Report
of the Comptroller
2004

for the year ended June 30, 2004

ILLINOIS STATE UNIVERSITY

ILLINOIS STATE UNIVERSITY

REPORT OF THE COMPTROLLER

For Year Ended June 30, 2004

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Compliance Report (In accordance with the Single Audit Act and OMB Circular A-133) and Supplementary Information - For the Year Ended June 30, 2004

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ILLINOIS STATE UNIVERSITY

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LETTER OF TRANSMITTAL

President C. Alvin Bowman
Illinois State University
Normal IL 61790

Dear Dr. Bowman:

I am pleased to submit the annual Report of the Comptroller of Illinois State University for the fiscal year ended June 30, 2004, which includes Management's Discussion and Analysis (MD&A), financial statements of the University and notes to the financial statements as detailed in the table of contents.

The financial statements of the University for the past year have been audited by Clifton Gunderson LLP, Certified Public Accountants & Consultants, as special assistants to the Auditor General, and their Independent Auditor's Report follows.

Respectfully submitted,

Gregory Alt

Gregory Alt
Comptroller

ILLINOIS STATE UNIVERSITY
Financial Statement Report
For the Year Ended June 30, 2004

SUMMARY

The audit of the accompanying basic financial statements of Illinois State University was performed by Clifton Gunderson LLP.

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Illinois State University
Normal, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements, as listed in the table of contents, of Illinois State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the years ended June 30, 2004 and June 30, 2003. These financial statements are the responsibility of the Illinois State University's management. Our responsibility is to express opinions on these financial statements based on our audits.

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. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Illinois State University and its discretely presented component unit as of June 30, 2004 and June 30, 2003, and the respective changes in financial position and cash flows 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 a report dated October 29, 2004, 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 audits.

The management's discussion and analysis on pages 6 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
October 29, 2004

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, 2004 with selective comparative information for the years ended June 30, 2003 and 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982, as amended. The Illinois State University Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Rambo House, Campus Box 3060, Normal, Illinois 61790-3060.

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

<u>Financial Statements Presentation:</u> 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 Government Accounting Standards Board (GASB) principles and presented on an entity-wide basis. Several ratios have been included in the financial analysis to help assess University 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, 2004 and 2003. 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 next 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, 2004, 2003 and 2002:

	(Thousands of dollars)		
	2004	2003	2002
Assets:			
Current assets	$ 57,482	$ 60,318	$ 56,906
Noncurrent assets:			
Capital assets, net	236,357	217,078	222,743
Other noncurrent assets	45,902	37,643	24,573
Total assets	339,741	315,039	304,222
Liabilities:			
Current liabilities	27,619	28,935	27,031
Noncurrent liabilities	68,510	71,723	68,076
Total liabilities	96,129	100,658	95,107
Net Assets:			
Invested in capital assets, net of related debt	187,642	165,507	169,080
Restricted	17,618	17,528	9,323
Unrestricted	38,352	31,346	30,712
Total net assets	$ 243,612	$ 214,381	$ 209,115

From June 30, 2003 to 2004, appropriations receivable from the State of Illinois decreased $6.9 million. As a result, short-term investments increased $16.9 million and cash and cash equivalents decreased $12.9 million based on cash forecasting needs.

From June 30, 2002 to 2003, cash and cash equivalents increased $9.9 million which was primarily attributable to the Auxiliary Facilities System. Appropriations receivable from the State of Illinois increased $10.5 million due to delays in receiving State appropriation reimbursements. This contributed to short-term investments decreasing $16.9 million.

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 two following ratios are 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)

2004	2003	2002
57,482 / 27,619 = 2.08	60,318 / 28,935 = 2.08	56,906 / 27,031 = 2.11

The Acid-test Ratio (cash, short-term investments, accrued interest receivable, net accounts receivable and appropriations receivable from State/current liabilities) is:

(Thousands of dollars)

2004	2003	2002
52,636 / 27,619 = 1.91	54,930 / 28,935 = 1.90	51,822 / 27,031 = 1.92

Noncurrent assets are comprised primarily of net capital assets. Net capital assets increased $19.3 million from June 30, 2003 to 2004 primarily attributable toward construction and major renovation of University buildings. From June 30, 2002 to 2003, net capital assets decreased $5.7 million primarily attributable to a change in the equipment capitalization threshold.

Noncurrent liabilities are comprised primarily of Bonds Payable 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 nonoperating, and the expenses paid by the institution, operating and nonoperating, 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. Nonoperating 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 nonoperating because they are provided by the Legislature to the institution without the Legislature 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, 2004, 2003 and 2002:

	(Thousands of dollars)		
	2004	2003	2002
Operating revenues			
Student tuition and fees, net	$ 84,580	$ 82,569	$ 76,186
Grants and contracts	25,502	25,881	26,132
Auxiliary facilities	58,448	56,249	54,881
Other	19,007	17,869	19,379
Total operating revenues	187,537	182,568	176,578
Operating Expenses	367,902	303,796	309,129
Operating (loss)	(180,365)	(121,228)	(132,551)
Nonoperating revenues (expenses)			
State appropriations	78,904	85,316	92,285
Payments on behalf of the University	103,615	35,820	33,508
Other, net	6,140	5,863	11,134
Net nonoperating revenues (expenses)	188,659	126,999	136,927
Capital appropriations	14,783	11,412	2,235
Capital gifts and grants	6,154	467	1,150
Increase in net assets	29,231	17,650	7,761
Net assets – beginning of year	214,381	209,115	201,354
Cumulative effect of change in equipment capitalization threshold		(12,384)	
Net assets – end of year	$ 243,612	$ 214,381	$ 209,115

The return of net assets ratio indicates whether the University is financially better off compared to the previous year by measuring total economic return by comparing increase in net assets to beginning net assets. The improvement in 2004 was primarily attributable to State of Illinois Capital Development Board and Foundation capital projects funding.

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

(Thousands of dollars)

2004	2003	2002
29,231 / 214,381 = 13.64%	17,650 / 196,731 = 8.97%	7,761 / 201,354 = 3.85%

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 nonoperating revenues to total operating revenues and total nonoperating revenues. The positive ratio resulting in 2004 demonstrates that University expenditures did not exceed available revenues.

The Net Operating Revenues Ratio is:

(Thousands of dollars)

2004	2003	2002
8,294 / 379,227 = 2.19%	5,771 / 313,531 = 1.84%	4,376 / 316,877 = 1.38%

The University experienced a reduction in State appropriations of $6.4 million and $7.0 million from 2003 to 2004 and 2002 to 2003, respectively. The University increased tuition 9.25% for the 2002-2003 school year which resulted in a net student tuition and fees increase of $6.4 million.

State of Illinois payments on behalf of the University increased $67.6 million from 2003 to 2004. This increase was primarily attributable to reducing the actuarial reserve deficiencies of the State's designated retirement systems, including the State Universities Retirement System. This increase in payments on behalf of the University also resulted in operating expenses increasing $64.1 million from 2003 to 2004.

During 2003, operating expenses decreased $5.3 million compared to 2002. Beginning 2003, the University implemented measures to reduce operating costs that included a noninstructional staff hiring freeze.

Expenses by Function	(Thousands of dollars) 2004	2003	2002
Operating expenses			
Instruction	$ 89,875	$ 88,432	$ 89,284
Research	12,612	13,256	12,050
Public service	10,498	9,542	10,384
Academic support	9,710	9,896	9,762
Student services	23,931	23,229	22,399
Institutional support	21,971	22,660	23,543
Operation and maintenance of plant	18,335	20,868	20,296
Depreciation	12,340	12,371	16,845
Staff benefits	688	386	1,260
Student aid	20,843	20,594	18,103
Payments on behalf of the University	102,777	35,138	33,508
Auxiliary facilities	42,583	44,860	46,774
Other	1,739	2,564	4,921
Total operating expenses	$ 367,902	$ 303,796	$ 309,129

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 stable over the last several years.

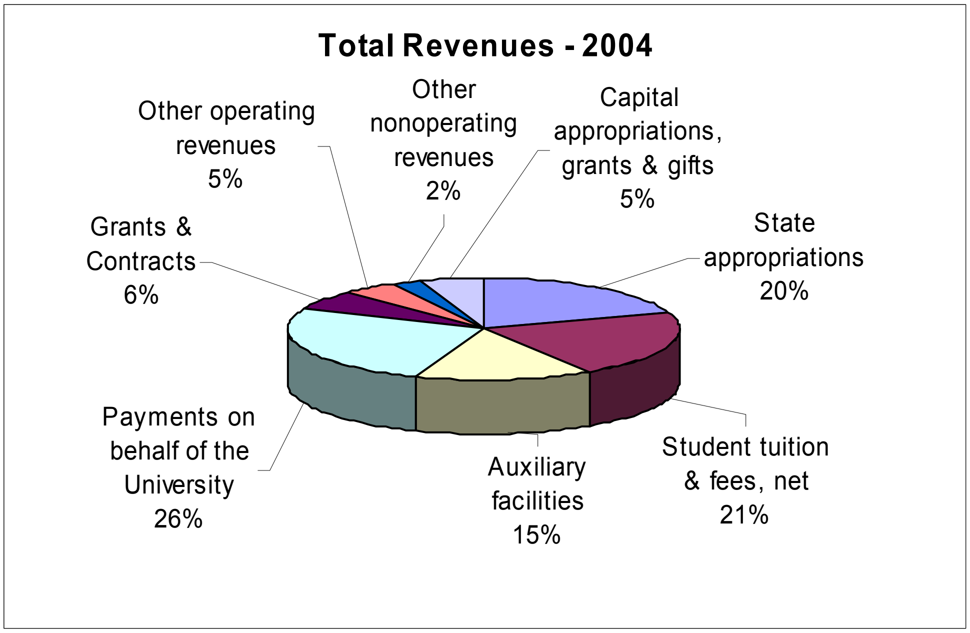
The Primary Reserve Ratio is:

(Thousands of dollars)

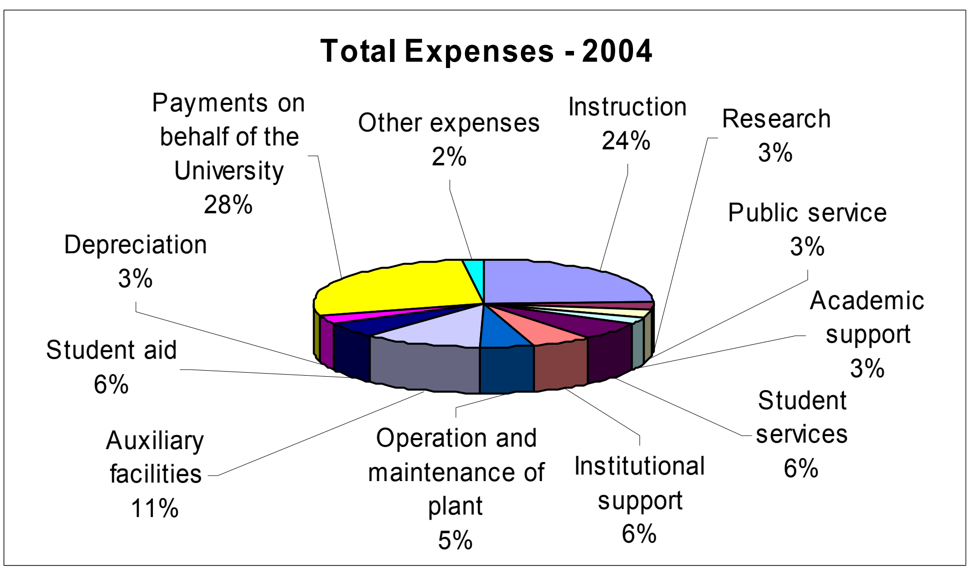
2004	2003	2002
48,400 / 370,932 = 13.05%	41,304 / 307,760 = 13.42%	40,035 / 312,502 = 12.81%

In 2003, the University changed the capitalization threshold for equipment from $500 to $5,000. The change resulted in writing off $45.2 million of equipment and $32.8 million of accumulated depreciation producing a $12.4 million reduction of net assets.

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 nonoperating, noninvesting, 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, 2004, 2003 and 2002:

	(Thousands of dollars)		
	2004	2003	2002
Net cash used by operating activities	$ (66,560)	$ (72,669)	$ (80,228)
Cash flows from noncapital financing activities	94,764	83,091	101,424
Cash flows from capital and related financing activities	(16,508)	(5,320)	(21,269)
Cash flows from investing activities	(24,617)	4,823	3,796
Net increase (decrease) in cash and cash equivalents	(12,921)	9,925	3,723
Cash – beginning of year	35,107	25,182	21,459
Cash – end of year	$ 22,186	$ 35,107	$ 25,182

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

In October 2002, construction was completed on the Center for Performing Arts building at a cost of $16.2 million.

During 2003, the University began construction of the College of Business building. This project is jointly funded by the State of Illinois Capital Development Board, the University and private gifts. The total estimated project cost which includes furnishings and equipment approximates $30.0 million and the University is responsible for $0.9 million. Gift commitments, through the Foundation, to fund the project total $10.7 million. Total estimated project costs incurred at June 30, 2004 were $22.0 million.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are $5.3 million. Approximately $3.7 million (70 percent) of the work has been completed as of June 30, 2004. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

During 2003, the State of Illinois released funding for Schroeder Hall rehabilitation. The estimated project cost is $18.7 million and will be funded through the State of Illinois Capital Development Board. Total estimated construction costs incurred at June 30, 2004 were $3.9 million.

In March 2003, Revenue Bonds, Series 2003, were issued in the amount of $16.9 million. The Series consisted of $9.3 million of current refunding bonds and $7.6 million of new project bonds for auxiliary facilities system capital assets. The University anticipates beginning construction on the capital projects during fiscal year 2005.

During fiscal year 2003, the University's bond credit rating from Moody's Investors Service was upgraded from A3 to A2 with stable outlook and from Standard & Poor's was confirmed as A with stable outlook. This was a result of the University's continued stable financial position and strong enrollment demand.

The viability ratio measures the availability of unrestricted net assets and certain expendable net assets to cover debt if the University were required to settle this debt as of the balance sheet date. Debt includes revenue bonds payable less unexpended bond proceeds and capital leases.

The Viability Ratio is:

	(Thousands of dollars)	
2004	2003	2002
48,400 / 49,607 = 97.57%	41,304 / 52,571 = 78.57%	40,035 / 54,663 = 73.24%

Economic Outlook

After three years of reduced State appropriations, there were no reductions to the University's fiscal year 2005 State appropriation revenue from the fiscal year 2004 level. The University's offset past fiscal year appropriation reductions with revenue from tuition increases and savings from implementation of operating cost reduction measures with minimal impact to its academic programs.

Indicators of an improving state economy continue with fiscal 2004 state general fund receipts finishing 9.6% up over the previous year. Fiscal 2005 state general fund receipts year to date through September are running 9.8% ahead of the previous year with significant increases in both sales tax and income tax receipts. In addition to this positive trend, the University is on track for the successful completion of its capital contribution campaign, *Redefining Normal*, by year end. The University through the Foundation has secured more than $86 million in commitments toward the $88 million campaign goal.

Throughout the economic challenges of the past few years, the University continues to enjoy strong enrollment demand and student retention. The average ACT score of new students for the 2004 fall semester increased to 23.9, up .3 from the 2003-2004 school year. This score is 3.6 points above the Illinois average, which reflects a higher quality student body and reinforces student retention. The University has also benefited by its adherence to the established priorities of the multi-year strategic planning effort named, *Educating Illinois: An Action Plan for Distinctiveness and Excellence at Illinois State University,* and the Campus Master Plan named, *A Blueprint for the Campus' Physical Development.*

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

	2004		2003	
	University	Foundation	University	Foundation
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 22,185,687	$ 5,149,815	$ 35,106,727	$ 7,120,647
Investments	17,894,069	4,275,690	1,016,730	4,228,795
Accrued interest receivable	145,263	12,098	171,790	8,728
Accounts receivable, net	8,105,212		7,381,213	
Student loans receivable, net	1,848,475		1,648,033	
Pledges receivable, net		2,714,618		1,318,649
Appropriations receivable from State	4,306,104		11,253,920	
Inventories	2,427,000		2,515,933	
Prepaid expenses and deposits	389,055	5,534	196,627	5,534
Deferred charges and obligations	180,839		1,027,325	
Total current assets	57,481,704	12,157,755	60,318,298	12,682,353
Noncurrent Assets:				
Restricted cash and cash equivalents		3,676,349		1,568,280
Investments	29,560,736	5,775,831	21,842,717	6,037,582
Restricted investments	7,690,921		6,987,465	
Endowment investments		38,426,543		28,615,994
Student loans receivable, net	7,979,037		8,034,696	
Pledges receivable, net		5,823,160		4,148,245
Bond issuance costs	672,393		778,206	
Capital assets, net	236,356,688	1,868,761	217,077,430	1,925,077
Other noncurrent assets		668,764		562,743
Total noncurrent assets	282,259,775	56,239,408	254,720,514	42,857,921
Total assets	339,741,479	68,397,163	315,038,812	55,540,274
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	9,584,316	1,182,857	9,573,514	253,342
Obligations payable	65,324		926,160	
Obligations under capital leases	106,909		167,353	
Assets held in custody for others and deposits	6,417,061		6,455,980	
Deferred revenue	4,748,505		4,900,795	
Notes payable		1,000,000		
Revenue bonds payable	4,695,464		4,715,987	
Accrued compensated absences	2,001,611		2,195,314	
Other		20,851		18,200
Total current liabilities	27,619,190	2,203,708	28,935,103	271,542
Noncurrent Liabilities:				
Assets held in custody for others and deposits	131,460		151,747	
Notes payable				1,000,000
Revenue bonds payable	51,222,776		54,035,619	
Accrued compensated absences	17,003,773	22,926	17,314,110	101,851
Obligations under capital leases	152,111		221,836	
Other		143,964		101,519
Total noncurrent liabilities	68,510,120	166,890	71,723,312	1,203,370
Total liabilities	96,129,310	2,370,598	100,658,415	1,474,912
NET ASSETS				
Invested in capital assets, net of related debt	187,641,755	868,761	165,506,634	925,077
Restricted for:				
Nonexpendable		38,426,543		28,525,765
Expendable	17,618,132	26,150,982	17,527,715	24,405,518
Unrestricted	38,352,282	580,279	31,346,048	209,002
Total net assets	$ 243,612,169	$ 66,026,565	$ 214,380,397	$ 54,065,362

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

	2004		2003	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees, net	$ 84,579,827	$	$ 82,569,129	$
Federal grants and contracts	18,851,419		17,258,729	
State and local grants and contracts	4,092,027	260,000	6,171,414	260,000
Nongovernmental grants and contracts	2,558,046		2,450,953	
Sales and services of educational activities	1,913,297		1,821,619	
Auxiliary enterprises:				
Auxiliary facilities	58,447,697		56,249,152	
Other operating revenues	17,094,456	68,808	16,047,514	53,636
Total operating revenues	187,536,769	328,808	182,568,510	313,636
OPERATING EXPENSES				
Educational and General				
Instruction	89,875,267		88,431,986	
Research	12,611,868		13,256,459	
Public service	10,497,928		9,542,071	
Academic support	9,710,201		9,896,318	
Student services	23,930,788		23,228,784	
Institutional support	21,971,127		22,659,568	
Operations		607,176		664,799
Operation and maintenance of plant	18,334,823		20,868,544	
Depreciation	12,340,446	56,316	12,370,535	56,316
Staff benefits	687,977		385,707	
Student aid	20,843,016	1,373,482	20,594,374	1,231,391
Payments on behalf of the University	102,777,101		35,138,037	
Auxiliary facilities:				
Student housing, activity facilities, and parking	42,582,625		44,860,174	
Other operating expenditures	1,739,021	111,832	2,563,537	118,811
Expenditures on behalf of the University		2,753,526		2,496,724
Total operating expenses	367,902,188	4,902,332	303,796,094	4,568,041
Operating (loss)	(180,365,419)	(4,573,524)	(121,227,584)	(4,254,405)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	78,904,476		85,316,120	
Payments on behalf of the University - State	102,777,101		35,138,037	
Payments on behalf of the University - Foundation	838,283		681,894	
Laboratory Schools	7,941,116		7,898,130	
Gifts and donations	51,218	8,891,957	3,218	4,961,793
Investment income, net of investment expenses	556,012	5,918,503	1,190,912	905,048
Interest expense	(3,029,410)	(43,208)	(3,827,125)	(43,090)
Other nonoperating revenues	621,692	757,354	733,986	617,799
Other nonoperating expenses		(3,845,997)	(137,104)	(693,267)
Net nonoperating revenues	188,660,488	11,678,609	126,998,068	5,748,283
Income before capital items	8,295,069	7,105,085	5,770,484	1,493,878
Capital appropriations	14,782,721		11,412,336	
Capital grants and gifts	6,153,982		467,292	
Additions to permanent endowments		4,856,118		3,931,270
Total capital items	20,936,703	4,856,118	11,879,628	3,931,270
Increase in net assets	29,231,772	11,961,203	17,650,112	5,425,148
NET ASSETS				
Net assets - beginning of year	214,380,397	54,065,362	196,730,285	48,640,214
Net assets - end of year	$ 243,612,169	$ 66,026,565	$ 214,380,397	$ 54,065,362

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

ILLINOIS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2004 University	2003 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 77,383,441	$ 74,089,362
Grants and contracts	26,022,476	28,359,661
Payments to suppliers	(72,784,247)	(67,111,979)
Payments to employees for salaries and benefits	(160,848,607)	(172,089,274)
Payments for scholarships and fellowships	(12,991,155)	(12,646,722)
Student loans issued	(2,255,128)	(2,236,924)
Collection of student loans	1,989,801	2,046,079
Auxiliary enterprise charges:		
Auxiliary Facilities	58,110,768	56,500,778
Sales and service of educational activities	1,913,297	1,821,619
Payments to internal service departments	(18,502,929)	(18,912,569)
Internal service departments receipts	18,502,929	18,912,569
Agency custodial receipts	59,556,406	55,324,116
Agency custodial disbursements	(59,885,283)	(52,099,948)
Other receipts	17,227,875	15,374,125
Net cash (used) by operating activities	(66,560,356)	(72,669,107)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	85,852,292	74,788,163
Gifts and grants for other than capital purposes	18,168	3,218
Student direct lending receipts	55,686,070	53,910,577
Student direct lending disbursements	(55,686,070)	(53,910,577)
Payment on U.S. government loan advances		(137,104)
Other receipts	621,692	732,362
Laboratory schools	8,271,653	7,703,978
Net cash provided by noncapital financing activities	94,763,805	83,090,617
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt		
Capital long-term debt		7,583,508
Debt defeasement		10,152,180
Gifts and grants for capital purposes	979,904	690,205
Proceeds from sale of capital assets		12,777
Purchases of capital assets	(11,248,766)	(7,674,514)
Principal paid on capital debt and leases:		
Capital debt and leases	(4,922,706)	(4,812,646)
Debt defeasement		(9,550,000)
Interest paid on capital debt and leases	(1,316,275)	(1,419,999)
Payments of bond issuance costs		(300,765)
Net cash (used) by capital financing activities	(16,507,843)	(5,319,254)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	151,940,510	168,868,766
Interest on investments	1,130,894	1,261,289
Purchase of investments	(177,688,050)	(165,307,288)
Net cash provided (used) by investing activities	(24,616,646)	4,822,767
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,921,040)	9,925,023
Balance - beginning of year	35,106,727	25,181,704
Balance - end of year	$ 22,185,687	$ 35,106,727

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

	2004 University	2003 University
RECONCILIATION		
Operating (loss)	$ (180,365,419)	$ (121,227,584)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation expense	12,340,446	12,370,535
Payments on behalf of the University	103,615,384	35,819,931
Changes in assets and liabilities:		
Accounts receivables, net	(714,393)	300,205
Student loans receivable, net	(144,783)	(61,383)
Inventories	88,933	(18,605)
Other assets	654,058	20,468
Accounts payable and accrued liabilities	(1,085,256)	(1,532,206)
Deferred revenue	(386,081)	563,885
Assets held in custody for others and deposits	(59,206)	2,629,138
Compensated absences	(504,039)	(1,533,491)
Net cash (used) by operating activities	$ (66,560,356)	$ (72,669,107)
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Payments on behalf of the University	$ 103,615,384	$ 35,819,931
Donated capital assets	6,153,982	
Capital appropriation acquisitions	14,782,721	11,405,946
Capital lease obligation acquisitions	47,155	93,354

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

Illinois State University
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 and 2003

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

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982. 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, Rambo House, Campus Box 3060, Normal, Illinois 61790-3060.

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*.

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.

<u>Financial Statements Presentation:</u> 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.

<u>Basis of Accounting:</u> 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.

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.

Allowance For Uncollectibles: The University provides allowances for uncollectible accounts and student loans receivable based upon management's best estimate of uncollectible accounts and notes at the Statements of Net Assets dates, considering type, age, collection history of receivables, and any other factors as considered appropriate.

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 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.

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: Auxiliary Facilities 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. Net interest capitalized during fiscal years 2004 and 2003 amounted to a net increase in construction costs of $219,769 and $40,055, respectively.

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

Compensated Absences: Employee vacation and sick pay is accrued at year-end for financial statement purposes. The liability is recorded at year-end as 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.

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 $2,488,155 and $1,971,047 at June 30, 2004 and 2003, respectively, and is recorded in the accompanying financial statements.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, 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 nonoperating 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 institutiona1 student loans.

Nonoperating revenue: Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating 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 NACUBO Advisory Report 2000-05 alternate method calculation. 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 nonoperating 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.

	2004	2003
Student tuition and fees	$ 102,056,115	$ 99,525,050
Less scholarship discounts and allowances	(17,159,900)	(16,568,163)
Less discounts for employee waivers	(316,388)	(387,758)
Net student tuition and fees	84,579,827	82,569,129
Auxiliary facilities	65,352,744	62,875,466
Less scholarship discounts and allowances	(6,905,047)	(6,626,314)
Net auxiliary facilities	$ 58,447,697	$ 56,249,152

Pledged fees relating to health services, athletics, health insurance, student activities and all other fees (excluding tuition, laboratory and library fees) collected from students are used as security for revenue bonds payable.

Use Of Estimates In Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 with current year presentations.

Note 2. Deposits

At June 30, 2004 and 2003, the University's bank balances were $266,204 and $89,586, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral. The University had cash on hand of $198,383 and $156,516 at June 30, 2004 and 2003, respectively.

At June 30, 2004 and 2003, the Illinois State University Foundation, the discretely presented component unit, bank balances were $4,765 and $19,450, respectively, and were covered by the Federal Deposit Insurance Corporation.

DEPOSITS:	2004		2003	
University	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Bank Checking Funds	$ 266,204	$	$ 89,586	$
Local Vault Cash and Change Funds		198,383		156,516
Total University	$ 266,204	$ 198,383	$ 89,586	$ 156,516
Foundation				
Cash in bank	$ 4,765	$ 4,765	$ 19,450	$ 19,450

Reconciliation of cash and cash equivalents to deposits:

	2004	
	University	Foundation
Cash and cash equivalents		
Current	$ 22,185,687	$ 5,149,815
Noncurrent		3,676,349
Total cash and cash equivalents	22,185,687	8,826,164
Less: Money market mutual funds classified as investments for purposes of categorization	(21,987,304)	(8,821,399)
Carrying amount of deposits	$ 198,383	$ 4,765

	2003	
	University	Foundation
Cash and cash equivalents		
Current	$ 35,106,727	$ 7,120,647
Noncurrent		1,568,280
Total cash and cash equivalents	35,106,727	8,688,927
Less: Money market mutual funds classified as investments for purposes of categorization	(34,950,211)	(8,669,477)
Carrying amount of deposits	$ 156,516	$ 19,450

Note 3. Investments

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

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 and fixed income securities. 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 5 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. Equities are to represent a majority of Foundation assets, but at no time are to be more than 80 percent of the total. Fixed income securities are to be made in securities rated within the four highest grades assigned by Moody's Investor Service, Inc. or Standard & Poor's Corporation or, if unrated, deemed by the investment manager to be of comparable quality. A maximum of 25 percent of the total portfolio may be invested in foreign securities.

In accordance with the provisions of GASB Statement No. 3, investments are categorized below to give an indication of the level of risk assumed in these investments as of June 30, 2004.

Category 1: Includes investments insured, registered, or collateralized with securities held by the Entity or by its agent in the Entity's name.

Category 2: Includes investments uninsured and unregistered, for which the securities are held by the counterparty's trust department or held by the counterparty's agent in the Entity's name.

Category 3: Includes investments uninsured, uncollateralized, and unregistered, for which the securities are held by the counterparty, or by the counterparty's trust department or agent but not in the Entity's name.

INVESTMENTS:	2004			
University	Category 1	Category 2	Category 3	Carrying Amount
U.S. Treasury and Agency Securities	$ 55,145,726	$	$	$ 55,145,726
Sub-total Categorized	$ 55,145,726	$	$	55,145,726
Illinois Funds				18,992,999
Bank Money Market Mutual Funds				2,994,305
Total University				$ 77,133,030
Foundation				
U.S. Treasury and Agency Securities	$ 165,638	$	$	$ 165,638
Corporate Bonds	245,367			245,367
Certificates of Deposit	100,233			100,233
Corporate Equity Securities	1,290,502			1,290,502
Sub-total Categorized	$ 1,801,740	$	$	1,801,740
Bank Money Market Mutual Funds				8,821,399
Mutual Funds				46,646,324
Other				30,000
Total Foundation				$ 57,299,463

INVESTMENTS:

University	2003 Category 1	Category 2	Category 3	Carrying Amount
U.S. Treasury and Agency Securities	$ 29,846,912	$	$	$ 29,846,912
Sub-total Categorized	$ 29,846,912	$	$	29,846,912
Illinois Funds				26,307,897
Bank Money Market Mutual Funds				8,642,314
Total University				$ 64,797,123
Foundation				
U.S. Treasury and Agency Securities	$ 71,539	$	$	$ 71,539
Certificates of Deposit	153,575			153,575
Corporate Equity Securities	466,459			466,459
Sub-total Categorized	$ 691,573	$	$	691,573
Bank Money Market Mutual Funds				8,669,477
Mutual Funds				38,190,798
Total Foundation				$ 47,551,848

Investments consist of the following:

	2004 University	2004 Foundation	2003 University	2003 Foundation
Current:				
Investments	$ 17,894,069	$ 4,275,690	$ 1,016,730	$ 4,228,795
Noncurrent:				
Investments	29,560,736	5,775,831	21,842,717	6,037,582
Restricted investments	7,690,921		6,987,465	
Endowment investments		38,426,543		28,615,994
	55,145,726	48,478,064	29,846,912	38,882,371
Money market mutual funds classified as cash and cash equivalents	21,987,304	8,821,399	34,950,211	8,669,477
Total	$ 77,133,030	$ 57,299,463	$ 64,797,123	$ 47,551,848

Exposure to potential losses from respective mutual funds investments in derivatives, if any, cannot be reasonably determined.

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2004 and 2003:

		2004		2003
Student tuition and fees	$	3,800,737	$	4,349,732
Auxiliary facilities and other operating activities		2,498,921		2,753,566
Other		1,090,526		416,030
Federal, state, and private grants and contracts		2,508,661		2,304,423
Sub-total		9,898,845		9,823,751
Less allowance for uncollectible accounts		(1,793,633)		(2,442,538)
Net Accounts Receivable	$	8,105,212	$	7,381,213

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2004 and 2003 are summarized as follows:

		2004		2003
Perkins student loan fund	$	10,377,935	$	10,238,133
Nursing loan fund		301,230		293,544
University loan fund		49,131		47,184
Sub-total		10,728,296		10,578,861
Less allowance for uncollectible accounts		(900,784)		(896,132)
Net Student Loans Receivable	$	9,827,512	$	9,682,729
Estimated current portion	$	1,848,475	$	1,648,033
Estimated noncurrent portion		7,979,037		8,034,696
Total	$	9,827,512	$	9,682,729

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2004 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 13,626,576	$ 41,361	$	$ 13,667,937
Land Improvements	12,240,849	4,134,104		16,374,953
Infrastructure	12,513,912	168,647		12,682,559
Buildings	291,377,187	6,699,301	767,484	297,309,004
Equipment	50,803,623	3,723,427	1,905,557	52,621,493
Library Materials	51,510,499	3,021,216		54,531,715
Construction in Progress	14,727,517	20,932,731	6,606,093	29,054,155
Sub-total	$ 446,800,163	$ 38,720,787	$ 9,279,134	$ 476,241,816
Less Accumulated Depreciation for:				
Land Improvements	$ 6,213,730	$ 267,825	$	$ 6,481,555
Infrastructure	3,849,259	292,431		4,141,690
Buildings	140,128,812	6,308,306	373,761	146,063,357
Equipment	39,249,530	3,876,452	1,804,290	41,321,692
Library Materials	40,281,402	1,595,432		41,876,834
Total Accumulated Depreciation	$ 229,722,733	$ 12,340,446	$ 2,178,051	$ 239,885,128
Capital Assets, net	$ 217,077,430			$ 236,356,688

Foundation net capital assets at June 30, 2004 were $1,868,761.

Capital assets activity for the year ended June 30, 2003 is summarized as follows:

	Beginning Balance As Restated	Additions	Retirements	Ending Balance
Land	$ 13,590,917	$ 35,659	$	$ 13,626,576
Land Improvements	12,126,145	114,704		12,240,849
Infrastructure	11,944,587	569,325		12,513,912
Buildings	273,709,126	17,668,061		291,377,187
Equipment	51,092,774	2,244,905	2,534,056	50,803,623
Library Materials	48,413,090	3,097,409		51,510,499
Construction in Progress	19,356,862	11,621,145	16,250,490	14,727,517
Sub-total	$ 430,233,501	$ 35,351,208	$ 18,784,546	$ 446,800,163
Less Accumulated Depreciation for:				
Land Improvements	$ 5,971,962	$ 241,768	$	$ 6,213,730
Infrastructure	3,556,817	292,442		3,849,259
Buildings	133,969,502	6,159,310		140,128,812
Equipment	37,586,187	4,186,168	2,522,825	39,249,530
Library Materials	38,790,555	1,490,847		40,281,402
Total Accumulated Depreciation	$ 219,875,023	$ 12,370,535	$ 2,522,825	$ 229,722,733
Capital Assets, net	$ 210,358,478			$ 217,077,430

	Cost	Accumulated Depreciation
Balance – beginning of year, as originally reported	$ 475,413,348	$ 252,670,492
Equipment capitalization threshold change	(45,179,847)	(32,795,469)
Beginning balance as restated (above)	$ 430,233,501	$ 219,875,023

Foundation net capital assets at June 30, 2003 were $1,925,077.

Note 7. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2004 and 2003 are summarized as follows:

	2004	2003
Pledges to be collected	$ 9,365,997	$ 6,066,327
Less discount for the time value of money	(572,394)	(422,708)
Less allowance for uncollectible accounts	(255,825)	(176,725)
Net Foundation Pledges Receivable	$ 8,537,778	$ 5,466,894
Estimated current portion	$ 2,714,618	$ 1,318,649
Estimated noncurrent portion	5,823,160	4,148,245
Total	$ 8,537,778	$ 5,466,894

Note 8. Deferred Revenue

Deferred revenue consists of the following at June 30, 2004 and 2003:

	2004	2003
Prepaid tuition and fees	$ 2,461,908	$ 2,241,099
Auxiliary facilities	507,875	521,763
Grants and contracts	1,626,562	1,922,649
Other	152,160	215,284
Deferred Revenue	$ 4,748,505	$ 4,900,795

Note 9. Long-term Liabilities

UNIVERSITY LONG-TERM LIABILITIES

Long-term liability activity at June 30, 2004 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	$ 19,509,424	$ 1,130,117	$ 1,634,157	$ 19,005,384
Revenue bonds payable	58,751,606	1,956,634	4,790,000	55,918,240
Total	$ 78,261,030	$ 3,086,751	$ 6,424,157	$ 74,923,624
Current portion				
Accrued compensated absences	$ 2,195,314			$ 2,001,611
Revenue bonds payable, net	4,715,987			4,695,464
Total current portion	$ 6,911,301			$ 6,697,075
Noncurrent portion				
Accrued compensated absences	$ 17,314,110			$ 17,003,773
Revenue bonds payable, net	54,035,619			51,222,776
Total noncurrent portion	$ 71,349,729			$ 68,226,549

Long-term liability activity at June 30, 2003 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	$ 21,042,914	$ 533,271	$ 2,066,761	$ 19,509,424
Revenue bonds payable	53,085,685	19,810,921	14,145,000	58,751,606
Total	$ 74,128,599	$ 20,344,192	$ 16,211,761	$ 78,261,030
Current portion				
Accrued compensated absences	$ 2,131,300			$ 2,195,314
Revenue bonds payable, net	4,453,360			4,715,987
Total current portion	$ 6,584,660			$ 6,911,301
Noncurrent portion				
Accrued compensated absences	$ 18,911,614			$ 17,314,110
Revenue bonds payable, net	48,632,325			54,035,619
Total noncurrent portion	$ 67,543,939			$ 71,349,729

Revenue bonds payable at June 30, 2004 and 2003 consists of the following:

		2004		2003
Revenue Bonds, Series 1989:				
Capital Appreciation Bonds	$	9,364,764	$	8,715,006
Insured Revenue Bonds, Series 1992:				
Capital Appreciation Bonds		12,125,501		15,027,305
Insured Revenue Bonds, Series 1993:				
Capital Appreciation Bonds		1,060,757		998,894
Revenue Bonds, Series 1996:				
Current Interest Bonds		9,333,326		10,143,077
Capital Appreciation Bonds		6,720,202		6,342,682
Revenue Bonds, Series 2003:				
New Project Bonds		7,462,327		7,619,862
Current Refunding Bonds		9,851,363		9,904,780
Total revenue bonds payable	$	55,918,240	$	58,751,606

Maturities and Interest Requirements on revenue bonds payable at June 30, 2004, are as follows:

Year Ending June 30	Principal	Interest	Total
2005	$ 4,770,000	$ 1,218,920	$ 5,988,920
2006	5,095,000	1,174,780	6,269,780
2007	5,150,000	1,122,430	6,272,430
2008	5,205,000	1,065,698	6,270,698
2009	5,265,000	1,004,956	6,269,956
Sub-total	25,485,000	5,586,784	31,071,784
2010-2014	27,175,000	3,640,438	30,815,438
2015-2019	13,400,000	709,000	14,109,000
2020-2023	1,910,000	228,705	2,138,705
Sub-total	67,970,000	$ 10,164,927	$ 78,134,927
Additions(Deductions):			
Unaccreted Appreciation	(12,553,776)		
Unamortized Discounts	(61,674)		
Unamortized Premiums	563,690		
Total	$ 55,918,240		

The Series 1989, 1992, 1993, 1996 and 2003 bonds are secured by a pledge of the net revenue of auxiliary facilities, as well as the pledged portion of the 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 April 9, 1992, $27,094,107 in Insured Revenue Bonds, Series 1992 were issued. The Series 1992 Bonds consisted of $16,125,000 in Current Interest bonds and $10,969,107 in Capital Appreciation Bonds. The Current Interest Bonds matured April 1, 2001. The Capital Appreciation bonds have a principal at maturity of $25,115,000 and an original issue discount of $14,145,893. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation bonds yield from 6.55% to 6.95% interest and mature semi-annually commencing October 1, 2001, through October 1, 2007.

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 mature beginning April 1, 1994, and continuing through April 1, 2014. These Current Interest Bonds bear interest from 3.00% to 5.75%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 1993. The Capital Appreciation Bonds have a principal at maturity of $1,665,000 and an original issue discount of $1,118,029. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation bonds yield 6.10% interest and mature October 1, 2011, and April 1, 2012.

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

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

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, 2004 and 2003 was $9,688,020 and $9,554,452, respectively.

CALLED BONDS

On April 10, 2003, the Series 1993 Current Interest Bonds of $9,550,000 were redeemed with a 2% call premium for a total of $9,741,000. The Series 1993 Bonds had a book value of $9,400,959 and unamortized issuance costs of $143,597. Although the refunding resulted in the recognition of an accounting loss of $502,027 for the year ended June 30, 2003, the issuance of the 2003 refunding bonds at lower interest rates will cause aggregate debt service payments to be decreased by $1,314,588 and will result in an economic gain or present value gain of $1,033,353 over the life of the refunded bonds.

FOUNDATION LONG-TERM LIABILITIES

Long-term liability activity at June 30, 2004 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 119,719	$ 63,939	$ 18,843	$ 164,815
Accrued compensated absences	101,851		78,925	22,926
Notes payable	1,000,000			1,000,000
Total	$ 1,221,570	$ 63,939	$ 97,768	$ 1,187,741
Current portion				
Beneficiary payments	18,200			$ 20,851
Notes payable				1,000,000
Total current portion	18,200			$ 1,020,851
Noncurrent portion				
Beneficiary payments	101,519			$ 143,964
Accrued compensated absences	101,851			22,926
Notes payable	1,000,000			
Total noncurrent portion	1,203,370			$ 166,890

Long-term liability activity at June 30, 2003 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 97,821	$ 37,874	$ 15,976	$ 119,719
Accrued compensated absences	117,026		15,175	101,851
Notes payable	1,000,000			1,000,000
Total	$ 1,214,847	$ 37,874	$ 31,151	$ 1,221,570
Current portion				
Beneficiary payments	$ 17,200			$ 18,200
Total current portion	$ 17,200			$ 18,200
Noncurrent portion				
Beneficiary payments	$ 80,621			$ 101,519
Accrued compensated absences	117,026			101,851
Notes payable	1,000,000			1,000,000
Total noncurrent portion	$ 1,197,647			$ 1,203,370

Foundation notes payable is comprised of a $1,000,000 unsecured note to Bank One requiring monthly interest payments at 4.25% per year with a maturity date of December 2004. Proceeds of the loan were used to construct Ewing Theatre.

ACCRUED COMPENSATED ABSENCES

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

2004	Vacation	Sick	Total
University	$ 8,148,655	$ 10,856,729	$ 19,005,384
Foundation	17,235	5,691	22,926

2003	Vacation	Sick	Total
University	$ 7,990,910	$ 11,518,514	$ 19,509,424
Foundation	61,799	40,052	101,851

Note 10. Leases

CAPITALIZED LEASES

Certain leases in which the Board of Trustees, 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. Cost and accumulated depreciation for these capital assets were $653,791 and $364,418 at June 30, 2004 and $997,943 and $630,554 at June 30, 2003, respectively.

Obligations under capital leases activity at June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Obligations under capital leases	$ 389,189	$ 47,155	$ 177,324	$ 259,020
Current portion	167,353			106,909
Noncurrent portion	221,836			152,111

Obligations under capital leases activity at June 30, 2003 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Obligations under capital leases	$ 557,548	$ 93,354	$ 281,713	$ 389,189
Current portion	276,200			167,353
Noncurrent portion	301,348			221,836

Future minimum lease payments for the above assets under capital leases together with the present value of the minimum lease payments at June 30, 2004, are as follows:

Year Ending June 30		Total
2005	$	115,469
2006		49,685
2007		33,972
2008		78,452
Total minimum lease payments		277,578
Less amount representing interest		(18,558)
Net present value	$	259,020

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, 2004 and 2003 was $354,266 and $183,732, respectively. The leases expire between July 2004 and May 2012. Following is a schedule of future minimum lease payments.

Year Ending June 30		Building
2005	$	259,945
2006		78,607
2007		59,407
2008		59,407
2009		59,407
2010-2014		173,273
Total	$	690,046

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporation, and Foundation networks. Lease payments for the Chicago office were $61,684 in 2004 and $60,600 in 2003. The current lease has been amended to expire on December 31, 2014. In addition, the Foundation leases a vehicle for the Executive Director of the Foundation and ten vehicles for the University Athletic Department employees at a cost of $45,661 in 2004 and $41,768 in 2003. The lease for the Executive Director expires in the fiscal year ending June 30, 2006. Nine of the leases for the Athletic Department vehicles expire in the fiscal year ending June 30, 2005, with one lease expiring in the fiscal year ending June 30, 2007. The following is a schedule of future minimum lease payments for both.

Year Ending June 30		Building		Vehicles
2005	$	66,614	$	28,455
2006		70,425		7,015
2007		71,832		2,542
2008		73,240		
2009		74,647		
2010-2014		394,349		
2015-2019		41,194		
Total	$	792,301	$	38,012

Note 11. State Universities Retirement System (SURS)

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

Funding Policy. Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 9.65% 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, including *Payments on Behalf of the University*, to SURS for the years ending June 30, 2004, 2003, and 2002, were $75,556,368, $12,412,437, and $11,625,338, respectively, equal to the required contributions for each year.

On April 7, 2003, the Governor signed Public Act 93-0002 into law authorizing the issuance of up to $10 billion of general obligation bonds for making contributions to the State's designated retirement systems, including the SURS. On June 12,2003, the State issued $10 billion of General Obligation Bonds, Pension Funding Series of June 2003, which generated $9.96 billion in proceeds in order to pay the designated retirement systems' $300 million for the remaining statutorily required contributions for the fourth quarter of fiscal year 2003, $1.86 billion for the fiscal year 2004 statutorily required contributions, and $7.32 billion in order to reduce the actuarial reserve deficiencies of the State's designated retirement systems. The remaining $481 million of proceeds was authorized by the Bond Sale Order to be held by the State to make the first required interest payment on the bonds. On July 1, 2003, the SURS received an allocation of $1.43 billion of their share of the $7.32 billion to reduce the actuarial reserve deficiency at the SURS. The Universities' allocation of this amount was $75 million.

Note 12. Post-employment Benefits

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

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental, and life insurance benefits. The cost of health, dental and life insurance benefits is recognized on a pay-as-you-go basis. These costs are funded by the State and are not an obligation of the University.

Note 13. Transactions with Related Organizations

Illinois State University Foundation (The Foundation) is a related organization formed to support in various ways the University's instructional, research, and public service missions. During fiscal years 2004 and 2003, Illinois State University entered into contractual agreements with the Foundation requiring payments of $260,000 annually for fund raising services. During fiscal year 2004 and 2003, the Foundation contributed services and expenditures of $7,973,005 and $4,421,382, respectively, that were for the direct and/or indirect support of the University. These transactions have not been eliminated from the financial statements of the University or the Foundation.

Note 14. Student Health Insurance

The University contracts with Chickering Group of Boston, Massachusetts for administration of the Aetna Health and Accident Insurance Plan to provide group insurance benefits to University students. Students taking 9 or more semester hours of class pay a fee for this coverage. The contract provides for a premium stabilization reserve (PSR) that is used to minimize increases in the premium and to be used against unexpected claims utilization to reduce future premium increases. 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). The estimated refund for 2002-03 approximates $364,517. The initial refund of $291,517 was rolled over to fund 2004-05; a final refund of $73,000 is expected in November 2004. Because potential refunds are still at risk for unexpected claims losses, they are not recorded as assets. The PSR fund held by the University as of October 2004 is $926,594. The amount required to fund the PSR for 2004-05 is $611,000. In addition to the 2002-03 refunds ($364,517) which have been committed to fund 2004-05, another $246,483 will be required from the PSR in November 2004. The amount required to fund the PSR for 2005-06 is projected to be $750,000.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded $55,686,070 and $53,910,577 in Direct Student Loans for the years ended June 30, 2004 and 2003, 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. Self-Insurance

The University is exposed to various risks of loss related to torts, theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University purchases commercial insurance for these risks of loss. During the year ended June 30, 2004, there were no significant reductions in coverage.

The Statement of Purpose for Illinois State University's Self-Insurance Program is to assist the Board of Trustees and University in addressing potential risks and general liabilities incurred through their operations. For years ended June 30, 2004 and 2003, an excess liability policy covers claims above the $350,000 deductible level and has an annual aggregate level of $5,000,000. The University did not pay any claims for fiscal year 2004 and paid two claims totaling $45,034 for fiscal year 2003. The University made contributions of interest to the fund in the amount of $7,053 for fiscal year 2004 and $9,524 for fiscal year 2003. The balance in the fund at June 30, 2004 and 2003 was $940,834 and $928,439, respectively. 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, 2004 and June 30, 2003, no liability was reported.

Note 17. Net Assets

UNIVERSITY NET ASSETS

University restricted net assets are comprised of the following at June 30, 2004 and 2003:

	2004	2003
Expendable		
Capital projects	$ 7,570,000	$ 7,570,000
Debt retirement	675,438	675,438
Student loans	9,372,694	9,282,277
Total Expendable	$ 17,618,132	$ 17,527,715

University unrestricted net assets:

Board designated capital asset renewal and replacement for the internal service departments at June 30, 2004 and 2003 was $963,026 and $954,911, respectively. These amounts are included in unrestricted net assets.

FOUNDATION NET ASSETS

Foundation restricted net assets are comprised of the following at June 30, 2004 and 2003:

	2004	2003
Nonexpendable		
Scholarship and fellowship	$ 24,423,269	$ 17,742,312
College and academic department support	7,047,408	5,098,516
Faculty and staff compensation	4,428,187	3,653,147
Other	2,527,679	2,031,790
Total nonexpendable	$ 38,426,543	$ 28,525,765
Expendable		
Scholarship and fellowship	$ 2,112,381	$ 1,854,088
Instructional departmental uses	11,769,401	10,403,084
University capital projects	10,445,610	10,338,345
Other restricted expendable	1,823,590	1,810,001
Total expendable	$ 26,150,982	$ 24,405,518

Note 18. Commitments

During 2003, the University began construction of the College of Business building. This project is jointly funded by the State of Illinois Capital Development Board, the University and private gifts. The total estimated project cost which includes equipment and furnishings approximates $30,000,000 and the University is responsible for $850,000. Gift commitments, through the Foundation, to fund the project total $10,695,000. Total estimated project costs incurred at June 30, 2004 were $22,057,851.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are $5,297,186, approximately $3,681,884 (70 percent) of the work has been completed as of June 30, 2004. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

During 2003, the State of Illinois released funding for Schroeder Hall rehabilitation. The estimated project cost is $18,700,000 and will be funded through the State of Illinois Capital Development Board. Total estimated construction costs incurred at June 30, 2004 were $3,862,612.

Note 19. 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, 2004, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

Note 20. Crosswalk of Natural Classification With Functional Classifications

Natural Classification for the Year Ended June 30, 2004

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 76,995,202	$ 12,880,065	$	$	$ 89,875,267
Research	9,507,784	3,104,084			12,611,868
Public Service	5,398,936	5,098,992			10,497,928
Academic Support	8,222,705	1,487,496			9,710,201
Student Services	12,258,658	11,672,130			23,930,788
Institutional Support	10,386,520	11,584,607			21,971,127
Operation of Plant	6,091,554	12,243,269			18,334,823
Depreciation				12,340,446	12,340,446
Staff Benefits	653,338		34,639		687,977
Student Aid		7,886,500	12,956,516		20,843,016
Payments on Behalf	102,777,101				102,777,101
Auxiliary Facilities	18,162,961	24,419,664			42,582,625
Other*	3,063,644	(1,324,623)			1,739,021
Total University	$ 253,518,403	$ 89,052,184	$ 12,991,155	$ 12,340,446	$ 367,902,188

* The negative amounts in the Other function line above are caused by an internal budgeting mechanism used to allocate certain internal service department charges.

Natural Classification for the Year Ended June 30, 2003

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 77,278,433	$ 11,153,553	$	$	$ 88,431,986
Research	9,932,305	3,324,154			13,256,459
Public Service	5,163,894	4,378,177			9,542,071
Academic Support	8,184,006	1,712,312			9,896,318
Student Services	12,455,932	10,772,852			23,228,784
Institutional Support	11,442,057	11,217,511			22,659,568
Operation of Plant	6,400,339	14,468,205			20,868,544
Depreciation				12,370,535	12,370,535
Staff Benefits	337,159		48,548		385,707
Student Aid		7,441,237	13,153,137		20,594,374
Payments on Behalf	35,138,037				35,138,037
Auxiliary Facilities	18,903,567	25,956,607			44,860,174
Other*	6,933,946	(4,370,409)			2,563,537
Total University	$ 192,169,675	$ 86,054,199	$ 13,201,685	$ 12,370,535	$ 303,796,094

* The negative amounts in the Other function line above are caused by an internal budgeting mechanism used to allocate certain internal service department charges.

Note 21. Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB Statement No. 35. The University operates auxiliary facilities that include student housing, student activities and parking.

Following are condensed financial statements for the Auxiliary Facilities System segment:

Condensed Statements of Net Assets at June 30	2004	2003
Assets:		
Current assets	$ 18,452,006	$ 17,144,051
Noncurrent assets:		
Capital assets, net	80,157,589	78,900,200
Other noncurrent assets	34,957,560	29,608,388
Total assets	133,567,155	125,652,639
Liabilities:		
Current liabilities	10,358,382	9,632,226
Noncurrent liabilities	53,106,804	55,906,954
Total liabilities	63,465,186	65,539,180
Net assets:		
Invested in capital assets, net of related debt	31,668,817	27,649,595
Expendable	8,245,438	8,245,438
Unrestricted	30,187,714	24,218,426
Total net assets	$ 70,101,969	$ 60,113,459

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the year ended at June 30	2004	2003
Operating revenues	$ 58,447,697	$ 56,249,152
Depreciation expense	(3,338,701)	(3,352,937)
Other operating expenses	(42,582,625)	(44,860,174)
Operating income	12,526,371	8,036,041
Nonoperating revenues	478,648	1,170,135
Nonoperating expenses	(3,016,509)	(3,811,339)
Increase in net assets	9,988,510	5,394,837
Net assets – beginning of year	60,113,459	54,718,622
Net assets – end of year	$ 70,101,969	$ 60,113,459

Condensed Statements of Cash Flows for the year ended June 30	2004	2003
Net cash flows provided by operating activities	$ 16,276,556	$ 10,767,615
Net cash flows used in non-capital financing activities	184,575	208,240
Net cash flows provided by (used in) capital and related financing activities	(10,365,826)	755,549
Net cash flows provided by (used in) investing activities	(13,126,391)	1,433,104
Net increase (decrease) in cash and cash equivalents	(7,031,086)	13,164,508
Cash and cash equivalents, beginning of year	14,044,004	879,496
Cash and cash equivalents, end of year	$ 7,012,918	$ 14,044,004

Following is additional segment disclosure information relating to University Auxiliary Facilities revenue bonds. S*ee 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.

Debt Service Reserve Account (DSRA)

$675,438 of the proceeds from the Series 2003 Bonds was deposited in a DSRA. These monies are to be used by the Bond Regristrar whenever there exists a deficiency in the Bond and Interest Sinking Fund Account for the payment of the principal and interest on the Series 2003 Bonds and any 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 the 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.

	2004		2003	
	Repair and Replacement Reserve	Develop-ment Reserve	Repair and Replacement Reserve	Develop-ment Reserve
Maximum Allowable Deposits at June 30	$ 25,219,145	$ N/A	$ 24,081,807	$ N/A
Assets Reserved	13,458,771	1,228,559	16,082,980	1,257,579
Project Amount Approved by Board	N/A	1,250,000	N/A	1,250,000

GRANT AGREEMENT WITH U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

On January 1, 1974, the U. S. Department of Housing and Urban Development (HUD) awarded a debt service subsidy to the University for the Union portion of the University Union Auditorium Bond Series 1970-70A. Annual payments under the grant agreement are not to exceed $160,640 and will continue until the year 2007, making the total grant subsidy approximately $5,542,080. This amount has not been reflected as an amount due to the auxiliary facilities since HUD has the right to reduce the amount of the grant upon giving notice to the University.

Note 22. Foundation Restricted Endowments

If a donor has not provided specific instructions, state law permits the Foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. The Foundation Investment Committee adopted a spending policy for fiscal years 2004 and 2003 of 0.0% and 4.0%, respectively, of the average fair value of endowment investments for the preceding 12 months.

At June 30, 2004 and 2003, net appreciation of $7,100,000 and $3,094,000, respectively, remains available for future authorization for expenditure by the Investment Committee. This amount is included in the Net Assets section of the Statements of Net Assets as Restricted for Nonexpendable.

ILLINOIS STATE
UNIVERSITY

An equal opportunity/affirmative action university encouraging diversity

UNIVERSITY MARKETING AND COMMUNICATIONS

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REPORT DIGEST

ILLINOIS STATE UNIVERSITY

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
(In accordance with the Single Audit Act and OMB Circular A-133)
For the Year Ended:
June 30, 2004

Summary of Findings:

Total this audit	1
Total last audit	5
Repeated from last audit	1

Release Date:
March 16, 2005

State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The University did not comply with the requirements of the University Faculty Research and Consulting Act.

{Financial Information is summarized on the reverse page.}

ILLINOIS STATE UNIVERSITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended June 30, 2004

FINANCIAL OPERATIONS (CURRENT FUNDS)	FY 2004	FY 2003
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances)	$84,579,827	$82,569,129
Grants and contracts	25,501,492	25,881,096
Auxiliary facilities	58,447,697	56,249,152
Other operating revenues	19,007,753	17,869,133
Total Operating Revenues	$187,536,769	$182,568,510
OPERATING EXPENSES		
Instruction	$89,875,267	$88,431,986
Research	12,611,868	13,256,459
Public service	10,497,928	9,542,071
Academic support	9,710,201	9,896,318
Student services	23,930,788	23,228,784
Institutional support	21,971,127	22,659,568
Operation and maintenance of plant	18,334,823	20,868,544
Auxiliary facilities	42,582,625	44,860,174
Depreciation	12,340,446	12,370,535
Payments on behalf of the University	102,777,101	35,138,037
Other operating expenditures	23,270,014	23,543,618
Total Operating Expenses	$367,902,188	$303,796,094
Operating loss	($180,365,419)	($121,227,584)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	$78,904,476	$85,316,120
Payments on behalf of the University	103,615,384	35,819,931
Investment income	556,012	1,190,912
Interest on capital assets and related debt	(3,029,410)	(3,827,125)
Other nonoperating revenues (expenses)	8,614,026	8,498,230
Net nonoperating revenues	$188,660,488	$126,998,068
Income (loss) before other revenues, expenses, gains and losses	$8,295,069	$5,770,484
Transfers from the Capital Development Board	14,782,721	11,412,336
Capital grants and gifts	6,153,982	467,292
INCREASE IN NET ASSETS	$29,231,772	$17,650,112
Net assets, beginning of year	$214,380,397	$196,730,285
Net assets, end of year	$243,612,169	$214,380,397

SELECTED ACCOUNT BALANCES (ALL FUNDS)	JUNE 30, 2004	JUNE 30, 2003
Cash and short-term investments	$40,079,756	$36,123,457
Capital assets	236,356,688	217,077,430
Revenue Bonds Payable	55,918,240	58,751,606
Accrued compensated absences	19,005,384	19,509,424

SUPPLEMENTARY INFORMATION	FY 2004	FY 2003
Employment Statistics (Full Time Equivalent - Average Number)		
Appropriated funds:		
Faculty/administrative	1,301.3	1,370.4
Civil service	625.4	680.2
Student employees	140.6	149.3
Miscellaneous contracts	137.3	146.4
Nonappropriated funds:		
Faculty/administrative	450.0	429.4
Civil service	547.6	588.1
Student employees	374.6	439.9
Total Employees	3,576.8	3,803.7
Selected Activity Measures		
Annual full-time equivalent students –all students	18,570	18,707
Costs per full-time equivalent student	$7,984	$7,938

UNIVERSITY PRESIDENT

During Audit Period: Dr. C. Alvin Bowman, President
Currently: Dr. C. Alvin Bowman, President

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NONCOMPLIANCE WITH THE UNIVERSITY FACULTY RESEARCH AND CONSULTING ACT

The University Faculty Research and Consulting Act (110 ILCS 100/1) states that no full time member of the faculty of a state-supported institution of higher learning may undertake, contract for or accept anything of value in return for research or consulting services for any person other than that institution on whose faculty he serves unless 1) he has prior written approval of the President of the institution based on a request that estimates time to be spent and 2) he submits to the President an annual statement of actual time spent on such outside services. University policy states annual reports must be submitted to the College Dean by August 31.

The University stated that some faculty did not completely follow University procedures to seek timely prior approval.

During our testing of 25 faculty requests for approval of outside employment, we noted 10 of 25 (40%) requests tested were not approved prior to start of outside employment.

The University stated that some faculty did not completely follow University procedures to seek timely prior approval.

Failure to seek prior approval for outside employment results in non-compliance with State statutes and University policy. (Finding 1, page 12) **This finding was first reported in 2003.**

We recommended that the University establish and implement procedures to ensure requests for approvals of outside employment are done in a timely manner.

University officials agreed with our recommendation and stated that they had established regular notifications to all chairpersons, directors, and deans to ensure awareness of the requirements of the University Faculty Research and Consulting Act. (For previous University response, see Digest Footnote)

University responses to the findings were provided by University Comptroller Greg Alt in correspondence dated January 20, 2005.

AUDITORS' OPINION

Our auditors stated the University's financial statements as of June 30, 2004 and for the year then ended, are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:CML:pp

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were Clifton Gunderson, LLP.

DIGEST FOOTNOTE

NONCOMPLIANCE WITH THE UNIVERSITY FACULTY RESEARCH AND CONSULTING ACT – Previous University Response

2003: Accepted. The University agreed with the recommendation to modify its procedures to ensure requests for approvals of outside employment and filing of annual reports are done more timely. The Provost's Office will send information to department chairpersons annually to ensure faculty awareness of the University Faculty Research and Consulting Act and the requirements for approvals and annual reports. Also, University policy will be revised to require annual reports to be submitted by August 31 of each year to better correlate with faculty presence on campus.