

**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, 2012 and 2011  
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, 2012 and 2011**

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**Other Reports Issued Under a Separate Cover**

The University’s Compliance Examination (including the Single Audit) for the year ended June 30, 2012, 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, 2012 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, 2012**

***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. Larry Dietz
Vice President for University Advancement	Ms. Erin Minne'
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
Director - Internal Audit	Mr. Robert Blemler

***Board of Trustees (as of June 30, 2012)***

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

***Office Locations***

Agency offices are located at:

Hovey Hall  
Campus Box 1100  
Normal, IL 61790-1100

**State of Illinois**  
**Illinois State University**  
**Financial Statement Report Summary**  
**June 30, 2012**

**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 significant deficiency. The significant deficiency is described in a report released under separate cover entitled Report Required Under Government Auditing Standards for the Year Ended June 30, 2012 as Finding 12-1, *Inadequate Control over Revenue Recognition*.

<b>Number of</b>	<b>Current Report</b>	<b>Prior Report</b>
Findings	1	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	1

**Exit Conference**

Findings and recommendations appearing in this report were discussed with University personnel at an exit conference on January 23, 2013. 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

Representing BKD LLP

Senior Manager	Ms. Heather M. Powell, CPA
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**State of Illinois  
Illinois State University  
Financial Statement Report Summary  
June 30, 2012**

**Representing the Office of the Auditor General**

Audit Manager

Mr. Daniel J. Nugent, CPA

Responses to the recommendations were provided by Mr. Greg Alt, Comptroller, in an e-mail dated January 31, 2013.

## Independent Auditors' Report

The Honorable William G. Holland  
Auditor General  
State of Illinois

and

Board of Trustees  
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 Illinois State University and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the years ended June 30, 2012 and June 30, 2011, which collectively comprise the Illinois State University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Illinois State University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Illinois State University Foundation. The financial statements of the Illinois State University Foundation were audited by other auditors whose report thereon has been provided to us, and our opinion, insofar as it relates to the amounts included for the Illinois State University Foundation, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely present component unit of the Illinois State University, as of June 30, 2012 and June 30, 2011, and the respective changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated February 14, 2013 on our consideration of the Illinois State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

February 14, 2013

### **Introduction**

The following discussion and analysis provides an overview of the financial position and activities of Illinois State University (the "University") for the year ended June 30, 2012 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 accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University (the primary unit) and its component unit (the Illinois State University Foundation). The component unit discussed below is included in the University's financial reporting entity (the Entity) due to the significance of its financial relationship with the University and is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 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 501(c)(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](http://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, 2012 and 2011. 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, 2012, 2011 and 2010:

	(Thousands of dollars)		
	<u>2012</u>	<u>2011</u>	<u>2010 (as restated)</u>
<b>Assets:</b>			
Current assets	\$ 121,752	\$ 114,816	\$ 127,426
Noncurrent assets:			
Capital assets, net	439,664	420,890	398,771
Other noncurrent assets	126,091	99,339	67,409
Total assets	<u>687,507</u>	<u>635,045</u>	<u>593,606</u>
<b>Liabilities:</b>			
Current liabilities	44,817	41,090	45,675
Noncurrent liabilities	157,723	141,569	133,302
Total liabilities	<u>202,540</u>	<u>182,659</u>	<u>178,977</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	295,964	298,586	285,373
Restricted	9,481	9,467	9,455
Unrestricted	179,522	144,333	119,801
Total net assets	<u>\$ 484,967</u>	<u>\$ 452,386</u>	<u>\$ 414,629</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)		
2012	2011		2010 (as restated)
$\frac{121,752}{44,817} = 2.72$	$\frac{114,816}{41,090} = 2.79$		$\frac{127,426}{45,675} = 2.79$

Noncurrent assets are comprised primarily of net capital assets. Net capital assets increased \$18.8 million and \$22.1 million from June 30, 2011 to 2012 and 2010 to 2011, 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, 2012, 2011 and 2010:

	(Thousands of dollars)		
	<u>2012</u>	<u>2011</u>	<u>2010 (as restated)</u>
Operating revenues			
Student tuition and fees, net	\$ 180,763	\$ 167,142	\$ 151,104
Grants and contracts	24,298	20,682	20,379
Auxiliary facilities	85,908	83,018	80,914
Other	<u>25,936</u>	<u>26,090</u>	<u>26,369</u>
Total operating revenues	<u>316,905</u>	<u>296,932</u>	<u>278,766</u>
Operating expenses	<u>493,834</u>	<u>455,896</u>	<u>438,910</u>
Operating (loss)	<u>(176,929)</u>	<u>(158,964)</u>	<u>(160,144)</u>
Non-operating revenues			
State appropriations	78,874	79,790	85,146
Payments on behalf of the University	102,129	87,676	79,868
Other, net	<u>27,238</u>	<u>26,070</u>	<u>24,967</u>
Net non-operating revenues	<u>208,241</u>	<u>193,536</u>	<u>189,981</u>
Capital appropriations	73	710	7,583
Capital gifts and grants	<u>1,196</u>	<u>2,475</u>	<u>928</u>
Increase in net assets	32,581	37,757	38,348
Net assets – beginning of year	<u>452,386</u>	<u>414,629</u>	<u>376,281</u>
Net assets – end of year	<u>\$ 484,967</u>	<u>\$ 452,386</u>	<u>\$ 414,629</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 capital project funding levels from both the State of Illinois – Capital Development Board and the Illinois State University Foundation.

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

(Thousands of dollars)		
2012	2011	2010 (as restated)
<u>32,581 / 452,386 = 7.2%</u>	<u>37,757 / 414,629 = 9.11%</u>	<u>38,348 / 376,281 = 10.19%</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)		
2012	2011	2010 (as restated)
<u>31,312 / 530,492 = 5.90%</u>	<u>34,572 / 494,888 = 6.99%</u>	<u>29,837 / 472,027 = 6.32%</u>

State appropriations revenue has remained in a range from approximately \$79 million to \$85 million for fiscal years 2010, 2011 and 2012. The University enacted tuition and fee increases for fiscal years 2010, 2011 and 2012 to help offset the State appropriation funding trend.

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

Operating Expenses	(Thousands of dollars)		
	2012	2011	2010
<b>Expenses by Function</b>			
Instruction	\$ 116,825	\$ 113,992	\$ 109,970
Research	14,624	13,991	14,202
Public service	14,318	15,695	15,099
Academic support	19,192	18,134	14,191
Student services	37,093	35,748	35,310
Institutional support	34,841	29,544	27,230
Operation and maintenance of plant	29,822	24,246	29,536
Depreciation	22,183	19,779	17,939
Staff benefits	3,107	1,911	1,220
Student aid	38,003	36,921	31,674
Payments on behalf of the University	100,385	86,470	78,553
Auxiliary facilities	60,476	57,127	61,584
Other	2,965	2,338	2,402
<b>Total operating expenses</b>	<b>\$ <u>493,834</u></b>	<b>\$ <u>455,896</u></b>	<b>\$ <u>438,910</u></b>
<b>Expenses by Natural Classification</b>			
Compensation and benefits	\$ 313,113	\$ 289,775	\$ 276,972
Supplies and services	126,351	114,657	116,722
Scholarships	32,187	31,685	27,277
Depreciation	22,183	19,779	17,939
<b>Total operating expenses</b>	<b>\$ <u>493,834</u></b>	<b>\$ <u>455,896</u></b>	<b>\$ <u>438,910</u></b>

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.

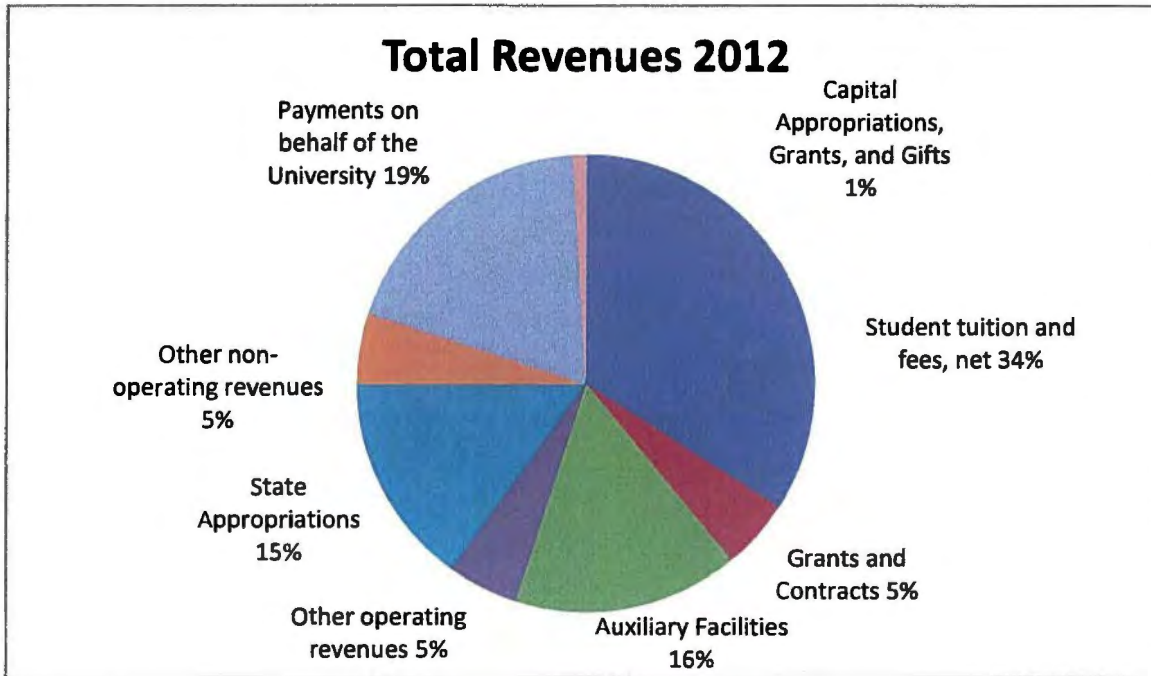
**The Primary Reserve Ratio** (unrestricted and expendable net assets / total expenses) is:

2012	(Thousands of dollars) 2011	2010 (as restated)
189,003 / 499,180 = 37.86%	153,800 / 460,316 = 33.41%	129,255 / 442,190 = 29.23%

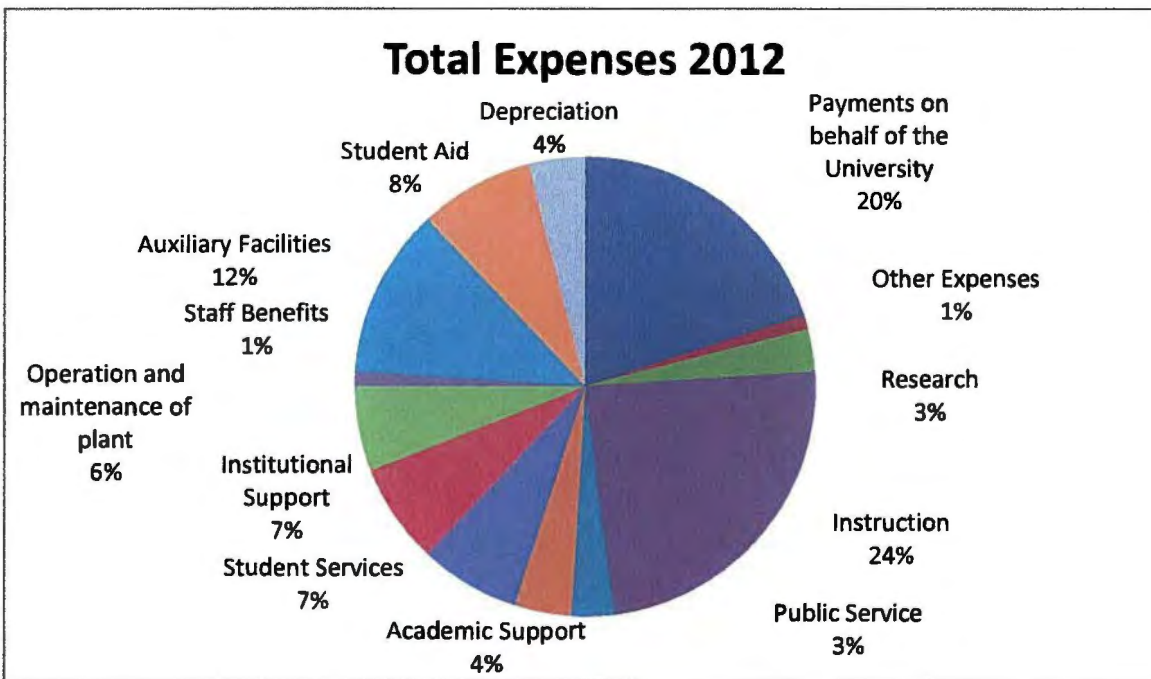
The following summarizes a comparative table of total revenues and total expenses by source/function and percentage:

	Percentage		
	2012	2011	2010
<b>Revenues by Source</b>			
Student tuition and fees, net	34%	34%	32%
Grants and contracts	5	4	4
Auxiliary facilities	16	17	17
Other operating revenues	5	5	5
State appropriations	15	16	18
Payments on behalf of the University	19	18	16
Other non-operating revenues	5	5	6
Capital appropriations, gifts, and grants	1	1	2
Total revenues percentage	100%	100%	100%
<b>Expenses by Function</b>			
Instruction	24%	25%	25%
Research	3	3	3
Public service	3	3	3
Academic support	4	4	3
Student services	7	8	8
Institutional support	7	6	6
Operation and maintenance of plant	6	5	7
Depreciation	4	4	4
Staff Benefits	1	1	1
Student Aid	8	8	7
Payments on behalf of the University	20	19	18
Auxiliary facilities	12	13	14
Other	1	1	1
Total expenses percentage	100%	100%	100%
<b>Expenses by Natural Classification</b>			
Compensation and benefits	63%	64%	63%
Supplies and services	26	25	27
Scholarships	7	7	6
Depreciation	4	4	4
Total operating percentage	100%	100%	100%

The following graph illustrates total revenues by source:



The following graph illustrates total expenditures by function:



**Statements of Cash Flows**

The Statements of Cash Flows provide information about the University's cash receipts and cash payments. The statements are divided into five sections. The first section deals with operating cash flows and shows the net cash used for the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and noncapital financing purposes. The third section shows the cash flows from capital and related financing activities. This section shows the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The last section reconciles the operating loss shown on the Statements of Revenues, Expenses, and Changes in Net 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, 2012, 2011 and 2010:

	(Thousands of dollars)		
	2012	2011	2010
Net cash used by operating activities	\$ (49,034)	\$ (50,554)	\$ (62,725)
Cash flows from noncapital financing activities	118,372	93,506	122,768
Cash flows from capital and related financing activities	(29,719)	(39,191)	(59,753)
Cash flows from (used by) investing activities	<u>(39,927)</u>	<u>(28,108)</u>	<u>12,726</u>
Net increase (decrease) in cash and cash equivalents	(308)	(24,347)	13,016
Cash – beginning of year	36,682	61,029	48,013
Cash – end of year	<u>\$ 36,374</u>	<u>\$ 36,682</u>	<u>\$ 61,029</u>

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

**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, 2012, 2011 and 2010.

	(Thousands of dollars)		
	2012	2011	2010
Capital Assets	\$ 792,097	\$ 753,516	\$ 716,806
Accumulated Depreciation	352,433	332,626	318,035
Capital Assets, Net	<u>\$ 439,664</u>	<u>\$ 420,890</u>	<u>\$ 398,771</u>
Depreciation Expense	\$ 22,183	\$ 19,779	\$ 17,939

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

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

The following summarizes a table of long-term debt, including current principal to be paid during fiscal year 2013, for fiscal years ended June 30, 2012, 2011 and 2010.

	(Thousands of dollars)		
	2012	2011	2010
Revenue Bonds	\$ 114,127	\$ 97,833	\$ 103,279
Certificates of Participation	\$ 34,334	35,532	21,321
Capital Leases	\$ 1,953	-	-

In May 2012, the University issued Revenue Bond Series 2012A in the amount of \$18,230,000 and Series 2012B (taxable) in the amount of \$3,050,000.

On December 13, 2012, Moody's Investors Service revised the outlook for the State of Illinois' general obligation and related credit ratings to negative from stable. As a result of this action, on December 17, 2012, Moody's Investors Service placed the long-term debt rating of all Illinois public universities, including Illinois State University, on review for possible downgrade. As of April 5, 2012, Moody's rating was confirmed as A2 with a stable outlook and the rating from Standard and Poor's was confirmed as A+ with a stable outlook.

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)		
	2012	2011	2010
	<u>13,118 / 479,497 = 2.74%</u>	<u>11,841 / 443,252 = 2.67%</u>	<u>10,991 / 430,456 = 2.55%</u>



**Economic Outlook**

In October 2012, the Comptroller of the State of Illinois issued a report that the State's backlog persists despite new revenue. With \$3.656 billion in fiscal year 2012 payable on June 30 to start the new fiscal year and \$1.342 billion in additional fiscal year 2012 payments presented during the lapse period, over \$4.998 billion in fiscal year 2013 revenues will be used to pay last year's bills.

The General Assembly appropriated \$74.0 million to the University for operating support in fiscal year 2013, which is a reduction from appropriations of \$78.8 million in fiscal year 2012.

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,**

	2012		2011	
	University	Foundation	University	Foundation
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 31,612,806	\$ 9,981,349	\$ 25,621,673	\$ 5,749,271
Restricted cash and cash equivalents	4,761,278	-	11,060,733	-
Investments	18,349,690	-	21,612,550	-
Investments Restricted	23,729,284	-	4,431,054	-
Accrued interest receivable	569,854	-	451,994	-
Accrued interest receivable restricted	100,340	-	19,897	-
Accounts receivable, net	12,646,680	21,728	9,062,810	15,708
Student loans receivable, net	994,628	-	921,929	-
Pledges receivable, net	-	988,632	-	1,197,737
Appropriations receivable from State	23,664,174	-	35,047,150	-
Inventories	3,157,861	-	2,950,152	-
Prepaid expenses, deposits and other	2,165,675	-	3,635,581	-
<b>Total current assets</b>	<b>121,752,270</b>	<b>10,991,709</b>	<b>114,815,523</b>	<b>6,962,716</b>
Noncurrent Assets:				
Restricted cash and cash equivalents	-	625,809	-	442,202
Investments	114,159,945	17,875,536	83,703,480	19,832,017
Investments Restricted	-	-	3,244,036	-
Endowment investments	-	67,288,958	-	69,194,754
Student loans receivable, net	8,142,977	-	8,450,775	-
Pledges receivable, net	-	849,270	-	416,400
Debt issuance costs	2,287,560	-	2,141,076	-
Capital assets not depreciated	59,323,965	980,000	40,858,095	980,000
Capital assets, net of depreciation	380,340,515	8,201,773	380,031,529	8,441,780
Other noncurrent assets	1,500,000	1,306,265	1,800,000	1,283,414
<b>Total noncurrent assets</b>	<b>565,754,962</b>	<b>97,127,611</b>	<b>520,228,991</b>	<b>100,590,567</b>
<b>Total assets</b>	<b>687,507,232</b>	<b>108,119,320</b>	<b>635,044,514</b>	<b>107,553,283</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued liabilities	23,250,315	1,082,645	21,510,325	444,889
Obligations under capital leases	469,103	-	-	-
Assets held in custody for others and deposits	3,628,336	-	3,512,424	-
Deferred revenue	7,861,103	-	6,998,466	-
Certificates of participation	1,513,238	-	1,198,237	-
Revenue bonds payable	6,367,013	-	6,134,984	-
Accrued compensated absences	1,727,659	-	1,735,598	-
Other	-	395,827	-	391,590
<b>Total current liabilities</b>	<b>44,816,767</b>	<b>1,478,472</b>	<b>41,090,034</b>	<b>836,479</b>
Noncurrent Liabilities:				
Assets held in custody for others and deposits	124,025	-	215,484	-
Certificates of participation	32,820,770	-	34,334,008	-
Revenue bonds payable	107,760,365	-	91,697,562	-
Accrued compensated absences	15,534,263	-	15,321,701	-
Obligations under capital leases	1,484,028	-	-	-
Other	-	4,682,463	-	5,047,272
<b>Total noncurrent liabilities</b>	<b>157,723,451</b>	<b>4,682,463</b>	<b>141,568,755</b>	<b>5,047,272</b>
<b>Total liabilities</b>	<b>202,540,218</b>	<b>6,160,935</b>	<b>182,658,789</b>	<b>5,883,751</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	295,964,372	4,328,567	298,585,566	4,199,489
Restricted for:				
Nonexpendable	-	68,170,678	-	68,904,359
Expendable	9,480,965	25,693,618	9,467,386	24,698,256
Unrestricted	179,521,677	3,765,522	144,332,773	3,867,428
<b>Total net assets</b>	<b>\$ 484,967,014</b>	<b>\$ 101,958,385</b>	<b>\$ 452,385,725</b>	<b>\$ 101,669,532</b>

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,**

	2012		2011	
	University	Foundation	University	Foundation
<b>OPERATING REVENUES</b>				
Student tuition and fees, net	\$ 180,762,671	\$ -	\$ 167,142,161	\$ -
Federal grants and contracts	16,822,641	-	13,355,923	-
State and local grants and contracts	3,685,018	2,041,570	3,074,534	1,755,690
Nongovernmental grants and contracts	3,790,182	-	4,251,390	-
Sales and services of educational activities	3,102,528	-	2,570,384	-
Auxiliary enterprises:				
Auxiliary facilities	85,907,708	-	83,018,067	-
Other operating revenues	22,834,186	585,406	23,520,035	605,526
<b>Total operating revenues</b>	<b>316,904,934</b>	<b>2,626,976</b>	<b>296,932,494</b>	<b>2,361,216</b>
<b>OPERATING EXPENSES</b>				
Educational and General:				
Instruction	116,825,381	-	113,991,733	-
Research	14,624,301	-	13,991,116	-
Public service	14,317,742	-	15,695,327	-
Academic support	19,192,293	-	18,133,671	-
Student services	37,092,691	-	35,748,251	-
Institutional support	34,841,184	-	29,543,894	-
Operations	-	3,177,587	-	2,771,802
Operation and maintenance of plant	29,822,256	-	24,246,285	-
Depreciation	22,183,031	423,373	19,779,251	421,336
Staff benefits	3,106,979	-	1,911,309	-
Student aid	38,003,092	2,366,570	36,920,437	2,525,397
Payments on behalf of the University	100,384,826	-	86,469,651	-
Auxiliary facilities:				
Student housing, activity facilities, and parking	60,475,545	-	57,126,802	-
Other operating expenditures	2,965,135	348,043	2,338,291	50,728
Expenditures on behalf of the University	-	4,546,917	-	4,225,461
<b>Total operating expenses</b>	<b>493,834,456</b>	<b>10,862,490</b>	<b>455,896,018</b>	<b>9,994,724</b>
<b>Operating loss</b>	<b>(176,929,522)</b>	<b>(8,235,514)</b>	<b>(158,963,524)</b>	<b>(7,633,508)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
State appropriations	78,874,400	-	79,789,500	-
Payments on behalf of the University - State	100,384,826	-	86,469,651	-
Payments on behalf of the University - Foundation	1,744,159	-	1,205,883	-
Laboratory Schools	8,864,902	-	9,085,803	-
Gifts and donations	782,235	7,359,825	320,767	7,670,530
Investment income, net of investment expenses	3,523,641	(3,575,163)	1,561,596	13,426,171
Interest expense	(5,346,370)	(200,915)	(4,419,723)	(205,251)
Other nonoperating revenues	19,413,888	653,840	19,522,828	734,848
Other nonoperating expenses	-	(744,170)	-	(3,185,936)
<b>Net non-operating revenues (expenses)</b>	<b>208,241,681</b>	<b>3,493,417</b>	<b>193,536,305</b>	<b>18,440,362</b>
<b>Income (loss) before capital items</b>	<b>31,312,159</b>	<b>(4,742,097)</b>	<b>34,572,781</b>	<b>10,806,854</b>
Capital appropriations	73,167	-	709,628	-
Capital grants and gifts	1,195,963	-	2,474,776	-
Additions to permanent endowments	-	5,030,950	-	3,484,630
<b>Total capital items</b>	<b>1,269,130</b>	<b>5,030,950</b>	<b>3,184,404</b>	<b>3,484,630</b>
<b>Increase in net assets</b>	<b>32,581,289</b>	<b>288,853</b>	<b>37,757,185</b>	<b>14,291,484</b>
<b>NET ASSETS</b>				
<b>Net assets - beginning of year</b>	<b>452,385,725</b>	<b>101,669,532</b>	<b>414,628,540</b>	<b>87,378,048</b>
<b>Net assets - end of year</b>	<b>\$ 484,967,014</b>	<b>\$ 101,958,385</b>	<b>\$ 452,385,725</b>	<b>\$ 101,669,532</b>

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

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

	<u>2012</u>	<u>2011</u>
	<u>University</u>	<u>University</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 174,282,022	\$ 161,329,778
Grants and contracts	25,266,365	22,700,853
Payments to suppliers	(125,755,421)	(97,183,825)
Payments to employees for salaries and benefits	(220,369,687)	(213,016,684)
Payments for scholarships and fellowships	(32,159,149)	(31,684,858)
Student loans issued	(1,195,607)	(1,307,339)
Collection of student loans	1,124,958	1,176,424
Auxiliary enterprise charges:		
Auxiliary Facilities	85,078,196	82,950,314
Sales and service of educational activities	3,102,528	2,570,384
Payments to internal service departments	(16,984,553)	(16,984,553)
Internal service departments receipts	16,984,553	16,984,553
Agency custodial receipts	105,624,889	104,702,557
Agency custodial disbursements	(104,274,303)	(104,920,456)
Other receipts	40,241,115	22,128,670
	<u>(49,034,094)</u>	<u>(50,554,182)</u>
Net cash used by operating activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	90,257,376	65,132,398
Gifts and grants for other than capital purposes	1,264	853
Student direct lending receipts	118,718,731	108,352,602
Student direct lending disbursements	(118,718,731)	(108,352,602)
Other receipts	19,410,987	19,529,059
Laboratory schools	8,702,037	8,843,349
	<u>118,371,664</u>	<u>93,505,659</u>
Net cash provided by noncapital financing activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital debt:		
Capital long-term debt	24,379,912	15,061,380
Gifts and grants for capital purposes	77,163	1,432,297
Net purchases of capital assets	(40,742,885)	(43,409,165)
Principal paid on capital debt and leases:		
Capital debt and leases	(7,846,869)	(7,135,000)
Interest paid on capital debt and leases	(5,271,881)	(4,706,264)
Payments of debt issuance costs	(314,827)	(433,786)
	<u>(29,719,387)</u>	<u>(39,190,538)</u>
Net cash used by capital financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	21,000,000	28,000,000
Interest on investments	2,275,850	2,580,373
Purchase of investments	(63,202,355)	(58,687,718)
	<u>(39,926,505)</u>	<u>(28,107,345)</u>
Net cash used by investing activities		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(308,322)	(24,346,406)
Balance - beginning of year	36,682,406	61,028,812
Balance - end of year	\$ <u>36,374,084</u>	\$ <u>36,682,406</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>2012</u> <u>University</u>	<u>2011</u> <u>University</u>
<b>RECONCILIATION</b>		
Operating loss	\$ (176,929,522)	\$ (158,963,524)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	22,183,031	19,779,251
Payments on behalf of the University	102,128,985	87,675,534
Donated equipment below capitalization threshold	-	319,917
Changes in assets and liabilities:		
Accounts receivables, net	(2,445,814)	(70,158)
Student loans receivable, net	235,099	383,696
Inventories	(207,709)	635,647
Other assets	1,769,906	528,709
Accounts payable and accrued liabilities	3,140,217	(218,197)
Deferred revenue	862,637	(345,578)
Assets held in custody for others and deposits	24,453	(105,533)
Compensated absences	<u>204,623</u>	<u>(173,946)</u>
Net cash used by operating activities	<u>\$ (49,034,094)</u>	<u>\$ (50,554,182)</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS</b>		
Payments on behalf of the University	\$ 102,128,985	\$ 87,675,534
Donated capital assets	1,195,963	870,596
Capital appropriation acquisitions	73,167	709,628
Bond accretion	660,841	840,022
Donated equipment below capitalization threshold	280,971	319,917
Tuition and fee waivers where services were provided	5,848,500	5,255,400
Construction costs in accounts payable	3,610,780	4,349,733
Investment income unrealized loss and amortization	(461,416)	(1,694,310)
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS</b>		
Cash and cash equivalents classified as current assets	\$ 31,612,806	\$ 25,621,673
Restricted cash and cash equivalents classified as current assets	<u>4,761,278</u>	<u>11,060,733</u>
	<u>\$ 36,374,084</u>	<u>\$ 36,682,406</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](http://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 2012 and 2011, the University capitalized \$862,508 and \$1,321,062 net interest expense for construction projects, respectively.

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

**Compensated Absences:** Employee vacation and sick pay is accrued at fiscal year-end for financial statement purposes. The liability is recorded at year-end as current and long-term liabilities (*see Note 9*) in the Statements of Net 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 \$5,068,833 and \$4,612,969 at June 30, 2012 and 2011, 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.

	<u>2012</u>	<u>2011</u>
Student tuition and fees	\$ 221,977,047	\$ 205,333,387
Less scholarship discounts and allowances	(40,404,901)	(37,457,227)
Less discounts for employee waivers	<u>(809,475)</u>	<u>(733,999)</u>
Net student tuition and fees	<u>\$ 180,762,671</u>	<u>\$ 167,142,161</u>
Auxiliary facilities	\$ 97,245,221	\$ 94,045,056
Less scholarship discounts and allowances	<u>(11,337,513)</u>	<u>(11,026,989)</u>
Net auxiliary facilities	<u>\$ 85,907,708</u>	<u>\$ 83,018,067</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, 2012 and 2011, the University's bank balances were \$25,398,629 and \$18,992,077, 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 \$875,809 and \$37,534 at June 30, 2012 and 2011, respectively. Bank balances of \$8,000,000 at June 30, 2012 and \$5,915,585 at June 30, 2011 were invested in investment sweep funds secured by U.S. government obligations.

DEPOSITS:	2012		2011	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
<u>University</u>				
Bank Checking Funds	\$ 25,398,629	\$ 19,215,359	\$ 18,992,077	\$ 14,922,095
<u>Foundation</u>				
Cash in bank	\$ 10,802,463	\$ 10,607,158	\$ 6,383,119	\$ 6,191,473

Reconciliation of cash and cash equivalents to deposits:

	2012	
	University	Foundation
Cash and cash equivalents		
Current	\$ 36,374,084	\$ 9,981,349
Noncurrent	-	625,809
Total cash and cash equivalents	36,374,084	10,607,158
Less: Vault cash and change funds	(222,543)	-
Less: Money market mutual funds classified as investments for purposes of categorization	(16,936,182)	-
Carrying amount of deposits	\$ 19,215,359	\$ 10,607,158
	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

**Note 3. Investments**

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

**UNIVERSITY INVESTMENTS**

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

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

**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 (22.8%), Federal Home Loan Bank (28.4%), and Federal National Mortgage Association (5.6%).

**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, 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>	

**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%).

**FOUNDATION INVESTMENTS**

The carrying value of the investment portfolio of the Foundation at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
U.S. Treasury Notes	\$ 52,468	\$ 62,650
Common Stock	302,925	303,007
Mutual Funds – investing in:		
Stocks	29,241,726	33,370,541
Bonds	10,160,068	8,192,968
Commodities	2,330,540	3,149,112
International	11,087,406	15,302,637
U.S. Government Securities	100,076	212,376
Limited Partnerships	6,739,396	9,906,598
Hedged and Alternative Funds	24,549,258	17,926,251
Real Estate Investment	600,631	600,631
Total Foundation	<u>\$ 85,164,494</u>	<u>\$ 89,026,771</u>

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

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

As of June 30, 2012, the Foundation had \$10,989,866 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, 2012:

	<u>International Equity</u>	<u>Emerging Markets</u>	<u>Total</u>
Hong Kong Dollar	\$ 188,666	\$ 1,659,398	\$ 1,848,064
British Pound	1,357,233	402,921	1,760,154
Euro	1,160,616	32,443	1,193,059
Japanese Yen	1,021,482	-	1,021,482
South Korean Won	29,089	891,976	921,065
Brazilian Real	-	761,177	761,177
Other (individually below 5% of total)	685,551	2,799,314	3,484,865
Total	<u>\$ 4,442,637</u>	<u>\$ 6,547,229</u>	<u>\$ 10,989,866</u>

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

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

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

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&amp;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 year	AA+
U.S. Government Securities Fund	212,376	0.1 year	

**INVESTMENTS CONSIST OF THE FOLLOWING:**

	<u>2012</u>		<u>2011</u>	
	<u>University</u>	<u>Foundation</u>	<u>University</u>	<u>Foundation</u>
Current:				
Investments	\$ 42,078,974	\$ -	\$ 26,043,604	\$ -
Noncurrent:				
Investments	114,159,945	17,875,536	86,947,516	19,832,017
Endowment investments	-	67,288,958	-	69,194,754
	<u>156,238,919</u>	<u>85,164,494</u>	<u>112,991,120</u>	<u>89,026,771</u>
Money market mutual funds classified as cash and cash equivalents	<u>16,936,182</u>	<u>-</u>	<u>21,518,653</u>	<u>-</u>
Total	<u>\$ 173,175,101</u>	<u>\$ 85,164,494</u>	<u>\$ 134,509,773</u>	<u>\$ 89,026,771</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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Student tuition and fees	\$ 6,464,856	\$ 5,828,862
Auxiliary facilities and other operating activities	2,533,629	2,102,240
Other	1,019,211	1,193,840
Federal, state, and private grants and contracts	<u>4,679,706</u>	<u>2,599,411</u>
Sub-total	14,697,402	11,724,353
Less allowance for uncollectible accounts	<u>(2,050,722)</u>	<u>(2,661,543)</u>
Net Accounts Receivable	<u>\$ 12,646,680</u>	<u>\$ 9,062,810</u>

**Note 5. Student Loans Receivable**

Student loans receivable at June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Perkins student loan fund	\$ 9,660,308	\$ 9,929,554
Nursing loan fund	428,298	384,729
University loan fund	<u>37,783</u>	<u>52,205</u>
Sub-total	10,126,389	10,366,488
Less allowance for uncollectible accounts	<u>(988,784)</u>	<u>(993,784)</u>
Net Student Loans Receivable	<u>\$ 9,137,605</u>	<u>\$ 9,372,704</u>
Estimated current portion	\$ 994,628	\$ 921,929
Estimated noncurrent portion	<u>8,142,977</u>	<u>8,450,775</u>
Total	<u>\$ 9,137,605</u>	<u>\$ 9,372,704</u>

**Note 6. Foundation Pledges Receivable**

Foundation pledges receivable at June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Pledges to be collected	\$ 2,017,430	\$ 1,773,460
Less discount for the time value of money	(28,221)	(26,313)
Less allowance for uncollectible accounts	<u>(151,307)</u>	<u>(133,010)</u>
<b>Net Foundation Pledges Receivable</b>	<b>\$ <u>1,837,902</u></b>	<b>\$ <u>1,614,137</u></b>
Estimated current portion	\$ 988,632	\$ 1,197,737
Estimated noncurrent portion	<u>849,270</u>	<u>416,400</u>
<b>Total</b>	<b>\$ <u>1,837,902</u></b>	<b>\$ <u>1,614,137</u></b>

**Note 7. Deferred Revenue**

Deferred revenue consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Prepaid tuition and fees	\$ 5,440,925	\$ 4,913,146
Auxiliary facilities	614,849	542,025
Grants and contracts	1,723,529	1,470,250
Other	<u>81,800</u>	<u>73,045</u>
<b>Deferred Revenue</b>	<b>\$ <u>7,861,103</u></b>	<b>\$ <u>6,998,466</u></b>

**Note 8. Capital Assets**

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

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



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

<b>University</b>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
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	\$ 101,319,767	\$ 28,982,764	\$ -	\$ (89,444,436)	\$ 40,858,095
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	\$ 615,485,754	\$ 13,040,128	\$ (5,312,864)	\$ 89,444,436	\$ 712,657,454
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	\$ 318,034,775	\$ 19,779,251	\$ (5,188,101)	\$ -	\$ 332,625,925
Total capital assets being depreciated, net	\$ 297,450,979	\$ (6,739,123)	\$ (124,763)	\$ 89,444,436	\$ 380,031,529
Capital assets, net	\$ 398,770,746	\$ 22,243,641	\$ (124,763)	\$ -	\$ 420,889,624
<b>Foundation</b>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
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	\$ 8,863,116	\$ (421,336)	\$ -	\$ -	\$ 8,441,780
Capital assets, net	\$ 9,843,116	\$ (421,336)	\$ -	\$ -	\$ 9,421,780

## Note 9. Long-term Liabilities

## UNIVERSITY LONG-TERM LIABILITIES

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

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

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

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Total</b>				
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
<b>Total</b>	<b>\$ 141,831,606</b>	<b>\$ 17,399,429</b>	<b>\$ 8,808,945</b>	<b>\$ 150,422,090</b>
<b>Current portion</b>				
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
<b>Total current portion</b>	<b>\$ 8,758,521</b>			<b>\$ 9,068,819</b>
<b>Noncurrent portion</b>				
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
<b>Total noncurrent portion</b>	<b>\$ 133,073,085</b>			<b>\$ 141,353,271</b>

Revenue bonds payable at June 30, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Revenue Bonds, Series 1989:		
Capital Appreciation Bonds	\$ -	\$ 648,239
Insured Revenue Bonds, Series 1993:		
Capital Appreciation Bonds	-	1,615,439
Revenue Bonds, Series 1996:		
Capital Appreciation Bonds	10,672,147	10,072,628
Revenue Bonds, Series 2003:		
New Project Bonds	4,592,044	4,909,579
Current Refunding Bonds	7,964,028	9,477,445
Revenue Bonds, Series 2006:		
New Project Bonds	38,907,392	38,869,120
Current Refunding Bonds	1,246,470	2,450,096
Revenue Bonds, Series 2008		
New Project Bonds	28,915,000	29,790,000
Revenue Bonds, Series 2012:		
New Project Bonds	18,780,297	-
New Project Bonds, Taxable	<u>3,050,000</u>	<u>-</u>
Total revenue bonds payable	<u>\$ 114,127,378</u>	<u>\$ 97,832,546</u>

Maturities and interest requirements on revenue bonds payable at June 30, 2012, are as follows:

Year Ending		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>				
2013	\$	6,330,000	\$ 4,284,718	\$ 10,614,718
2014		7,125,000	4,109,521	11,234,521
2015		7,525,000	3,857,581	11,382,581
2016		7,575,000	3,802,816	11,377,816
2017		<u>4,345,000</u>	<u>3,742,397</u>	<u>8,087,397</u>
Sub-total		32,900,000	19,797,033	52,697,033
2018-2022		24,190,000	16,142,371	40,332,371
2023-2027		27,395,000	10,786,971	38,181,971
2028-2032		29,685,000	4,321,630	34,006,630
2033		<u>2,100,000</u>	<u>105,000</u>	<u>2,205,000</u>
Sub-total		116,270,000	<u>\$ 51,153,005</u>	<u>\$ 167,423,005</u>
Additions(Deductions):				
Unaccreted Appreciation		(2,082,853)		
Unamortized Discounts		(726,138)		
Unamortized Premiums		666,369		
Total	\$	<u>114,127,378</u>		

The Series 1989, 1993, 1996, 2003, 2006, 2008, and 2012 bonds are secured by a pledge of the net revenue of auxiliary facilities, as well as the pledged portion of the tuition, health service, and athletic & service fees charged to students.

On 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 yielded 6.10% interest and matured 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.

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

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

**PLEDGED REVENUES & SERVICE REQUIRMENTS**

The University has pledged fees relating to tuition, health services, athletics, health insurance, student activities, and all other fees (excluding laboratory and library fees) collected from students, to repay the principal and interest of revenue bonds. A total of \$167,423,005 of future revenues is pledged through 2033. Debt service to pledged revenues for the current year is 5.855%.

**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, 2012 and 2011 was \$7,917,327 and \$10,948,993, 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, 2012, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,675,000	1,323,630	2,998,630
2017	1,730,000	1,256,630	2,986,630
Sub-total	<u>8,095,000</u>	<u>6,909,337</u>	<u>15,004,337</u>
2018-2022	9,810,000	5,175,663	14,985,663
2023-2027	11,645,000	2,830,030	14,475,030
2028-2032	4,800,000	597,569	5,397,569
Sub-total	<u>34,350,000</u>	<u>\$ 15,512,599</u>	<u>\$ 49,862,599</u>
Additions(Deductions):			
Unamortized Discounts	(74,064)		
Unamortized Premiums	58,072		
Total	<u>\$ 34,334,008</u>		

**ACCRUED COMPENSATED ABSENCES**

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

	<u>Vacation</u>	<u>Sick</u>	<u>Total</u>
2012	\$ 11,180,303	\$ 6,081,619	\$ 17,261,922
2011	\$ 10,522,155	\$ 6,535,144	\$ 17,057,299

**FOUNDATION LONG-TERM LIABILITIES**

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

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

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

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Total</b>				
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
<b>Total</b>	<b>\$ 5,945,178</b>	<b>\$ 50,554</b>	<b>\$ 506,316</b>	<b>\$ 5,438,862</b>
<b>Current portion</b>				
Beneficiary payments	\$ 41,170			\$ 22,505
Deferred rent	300,000			300,000
Contract-for-deed payable	64,749			69,085
<b>Total current portion</b>	<b>\$ 405,919</b>			<b>\$ 391,590</b>
<b>Noncurrent portion</b>				
Beneficiary payments	\$ 316,968			\$ 194,066
Deferred rent	2,100,000			1,800,000
Contract-for-deed payable	3,122,291			3,053,206
<b>Total noncurrent portion</b>	<b>\$ 5,539,259</b>			<b>\$ 5,047,272</b>

**FOUNDATION CONTRACT-FOR-DEED PAYABLE**

A contract at June 30, 2012 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, 2012, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 73,712	\$ 196,288	\$ 270,000
2014	78,649	191,351	270,000
2015	83,916	186,084	270,000
2016	89,536	180,464	270,000
2017-2019	<u>2,727,393</u>	<u>356,242</u>	<u>3,083,635</u>
Total	<u>\$ 3,053,206</u>	<u>\$ 1,110,429</u>	<u>\$ 4,163,635</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 remaining funds of \$391,470 are on deposit in an escrow account held by Deutsche Bank Trust. As per the lease agreement these funds will be applied against the March 30, 2013 payment.

Year Ending <u>June 30</u>	
2013	\$ 521,401
2014	521,401
2015	521,401
2016	<u>521,400</u>
Total minimum lease payments	<u>2,085,603</u>
Less amount representing interest	132,472
Present value of future minimum lease payments	<u>\$ 1,953,131</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, 2012 and 2011 was \$1,394,967 and \$1,349,250, respectively. The leases expire between July 2012 and June 2018. Following is a schedule of future minimum lease payments.

Year Ending	
<u>June 30</u>	<u>Building</u>
2013	1,356,624
2014	992,189
2015	992,189
2016	425,582
2017	425,582
2018	<u>300,000</u>
Total	\$ <u>4,492,166</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 \$64,439 in 2012 and \$56,532 in 2011. The current lease expires on December 31, 2014.

Year Ending	
<u>June 30</u>	<u>Building</u>
2013	\$ 76,809
2014	78,216
2015	<u>39,460</u>
Total	\$ <u>194,485</u>

The University leases twelve vehicles for the Athletic Department employees at a cost of \$52,348 in fiscal year 2012 and \$65,670 in fiscal year 2011. The Foundation makes the payments on these leased vehicles. One, eight and three vehicle leases expire during fiscal years 2014, 2016, and 2017, respectively. Following is a schedule of future minimum lease payments.

Year Ending	
<u>June 30</u>	<u>Vehicles</u>
2013	\$ 50,640
2014	45,285
2015	43,500
2016	38,200
2017	<u>3,900</u>
Total	\$ <u>181,525</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](http://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 34.51% (for FY 2013) 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, 2012, 2011, and 2010, were \$44,252,981, \$35,249,606, and \$31,104,831, 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 (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. In additional consideration for these services, the University provided office space, clerical, accounting and computer support estimated to be \$2,041,570 and \$1,755,690 during fiscal years 2012 and 2011, respectively. During fiscal years 2012 and 2011, the Foundation contributed services and expenditures of \$7,657,657 and \$8,012,794, respectively, that were for the direct and/or indirect support of the University. A new three year Support Agreement became effective July 1, 2012.

In June 2007, Launching Futures II invested in real estate for \$600,631 for use by the University as a remote parking lot. Concurrently, Launching Futures II signed a lease agreement with the University for the real estate providing for annual payments of \$49,992 from the University to Launching Futures II. The lease had a five year term that the University renewed for an additional five years during July 2012.

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

**Note 14. Student Health Insurance**

The University contracts with Aetna Student Health (ASH) formerly known as The Chickering Group, an Aetna Company of Medford, Massachusetts for administration of the Aetna 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 2009-2010 of \$743,849 became available upon final calculation in November 2011, the entire reserve of \$743,849 was rolled over to fund the 2012-2013 Plan Year. 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 \$1,017,500 to be needed to fund 2013-2014.

**Note 15. Student Financial Assistance**

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded \$118,718,731 and \$108,352,602 in Direct Student Loans for the years ended June 30, 2012 and 2011, respectively. The University classified this loan program as noncash federal awards, and it is disclosed in the footnotes to the Office of Management and Budget (OMB) Circular A-133 Schedule of Expenditures of Federal Awards. Accordingly, no revenue or expenditures are included in the financial statements of the University.

**Note 16. Risk-Management**

The University is exposed to various loss related exposures. These exposures include torts, theft, damages, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University purchases various commercial insurance policies for these loss exposures. During the years ended June 30, 2012 and 2011, 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, 2012 and 2011 the liability was \$0. There were no settlements which exceeded insurance coverage for the last three years.

**Note 17. Net Assets**

**UNIVERSITY NET ASSETS**

University restricted net assets are comprised of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Expendable Student loans	\$ 9,480,965	\$ 9,467,386

The University's Board of Trustees designated unrestricted net assets are comprised of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Capital asset renewal and replacement for the internal service departments	\$ 256,536	\$ 254,511
Self- Insurance	<u>1,118,491</u>	<u>1,118,491</u>
Total	\$ <u>1,375,027</u>	\$ <u>1,373,002</u>

**FOUNDATION NET ASSETS**

The Foundation's restricted net assets are comprised of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
<b>Nonexpendable</b>		
Scholarship and fellowship	\$ 40,365,437	\$ 40,686,811
College and academic department support	15,514,864	14,717,890
Faculty and staff compensation	5,594,193	6,260,595
Other	<u>6,696,184</u>	<u>7,239,063</u>
Total nonexpendable	\$ <u>68,170,678</u>	\$ <u>68,904,359</u>
<b>Expendable</b>		
Scholarship and fellowship	\$ 9,388,644	\$ 8,823,050
Instructional departmental uses	10,330,419	9,761,855
University capital projects	2,559,621	2,050,018
Other restricted expendable	<u>3,414,934</u>	<u>4,063,333</u>
Total expendable	\$ <u>25,693,618</u>	\$ <u>24,698,256</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 most recently calculated annual Higher Education Price Index then weighted at 70%.
2. End of the year market value times 4.5%, then weighted at 30%.
3. A fundraising fee of 1%, of the year-end market value, is assessed from each endowed fund's annual distribution (as calculated above) to help support Foundation's fundraising and general operations.

On July 1, 2011, a total of \$2,370,402 was distributed to endowed funds' expendable balances and fundraising fees of \$661,507 were distributed to the Foundation budget. On July 1, 2010, a total of \$2,395,330 was distributed to endowed funds' expendable balances, and fundraising fees of \$473,140 were distributed to the Foundation budget.

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 UPMIFA in determining the investment, management and disbursement of endowment funds.

**Note 19. Commitments**

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are \$13,785,286, approximately \$8,900,136 (64.6 percent) of the work has been completed as of June 30, 2012. 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 was financed with revenue bonds issued by the Illinois Finance Authority as debt of the lessee. Construction began in February 2011 and was completed 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.

The University has secured natural gas and electricity at a fixed price for fiscal years 2013 through mid-2015 by executing forward fixed price purchase contracts with Integrys Energy, IMGA, and MidAmerican Energy. As of June 30, 2012, the University's commitment to these contracts is approximately \$7,197,657 for natural gas and \$16,396,685 for electricity. These are considered normal purchase contracts.

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

On September 15, 2012, the University contracted for the purchase of 308 Kingsley for \$425,000. The University took possession of the property on October 9, 2012.

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest \$25,376,457 and \$20,196,457 as of June 30, 2012 and 2011, respectively. As of

June 30, 2012 and 2011, the Foundation had invested \$13,788,009 and \$10,378,030, respectively and has future investment commitments of \$11,588,448 and \$9,818,427, respectively.

**Note 20. Contingencies**

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

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters on the financial condition or results of operations of the University is necessary at June 30, 2012, 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, 2012

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 100,055,516	\$ 16,769,865	\$ -	\$ -	\$ 116,825,381
Research	10,710,911	3,913,390	-	-	14,624,301
Public Service	8,015,267	6,302,475	-	-	14,317,742
Academic Support	12,227,364	6,964,929	-	-	19,192,293
Student Services	18,521,801	18,570,890	-	-	37,092,691
Institutional Support	19,167,455	15,673,729	-	-	34,841,184
Operation of Plant	12,899,504	16,922,752	-	-	29,822,256
Depreciation	-	-	-	22,183,031	22,183,031
Staff Benefits	3,062,678	-	44,301	-	3,106,979
Student Aid	-	5,870,386	32,132,706	-	38,003,092
Payments on Behalf	100,384,826	-	-	-	100,384,826
Auxiliary Facilities	24,558,613	35,906,432	10,500	-	60,475,545
Other	3,508,925	(543,790)	-	-	2,965,135
<b>Total University</b>	<b>\$ 313,112,860</b>	<b>\$ 126,351,058</b>	<b>\$ 32,187,507</b>	<b>\$ 22,183,031</b>	<b>\$ 493,834,456</b>

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
<b>Total University</b>	<b>\$ 289,775,279</b>	<b>\$ 114,656,631</b>	<b>\$ 31,684,857</b>	<b>\$ 19,779,251</b>	<b>\$ 455,896,018</b>

**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:

<b>Condensed Statements of Net Assets at June 30</b>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>		
Current assets	\$ 43,505,252	\$ 26,448,178
Noncurrent assets:		
Capital assets, net	203,319,838	193,742,160
Other noncurrent assets	<u>67,778,209</u>	<u>62,381,412</u>
Total assets	<u>314,603,299</u>	<u>282,571,750</u>
<b>Liabilities:</b>		
Current liabilities	15,023,997	14,385,736
Noncurrent liabilities	<u>109,206,602</u>	<u>93,724,613</u>
Total liabilities	<u>124,230,599</u>	<u>108,110,349</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	90,118,591	97,209,831
Unrestricted	<u>100,254,109</u>	<u>77,251,570</u>
Total net assets	<u>\$ 190,372,700</u>	<u>\$ 174,461,401</u>
<b>Condensed Statements of Revenues, Expenses and Changes in Net Assets for the year ended at June 30</b>		
Operating revenues	\$ 85,907,708	\$ 83,018,067
Depreciation expense	(6,322,755)	(6,074,942)
Other operating expenses	<u>(60,475,546)</u>	<u>(57,126,802)</u>
Operating income	19,109,407	19,816,323
Non-operating revenues	1,216,358	239,706
Non-operating expenses	<u>(4,414,466)</u>	<u>(4,381,421)</u>
Increase in net assets	15,911,299	15,674,608
Net assets – beginning of year	<u>174,461,401</u>	<u>158,786,793</u>
Net assets – end of year	<u>\$ 190,372,700</u>	<u>\$ 174,461,401</u>
<b>Condensed Statements of Cash Flows for the year ended June 30</b>		
Net cash flows provided by operating activities	\$ 27,517,446	\$ 24,357,802
Net cash flows provided by non-capital financing activities	208,777	239,643
Net cash flows used in capital and related financing activities	(4,356,251)	(32,478,188)
Net cash flows provided by (used in) investing activities	<u>(21,576,328)</u>	<u>323,810</u>
Net increase (decrease) in cash and cash equivalents	1,793,644	(7,556,933)
Cash and cash equivalents, beginning of year	<u>287,492</u>	<u>7,844,425</u>
Cash and cash equivalents, end of year	<u>\$ 2,081,136</u>	<u>\$ 287,492</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.

	2012		2011	
	Repair and Replacement Reserve	Develop- ment Reserve	Repair and Replacement Reserve	Develop- ment Reserve
Maximum Allowable Deposits at June 30	\$ 40,020,637	\$ N/A	\$ 39,024,111	\$ N/A
Assets Reserved	29,426,772	N/A	27,626,970	N/A
Project Amount Approved by Board	N/A	N/A	N/A	N/A