



Report
of the COMPTROLLER
2005

for the year ended June 30, 2005

I L L I N O I S S T A T E U N I V E R S I T Y

**ILLINOIS STATE UNIVERSITY
 REPORT OF THE COMPTROLLER
 For Year Ended June 30, 2005**

TABLE OF CONTENTS

	PAGE
Board of Trustees	2
Letter of Transmittal	3
Summary	4
Independent Auditor's Report.....	5
Management's Discussion and Analysis	6 - 15
Audited Financial Statements	
Statements of Net Assets As Of June 30, 2005 and 2004	16
Statements of Revenues, Expenses, and Changes in Net Assets	
For Years Ended June 30, 2005 and 2004	17
Statements of Cash Flows For Years Ended June 30, 2005 and 2004	18 - 19
Notes to Financial Statements June 30, 2005 and 2004.....	20 - 43

OTHER REPORT ISSUED UNDER SEPARATE COVER

**Compliance Report (In accordance with the Single Audit Act and OMB Circular A-133)
 and Supplementary Information - For the Year Ended June 30, 2005**

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ILLINOIS STATE UNIVERSITY

Board of Trustees

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ILLINOIS STATE
UNIVERSITY



Office of the University Comptroller

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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, 2005, 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 Nykiel-Carlin & Co., Certified Public Accountants, as special assistants to the Auditor General, and their Independent Auditor's Report follows.

Respectfully submitted,

A handwritten signature in cursive script that reads "Gregory Alt".

Gregory Alt
Comptroller

ILLINOIS STATE UNIVERSITY
Financial Statement Report
For the Year Ended June 30, 2005

SUMMARY

The audit of the accompanying basic financial statements of Illinois State University was performed by Nykiel-Carlin & Co.

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

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Illinois State University and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2005, as listed in the Table of Contents. 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 audit. The financial statements as of and for the year ended June 30, 2004, before they were reclassified for the matter discussed in Note 21, were audited by other auditors who expressed unqualified opinions on the basic financial statements in their report dated October 29, 2004.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position and the respective changes in net assets of Illinois State University and its discretely presented component unit as of and for the year ended June 30, 2005, and the cash flows of Illinois State University for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards* we have also issued a report dated December 8, 2005 on our consideration of the Illinois State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Nykiel, Carlin & Co., Ltd.

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

December 8, 2005

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, 2005 with selective comparative information for the years ended June 30, 2004 and 2003. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

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

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

Statements of Net Assets

The Statements of Net Assets present the assets, liabilities, and net assets of the University as of the end of the fiscal years. The Statements of Net Assets are point in time financial statements. The purpose of the Statements of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Illinois State University at June 30, 2005 and 2004. 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, 2005, 2004 and 2003:

	(Thousands of dollars)		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 82,825	\$ 57,482	\$ 60,318
Noncurrent assets:			
Capital assets, net	255,070	236,357	217,078
Other noncurrent assets	<u>30,783</u>	<u>45,902</u>	<u>37,643</u>
Total assets	<u>368,678</u>	<u>339,741</u>	<u>315,039</u>
Liabilities:			
Current liabilities	28,405	27,619	28,935
Noncurrent liabilities	<u>65,790</u>	<u>68,510</u>	<u>71,723</u>
Total liabilities	<u>94,195</u>	<u>96,129</u>	<u>100,658</u>
Net Assets:			
Invested in capital assets, net of related debt	203,489	187,642	165,507
Restricted	12,183	17,618	17,528
Unrestricted	<u>58,811</u>	<u>38,352</u>	<u>31,346</u>
Total net assets	<u>\$ 274,483</u>	<u>\$ 243,612</u>	<u>\$ 214,381</u>

The University's current assets increased \$25.3 million from June 30, 2004 to 2005. Cash and cash equivalents increased \$11.5 million from 2004 to 2005 primarily attributable to a \$4.7 million increase in agency custodial accounts and a \$4.7 million increase in auxiliary facilities. The increase in auxiliary facilities resulted from planned higher reserve deposits in conjunction with the funding of the Long-Range Housing and Dining Renovation Plan. Appropriations receivable from the State of Illinois increased \$7.8 million from 2004 to 2005.

From June 30, 2003 to 2004, short-term investments increased \$16.9 million primarily attributable to a \$12.9 million decrease in cash and cash equivalents based on cash forecasting needs and a decrease in appropriation receivable from the State of Illinois of \$6.9 million.

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

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

(Thousands of dollars)		
2005	2004	2003
$82,825 / 28,405 = 2.92$	$57,482 / 27,619 = 2.08$	$60,318 / 28,935 = 2.08$

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

(Thousands of dollars)		
2005	2004	2003
$77,495 / 28,405 = 2.73$	$52,636 / 27,619 = 1.91$	$54,930 / 28,935 = 1.90$

Noncurrent assets are comprised primarily of net capital assets. Net capital assets increased \$18.7 million and \$19.3 million from June 30, 2004 to 2005 and 2003 to 2004, respectively. The increases are primarily attributable to construction and major renovation of University buildings.

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, 2005, 2004 and 2003:

	(Thousands of dollars)		
	2005	2004	2003
Operating revenues			
Student tuition and fees, net	\$ 88,420	\$ 79,446	\$ 77,330
Grants and contracts	26,255	25,502	25,881
Auxiliary facilities	57,753	58,448	56,249
Other	20,543	19,007	17,869
	<u>192,971</u>	<u>182,403</u>	<u>177,329</u>
Operating Expenses	<u>313,408</u>	<u>362,768</u>	<u>298,557</u>
Operating (loss)	<u>(120,437)</u>	<u>(180,365)</u>	<u>(121,228)</u>
Nonoperating revenues (expenses)			
State appropriations	80,452	78,904	85,316
Payments on behalf of the University	43,776	103,615	35,820
Other, net	8,390	6,140	5,863
	<u>132,618</u>	<u>188,659</u>	<u>126,999</u>
Capital appropriations	11,829	14,783	11,412
Capital gifts and grants	6,861	6,154	467
Increase in net assets	30,871	29,231	17,650
Net assets – beginning of year	<u>243,612</u>	<u>214,381</u>	<u>196,731</u>
Net assets – end of year	<u>\$ 274,483</u>	<u>\$ 243,612</u>	<u>\$ 214,381</u>

The return of net assets ratio indicates whether the University is financially better off compared to the previous year by comparing the increase in net assets to beginning net assets. The improvements in 2005 and 2004 compared to 2003 are primarily attributable to State of Illinois Capital Development Board and Foundation capital projects funding.

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

(Thousands of dollars)		
2005	2004	2003
<u>30,871 / 243,612 = 12.67%</u>	<u>29,231 / 214,381 = 13.64%</u>	<u>17,650 / 196,731 = 8.97%</u>

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

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

(Thousands of dollars)		
2005	2004	2003
<u>12,181 / 328,441 = 3.71%</u>	<u>8,294 / 374,092 = 2.21%</u>	<u>5,771 / 308,292 = 1.87%</u>

State appropriations revenue is approximately \$80 million for fiscal years 2005 and 2004. The University experienced a reduction in State appropriations of \$6.4 million from 2003 to 2004. The University had enacted tuition and fee increases for fiscal years 2003, 2004 and 2005 to help offset the State appropriation funding trend.

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

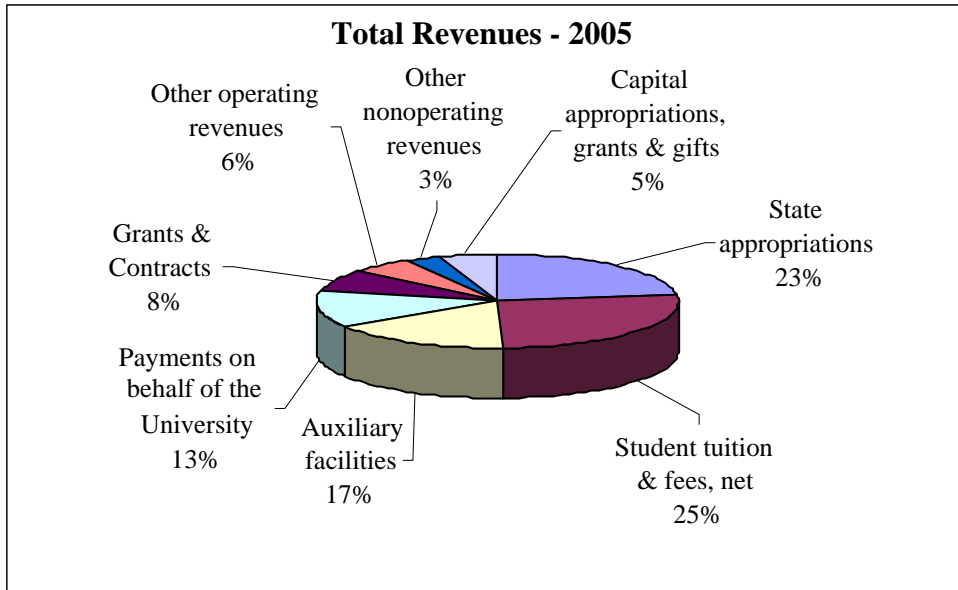
Expenses by Function	(Thousands of dollars)		
	2005	2004	2003
Operating expenses			
Instruction	\$ 89,270	\$ 89,875	\$ 88,432
Research	13,111	12,612	13,256
Public service	12,058	10,498	9,542
Academic support	10,002	9,710	9,896
Student services	25,559	23,931	23,229
Institutional support	23,116	21,971	22,660
Operation and maintenance of plant	20,415	18,335	20,868
Depreciation	13,553	12,340	12,371
Staff benefits	1,802	688	386
Student aid	17,175	15,709	15,355
Payments on behalf of the University	42,893	102,777	35,138
Auxiliary facilities	42,741	42,583	44,860
Other	1,713	1,739	2,564
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	\$ <u>313,408</u>	\$ <u>362,768</u>	\$ <u>298,557</u>

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

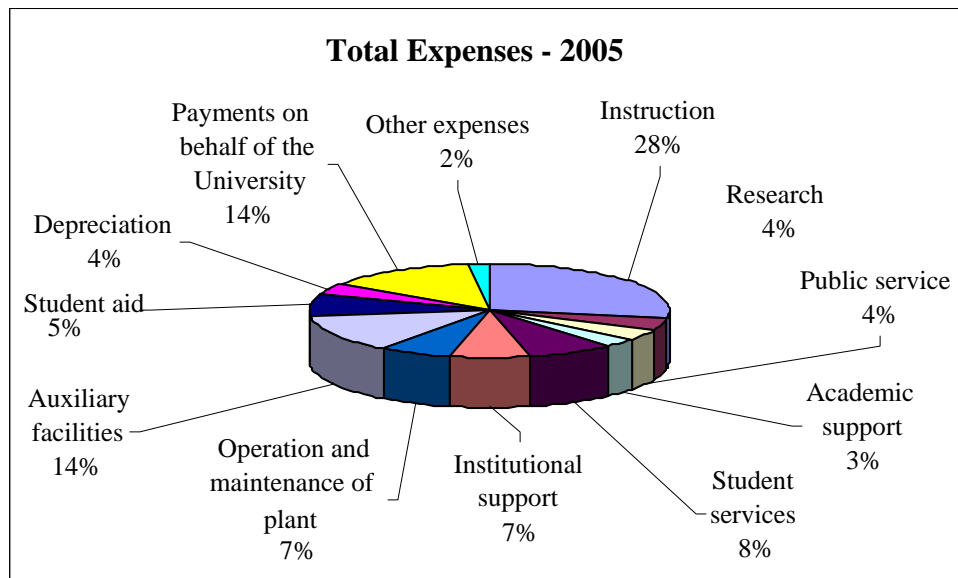
The Primary Reserve Ratio (expendable net assets less expendable net assets for capital projects / total expenses) is:

(Thousands of dollars)		
2005	2004	2003
$68,817 / 316,260 = 21.76\%$	$48,400 / 365,798 = 13.23\%$	$41,304 / 302,521 = 13.65\%$

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, 2005, 2004 and 2003:

	(Thousands of dollars)		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net cash used by operating activities	\$ (62,748)	\$ (66,560)	\$ (72,669)
Cash flows from noncapital financing activities	81,097	94,764	83,091
Cash flows from capital and related financing activities	(19,067)	(16,508)	(5,320)
Cash flows from investing activities	<u>12,213</u>	<u>(24,617)</u>	<u>4,823</u>
Net increase (decrease) in cash and cash equivalents	11,495	(12,921)	9,925
Cash – beginning of year	<u>22,186</u>	<u>35,107</u>	<u>25,182</u>
Cash – end of year	<u>\$ 33,681</u>	<u>\$ 22,186</u>	<u>\$ 35,107</u>

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

Capital Asset and Debt Administration

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

During 2004, the University completed construction of the College of Business building. This project was jointly funded by the State of Illinois Capital Development Board, the University and private gifts. The capitalized project cost at June 30, 2005, which includes furnishings and equipment was \$29.5 million.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are \$10.6 million. Approximately \$2.6 million (25 percent) of the work has been completed as of June 30, 2005. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

During 2003, the State of Illinois released funding for Schroeder Hall rehabilitation. The estimated project cost is \$18.7 million and will be funded through the State of Illinois Capital Development Board. Total estimated construction costs incurred at June 30, 2005 were \$12.3 million. During 2005, the University placed into service a completed section of the project at a capitalized cost of \$9.8 million.

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

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

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

The Viability Ratio (expendable net assets less expendable net assets for capital projects / long-term liabilities) is:

	(Thousands of dollars)		
2005	2004		2003
$68,817 / 51,881 = 132.64\%$	$48,400 / 49,607 = 97.57\%$		$41,304 / 52,571 = 78.57\%$

Economic Outlook

State appropriation revenue representing operating support for the fiscal year 2006 was approved at the same amount as fiscal year 2005. The University approved a tuition increase for first time resident students of 12.5% for fall 2005.

During fiscal year 2005, the University successfully concluded its capital contribution campaign, *Redefining Normal*. The University through the Foundation has secured more than \$96 million in commitments toward the \$88 million campaign goal.

Throughout the economic challenges of the past few years, the University continues to enjoy strong enrollment demand and student retention. The average ACT score of new students for the 2005 fall semester was 23.8. This score is 3.5 points above the Illinois average, which reflects a higher quality student body and reinforces student retention. The University continues to benefit by its adherence to the established priorities of the multi-year strategic planning effort named, *Educating Illinois: An Action Plan for Distinctiveness and Excellence at Illinois State University*, and the Campus Master Plan named, *A Blueprint for the Campus' Physical Development*.

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

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

	2005		2004	
	University	Foundation	University	Foundation
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 33,680,685	\$ 1,904,044	\$ 22,185,687	\$ 5,149,815
Investments	22,878,642	4,369,332	17,894,069	4,275,690
Accrued interest receivable	254,678	15,386	145,263	12,098
Accounts receivable, net	8,618,277	833	8,105,212	5,534
Student loans receivable, net	1,722,235		1,848,475	
Pledges receivable, net		2,541,257		2,714,618
Appropriations receivable from State	12,063,362		4,306,104	
Inventories	2,350,102		2,427,000	
Prepaid expenses and deposits	1,082,179		389,055	
Deferred charges and obligations	174,814		180,839	
Total current assets	82,824,974	8,830,852	57,481,704	12,157,755
Noncurrent Assets:				
Restricted cash and cash equivalents		1,464,308		3,676,349
Investments	22,005,723	12,501,730	29,560,736	9,733,466
Restricted investments			7,690,921	
Endowment investments		41,025,261		34,468,908
Student loans receivable, net	8,205,878		7,979,037	
Pledges receivable, net		2,867,080		5,823,160
Bond issuance costs	571,228		672,393	
Capital assets, net	255,069,878	1,813,491	236,356,688	1,868,761
Other noncurrent assets		722,086		668,764
Total noncurrent assets	285,852,707	60,393,956	282,259,775	56,239,408
Total assets	368,677,681	69,224,808	339,741,479	68,397,163
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	9,042,295	503,293	9,584,316	1,182,857
Obligations payable	73,649		65,324	
Obligations under capital leases	227,605		106,909	
Assets held in custody for others and deposits	7,820,294		6,417,061	
Deferred revenue	4,315,838		4,748,505	
Notes payable				1,000,000
Revenue bonds payable	5,019,221		4,695,464	
Accrued compensated absences	1,905,811		2,001,611	
Other		41,414		20,851
Total current liabilities	28,404,713	544,707	27,619,190	2,203,708
Noncurrent Liabilities:				
Assets held in custody for others and deposits	149,996		131,460	
Notes payable		300,000		
Revenue bonds payable	47,960,711		51,222,776	
Accrued compensated absences	17,129,161	23,652	17,003,773	22,926
Obligations under capital leases	549,904		152,111	
Other		331,974		143,964
Total noncurrent liabilities	65,789,772	655,626	68,510,120	166,890
Total liabilities	94,194,485	1,200,333	96,129,310	2,370,598
NET ASSETS				
Invested in capital assets, net of related debt	203,489,306	1,513,491	187,641,755	868,761
Restricted for:				
Nonexpendable		41,025,261		34,468,908
Expendable	12,183,435	24,311,808	17,618,132	30,108,617
Unrestricted	58,810,455	1,173,915	38,352,282	580,279
Total net assets	\$ 274,483,196	\$ 68,024,475	\$ 243,612,169	\$ 66,026,565

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

	2005		2004	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees, net	\$ 88,419,957	\$	\$ 79,445,827	\$
Federal grants and contracts	20,797,007		18,851,419	
State and local grants and contracts	2,404,703	260,000	4,092,027	260,000
Nongovernmental grants and contracts	3,053,169		2,558,046	
Sales and services of educational activities	1,972,917		1,913,297	
Auxiliary enterprises:				
Auxiliary facilities	57,752,634		58,447,697	
Other operating revenues	18,571,408	47,090	17,094,456	68,808
Total operating revenues	192,971,795	307,090	182,402,769	328,808
OPERATING EXPENSES				
Educational and General				
Instruction	89,270,282		89,875,267	
Research	13,111,090		12,611,868	
Public service	12,057,416		10,497,928	
Academic support	10,002,030		9,710,201	
Student services	25,559,122		23,930,788	
Institutional support	23,115,754		21,971,127	
Operations		644,722		607,176
Operation and maintenance of plant	20,414,726		18,334,823	
Depreciation	13,553,122	55,270	12,340,446	56,316
Staff benefits	1,801,940		687,977	
Student aid	17,175,285	1,396,026	15,709,016	1,373,482
Payments on behalf of the University	42,893,414		102,777,101	
Auxiliary facilities:				
Student housing, activity facilities, and parking	42,740,825		42,582,625	
Other operating expenditures	1,713,520	162,447	1,739,021	111,832
Expenditures on behalf of the University		3,385,697		2,753,526
Total operating expenses	313,408,526	5,644,162	362,768,188	4,902,332
Operating (loss)	(120,436,731)	(5,337,072)	(180,365,419)	(4,573,524)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	80,452,000		78,904,476	
Payments on behalf of the University - State	42,893,414		102,777,101	
Payments on behalf of the University - Foundation	882,152		838,283	
Laboratory Schools	7,979,219		7,941,116	
Gifts and donations	771,843	5,717,834	51,218	8,891,957
Investment income, net of investment expenses	1,932,457	4,301,005	556,012	5,918,503
Interest expense	(2,851,351)	(39,970)	(3,029,410)	(43,208)
Other nonoperating revenues	557,845	752,524	621,692	757,354
Other nonoperating expenses		(7,296,582)		(3,845,997)
Net nonoperating revenues	132,617,579	3,434,811	188,660,488	11,678,609
Income (loss) before capital items	12,180,848	(1,902,261)	8,295,069	7,105,085
Capital appropriations	11,829,104		14,782,721	
Capital grants and gifts	6,861,075		6,153,982	
Additions to permanent endowments		3,900,171		4,856,118
Total capital items	18,690,179	3,900,171	20,936,703	4,856,118
Increase in net assets	30,871,027	1,997,910	29,231,772	11,961,203
NET ASSETS				
Net assets - beginning of year	243,612,169	66,026,565	214,380,397	54,065,362
Net assets - end of year	\$ 274,483,196	\$ 68,024,475	\$ 243,612,169	\$ 66,026,565

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

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

	<u>2005</u>	<u>2004</u>
	<u>University</u>	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 84,001,552	\$ 77,383,441
Grants and contracts	28,386,719	26,022,476
Payments to suppliers	(71,740,222)	(72,784,247)
Payments to employees for salaries and benefits	(167,545,214)	(160,848,607)
Payments for scholarships and fellowships	(14,153,712)	(12,991,155)
Student loans issued	(2,511,123)	(2,255,128)
Collection of student loans	2,102,889	1,989,801
Auxiliary enterprise charges:		
Auxiliary Facilities	58,460,523	58,110,768
Sales and service of educational activities	1,972,917	1,913,297
Payments to internal service departments	(17,077,875)	(18,502,929)
Internal service departments receipts	17,077,875	18,502,929
Agency custodial receipts	67,807,603	59,556,406
Agency custodial disbursements	(67,121,262)	(59,885,283)
Other receipts	17,591,049	17,227,875
	<u>(62,748,281)</u>	<u>(66,560,356)</u>
Net cash (used) by operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	72,694,742	85,852,292
Gifts and grants for other than capital purposes	10,085	18,168
Student direct lending receipts	58,385,787	55,686,070
Student direct lending disbursements	(58,385,787)	(55,686,070)
Other receipts	557,845	621,692
Laboratory schools	7,834,864	8,271,653
	<u>81,097,536</u>	<u>94,763,805</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations from State	500,000	
Gifts and grants for capital purposes	509,788	979,904
Purchases of capital assets	(13,775,169)	(11,248,766)
Principal paid on capital debt and leases	(5,073,454)	(4,922,706)
Interest paid on capital debt and leases	(1,227,818)	(1,316,275)
	<u>(19,066,653)</u>	<u>(16,507,843)</u>
Net cash (used) by capital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	138,176,356	151,940,510
Interest on investments	1,863,439	1,130,894
Purchase of investments	(127,827,399)	(177,688,050)
	<u>12,212,396</u>	<u>(24,616,646)</u>
Net cash provided (used) by investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Balance - beginning of year	22,185,687	35,106,727
	<u>11,494,998</u>	<u>(12,921,040)</u>
Balance - end of year	\$ <u>33,680,685</u>	\$ <u>22,185,687</u>

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

	<u>2005</u>	<u>2004</u>
	<u>University</u>	<u>University</u>
RECONCILIATION		
Operating (loss)	\$ (120,436,731)	\$ (180,365,419)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation expense	13,553,122	12,340,446
Payments on behalf of the University	43,775,566	103,615,384
Donated equipment below capitalization threshold	761,758	
Changes in assets and liabilities:		
Accounts receivable, net	(322,307)	(714,393)
Student loans receivable, net	(100,601)	(144,783)
Inventories	76,897	88,933
Other assets	(678,775)	654,058
Accounts payable and accrued liabilities	(629,614)	(1,085,256)
Deferred revenue	(198,952)	(386,081)
Assets held in custody for others and deposits	1,421,769	(59,206)
Compensated absences	29,587	(504,039)
	<u>(62,748,281)</u>	<u>(66,560,356)</u>
Net cash (used) by operating activities	\$	\$
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Payments on behalf of the University	\$ 43,775,566	\$ 103,615,384
Donated capital assets	6,861,075	6,153,982
Capital appropriation acquisitions	11,329,104	14,782,721
Capital lease obligation acquisitions	821,943	47,155
Donated equipment below capitalization threshold	761,758	
Tuition and fee waivers where services were provided	3,084,600	2,752,500

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

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

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

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

The Foundation has formed two limited liability companies (LLC) to carry out the Foundation's mission to assist the University. The Foundation is a sole member of each of these LLC's. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consists of the executive officers of the Foundation. No activity has transpired with either LLC as of June 30, 2005. Any future activity will be consolidated within the Foundation's financial statements.

Illinois State University is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are also included in the State of Illinois Comprehensive Annual Financial Report.

Financial Statement Presentation: The University's financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The financial statements are prepared in accordance with GASB principles and presented on an entity-wide basis. As permitted by GASB Statement No. 34, the cash flows of the discretely presented component unit have not been included. The University has also implemented GASB Statement No. 40 *Deposit and Investment Risk Disclosures* with this report.

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

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

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

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

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

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 loans at the Statements of Net Assets dates, considering type, age, collection history of receivables, and any other factors as considered appropriate.

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

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

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

Capitalization of Interest: Auxiliary Facilities interest is charged to expense as incurred except for interest related to borrowings used for construction projects which is capitalized net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially complete. Net interest capitalized during fiscal years 2005 and 2004 amounted to a net increase in construction costs of \$169,055 and \$219,769, 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 either current or long-term liabilities (*see Note 9*) in the Statements of Net Assets. The expense is recorded in the Statements of Revenues, Expenses, and Changes in Net Assets as a component of operating expenses.

Employment Contracts for Certain Academic Personnel: Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was \$2,803,973 and \$2,488,155 at June 30, 2005 and 2004, respectively, and is recorded in the accompanying financial statements.

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

Net Assets: The University's net assets are classified as follows:

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

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

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

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

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

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

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

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

	2005	2004
Student tuition and fees	\$ 103,543,683	\$ 94,169,615
Less scholarship discounts and allowances	(14,797,946)	(14,407,400)
Less discounts for employee waivers	(325,780)	(316,388)
Net student tuition and fees	\$ 88,419,957	\$ 79,445,827
Auxiliary facilities	64,426,055	65,352,744
Less scholarship discounts and allowances	(6,673,421)	(6,905,047)
Net auxiliary facilities	\$ 57,752,634	\$ 58,447,697

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

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

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

Note 2. Deposits

At June 30, 2005 and 2004, the University's bank balances were \$141,695 and \$266,204, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral. The University had cash on hand of \$223,151 and \$198,383 at June 30, 2005 and 2004, respectively.

At June 30, 2005 and 2004, the Illinois State University Foundation, the discretely presented component unit, bank balances were \$3,882,734 and \$9,120,641, respectively, and all but \$140,451 were covered by insurance of the Federal Deposit Insurance Corporation or Security Investor Protection Corporation, or by pledged collateral.

DEPOSITS:	2005		2004	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
<u>University</u>				
Bank Checking Funds	\$ 141,695	\$ 10,782	\$ 266,204	\$
Local Vault Cash and Change Funds		<u>223,151</u>		<u>198,383</u>
Total University	<u>\$ 141,695</u>	<u>\$ 233,933</u>	<u>\$ 266,204</u>	<u>\$ 198,383</u>
 <u>Foundation</u>				
Cash in bank	<u>\$ 3,882,734</u>	<u>\$ 3,368,352</u>	<u>\$ 9,120,641</u>	<u>\$ 8,826,164</u>

Reconciliation of cash and cash equivalents to deposits:

	2005	
	University	Foundation
Cash and cash equivalents		
Current	\$ 33,680,685	\$ 1,904,044
Noncurrent		<u>1,464,308</u>
Total cash and cash equivalents	<u>33,680,685</u>	<u>3,368,352</u>
Less: Money market mutual funds classified as investments for purposes of categorization	<u>(33,446,752)</u>	
Carrying amount of deposits	<u>\$ 233,933</u>	<u>\$ 3,368,352</u>
	2004	
	University	Foundation
Cash and cash equivalents		
Current	\$ 22,185,687	\$ 5,149,815
Noncurrent		<u>3,676,349</u>
Total cash and cash equivalents	<u>22,185,687</u>	<u>8,826,164</u>
Less: Money market mutual funds classified as investments for purposes of categorization	<u>(21,987,304)</u>	
Carrying amount of deposits	<u>\$ 198,383</u>	<u>\$ 8,826,164</u>

Note 3. Investments

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

UNIVERSITY INVESTMENTS

As of June 30, 2005, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 5 Years	Rating
U.S. Treasuries	\$ 4,633,915	\$ 4,633,915	\$	
Federal National Mortgage Association	4,941,260	990,940	3,950,320	AAA
Federal Home Loan Mortgage Corporation	11,844,300	6,942,120	4,902,180	AAA
Federal Home Loan Bank	23,464,890	10,311,667	13,153,223	AAA
Illinois Funds Investment Pool	24,860,226	24,860,226		AAAm
Bank Money Market Mutual Funds	<u>8,586,526</u>	<u>8,586,526</u>	<u></u>	
Total University	\$ <u>78,331,117</u>	\$ <u>56,325,394</u>	\$ <u>22,005,723</u>	

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

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal National Mortgage Association (6.3%), Federal Home Loan Mortgage Corporation (15.1%), and Federal Home Loan Bank (30.0%).

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

As of June 30, 2004, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 5 Years	Rating
U.S. Treasuries	\$ 5,578,689	\$ 2,925,574	\$ 2,653,115	
Federal National Mortgage Association	12,522,923	2,116,368	10,406,555	AAA
Federal Home Loan Mortgage Corporation	29,734,623	14,908,200	14,826,423	AAA
Federal Home Loan Bank	7,309,491		7,309,491	AAA
Illinois Funds Investment Pool	18,992,999	18,992,999		AAAm
Bank Money Market Mutual Funds	<u>2,994,305</u>	<u>2,994,305</u>	<u></u>	
Total University	\$ <u>77,133,030</u>	\$ <u>41,937,446</u>	\$ <u>35,195,584</u>	

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

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal National Mortgage Association (16.2%), Federal Home Loan Mortgage Corporation (38.5%), and Federal Home Loan Bank (9.5%).

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

FOUNDATION INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
U.S. Government Securities	\$ 13,562	\$ 165,638
Corporate Bonds		245,367
Certificates of Deposits	27,757	100,233
Common Stock	283,684	1,290,502
Mutual Funds:		
Stocks	43,207,840	33,823,256
Bonds	8,256,072	8,301,393
Commodities	1,020,060	
Money Market	4,497,248	4,275,690
Other	<u>590,100</u>	<u>275,985</u>
Total Foundation	<u>\$ 57,896,323</u>	<u>\$ 48,478,064</u>

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

Credit Risk: The Foundation's investment policy permits fixed income investments in securities within the four highest grades assigned by Moody's Investors Service, Inc. or Standard and Poor's Corporation or, if unrated, deemed by the investment manager to be of comparable quality.

As of June 30, 2005, the Foundation had the following investments exposed to interest rate risk and credit risk:

	<u>Fair Market Value</u>	<u>Effective Duration</u>	<u>Rating</u>
Bond Mutual Funds	\$ 8,256,072	3.50 years	AA+
Money Market Mutual Funds	4,497,248	2.58 years	AAA

Duration is a measure of a fixed income's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt.

Investments consist of the following:

	2005		2004	
	University	Foundation	University	Foundation
Current:				
Investments	\$ 22,878,642	\$ 4,369,332	\$ 17,894,069	\$ 4,275,690
Noncurrent:				
Investments	22,005,723	12,501,730	29,560,736	9,733,466
Restricted investments			7,690,921	
Endowment investments		41,025,261		34,468,908
	<u>44,884,365</u>	<u>57,896,323</u>	<u>55,145,726</u>	<u>48,478,064</u>
Money market mutual funds classified as cash and cash equivalents	<u>33,446,752</u>		<u>21,987,304</u>	
Total	\$ <u>78,331,117</u>	\$ <u>57,896,323</u>	\$ <u>77,133,030</u>	\$ <u>48,478,064</u>

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

Foundation policy states that assets are to be invested in a diversified portfolio of equity 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 five percent of the then fair market value of the Foundation, provided, this restriction is not to apply to either well diversified mutual funds, pooled funds, unit trust, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies. Equities are to represent a majority of Foundation assets up to a desired 75 percent of the total. Investments should be diversified; however, investment managers will be allowed to choose reasonable degrees of concentration, or lack thereof. Bias in selection of equity 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 comparable quality. A maximum of 15 percent of the total portfolio may be invested in foreign securities.

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2005 and 2004:

	2005	2004
Student tuition and fees	\$ 5,587,317	\$ 3,800,737
Auxiliary facilities and other operating activities	2,530,387	2,498,921
Other	516,973	1,090,526
Federal, state, and private grants and contracts	<u>1,789,856</u>	<u>2,508,661</u>
Sub-total	10,424,533	9,898,845
Less allowance for uncollectible accounts	<u>(1,806,256)</u>	<u>(1,793,633)</u>
Net Accounts Receivable	\$ <u>8,618,277</u>	\$ <u>8,105,212</u>

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Perkins student loan fund	\$ 10,485,686	\$ 10,377,935
Nursing loan fund	310,553	301,230
University loan fund	<u>43,658</u>	<u>49,131</u>
Sub-total	10,839,897	10,728,296
Less allowance for uncollectible accounts	<u>(911,784)</u>	<u>(900,784)</u>
Net Student Loans Receivable	\$ <u>9,928,113</u>	\$ <u>9,827,512</u>
Estimated current portion	\$ 1,722,235	\$ 1,848,475
Estimated noncurrent portion	<u>8,205,878</u>	<u>7,979,037</u>
Total	\$ <u>9,928,113</u>	\$ <u>9,827,512</u>

Note 6. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Pledges to be collected	\$ 5,865,441	\$ 9,365,997
Less discount for the time value of money	(255,104)	(572,394)
Less allowance for uncollectible accounts	<u>(202,000)</u>	<u>(255,825)</u>
Net Foundation Pledges Receivable	\$ <u>5,408,337</u>	\$ <u>8,537,778</u>
Estimated current portion	\$ 2,541,257	\$ 2,714,618
Estimated noncurrent portion	<u>2,867,080</u>	<u>5,823,160</u>
Total	\$ <u>5,408,337</u>	\$ <u>8,537,778</u>

Note 7. Deferred Revenue

Deferred revenue consists of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Prepaid tuition and fees	\$ 2,671,409	\$ 2,461,908
Auxiliary facilities	488,764	507,875
Grants and contracts	978,679	1,626,562
Other	<u>176,986</u>	<u>152,160</u>
Deferred Revenue	\$ <u>4,315,838</u>	\$ <u>4,748,505</u>

Note 8. Capital Assets

Capital assets activity for the year ended June 30, 2005 is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 13,667,937	\$ 564,748	\$ 151,927	\$ 14,080,758
Land Improvements	16,374,953	359,517		16,734,470
Infrastructure	12,682,559			12,682,559
Buildings	297,309,004	39,376,989	647,335	336,038,658
Equipment	52,621,493	7,979,538	1,333,023	59,268,008
Library Materials	54,531,715	3,020,661		57,552,376
Construction in Progress	29,054,155	18,136,036	36,498,939	10,691,252
Sub-total	\$ <u>476,241,816</u>	\$ <u>69,437,489</u>	\$ <u>38,631,224</u>	\$ <u>507,048,081</u>
Less Accumulated Depreciation for:				
Land Improvements	\$ 6,481,555	\$ 366,742	\$	\$ 6,848,297
Infrastructure	4,141,690	293,828		4,435,518
Buildings	146,063,357	6,707,074	234,514	152,535,917
Equipment	41,321,692	4,287,560	1,225,533	44,383,719
Library Materials	41,876,834	1,897,918		43,774,752
Total Accumulated Depreciation	\$ <u>239,885,128</u>	\$ <u>13,553,122</u>	\$ <u>1,460,047</u>	\$ <u>251,978,203</u>
Capital Assets, net	\$ <u>236,356,688</u>			\$ <u>255,069,878</u>

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

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

Foundation net capital assets were \$1,813,491 and \$1,868,761 at June 30, 2005 and 2004, respectively.

Note 9. Long-term Liabilities**UNIVERSITY LONG-TERM LIABILITIES**

Long-term liability activity at June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Total				
Accrued compensated absences	\$ 19,005,384	\$ 1,584,546	\$ 1,554,958	\$ 19,034,972
Revenue bonds payable	<u>55,918,240</u>	<u>1,831,692</u>	<u>4,770,000</u>	<u>52,979,932</u>
Total	<u>\$ 74,923,624</u>	<u>\$ 3,416,238</u>	<u>\$ 6,324,958</u>	<u>\$ 72,014,904</u>
Current portion				
Accrued compensated absences	\$ 2,001,611			\$ 1,905,811
Revenue bonds payable, net	<u>4,695,464</u>			<u>5,019,221</u>
Total current portion	<u>\$ 6,697,075</u>			<u>\$ 6,925,032</u>
Noncurrent portion				
Accrued compensated absences	\$ 17,003,773			\$ 17,129,161
Revenue bonds payable, net	<u>51,222,776</u>			<u>47,960,711</u>
Total noncurrent portion	<u>\$ 68,226,549</u>			<u>\$ 65,089,872</u>

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

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

Revenue bonds payable at June 30, 2005 and 2004 consists of the following:

	<u>2005</u>	<u>2004</u>
Revenue Bonds, Series 1989:		
Capital Appreciation Bonds	\$ 10,062,967	\$ 9,364,764
Insured Revenue Bonds, Series 1992:		
Capital Appreciation Bonds	9,034,025	12,125,501
Insured Revenue Bonds, Series 1993:		
Capital Appreciation Bonds	1,126,449	1,060,757
Revenue Bonds, Series 1996:		
Current Interest Bonds	8,478,575	9,333,326
Capital Appreciation Bonds	7,120,179	6,720,202
Revenue Bonds, Series 2003:		
New Project Bonds	7,359,791	7,462,327
Current Refunding Bonds	<u>9,797,946</u>	<u>9,851,363</u>
Total revenue bonds payable	<u>\$ 52,979,932</u>	<u>\$ 55,918,240</u>

Maturities and Interest Requirements on revenue bonds payable at June 30, 2005, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 5,095,000	\$ 1,174,780	\$ 6,269,780
2007	5,150,000	1,122,430	6,272,430
2008	5,205,000	1,065,698	6,270,698
2009	5,265,000	1,004,956	6,269,956
2010	<u>5,330,000</u>	<u>938,585</u>	<u>6,268,585</u>
Sub-total	26,045,000	5,306,449	31,351,449
2011-2015	27,920,000	2,875,603	30,795,603
2016-2020	7,770,000	624,130	8,394,130
2021-2023	<u>1,465,000</u>	<u>139,825</u>	<u>1,604,825</u>
Sub-total	63,200,000	<u>\$ 8,946,007</u>	<u>\$ 72,146,007</u>
Additions(Deductions):			
Unaccreted Appreciation	(10,671,381)		
Unamortized Discounts	(56,425)		
Unamortized Premiums	<u>507,738</u>		
Total	<u>\$ 52,979,932</u>		

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, 2005 and 2004 was \$9,831,584 and \$9,688,020, respectively.

FOUNDATION LONG-TERM LIABILITIES

Long-term liability activity at June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	\$ 164,815	\$ 231,118	\$ 22,545	\$ 373,388
Accrued compensated absences	22,926	726		23,652
Notes payable	<u>1,000,000</u>		<u>700,000</u>	<u>300,000</u>
Total	<u>\$ 1,187,741</u>	<u>\$ 231,844</u>	<u>\$ 722,545</u>	<u>\$ 697,040</u>
Current portion				
Beneficiary payments	\$ 20,851			\$ 41,414
Notes payable	<u>1,000,000</u>			<u></u>
Total current portion	<u>\$ 1,020,851</u>			<u>\$ 41,414</u>
Noncurrent portion				
Beneficiary payments	\$ 143,964			\$ 331,974
Accrued compensated absences	22,926			23,652
Notes payable	<u></u>			<u>300,000</u>
Total noncurrent portion	<u>\$ 166,890</u>			<u>\$ 655,626</u>

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

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

Foundation notes payable at June 30, 2005 is comprised of a \$1,000,000 line of credit (\$300,000 outstanding as of June 30, 2005) secured by all accounts on deposit with the lender, requiring monthly interest payments at 1.25% under the lender's prime rate with a maturity date of April 2007. The Foundation's interest rate at June 30, 2005 was 5%.

During the year ended June 30, 2005, the Foundation retired \$700,000 of the note. Proceeds of the original loan amount 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:

<u>2005</u>	<u>Vacation</u>	<u>Sick</u>	<u>Total</u>
University	\$ 8,827,382	\$ 10,207,590	\$ 19,034,972
Foundation	17,516	6,136	23,652

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

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 \$1,085,424 and \$221,461 at June 30, 2005 and \$653,791 and \$364,418 at June 30, 2004, respectively.

Obligations under capital leases activity at June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Obligations under capital leases	\$ 259,020	\$ 821,943	\$ 303,454	\$ 777,509
Current portion	106,909			227,605
Noncurrent portion	152,111			549,904

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

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

Future minimum lease payments for the above assets under capital leases together with the present value of the minimum lease payments at June 30, 2005, are as follows:

Year Ending	<u>June 30</u>	<u>Total</u>
2006	\$	251,704
2007		235,991
2008		211,979
2009		<u>132,188</u>
Total minimum lease payments		831,862
Less amount representing interest		<u>(54,353)</u>
Net present value	\$	<u><u>777,509</u></u>

OPERATING LEASES

The University has entered into agreements to lease recreational space and office space that the University is treating as operating leases. Rent expense for the years ended June 30, 2005 and 2004 was \$442,413 and \$354,266, respectively. The leases expire between July 2005 and May 2012. Following is a schedule of future minimum lease payments.

Year Ending	<u>June 30</u>	<u>Building</u>
2006	\$	285,515
2007		59,407
2008		59,407
2009		59,407
2010		59,407
2011-2012		<u>113,866</u>
Total	\$	<u><u>637,009</u></u>

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 \$58,867 in 2005 and \$61,684 in 2004. The current lease has been amended to expire on December 31, 2014. In addition, the Foundation leases a vehicle for the Executive Director of the Foundation and ten vehicles for the University Athletic Department employees at a cost of \$55,986 in 2005 and \$45,661 in 2004. The lease for the Executive Director expires in the fiscal year ending June 30, 2006. Nine of the leases for the Athletic Department vehicles expire in the fiscal year ending June 30, 2009, with one lease expiring in the fiscal year ending June 30, 2007. The following is a schedule of future minimum lease payments for both.

Year Ending	<u>June 30</u>	<u>Building</u>	<u>Vehicles</u>	
2006	\$	70,643	\$	41,385
2007		72,051		37,181
2008		73,458		34,638
2009		74,865		6,094
2010		76,273		
2011-2015		<u>360,470</u>		
Total	\$	<u><u>727,760</u></u>	\$	<u><u>119,298</u></u>

Note 11. State Universities Retirement System (SURS)

Plan Description: Illinois State University contributes to the State Universities Retirement System of Illinois (SURS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations, and certain other state educational and scientific agencies and for survivors, dependents, and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by 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 11.12% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ending June 30, 2005, 2004, and 2003, were \$11,889,799, \$75,566,368, and \$12,412,437, respectively, equal to the required contributions for each year.

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

Note 12. Post-employment Benefits

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

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

Note 13. Transactions with Related Organizations

Illinois State University Foundation (The Foundation) is a related organization formed to support in various ways the University's instructional, research, and public service missions. During fiscal years 2005 and 2004, Illinois State University entered into contractual agreements with the Foundation requiring payments of \$260,000 annually for fund raising services. During fiscal year 2005 and 2004, the Foundation contributed services and expenditures of \$12,078,305 and \$7,973,005, 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.

The Illinois Institute for Entrepreneurship Education (IIEE) was created by an act of the Illinois General Assembly in 1988. The purpose of the IIEE is to foster growth and development of entrepreneurship by educating Illinois citizens to the viability of entrepreneurship as a career option and to the role and contributions of entrepreneurs in economic development and job creation. The IIEE is mandated to reach all areas of the State, all ages, all ethnic groups, and income levels. The IIEE was created under the oversight of Illinois State University and, by working cooperatively with the University, the IIEE offers Illinois teachers two university-accredited graduate courses in entrepreneurship. During fiscal years 2005 and 2004, the University contributed \$188,724 and \$192,135, respectively, of revenue and public service expenditures to the IIEE. These amounts are discretely blended in the University financial statements.

Note 14. Student Health Insurance

The University contracts with Chickering Group, an Aetna Company of Cambridge, Massachusetts for administration of the Aetna Health and Accident Insurance Plan, to provide group insurance benefits to University students. Students taking 9 or more semester hours of class pay a fee for this coverage. The contract provides for a premium stabilization reserve (PSR) that is used to minimize increases in the premium and to be used against unexpected claims utilization to reduce future premium increases. As each Plan year is finalized, costs are debited (gains are credited) to an account funded by the University each year (15% of expected premium). The estimated refund for 2003-04 approximates \$315,242. The initial refund of \$252,194 was rolled over to fund 2004-05 (\$67,757) and 2005-06 (\$184,437); a final refund of \$63,048 is expected in November 2005. Because potential refunds are still at risk for unexpected claims losses, they are not recorded as assets. The PSR fund held by the University as of September 2005 is \$926,594, same as prior year. The amount required to fund the PSR for 2005-06 is \$750,000. In addition to the 2003-04 refunds (\$184,437) which have been committed to fund 2005-06, another \$565,563 will be required from the PSR before December 31, 2005.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded \$58,385,787 and \$55,686,070 in Direct Student Loans for the years ended June 30, 2005 and 2004, 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, 2005, there were no significant reductions in coverage.

As a public University in the State of Illinois, Illinois State University enjoys certain statutory protections from liability through the Illinois Court of Claims statute and the State Indemnification Act. In addition, the University purchases an excess liability policy that covers claims above the \$350,000 deductible level and has annual aggregate levels of \$5,000,000 for educator's legal liability and \$6,000,000 for general liability.

To augment existing state and commercial coverage, and to assist in addressing potential risks and liabilities incurred through its operations, the Board of Trustees has established the Self-Insurance Fund. The balance in the fund at June 30, 2005 and 2004 was \$952,135 and \$940,834, respectively. The University paid one claim of \$4,250 for fiscal year 2005 and did not pay any claims for fiscal year 2004. The University made contributions of interest to the fund of \$14,232 for fiscal year 2005 and \$7,053 for fiscal year 2004. 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, 2005 and June 30, 2004, no liability was reported.

Note 17. Net Assets**UNIVERSITY NET ASSETS**

University restricted net assets are comprised of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Expendable		
Capital projects	\$ 2,176,869	\$ 7,570,000
Debt retirement	675,438	675,438
Student loans	<u>9,331,128</u>	<u>9,372,694</u>
Total Expendable	<u>\$ 12,183,435</u>	<u>\$ 17,618,132</u>

University unrestricted net assets:

Board designated capital asset renewal and replacement for the internal service departments at June 30, 2005 and 2004 was \$838,226 and \$963,026, respectively. These amounts are included in unrestricted net assets.

FOUNDATION NET ASSETS

Foundation restricted net assets are comprised of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Nonexpendable		
Scholarship and fellowship	\$ 22,526,597	\$ 20,465,634
College and academic department support	8,557,271	7,047,408
Faculty and staff compensation	5,787,717	4,428,187
Other	<u>4,153,676</u>	<u>2,527,679</u>
Total nonexpendable	<u>\$ 41,025,261</u>	<u>\$ 34,468,908</u>

Expendable		
Scholarship and fellowship	\$ 7,238,687	\$ 6,070,016
Instructional departmental uses	10,749,824	11,769,401
University capital projects	4,522,812	10,445,610
Other restricted expendable	<u>1,800,485</u>	<u>1,823,590</u>
Total expendable	\$ <u>24,311,808</u>	\$ <u>30,108,617</u>

During fiscal year 2005, Foundation management identified an account classification error that occurred in a previous year. It was determined that an account previously identified as an endowment actually did not contain a stipulation that the principal remain in perpetuity. Therefore, on its June 30, 2004 Statement of Net Assets, the Foundation reclassified \$3,957,635 previously reported as *Net Assets: Restricted for: Nonexpendable Scholarships and fellowships* to *Net Assets: Restricted for: Expendable Scholarships and fellowships*. The same amount was reclassified from *Endowment investments* to *Restricted investments*.

Note 18. 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 2005 and 2004 of 4.0% and 0.0%, respectively, of the average fair value of endowment investments for the preceding 12 months.

At June 30, 2005 and 2004, net appreciation of \$7,281,000 and \$7,100,000, 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.

Note 19. Commitments

During 2005, the University entered into two real estate deposit and option agreements. The agreements grant the University an irrevocable seven year option period to purchase the properties. The agreements provide that the option periods may be renewed for up to two additional periods of seven years. The University has made non-refundable option deposit payments of \$500,250 which can be credited toward the purchase price. If the University exercises the option agreements, the purchase price for the properties will be \$3,335,000. The agreements also require annual maintenance fees which will not be credited toward the purchase price.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are \$10,649,545, approximately \$2,624,975 (25 percent) of the work has been completed as of June 30, 2005. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

During 2003, the State of Illinois released funding for Schroeder Hall rehabilitation. The estimated project cost is \$18,700,000 and will be funded through the State of Illinois Capital Development Board. Total estimated construction costs incurred at June 30, 2005 were \$12,312,189. During 2005, the University placed into service a completed section of the project at a capitalized cost of \$9,808,296.

Note 20. Contingencies

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

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters on the financial condition or results of operations of the University is necessary at June 30, 2005, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

Note 21. Reclassification of Fiscal Year 2004 Revenue and Expense

During fiscal year 2005, University management changed the manner of presentation of certain tuition and fee waivers. Consequently, on its Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2004, the University reduced its revenue (Tuition revenues and fees) and its expenses (Student aid) by \$5,134,000. This reclassification had no effect on the change in net assets. The related amounts on Notes 1 and 22 were revised to reflect this reclassification.

Note 22. Crosswalk of Natural Classification with Functional Classifications

Natural Classification for the Year Ended June 30, 2005

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 78,427,881	\$ 10,842,401	\$	\$	\$ 89,270,282
Research	9,766,596	3,344,494			13,111,090
Public Service	5,666,147	6,346,299	44,970		12,057,416
Academic Support	8,398,359	1,603,671			10,002,030
Student Services	12,629,313	12,929,809			25,559,122
Institutional Support	11,430,354	11,685,400			23,115,754
Operation of Plant	8,398,943	12,015,783			20,414,726
Depreciation				13,553,122	13,553,122
Staff Benefits	1,783,883		18,057		1,801,940
Student Aid		3,084,600	14,090,685		17,175,285
Payments on Behalf	42,893,414				42,893,414
Auxiliary Facilities	17,984,440	24,756,385			42,740,825
Other*	2,683,254	(969,734)			1,713,520
Total University	\$ 200,062,584	\$ 85,639,108	\$ 14,153,712	\$ 13,553,122	\$ 313,408,526

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

Natural Classification for the Year Ended June 30, 2004

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	\$ 76,995,202	\$ 12,880,065	\$	\$	\$ 89,875,267
Research	9,507,784	3,104,084			12,611,868
Public Service	5,398,936	5,098,992			10,497,928
Academic Support	8,222,705	1,487,496			9,710,201
Student Services	12,258,658	11,672,130			23,930,788
Institutional Support	10,386,520	11,584,607			21,971,127
Operation of Plant	6,091,554	12,243,269			18,334,823
Depreciation				12,340,446	12,340,446
Staff Benefits	653,338		34,639		687,977
Student Aid		2,752,500	12,956,516		15,709,016
Payments on Behalf	102,777,101				102,777,101
Auxiliary Facilities	18,162,961	24,419,664			42,582,625
Other*	3,063,644	(1,324,623)			1,739,021
Total University	\$ 253,518,403	\$ 83,918,184	\$ 12,991,155	\$ 12,340,446	\$ 362,768,188

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

Note 23. 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	<u>2005</u>	<u>2004</u>
Assets:		
Current assets	\$ 37,760,727	\$ 18,452,006
Noncurrent assets:		
Capital assets, net	84,978,218	80,157,589
Other noncurrent assets	19,601,311	34,957,560
Total assets	<u>142,340,256</u>	<u>133,567,155</u>
Liabilities:		
Current liabilities	11,939,268	10,358,382
Noncurrent liabilities	49,752,340	53,106,804
Total liabilities	<u>61,691,608</u>	<u>63,465,186</u>
Net assets:		
Invested in capital assets, net of related debt	34,175,155	31,668,817
Expendable	2,852,307	8,245,438
Unrestricted	43,621,186	30,187,714
Total net assets	<u>\$ 80,648,648</u>	<u>\$ 70,101,969</u>
Condensed Statements of Revenues, Expenses and Changes in Net Assets for the year ended at June 30		
Operating revenues	\$ 57,752,634	\$ 58,447,697
Depreciation expense	(3,347,044)	(3,338,701)
Other operating expenses	(42,740,825)	(42,582,625)
Operating income	<u>11,664,765</u>	<u>12,526,371</u>
Nonoperating revenues	1,724,530	478,648
Nonoperating expenses	(2,842,616)	(3,016,509)
Increase in net assets	<u>10,546,679</u>	<u>9,988,510</u>
Net assets – beginning of year	70,101,969	60,113,459
Net assets – end of year	<u>\$ 80,648,648</u>	<u>\$ 70,101,969</u>
Condensed Statements of Cash Flows for the year ended June 30		
Net cash flows provided by (used in) operating activities	\$ 15,719,399	\$ 16,276,556
Net cash flows provided by (used in) non-capital financing activities	203,301	184,575
Net cash flows provided by (used in) capital and related financing activities	(13,610,101)	(10,365,826)
Net cash flows provided by (used in) investing activities	<u>2,421,709</u>	<u>(13,126,391)</u>
Net increase (decrease) in cash and cash equivalents	4,734,308	(7,031,086)
Cash and cash equivalents, beginning of year	7,012,918	14,044,004
Cash and cash equivalents, end of year	<u>\$ 11,747,226</u>	<u>\$ 7,012,918</u>

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

RESERVES FOR DEBT SERVICE, REPAIR AND REPLACEMENT, AND DEVELOPMENT

Debt Service

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

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 Registrar 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.

	2005		2004	
	Repair and Replacement Reserve	Development Reserve	Repair and Replacement Reserve	Development Reserve
Maximum Allowable Deposits at June 30	\$ 27,169,824	\$ N/A	\$ 25,219,145	\$ N/A
Assets Reserved	11,837,260	1,265,676	13,458,771	1,228,559
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.

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

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