Report of the Comptroller 2003

for the year ended June 30, 2003

ILLINOIS STATE UNIVERSITY

ILLINOIS STATE UNIVERSITY

REPORT OF THE COMPTROLLER

For Year Ended June 30, 2003

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Compliance Audit (In accordance with the Single Audit Act and OMB Circular A-133) and Supplementary Information - For the Year Ended June 30, 2003

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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, 2003, 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, 2003

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 June 30, 2003 and 2002, and for the years then ended. These financial statements are the responsibility of 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 of its discretely presented component unit as of June 30, 2003 and 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, Illinois State University changed its capitalization threshold for equipment effective July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2003, on our consideration of Illinois State University's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 7 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding 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 31, 2003

ILLINOIS STATE UNIVERSITY
Management's Discussion and Analysis
(Unaudited)

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, 2003 with selective comparative information for the year ended June 30, 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. 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 Revenue, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, followed this in November 1999. The GASB statements pronouncements require the financial statements be presented on an entity wide perspective. The GASB subsequently issued *Statement No. 36 – Recipient Reporting for Certain Shared Nonexchange Revenues-an amendment of GASB Statement No. 33, Statement 37- an amendment to GASB No. 34*; and GASB *Statement No. 38, Certain Financial Statement Note Disclosures.*

In fiscal year 2002, significant accounting changes were made in order to comply with the new requirements and included (1) adoption of depreciation on capital assets; and (2) allocation of summer school revenues and expenses between fiscal years rather than recording revenues and expenses in the fiscal year in which the summer session is predominantly conducted. All material intra-university transactions and transfers have been eliminated in the preparation of the financial statements.

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, 2003 and 2002. 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, 2003 and 2002:

	(Thousands of dollars)	
	2003	2002
Assets:		
Current assets	$ 61,727	$ 56,906
Noncurrent assets:		
Capital assets, net	217,078	222,743
Other noncurrent assets	36,234	24,573
Total assets	315,039	304,222
Liabilities:		
Current liabilities	28,935	27,031
Noncurrent liabilities	71,723	68,076
Total liabilities	100,658	95,107
Net Assets:		
Invested in capital assets, net of related debt	165,507	169,080
Restricted	17,528	9,323
Unrestricted	31,346	30,712
Total net assets	$ 214,381	$ 209,115

Generally, current assets are assets that have a maturity date of less than one year. Current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivables. Cash and cash equivalents increased $9.9 million from June 30, 2002 to 2003. The increase was primarily attributable to the Auxiliary Facilities System. (See Capital Asset and Debt Administration of this section.) 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 $15.5 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:

2003	2002
61,727/28,935 = 2.13	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:

2003	2002
56,339/28,935 = 1.95	51,822/27,031 = 1.92

Noncurrent assets are comprised primarily of net capital assets. Net capital assets decreased $5.7 million primarily attributable to a change in the equipment capitalization threshold. This resulted in a cumulative effect adjustment of ($12.4 million).

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, 2003 and 2002:

	(Thousands of dollars) 2003	2002
Operating revenues		
Student tuition and fees, net	$ 82,569	$ 76,186
Grants and contracts	25,881	26,132
Auxiliary facilities	56,249	54,881
Other	17,869	19,379
Total operating revenues	182,568	176,578
Operating Expenses	303,114	309,129
Operating (loss)	(120,546)	(132,551)
Nonoperating revenues (expenses)		
State appropriations	85,316	92,285
Payments on behalf of the University	35,138	33,508
Other, net	5,863	11,134
Net nonoperating revenues (expenses)	126,317	136,927
Capital appropriations	11,412	2,235
Capital gifts and grants	467	1,150
Increase in net assets	17,650	7,761
Net assets – beginning of year	209,115	201,354
Cumulative effect of changes in accounting principle	(12,384)	
Net assets – end of year	$ 214,381	$ 209,115

The University experienced a reduction in State appropriations of $7.0 million from 2002 to 2003. As a result of this reduction, the University increased tuition 9.25% for the 2002-2003 school year. Net student tuition and fees increased $6.4 million from 2002 to 2003.

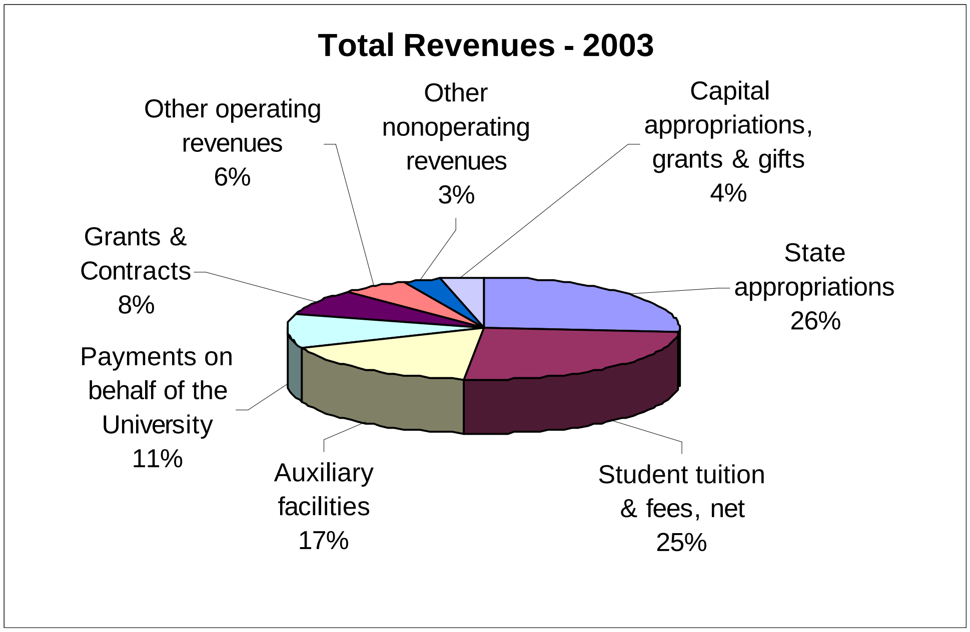
As a result of the reduction in State appropriations, the University implemented measures to reduce operating expenses. Operating expenses decreased $6.0 million, or 1.9%. During 2003, University officials enacted a faculty/staff salary and hiring freeze to reduce operating costs.

Expenses by Function	(Thousands of dollars) 2003	2002
Operating expenses		
Instruction	$ 87,750	$ 89,284
Research	13,256	12,050
Public service	9,542	10,384
Academic support	9,896	9,762
Student services	23,229	22,399
Institutional support	22,660	23,543
Operation and maintenance of plant	20,868	20,296
Depreciation	12,371	16,845
Staff benefits	386	1,260
Student aid	20,594	18,103
Payments on behalf of the University	35,138	33,508
Auxiliary facilities	44,860	46,774
Other	2,564	4,921
Total operating expenses	$ 303,114	$ 309,129

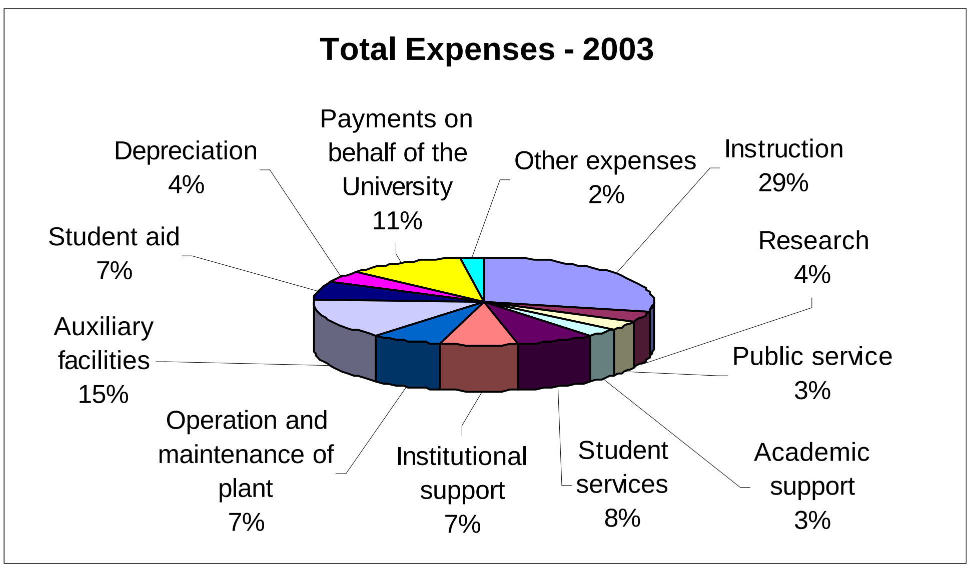
In 2003, the University changed the capitalization threshold for equipment from $500 to $5,000. The change resulted in writing off $45.2 million of equipment and $32.8 million of accumulated depreciation producing a $12.4 million reduction of net assets.

In 2002 as a result of implementing GASB Statement No. 34, the University adopted depreciation on capital assets and changed the methodology of recognition of summer school revenues.

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, 2003 and 2002:

	(Thousands of dollars) 2003	2002
Net cash used by operating activities	$ (72,669)	$ (80,228)
Cash flows from noncapital financing activities	83,091	101,424
Cash flows from capital and related financing activities	(5,320)	(21,269)
Cash flows from investing activities	4,823	3,796
Net increase in cash and cash equivalents	9,925	3,723
Cash – beginning of year	25,182	21,459
Cash – end of year	$ 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.

The University's cash and cash equivalents increased $9.9 million from 2002 to 2003 (see Capital Asset and Debt Administration).

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 is $30.0 million and the University is responsible for $0.9 million. Gift commitments, through the Foundation, to fund the project total $10.3 million. Total estimated construction costs incurred at June 30, 2003 were $9.2 million.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are $4.2 million. Approximately $1.3 million (32 percent) of the work has been completed as of June 30, 2003. 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.

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 which includes a parking deck. The University anticipates beginning construction on the capital projects during fiscal year 2004. As a result of the bond issuance and cash forecasting to meet anticipated cash outlays, the University's Auxiliary facilities system increased its cash and cash equivalents by $13.2 million from 2002 to 2003.

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.

Economic Outlook

There has been a reduction in revenues for the State of Illinois the last few years resulting in reduced State appropriation revenue. The University's portion of scheduled State appropriation revenue for fiscal year 2004 has been reduced by $7.2 million from fiscal year 2003. The University has offset this reduction with revenue from tuition increases and savings from implementation of operating cost reduction measures with minimal impact to its academic programs.

With current indicators signaling improvement in the national economy, revenues for the State of Illinois appear to be stabilizing with fiscal 2004 general fund receipts year to date through September slightly ahead of the previous year. In addition to this positive sign, the University continues to realize success of its capital contribution campaign, *Redefining Normal.* Since the launch of the campaign in 2000, the University through the Foundation has secured more than $66 million in gifts and pledges toward the goal of $88 million.

Throughout the economic challenges of the past few years, the University continues to enjoy strong enrollment demand and student retention. Beginning with the 2002-2003 academic year, an enrollment management program was implemented that resulted in the desired number of new freshman being admitted and enrolled. The average ACT score for new students continues to increase reflecting a higher quality student body and reinforcing 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.

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ILLINOIS STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30

	2003		2002	
	University	Foundation	University	Foundation
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 35,106,727	$ 7,120,647	$ 25,181,704	$ 2,599,716
Short-term investments	2,425,506	4,228,795	17,928,920	
Accrued interest receivable	171,790	8,728	149,010	5,113
Accounts receivable, net	7,381,213		7,842,799	
Student loans receivable, net	1,648,033		1,350,283	
Pledges receivable, net		1,318,649		3,354,068
Appropriations receivable from State	11,253,920		719,573	
Inventories	2,515,933		2,497,328	
Prepaid expenses and deposits	196,627	5,534	180,441	463
Deferred charges and obligations	1,027,325		1,055,727	
Total current assets	61,727,074	12,682,353	56,905,785	5,959,360
Noncurrent Assets:				
Restricted cash and cash equivalents		1,568,280		763,246
Long-term investments	27,421,406	6,037,582	15,572,370	12,121,707
Endowment investments		28,615,994		24,535,958
Student loans receivable, net	8,034,696		8,271,060	
Pledges receivable, net		4,148,245		4,872,293
Bond issuance costs	778,206		730,026	
Capital assets, net	217,077,430	1,925,077	222,742,856	1,981,393
Other noncurrent assets		562,743		464,811
Total noncurrent assets	253,311,738	42,857,921	247,316,312	44,739,408
Total assets	315,038,812	55,540,274	304,222,097	50,698,768
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	9,573,514	253,342	11,122,964	843,707
Obligations payable	926,160		962,824	
Obligations under capital leases	167,353		276,200	
Assets held in custody for others and deposits	6,455,980		3,747,163	
Deferred revenue	4,900,795		4,336,910	
Long-term liabilities - current portion	6,911,301	18,200	6,584,660	17,200
Total current liabilities	28,935,103	271,542	27,030,721	860,907
Noncurrent Liabiltities:				
Assets held in custody for others and deposits	151,747		231,426	
Long-term liabilities	71,349,729	1,203,370	67,543,939	1,197,647
Obligations under capital leases	221,836		301,348	
Total noncurrent liabilities	71,723,312	1,203,370	68,076,713	1,197,647
Total liabilities	100,658,415	1,474,912	95,107,434	2,058,554
NET ASSETS				
Invested in capital assets, net of related debt	165,506,634	925,077	169,079,623	981,393
Restricted for:				
Nonexpendable		28,525,765		24,438,137
Expendable	17,527,715	24,405,518	9,323,244	22,506,084
Unrestricted	31,346,048	209,002	30,711,796	714,600
Total net assets	$ 214,380,397	$ 54,065,362	$ 209,114,663	$ 48,640,214

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

	2003		2002	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees, net	$ 82,569,129	$	$ 76,186,270	$
Federal grants and contracts	17,258,729		16,374,788	
State and local grants and contracts	6,171,414		5,913,581	
Nongovernmental grants and contracts	2,450,953		3,843,145	
Sales and services of educational activities	1,821,619		1,812,628	
Auxiliary enterprises:				
Auxiliary facilities	56,249,152		54,881,049	
Other operating revenues	16,047,514	313,636	17,566,475	310,748
Total operating revenues	182,568,510	313,636	176,577,936	310,748
OPERATING EXPENSES				
Educational and General				
Instruction	87,750,092		89,283,788	
Research	13,256,459		12,050,528	
Public service	9,542,071		10,384,437	
Academic support	9,896,318	1,611,516	9,762,210	2,234,063
Student services	23,228,784	407,703	22,399,384	483,676
Institutional support	22,659,568	55,263	23,543,149	54,713
Operations		664,799		640,192
Operation and maintenance of plant	20,868,544		20,295,487	
Depreciation	12,370,535	56,316	16,845,068	56,316
Staff benefits	385,707		1,260,155	
Student aid	20,594,374	691,391	18,102,739	1,698,077
Payments on behalf of the University	35,138,037		33,507,730	
Auxiliary facilities:				
Student housing, activity facilities, and parking	44,860,174		46,773,529	
Other operating expenditures	2,563,537	342,388	4,920,833	628,813
Total operating expenses	303,114,200	3,829,376	309,129,037	5,795,850
Operating (loss)	(120,545,690)	(3,515,740)	(132,551,101)	(5,485,102)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	85,316,120		92,285,399	
Payments on behalf of the University	35,138,037		33,507,730	
Laboratory Schools	7,898,130		7,992,250	
Gifts and donations	3,218	4,961,793	3,428,309	12,797,216
Investment income, net of investment expenses	1,190,912	905,048	2,142,233	(3,134,164)
Interest expense	(3,827,125)	(43,090)	(3,246,665)	(70,056)
Other nonoperating revenues	733,986	617,799	943,506	758,585
Other nonoperating expenses	(137,104)	(1,431,932)	(126,050)	(1,373,072)
Net nonoperating revenues	126,316,174	5,009,618	136,926,712	8,978,509
Income before capital items	5,770,484	1,493,878	4,375,611	3,493,407
Capital appropriations	11,412,336		2,234,483	
Capital grants and gifts	467,292		1,150,307	
Additions to permanent endowments		3,931,270		1,516,560
Total capital items	11,879,628	3,931,270	3,384,790	1,516,560
Increase in net assets	17,650,112	5,425,148	7,760,401	5,009,967
NET ASSETS				
Net assets - beginning of year	209,114,663	48,640,214	201,354,262	43,630,247
Cumulative effect of changes in accounting principle	(12,384,378)			
Net assets - end of year	$ 214,380,397	$ 54,065,362	$ 209,114,663	$ 48,640,214

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

ILLINOIS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2003 University	2002 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 74,089,362	$ 70,770,058
Grants and contracts	28,359,661	26,689,958
Payments to suppliers	(67,111,979)	(64,603,552)
Payments to employees for salaries and benefits	(172,089,274)	(176,191,738)
Payments for scholarships and fellowships	(12,646,722)	(11,169,941)
Student loans issued	(2,236,924)	(1,727,994)
Collection of student loans	2,046,079	1,795,454
Auxiliary enterprise charges:		
Auxiliary Facilities	56,500,778	55,037,399
Sales and service of educational activities	1,821,619	1,812,628
Payments to internal service departments	(18,912,569)	(23,505,149)
Internal service departments receipts	18,912,569	23,505,149
Agency custodial receipts	55,324,116	50,361,350
Agency custodial disbursements	(52,099,948)	(49,580,779)
Other receipts	15,374,125	16,579,269
Net cash (used) by operating activities	(72,669,107)	(80,227,888)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	74,788,163	92,645,213
Gifts and grants for other than capital purposes	3,218	15,951
Student direct lending receipts	53,910,577	52,658,602
Student direct lending disbursements	(53,910,577)	(52,658,602)
Payment on U.S. government loan advances	(137,104)	(126,050)
Other receipts	732,362	943,505
Laboratory schools	7,703,978	7,945,360
Net cash provided by noncapital financing activities	83,090,617	101,423,979
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	
Capital appropriations from State		151,742
Gifts and grants for capital purposes	690,205	927,214
Proceeds from sale of capital assets	12,777	21,539
Purchases of capital assets	(7,674,514)	(16,368,477)
Principal paid on capital debt and leases:		
Capital debt and leases	(4,812,646)	(4,816,700)
Debt defeasement	(9,550,000)	
Interest paid on capital debt and leases	(1,419,999)	(1,184,634)
Payments of bond issuance costs	(300,765)	
Net cash (used) by capital financing activities	(5,319,254)	(21,269,316)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	168,868,766	168,830,744
Interest on investments	1,261,289	2,203,181
Purchase of investments	(165,307,288)	(167,238,060)
Net cash provided by investing activities	4,822,767	3,795,865
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,925,023	3,722,640
Balance - beginning of year	25,181,704	21,459,064
Balance - end of year	$ 35,106,727	$ 25,181,704

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

	2003 University	2002 University
RECONCILIATION		
Operating (loss)	$ (120,545,690)	$ (132,551,101)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation expense	12,370,535	16,845,068
Payments on behalf of the University	35,138,037	33,507,730
Changes in assets and liabilities:		
Accounts receivables, net	300,205	1,258,812
Student loans receivable, net	(61,383)	231,260
Inventories	(18,605)	(39,564)
Other assets	20,468	2,829
Accounts payable and accrued liabilities	(1,532,206)	(1,734,763)
Deferred revenue	563,885	1,769,206
Assets held in custody for others and deposits	2,629,138	1,077,725
Compensated absences	(1,533,491)	(595,090)
Net cash (used) by operating activities	$ (72,669,107)	$ (80,227,888)
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Payments on behalf of the University	$ 35,138,037	$ 33,507,730
Donated capital assets		3,412,358
Capital appropriation acquisitions	11,405,946	2,082,741
Capital lease obligation acquisitions	93,354	212,711

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

Illinois State University
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 and 2002

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. 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> In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required. The GASB subsequently issued *Statement No. 36 – Recipient Reporting for Certain Shared Nonexchange Revenues-an amendment of GASB Statement No. 33; Statement 37-an amendment to GASB No. 34; and GASB Statement No. 38, Certain Financial Statement Note Disclosures.*

Beginning fiscal year 2002, significant accounting changes were made in order to comply with the above financial statement presentation including (1) adoption of depreciation on capital assets; and (2) reporting summer session revenues and expenses between fiscal years rather than in one fiscal year.

<u>Basis of Accounting:</u> For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. 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 $500 or more for fiscal years 2003 and 2002, respectively, 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 2003 and 2002 amounted to a net increase in construction costs of $40,055 and $234,654, 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 $1,971,047 at June 30, 2003 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.

	2003	2002
Student tuition and fees	$ 99,525,050	$ 91,559,103
Less scholarship discounts and allowances	(16,568,163)	(14,994,774)
Less discounts for employee waivers	(387,758)	(378,059)
Net student tuition and fees	82,569,129	76,186,270
Auxiliary facilities	62,875,466	61,521,268
Less scholarship discounts and allowances	(6,626,314)	(6,640,219)
Net auxiliary facilities	$ 56,249,152	$ 54,881,049

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.

Accounting Changes: Also as a result of the adoption of GASB Statements No. 34 and 35, the University was also required to make certain changes in accounting principles, specifically (1) adoption of depreciation on capital assets, and (2) allocating of certain summer session revenue between fiscal years rather than recording revenue in the fiscal year in which the session was predominantly conducted.

Effective beginning fiscal year 2003, the University changed the equipment capitalization threshold from $500 to $5,000. Prior to fiscal year 2003, the University’s equipment capitalization threshold was $500 in accordance with its federal indirect cost rate. On July 1, 2002, the University was granted permission to change the equipment capitalization threshold to $5,000 which is in accordance with the State of Illinois guidelines.

	2003	
	University	Foundation
Net assets – beginning of year, as originally reported	$ 209,114,663	$ 48,640,214
Cumulative effect of changes in accounting principle: Equipment capitalization threshold	(12,384,378)	
Net assets – beginning of year, as restated	$ 196,730,285	$ 48,640,214

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, 2003 and 2002, the University's bank balances were $89,586 and $462,534, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral. The University had cash on hand of $156,516 and $212,262 at June 30, 2003 and 2002, respectively.

At June 30, 2003 and 2002, the Illinois State University Foundation, the discretely presented component unit, bank balances were $19,450 and $2,719, respectively, and were covered by the Federal Deposit Insurance Corporation.

DEPOSITS:	2003		2002	
University	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Bank Checking Funds	$ 89,586	$	$ 462,534	$
Local Vault Cash and Change Funds		156,516		212,262
Total University	$ 89,586	$ 156,516	$ 462,534	$ 212,262
Foundation				
Cash in bank	$ 19,450	$ 19,450	$ 2,719	$ 2,719

Reconciliation of cash and cash equivalents to deposits:

	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

	2002	
	University	Foundation
Cash and cash equivalents		
Current	$ 25,181,704	$ 2,599,716
Noncurrent		763,246
Total cash and cash equivalents	25,181,704	3,362,962
Less: Money market mutual funds classified as investments for purposes of categorization	(24,969,442)	(3,360,243)
Carrying amount of deposits	$ 212,262	$ 2,719

Note 3. Investments

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

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 75 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 15 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, 2003.

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:	2003			
University	Category 1	Category 2	Category 3	Carrying Amount
U.S. Treasury and Agency Securities	$ 29,846,912	$	$	$ 29,846,912
Commercial Paper				
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 One Money Market Mutual Funds				8,645,520
Evergreen Money Market Mutual Funds				23,957
Mutual Funds				38,190,798
Total Foundation	$ 691,573	$	$	$ 47,551,848

INVESTMENTS:

University		Category 1		Category 2		Category 3		Carrying Amount
		2002						
U.S. Treasury and Agency Securities	$	24,552,220	$		$		$	24,552,220
Commercial Paper						8,949,070		8,949,070
Sub-total Categorized	$	24,552,220	$		$	8,949,070		33,501,290
Illinois Funds								16,763,866
Bank Money Market Mutual Funds								8,205,576
Total University							$	58,470,732
Foundation								
U.S. Treasury and Agency Securities	$	69,310	$		$		$	69,310
Certificates of Deposit		100,447						100,447
Corporate Equity Securities		188,821						188,821
Sub-total Categorized		358,578						358,578
Bank One Money Market Mutual Funds								3,334,975
Evergreen Money Market Mutual Funds								25,268
Mutual Funds								36,207,783
Real Estate								91,304
Total Foundation	$	358,578	$		$		$	40,017,908

Investments consist of the following:

	2003				2002			
		University		Foundation		University		Foundation
Short-term investments	$	2,425,506	$	4,228,795	$	17,928,920	$	
Long-term investments		27,421,406		6,037,582		15,572,370		12,121,707
Endowment investments				28,615,994				24,535,958
Sub-total		29,846,912		38,882,371		33,501,290		36,657,665
Money market mutual funds classified as cash and cash equivalents		34,950,211		8,669,477		24,969,442		3,360,243
Total	$	64,797,123	$	47,551,848	$	58,470,732	$	40,017,908

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, 2003 and 2002:

	2003	2002
Student tuition and fees	$ 4,349,732	$ 3,952,344
Auxiliary facilities and other operating activities	2,753,566	3,213,162
Other	416,030	512,094
Federal, state, and private grants and contracts	2,304,423	2,484,037
Sub-total	9,823,751	10,161,637
Less allowance for uncollectible accounts	(2,442,538)	(2,318,838)
Net Accounts Receivable	$ 7,381,213	$ 7,842,799

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2003 and 2002 are summarized as follows:

	2003	2002
Perkins student loan fund	$ 10,238,133	$ 10,197,594
Nursing loan fund	293,544	267,677
University loan fund	47,184	41,644
Sub-total	10,578,861	10,506,915
Less allowance for uncollectible accounts	(896,132)	(885,572)
Net Student Loans Receivable	$ 9,682,729	$ 9,621,343
Estimated current portion	$ 1,648,033	$ 1,350,283
Estimated noncurrent portion	8,034,696	8,271,060
Total	$ 9,682,729	$ 9,621,343

Note 6. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2003 and 2002 are summarized as follows:

		2003		2002
Pledges to be collected	$	6,066,327	$	9,288,852
Less discount for the time value of money		(422,708)		(919,911)
Less allowance for uncollectible accounts		(176,725)		(142,580)
Net Foundation Pledges Receivable	$	5,466,894	$	8,226,361
Estimated current portion	$	1,318,649	$	3,354,068
Estimated noncurrent portion		4,148,245		4,872,293
Total	$	5,466,894	$	8,226,361

Note 7. Capital Assets

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.

Capital assets activity for the year ended June 30, 2002 is summarized as follows:

	Beginning Balance As Restated	Additions	Retirements	Ending Balance
Land	$ 12,986,773	$ 604,144	$	$ 13,590,917
Land Improvements	11,502,347	623,798		12,126,145
Infrastructure	11,906,080	38,507		11,944,587
Buildings	272,319,986	1,389,140		273,709,126
Equipment	90,488,661	11,457,569	5,673,609	96,272,621
Library Materials	45,291,709	3,121,381		48,413,090
Construction in Progress	14,329,667	5,027,195		19,356,862
Sub-total	$ 458,825,223	$ 22,261,734	$ 5,673,609	$ 475,413,348
Less Accumulated Depreciation for:				
Land Improvements	$ 5,726,530	$ 245,432	$	$ 5,971,962
Infrastructure	3,263,190	293,627		3,556,817
Buildings	127,985,572	5,983,930		133,969,502
Equipment	66,284,714	9,337,858	5,240,916	70,381,656
Library Materials	37,806,334	984,221		38,790,555
Total Accumulated Depreciation	$ 241,066,340	$ 16,845,068	$ 5,240,916	$ 252,670,492
Capital Assets, net	$ 217,758,883			$ 222,742,856

	Cost	Accumulated Depreciation
Balance – beginning of year, as originally reported	$ 456,793,265	$
Adoption of depreciation for capital assets		241,003,458
Prior period adjustments	2,031,958	62,882
Beginning balance as restated (above)	$ 458,825,223	$ 241,066,340

Foundation net capital assets at June 30, 2002 were $1,981,393.

Note 8. Deferred Revenue

Deferred revenue consists of the following at June 30, 2003 and 2002:

	2003	2002
Prepaid tuition and fees	$ 2,241,099	$ 2,733,554
Auxiliary facilities	521,763	626,059
Grants and contracts	1,922,649	826,991
Other	215,284	150,306
Deferred Revenue	$ 4,900,795	$ 4,336,910

Note 9. Long-term Liabilities

UNIVERSITY LONG-TERM LIABILITIES

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

Long-term liability activity at June 30, 2002 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Accrued compensated absences	$ 21,657,504	$ 1,752,780	$ 2,367,370	$ 21,042,914
Revenue bonds payable	55,400,539	2,245,146	4,560,000	53,085,685
Total	$ 77,058,043	$ 3,997,926	$ 6,927,370	$ 74,128,599
Current portion				
Accrued compensated absences				$ 2,131,300
Revenue bonds payable, net				4,453,360
Total current portion				$ 6,584,660
Noncurrent portion				
Accrued compensated absences				$ 18,911,614
Revenue bonds payable, net				48,632,325
Total noncurrent portion				$ 67,543,939

Revenue bonds payable at June 30, 2003 and 2002 consists of the following:

	2003	2002
Revenue Bonds, Series 1989:		
Capital Appreciation Bonds	$ 8,715,006	$ 8,110,330
Insured Revenue Bonds, Series 1992:		
Capital Appreciation Bonds	15,027,305	17,744,622
Insured Revenue Bonds, Series 1993:		
Current Interest Bonds		9,390,873
Capital Appreciation Bonds	998,894	940,642
Revenue Bonds, Series 1996:		
Current Interest Bonds	10,143,077	10,912,829
Capital Appreciation Bonds	6,342,682	5,986,389
Revenue Bonds, Series 2003:		
New Project Bonds	7,619,862	
Current Refunding Bonds	9,904,780	
Total revenue bonds payable	$ 58,751,606	$ 53,085,685

Maturities and Interest Requirements on revenue bonds payable at June 30, 2003, are as follows:

Year Ending June 30	Principal	Interest	Total
2004	$ 4,790,000	$ 1,301,987	$ 6,091,987
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
Sub-total	25,010,000	5,883,815	30,893,815
2009-2013	26,735,000	4,255,644	30,990,644
2014-2018	18,675,000	990,950	19,665,950
2019-2023	2,340,000	336,505	2,676,505
Sub-total	72,760,000	$ 11,466,914	$ 84,226,914
Additions(Deductions):			
Unaccreted Appreciation	(14,561,113)		
Unamortized Discounts	(66,923)		
Unamortized Premiums	619,642		
Total	$ 58,751,606		

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, 2003 and 2002 was $9,554,452 and $9,430,186, 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, 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

Long-term liability activity at June 30, 2002 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 68,219	$ 43,722	$ 14,120	$ 97,821
Accrued compensated absences	61,107	55,919		117,026
Notes payable	1,200,000		200,000	1,000,000
Total	$ 1,329,326	$ 99,641	$ 214,120	$ 1,214,847
Current portion				
Beneficiary payments				$ 17,200
Total current portion				$ 17,200
Noncurrent portion				
Beneficiary payments				$ 80,621
Accrued compensated absences				117,026
Notes payable				1,000,000
Total noncurrent portion				$ 1,197,647

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:

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

2002	Vacation	Sick	Total
University	$ 8,332,341	$ 12,710,573	$ 21,042,914
Foundation	37,297	79,729	117,026

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 $997,943 and $630,554 at June 30, 2003 and $1,154,461 and $493,223 at June 30, 2002, respectively.

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

	Beginning Balance	Additions	Reductions	Ending Balance
Obligations under capital leases	$ 577,548	$ 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, 2003, are as follows:

Year Ending June 30	Total
2004	$ 182,564
2005	105,496
2006	39,713
2007	24,000
2008	68,480
Total minimum lease payment	420,253
Less amount representing interest	(31,064)
Net present value	$ 389,189

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, 2003 and 2002 was $183,732 and $168,470, respectively. The leases expire between December 2003 and May 2012. Following is a schedule of future minimum lease payments.

Year Ending June 30		Building
2004	$	138,385
2005		67,545
2006		59,407
2007		59,407
2008		59,407
Sub-total		384,151
2009-2013		232,680
Total	$	616,831

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 $60,600 in 2003 and $57,920 in 2002. The current lease expires in the fiscal year ending June 30, 2005. 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 $41,768 in 2003 and $34,259 in 2002. The lease for the Executive Director expires in the fiscal year ending June 30, 2006, and the leases for the Athletic Department vehicles expire in the fiscal year ending June 30, 2005. The following is a schedule of future minimum lease payments for both.

Year Ending June 30		Building		Vehicles
2004	$	62,026	$	42,120
2005		31,013		30,151
2006				3,625
Total	$	93,039	$	75,896

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 11.13% 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, 2003, 2002, and 2001, were $12,412,437, $11,625,338, and $11,270,204, respectively, equal to the required contributions for each year.

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 2003 and 2002, Illinois State University entered into contractual agreements with the Foundation requiring payments of $260,000 annually for fund raising services. During fiscal year 2003 and 2002, the Foundation contributed services and expenditures of $4,448,552 and $7,063,002, 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 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 2001-02 approximates $155,000 with expected receipt in November 2003. The first refund calculation for 2002-03 is expected to be $310,000 with a final calculation in November 2004. Because these potential refunds are still at risk for unexpected claims losses, they are not recorded as assets. The premium stabilization fund held by the University as of October 2003 is $1,264,482 of which $300,000 is committed to subsidize the premium for 2003-04; $650,000 is committed for policy year 2004-05.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded $53,910,577 and $52,658,602 in Direct Student Loans for the years ended June 30, 2003 and 2002, 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, 2003, 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, 2003 and 2002, an excess liability policy covers claims above the $350,000 deductible level and has an annual aggregate level of $5,000,000. For fiscal year 2003, the University paid two claims totaling $45,034, and the University did not pay any claims for fiscal year 2002. The University made contributions of interest to the fund in the amount of $14,234 for fiscal year 2003 and $21,577 for fiscal year 2002. The balance in the fund at June 30, 2003 and 2002 was $927,326 and $972,297, 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, 2003 and June 30, 2002, no liability was reported.

Note 17. Net Assets

UNIVERSITY NET ASSETS

University restricted net assets are comprised of the following at June 30, 2003 and 2002:

	2003	2002
Expendable		
Capital projects	$ 7,570,000	$
Debt retirement	675,438	
Student loans	9,282,277	9,323,244
Total Expendable	$ 17,527,715	$ 9,323,244

University unrestricted net assets:

Board designated capital asset renewal and replacement for the internal service departments at June 30, 2003 and 2002 was $954,911 and $943,691, respectively. These amounts are included in unrestricted net assets.

FOUNDATION NET ASSETS

Foundation restricted net assets are comprised of the following at June 30, 2003 and 2002:

	2003	2002
Nonexpendable		
Scholarship and fellowship	$ 17,742,312	$ 16,658,362
College and academic department support	5,098,516	3,313,830
Faculty and staff compensation	3,653,147	2,655,182
Other	2,031,790	1,810,763
Total nonexpendable	$ 28,525,765	$ 24,438,137
Expendable		
Scholarship and fellowship	$ 1,854,088	$ 2,607,961
Instructional departmental uses	10,403,084	8,867,993
University capital projects	10,338,345	8,244,959
Other restricted expendable	1,810,001	2,785,171
Total expendable	$ 24,405,518	$ 22,506,084

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 is $30,012,000 and the University is responsible for $850,000. Gift commitments, through the Foundation, to fund the project total $10,250,000. Total estimated construction costs incurred at June 30, 2003 were $9,247,678.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are $4,165,984, approximately $1,333,888 (32 percent) of the work has been completed as of June 30, 2003. 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.

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, 2003, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

Note 20. Significant Events

Fiscal year 2003:
In October 2002, construction was completed on the Center for Performing Arts building at a cost of $16,220,073.

Fiscal year 2002:
On September 7, 2001, the University made a final payment of $642,397 for the former Farm Services (FS) research farm near Lexington, IL. The total acquisition cost was $2,445,606.

On April 15, 2002, the University purchased for $499,000 three lots in Traders Circle, Northmeadow Subdivision, Normal, IL.

Note 21. Crosswalk of Natural Classification With Functional Classifications

Natural Classification for the Year Ended June 30, 2003

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 76,596,539	$ 11,153,553	$	$	$ 87,750,092
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	$ 191,487,781	$ 86,054,199	$ 13,201,685	$ 12,370,535	$ 303,114,200

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

Foundation	$ 945,499	$ 2,136,170	$ 691,391	$ 56,316	$ 3,829,376

Natural Classification for the Year Ended June 30, 2002

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 78,993,484	$ 10,286,304	$ 4,000	$	$ 89,283,788
Research	9,390,740	2,657,988	1,800		12,050,528
Public Service	5,436,340	4,948,097			10,384,437
Academic Support	8,569,628	1,192,582			9,762,210
Student Services	12,109,220	10,290,164			22,399,384
Institutional Support	11,591,467	11,951,682			23,543,149
Operation of Plant	6,624,271	13,671,216			20,295,487
Depreciation				16,845,068	16,845,068
Staff Benefits	1,213,184	1,768	45,203		1,260,155
Student Aid		6,983,800	11,118,939		18,102,739
Payments on Behalf	33,507,730				33,507,730
Auxiliary Facilities	19,167,297	27,606,232			46,773,529
Other*	7,179,835	(2,259,002)			4,920,833
Total University	$ 193,783,196	$ 87,330,831	$ 11,169,942	$ 16,845,068	$ 309,129,037

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

Foundation	$ 1,047,071	$ 2,994,386	$ 1,698,077	$ 56,316	$ 5,795,850

Note 22. 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	2003	2002
Assets:		
Current assets	$ 18,552,827	$ 21,386,050
Noncurrent assets:		
Capital assets, net	78,900,200	82,370,292
Other noncurrent assets	28,199,612	13,282,386
Total assets	125,652,639	117,038,728
Liabilities:		
Current liabilities	9,632,226	10,395,914
Noncurrent liabilities	55,906,954	50,559,579
Total liabilities	65,539,180	60,955,493
Net assets:		
Invested in capital assets, net of related debt	27,649,595	29,181,561
Expendable	8,245,438	
Unrestricted	24,218,426	26,901,674
Total net assets	$ 60,113,459	$ 56,083,235

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the year ended at June 30	2003	2002
Operating revenues	$ 56,249,152	$ 54,881,049
Depreciation expense	(3,352,937)	(3,693,748)
Other operating expenses	(44,860,174)	(46,773,530)
Operating income	8,036,041	4,413,771
Nonoperating revenues	1,170,135	1,684,369
Nonoperating expenses	(3,811,339)	(3,213,314)
Increase in net assets	5,394,837	2,884,826
Net assets – beginning of year	56,083,235	53,198,409
Cumulative effect	(1,364,613)	
Net assets – end of year	$ 60,113,459	$ 56,083,235

Condensed Statements of Cash Flows for the year ended June 30	2003	2002
Net cash flows provided by operating activities	$ 10,767,615	$ 7,781,823
Net cash flows used in non-capital financing activities	208,240	2,006,766
Net cash flows provided by (used) in capital and related financing activities	755,549	(10,865,218)
Net cash flows provided by investing activities	1,433,104	193,895
Net increase (decrease) in cash and cash equivalents	13,164,508	(882,734)
Cash and cash equivalents, beginning of year	879,496	1,762,230
Cash and cash equivalents, end of year	$ 14,044,004	$ 879,496

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.

	2003		2002	
	Repair and Replacement Reserve	Development Reserve	Repair and Replacement Reserve	Development Reserve
Maximum Allowable Deposits at June 30	$ 24,081,807	$ N/A	$ 24,476,203	$ N/A
Assets Reserved	16,082,980	1,257,579	9,013,808	1,266,594
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 23. 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 2003 and 2002 of 4.5% and 4.0%, respectively, of the average fair value of endowment investments for the preceding 12 months.

At June 30, 2003 and 2002, net appreciation of $3,094,000 and $3,280,000, 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.

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

Illinois State University

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REPORT DIGEST

ILLINOIS STATE UNIVERSITY

FINANCIAL AND COMPLIANCE AUDIT
(In accordance with the Single Audit Act and OMB Circular A-133)
For the Year Ended:
June 30, 2003

Summary of Findings:

Total this audit	5
Total last audit	3
Repeated from last audit	2

Release Date:
March 9, 2004

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

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SYNOPSIS

- The University did not properly record purchases and disposals of capital assets.
- The University did not properly record construction-in-progress in the accounting records.
- The University did not comply with the requirements of the University Faculty Research and Consulting Act.

{Financial Information is summarized on the reverse page.}

FINANCIAL OPERATIONS (CURRENT FUNDS)	FY 2003	FY 2002
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances)	$82,569,129	$76,186,270
Grants and contracts	25,881,096	26,131,514
Auxiliary facilities	56,249,152	54,881,049
Other operating revenues	17,869,133	19,379,103
Total Operating Revenues	$182,568,510	$176,577,936
OPERATING EXPENSES		
Instruction	$87,750,092	$89,283,788
Research	13,256,459	12,050,528
Public service	9,542,071	10,384,437
Academic support	9,896,318	9,762,210
Student services	23,228,784	22,399,384
Institutional support	22,659,568	23,543,149
Operation and maintenance of plant	20,868,544	20,295,487
Auxiliary facilities	44,860,174	46,773,529
Depreciation	12,370,535	16,845,068
Other operating expenditures	58,681,655	57,791,457
Total Operating Expenses	$303,114,200	$309,129,037
Operating loss	($120,545,690)	($132,551,101)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	$85,316,120	$92,285,399
Payments on behalf of the University	35,138,037	33,507,730
Investment income	1,190,912	2,142,233
Interest on capital assets and related debt	(3,827,125)	(3,246,665)
Other nonoperating revenues (expenses)	8,498,230	12,238,015
Net nonoperating revenues	$126,316,174	$136,926,712
Income (loss) before other revenues, expenses, gains and losses	$5,770,484	$4,375,611
Transfers from the Capital Development Board	11,412,336	2,234,483
Capital grants and gifts	467,292	1,150,307
INCREASE IN NET ASSETS	$17,650,112	7,760,401
Net assets, beginning of year	$209,114,663	$201,354,262
Cumulative effect of changes in accounting principle	(12,384,378)	
Net assets, end of year	$214,380,397	$209,114,663

SELECTED ACCOUNT BALANCES (ALL FUNDS)	JUNE 30, 2003	JUNE 30, 2002
Cash and short-term investments	$37,532,233	$43,110,624
Capital assets	217,077,430	222,742,856
Revenue Bonds Payable	58,751,606	53,085,685
Accrued compensated absences	19,509,424	21,042,914
Net Assets	214,380,397	209,114,663

SUPPLEMENTARY INFORMATION	FY 2003	FY 2002
Employment Statistics (Full Time Equivalent - Average Number)		
Appropriated funds:		
Faculty/administrative	1,370.4	1,388.4
Civil service	680.2	712.0
Student employees	149.3	159.6
Miscellaneous contracts	146.4	144.6
Nonappropriated funds:		
Faculty/administrative	429.4	427.0
Civil service	588.1	633.3
Student employees	439.9	416.9
Total Employees	**3,803.7**	**3,881.8**
Selected Activity Measures		
Annual full-time equivalent students -all students	18,707	18,672

UNIVERSITY PRESIDENT
During Audit Period: Dr. Victor J. Boschini, Jr. (July 1, 2002 through May 31, 2003)
Dr. C. Alvin Bowman, Interim President (effective June 1, 2003)
Currently: Dr. C. Alvin Bowman, Interim President

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CAPITAL ASSET ADDITIONS AND RETIREMENTS NOT PROPERLY RECORDED

The University did not properly record purchases and disposals of capital assets in the property control records or in the University's financial records.

Capital assets were incorrectly adjusted in the property records or were not entered in the property records timely.

- An item valued at $112,000 was purchased in 1992, but not reported as an addition until fiscal year 2003. In fiscal year 2003 the item was incorrectly recorded and incorrectly expensed.
- An item with a value of $109,531 was recorded as an addition twice and capitalized twice.
- Two items with a value of $20,220 were purchased in 2001 and not reported as additions until fiscal year 2003.
- Assets with a value of $48,211 (six items) were inadvertently deleted from property control records. When the error was discovered in fiscal year 2003 the items were re-added.

Generally accepted accounting principles require all capital asset additions and all deletions be recorded in the financial records in the year in which the transaction occurs. Also under the State Property Control Act (30 ILCS 605/6.02) the University "shall maintain a permanent record of all items of property."

Failure to record capital asset additions and deletions in the proper period can result in inaccurate financial reporting and can impede management oversight controls. (Finding 1, Pages 12-13)

We recommended that the University coordinate its current procedures for tracking property additions and deletions with its procedures for conducting physical counts of inventories.

University officials agreed with the recommendation and stated that they have implemented new procedures to ensure the proper recording of capital asset additions and retirements.

CONSTRUCTION IN PROGRESS NOT PROPERLY RECORDED

Expenditures and capital appropriations related to construction in progress on the University's College of Business building were not properly recorded in the University's financial statements.

Capital appropriations received from the Capital Development Board and other expenses and reimbursements related to construction in progress were not accounted for properly.

- Capital appropriations received from the Capital Development Board were reported as a reduction in operating expenditures rather than reported as capital appropriations. As a result, expenses and revenue were understated by $2,082,741 and $9,255,246 in fiscal years 2002 and 2003, respectively.
- Prior to fiscal year 2003, the University had recorded Capital Development Board capital appropriations one quarter late. The University's June 30, 2003 financial statements reflect five quarters of capital appropriations, resulting in an overstatement of $1,201,493 in fiscal year 2003.
- The Illinois State University Foundation reimbursed the University $116,007 and $183,993 for costs related to the construction of the College of Business building in fiscal years 2002 and 2003, respectively. Neither the additions to construction in progress for the costs incurred on the building nor the revenue from the Foundation were recorded. This results in an understatement of assets and revenue.
- The University expensed $300,000 and $550,000 in fiscal years 2002 and 2003 that should have been capitalized and reflected as construction in progress at June 30, 2002 and 2003. The errors result in an overstatement of expenses and understatement of capital assets over the two-year period.

Generally accepted accounting principles require costs related to the construction of capital assets be capitalized in the year in which the transaction occurs.

Failure to record construction in progress in the proper period can result in inaccurate financial reporting and can impede management oversight controls. (Finding 2, Pages 14-15)

We recommended that the University review its financial reporting practice related to construction projects. Further, the University should record capital appropriations as well as funds received from the University's Foundation as revenue.

University management should also establish policies to ensure that future construction projects are reported appropriately.

University officials agreed with the recommendation and have completed a review of its practice for recording construction projects and have implemented new procedures to ensure that construction projects are properly reported. University policy has been modified to record capital appropriations and funds received from the Foundation as revenue.

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 June 30th.

The University did not completely follow University procedures to monitor compliance of the approval requirement and follow-up on missing reports.

We noted the following during our testing of 60 faculty requests for approval of outside employment:

- 30 of 60 (50%) of requests tested were not approved prior to start of outside employment,
- 13 faculty members did not submit annual reports by June 30th, and
- 1 faculty member did not file a request seeking approval for outside employment.

The University did not completely follow University procedures to monitor compliance of the approval requirement and follow-up on missing reports.

Failure to seek prior approval for outside employment and timely filing of annual reports results in non-compliance with State statutes and University policy. (Finding 3, page 16)

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

University officials agreed with our recommendation and will send information to department chairpersons annually to ensure faculty awareness of the requirements of the University Faculty Research and Consulting Act. In addition, the University responded that the policy will be revised to require annual reports be submitted by August 31st of each year to better correlate with faculty presence on campus.

OTHER FINDINGS

The remaining findings are less significant and are reportedly being given attention by University officials. We will review progress toward implementation of our recommendations in our next audit.

University responses to the findings were provided by University Comptroller Greg Alt in correspondence dated February 5, 2004.

AUDITORS' OPINION

Our auditors stated the University's financial statements as of June 30, 2003 and for the year then ended, are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

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SPECIAL ASSISTANT AUDITORS

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