</u>	<u>201,389</u>
Total Debt Security Investments	<u>\$ 14,956</u>	<u>\$ 484,599</u>	<u>\$201,722</u>	<u>\$ 701,277</u>

The Standard & Poor's and Moody's Investor Service credit rating of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2006 is as follows:

<u>Credit Rating</u>	<u>Total</u> <u>Debt Securities</u>
US Treasury/Agency/Guaranteed Obligations - no rating	\$ 224,482
AAA/AAA	306,324
A1/A+	8,633
AA1/AA-	14,955
AA2/A+	4,108
AA2/AA	30,938
AA2/AA-	16,112
AA3/A	4,189
AA3/A+	59,790
AA3/A-	3,989
AA3/AA	11,379
AA3/AA	12,449
BAA2/BBB+	3,929
Total	<u>\$ 701,277</u>

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 2 – Deposits and Investments (Continued)

Investments (Continued) –

Foreign currency risk – The Foundation does not have a policy limiting its exposure to foreign currency risk.

The Foundation's exposure to foreign currency risk (valued in U.S. dollars) is as follows at June 30, 2006:

<u>Investment</u>	<u>Currency</u>	<u>Maturity</u>	<u>Fair Value</u>
Ontario Province CDA Notes Rating: AA2/AA	Canadian dollar	2/15/2013	\$ 19,727
Total			\$ 19,727

Note 3 – Accounts and Loans Receivable

Accounts receivable consisted of the following at June 30, 2006:

Student tuition and fees	\$ 5,083,072
Federal, state, and private grants and contracts	4,843,697
Third party and other receivables	505,703
Total Gross Receivable	10,432,472
Less allowance for doubtful accounts	(1,773,672)
Net Accounts Receivable	\$ 8,658,800

Loans receivable consisted of the following at June 30, 2006:

Loans receivable	\$ 1,784,780
Less allowance for doubtful accounts	(894,220)
Net Loans Receivable	\$ 890,560

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 4 – Capital Assets

Following are the changes in capital assets for the year ended June 30, 2006:

	Amount in '000s			
	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 8,668	\$ 600	\$ -	\$ 9,268
Construction in-progress	48,410	2,056	-	50,466
Total capital assets not being depreciated	57,078	2,656	-	59,734
Other capital assets:				
Site improvements	9,802	-	-	9,802
Buildings and building improvements	66,999	31,570	-	98,569
Equipment	22,831	1,593	(192)	24,232
Library books	9,253	504	-	9,757
Total other capital assets	108,885	33,667	(192)	142,360
Total	165,963	36,323	(192)	202,094
Less accumulated depreciation	(62,505)	(3,347)	154	(65,698)
Capital Assets, net	\$ 103,458	\$ 32,976	\$ (38)	\$ 136,396

Note 5 – Deferred Revenue

Deferred revenue consists of the following at June 30, 2006:

Tuition and fees	\$ 962,808
Grants and contracts	654,352
Total Deferred Revenue	\$ 1,617,160

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 6 – Long Term Liabilities

Long-term liabilities as of June 30, 2006 consist of the following:

	<u>June 30, 2006</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Accrued compensated absences	\$ 7,294,400	\$ 834,974	\$ 6,459,426
Performance contract notes payable	4,695,869	2,479,192	2,216,677
Revenue bonds payable	21,645,000	785,000	20,860,000
Premium on bonds	392,987	22,456	370,531
Capital leases payable	29,537	29,537	-
Total Long Term Liabilities	<u>\$ 34,057,793</u>	<u>\$ 4,151,159</u>	<u>\$ 29,906,634</u>

Revenue Bonds Payable

On December 23, 1998, the University issued \$25,650,000 of Auxiliary Facilities Revenue Bonds with an average interest rate of 4.84% to advance refund \$22,620,000 of outstanding 1994 Series Bonds with an average interest rate of 6.07%. The net proceeds of \$24,548,815 (after receipt of \$561,411 of bond premium, payment of \$385,692 in underwriting fees, issuance and insurance costs minus \$1,276,904 of bond proceeds) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 Series Bonds. Bond proceeds of \$1,276,904 were used to finance the 1998 Project Fund.

Optional Redemption – The Series 1998 Bonds maturing on December 1, 2009 through December 1, 2018 are subject to redemption at the option of the Board, on or after December 1, 2008. The Series 1998 Bonds maturing after December 1, 2018 are not subject to optional redemption prior to maturity.

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

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 6 – Long Term Liabilities (Continued)

Revenue Bonds Payable (Continued) -

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

Performance Contract Notes Payable

The remaining notes payable of \$4,695,869 are collateralized by physical properties with a cost of \$6,287,288 and are payable in annual payments ranging from \$573,731 to \$776,444 through August 1, 2009, at an interest rate of 5.17%.

On July 1, 1997, the "Public University Energy Conservation Act" (110 ILCS 62/1 et seq.) (the "Act") became effective in Illinois. Pursuant to the Act, on March 23, 1999, the Board of Trustees of Chicago State University entered a "Performance Services Agreement" (the "Performance Agreement") with Siemens Building Technologies, Inc. ("SBT"). The Performance Agreement is a "guaranteed energy savings contract" as defined under section 5-15 of the Act. On June 1, 1999, the University entered a "Master Lease Agreement" with Siemens Credit Corporation ("SCC"), which provided financing to the University for its purchase of the "energy conservation measures" ("ECMs") from SBT. In 2001, SCC changed its name to Siemens Financial Services, Inc. After June 1, 1999, SCC assigned all of its rights, title and interest under the Master Lease Agreement to Sutro & Co., Inc. Subsequently, Sutro & Co., Inc. assigned all of its rights, title and interest under the Master Lease Agreement to MBIA Capital Corporation ("MBIA").

Pursuant to the Performance Agreement, SBT sold and CSU purchased, certain ECMs. SBT installed the ECMs at the University and guaranteed that savings would result from the installation of the ECMs. The construction period for the Performance Agreement ended on January 31, 2001. The installation of the ECMs under the Performance Agreement guaranteed energy savings to the University. The Performance Agreement set forth guaranteed annual savings of \$2,135,371 during fiscal years 2002 and 2003.

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CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 6 – Long Term Liabilities – (Continued)

Performance Contract Notes Payable (Continued)

On August 8, 2003, the Office of the Illinois Attorney General on behalf of Chicago State University and its Board of Trustees filed litigation against Siemens Building Technologies, Inc., Siemens Financial Services, Inc., Siemens Credit Corporation, and MBIA Capital Corporation. This action was taken with respect to the "Performance Service Agreement." As a result of the litigation action that was filed by the Attorney General's Office on behalf of the University, the University withheld payment of the annual lease payment obligation that was due to the leaseholder, MBIA Capital Corporation on August 1, 2003, August 2, 2004 and August 1, 2005, and August 1, 2006. In addition, the University also did not pay the Technical Support Program ("TSP") payment due to SBT during fiscal years 2006, 2005, 2004 and 2003, based upon a prior agreed upon forbearance agreement. A counter-suit has been filed against the University. The original lawsuit and the counter-suit are in the discovery phase of litigation. A portion of the circuit court case has been referred to arbitration.

Maturity Information

The scheduled maturities of the revenue bonds and notes payable are as follows:

Fiscal Year	Revenue Bonds	Notes Payable	Total Principal	Interest	Total Payments
2007	\$ 785,000	\$ 2,479,192	\$ 3,264,192	\$ 1,850,632	\$ 5,114,824
2008	820,000	701,962	1,521,962	1,145,103	2,667,065
2009	855,000	738,270	1,593,270	1,073,612	2,666,882
2010	890,000	776,445	1,666,445	997,900	2,664,345
2011	930,000	-	930,000	917,690	1,847,690
2012-2016	5,365,000	-	5,365,000	3,881,911	9,246,911
2017-2021	6,885,000	-	6,885,000	2,362,350	9,247,350
2022-2026	5,115,000	-	5,115,000	432,438	5,547,438
Totals	\$ 21,645,000	\$ 4,695,869	\$ 26,340,869	\$ 12,661,636	\$ 39,002,505

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 7 – Natural Classifications

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

Compensation and benefits	\$ 70,016,345
Contractual services	19,268,889
Commodities	1,822,768
Awards and grants	6,992,343
Telecommunications	601,021
Other operating expenses	4,052,665
Depreciation	3,348,005
Total Operating Expenses	<u>\$ 106,102,036</u>

Note 8 - State Fringe Benefits

Governmental Accounting Standards Board Statement No. 24 "*Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*" requires the University report "on behalf payments" for fringe benefits and salaries for legally separate entities as revenue and expenditures by the employer government. The University reported on behalf payments of \$13,402,670 for the year ended June 30, 2006: consisting of group insurance in the amount of \$10,996,853 and pension contributions of \$2,405,817.

State Universities Retirement System

Plan Description – The University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan, with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies, and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by section 5/15, chapter 40, of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL, 61820, or by calling 1-800-275-7877.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.18% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contribution to SURS for the years ended June 30,

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 8 - State Fringe Benefits (Continued)

2006, 2005, and 2004 were \$2,744,168, \$4,283,529, and \$26,675,550, respectively, and is equal to the required contributions for each year.

Note 9 – Post employment Benefits

In addition to providing the above benefits, the State provides certain health, dental, and life insurance benefits to the University's annuitants who participate in the SURS. Substantially all University employees become eligible for post employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under the age of 60 are equal to the annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to five thousand dollars per annuitant.

For annuitants retiring January 1, 1998 and after, the State allows a 5% credit for each full-year of service toward the monthly premium. The monthly premium is determined for annuitants as a separate group. The cost of health, dental, and life insurance benefits is recognized by the State on a pay-as-you-go basis except for annuitants under the Traditional Plan with 20 or more years service (benefits provided at no cost) and those retirees who elect the lump sum option under the Portable Plan (they are eligible for COBRA only). These costs are funded by the State except for certain non-appropriated fund payments by the University.

Note 10 – Liability Insurance

The University's liability coverage consists of two parts. The first layer of coverage is a \$1 million self insurance plan administered through the State University Risk Management Association (SURMA), a cooperative pool of certain State universities. The second layer is a \$5 million excess liability insurance policy purchased by the Illinois Public Higher Education Cooperative (IPHEC) through a commercial insurance carrier, and it covers all State universities. The excess liability insurance policy insures, separately, each of the universities for \$5 million.

Note 11 – Related Party Transactions

A summary of related party transactions during the year ended June 30, 2006, is as follows:

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 11 – Related Party Transactions (Continued)

The Chicago State University Foundation

The University and Foundation agreed to a master contract, effective June 30, 1983 and revised February 1, 1989, which specified the relationship between the two organizations, as required by the University Guidelines adopted on November 30, 1982 and amended September 10, 1997 by the Legislative Audit Commission. Under the terms of the contract, the Foundation is provided administrative support services by the University, such as maintenance, telephone, personnel, and property control. The Foundation does not directly pay the University for these services, which were valued at \$524,039 for the current fiscal year.

The Foundation reciprocates by providing fundraising and other services to the University. These services were valued at \$858,812 for the year ended June 30, 2006.

Scholarships provided by the Foundation which benefited the University totaled \$264,017 for the year ended June 30, 2006.

The Foundation's liabilities include a payable to the University of \$350,664, which consists primarily of a liability to the University for \$205,481 in Chicago Regional College Program (CRCP) project costs and payroll reimbursements.

Note 12 – Segment Information

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

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

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

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 12 – Segment Information - (Continued)

Condensed Statement of Net Assets (Deficit)	As of <u>June 30, 2006</u>
Assets:	
Current assets	\$ 6,453,957
Capital assets-net	<u>15,679,155</u>
Total Assets	<u>22,133,112</u>
Liabilities:	
Current liabilities	1,081,952
Noncurrent liabilities	<u>21,420,373</u>
Total Liabilities	<u>22,502,325</u>
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(6,358,833)
Unrestricted	<u>5,989,620</u>
Total Net Assets (Deficit)	<u>\$ (369,213)</u>
Condensed Statement of Revenues, Expenses And Changes In Net Assets (Deficit)	Year ended <u>June 30, 2006</u>
Operating revenues	\$ 6,489,093
Operating expenses	<u>3,619,566</u>
Operating income	<u>2,869,527</u>
Non-operating revenues and expenses-net	<u>(1,012,313)</u>
Transfers	<u>(242,503)</u>
Increase in net assets	1,614,711
Net assets (deficit) - beginning of the year	<u>(1,983,924)</u>
Net assets-end of the year	<u>\$ (369,213)</u>

STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 12 – Segment Information - (Continued)

Condensed Statement of Cash Flows	Year ended June 30, 2006
Cash provided by (used in):	
Operating activities	\$ 2,618,705
Capital financing activities	(1,849,358)
Investing activities	<u>57,071</u>
Net increase in cash	826,418
Cash-beginning of year	<u>5,200,375</u>
Cash-end of the year	<u><u>\$ 6,026,793</u></u>

Note 13 – Contingent Liabilities

There are seventeen (17) pending matters wherein the University is named as a party, which involve alleged discriminatory or negligent charges. Three (3) matters are pending before the United States District Court, four (4) are currently pending before the Circuit Court of Cook County, and ten (10) are pending before the Illinois Court of Claims. The assessment of any contingent liability is not determinable at this time. The University believes that none of the above matters will result in any significant liabilities to the University.

Note 14 – Deficit Net Asset

The unrestricted net asset deficit balance of \$4,435,292 on the Statement of Net Assets is due primarily to the accrued compensated absence liability of \$7,294,400. This liability will be funded from future state appropriations and tuition and fee revenue.

Note 15 – Endowments

The Foundation Board resolved that endowments' dividend and interest income be used for scholarships and that a reasonable amount of dividends and interest be added back to the endowment principal. The portion of dividends and interest available for scholarships is transferred to the Expendable Restricted Funds.

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

SUPPLEMENTARY INFORMATION

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

**University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Net Assets (Deficit)**

As of June 30, 2006

ASSETS

Current Assets

Cash and cash equivalents	\$ 6,026,793
Accounts receivable, net	331,654
Other assets	95,510
Total Current Assets	<u>6,453,957</u>

Noncurrent Assets

Land improvements	228,055
Buildings and improvements	19,710,762
Furniture and equipment	304,638
Less: accumulated depreciation	<u>(4,564,300)</u>
Total Noncurrent Assets	<u>15,679,155</u>

Total Assets

22,133,112

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	249,956
Long-term liabilities-current portion	831,996
Total Current Liabilities	<u>1,081,952</u>

Noncurrent Liabilities

Accrued compensated absences	189,842
Bonds payable	20,860,000
Premium on bonds	370,531
Total Noncurrent Liabilities	<u>21,420,373</u>

Total Liabilities

22,502,325

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	(6,358,833)
Unrestricted	<u>5,989,620</u>

Total Net assets (Deficit)

\$ (369,213)

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

**University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)**

For the year ended June 30, 2006

OPERATING REVENUES	
Room and board, (net of scholarship allowances of \$35,336)	\$ 2,117,377
Bookstore commissions	318,368
Vending commissions	165,546
Child care center fees	334,203
Parking fees	1,024,970
University center fees	2,156,866
Space rental revenue	272,000
Grants and contributions	<u>99,763</u>
Total Operating Revenues	<u>6,489,093</u>
OPERATING EXPENSES	
Personal services	1,359,077
Expended for plant	19,701
Commodities	53,974
Contractual services	1,677,403
Depreciation	482,696
Miscellaneous	<u>26,715</u>
Total Operating Expenses	<u>3,619,566</u>
Operating income	<u>2,869,527</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	57,071
Interest on capital asset - related debt	<u>(1,069,384)</u>
Net Nonoperating Revenues (Expenses)	<u>(1,012,313)</u>
Income before other revenues, expenses, gains, or losses	<u>1,857,214</u>
Transfers	<u>(242,503)</u>
Increase in net assets	1,614,711
NET ASSETS	
Net assets (deficit)-beginning of year	<u>(1,983,924)</u>
Net assets (deficit)-end of year	<u>\$ (369,213)</u>

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

**University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Cash Flows**

For the year ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Room and board	\$ 1,866,902
Bookstore commissions	318,368
Vending commissions	165,546
Child care center fees	334,203
Parking fees	1,024,970
University center fees	2,156,866
Space rental revenue	272,000
Grants and contributions	99,763
Payment to suppliers for goods and services	(2,262,910)
Payments to employees for services	(1,357,003)

Net cash provided by operating activities	2,618,705
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CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Principal paid on capital debt	(755,000)
Interest paid on capital debt	(1,094,358)

Net cash used by capital financing activities	(1,849,358)
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	57,071
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Net cash provided by investing activities	57,071
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NET INCREASE IN CASH

Cash-beginning of the year	826,418
Cash-end of the year	5,200,375
	\$ 6,026,793

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 2,869,527
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	482,696
Transfers	(242,503)
Changes in assets and liabilities:	
Decrease in accounts receivables, net of deposits	(250,476)
Decrease in accounts payable and accrued liabilities	(242,614)
Increase in compensated absences	2,075
Net cash provided by operating activities:	\$ 2,618,705

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

University Auxiliary Facilities System Revenue Bond Fund, Series 1998

For the Year Ended June 30, 2006

Student Enrollment by Term (Unaudited)

	<u>Total Enrollment</u>	<u>Unduplicated Full-Time Equivalent</u>
Fall session, 2005	7,035	4,627
Spring session, 2006	6,654	4,425
Summer session, 2006	2,949	2,276

University Center Fee (Unaudited)

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

	<u>Full-Time Student</u>	<u>Part-Time Student</u>
Fall session, 2005	\$ 168.00	\$ 108.00
Spring session, 2006	168.00	108.00
Summer session, 2006	114.00	83.00

**STATE OF ILLINOIS
CHICAGO STATE UNIVERSITY**

University Auxiliary Facilities System Revenue Bond Fund, Series 1998

As of June 30, 2006

RENTAL DISCLOSURES (Unaudited)

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

SCHEDULE OF INSURANCE IN FORCE (Unaudited)

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

Fire and extended coverage (\$25,000 deductible) of:	
Building	\$ 20,849,022
Contents	\$ 1,749,000
Business interruption	\$ 6,120,000
EDP	\$ 3,899,307
Boiler and Machinery (Included in blanket coverage limit)	\$ 100,000,000
Earthquake	\$ 100,000,000
Flood	\$ 100,000,000
Basic General Liability (SURMA)	\$ 1,000,000
Excess General Liability	\$ 5,000,000