CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2020

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

CHICAGO STATE UNIVERSITY
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FINANCIAL AUDIT
For the Year Ended June 30, 2020

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Other Report Issued Under Separate Cover

CHICAGO STATE UNIVERSITY
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FINANCIAL AUDIT
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University Officials

President	Ms. Zaldwaynaka Scott, Esq.
Chief of Staff (03/01/20 - Present)	Mr. Kim Tran
Chief of Staff and External Affairs (07/01/19 - 02/29/20)	Mr. Ryan Green
Interim Provost and V.P. for Academic Affairs	Dr. Leslie Roundtree
Interim General Counsel, Chief Compliance Officer & V.P. of Legal Affairs (01/18/21 - Present)	Mr. Walter Pryor
V.P., General Counsel and Chief Compliance Officer of Labor & Legal Affairs (10/31/20 - Present)	Vacant
V.P., General Counsel and Chief Compliance Officer of Labor & Legal Affairs (07/01/19 - 10/30/20)	Ms. Stephanie Kelly, Esq.
CFO & V.P. of Financial Operations (09/16/20 - Present)	Mr. Craig Duetsch
Acting CFO & V.P. of Financial Operations (02/01/20 - 09/15/20)	Mr. Larry D. Owens, CPA
Interim CFO & V.P. of Financial Operations (07/01/19 - 01/31/20)	Ms. Ginger Ostro
Interim Executive Director/Controller	Mr. Larry D. Owens, CPA
Chief Internal Auditor (09/09/19 - Present)	Ms. Natalie Covello
Acting Chief Internal Auditor (07/01/19 - 09/08/19)	Ms. Michelle Wilson, MBA

Board of Trustees

Chair	Ms. Andrea Zopp, Esq.
Vice Chair	Ms. LaTanya McDade
Secretary	Mr. Mark Schneider, Esq.
Member	Mr. Louis Carr
Member	Mr. Brian Clay
Member	Ms. Mobley Smith
Member	Vacant
Student Member	Ms. Renee Singleton

University offices are located at:

9501 S. King Drive
Chicago, Illinois 60628

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the Chicago State University (University) was performed by Roth & Co., LLP.

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

Summary of Findings

The auditors identified three matters involving the University's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. Further, the auditors identified three noncompliance matters.

Item No.	Page	Last/First Reported	Description	Finding Type
		FINDINGS (*GOVERNMENT AUDITING STANDARDS*)		
2020-001	63	New	Weaknesses over Computer Security	Significant Deficiency and Noncompliance
2020-002	66	New	Change Control Weaknesses	Significant Deficiency and Noncompliance
2020-003	68	New	Inadequate Internal Controls over Census Data	Material Weakness and Noncompliance
		PRIOR FINDING NOT REPEATED		
A	74	2019/2019	Inadequate Control over Financial Reporting	

Exit Conference

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on April 1, 2021.

Exit Conference (Continued)

Attending were:

<u>Chicago State University</u>
Ms. Zaldwanayka Scott, Esq., President
Mr. Walter Pryor, Interim General Counsel, Chief Compliance Officer & V.P. of Legal Affairs
Mr. Craig Duetsch, CFO & V.P. of Financial Operations
Ms. Natalie Covello, CIA, CGAP, Chief Internal Auditor
Mr. Larry Owens, CPA, Interim Executive Director/Controller
Ms. Deidre Cato-Baker, External Audit Manager

<u>Office of the Auditor General</u>
Mr. Reddy Bommareddi, CPA, CISA, Senior Audit Manager

<u>Roth & Co, LLP</u>
Ms. Leilani Rodrigo, CPA, CGMA, Partner
Ms. Marites Sy, CPA, CIA, CISA, CGMA, Partner
Ms. Rona Lagdamen, CPA, Manager
Mr. Lou Jonathan Cabrera, CISA, Supervisor

The responses to these recommendations were provided by Ms. Deidre Cato-Baker, External Audit Manager, in correspondences dated March 31, 2021, April 1, 2021, April 2, 2021 and April 30, 2021.

Roth&Co
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Chicago State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Chicago State University (University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

815 W. Van Buren Street, Suite 500 Chicago, Illinois 60607 P 312-876-1900 F 312-876-1911 www.rothcocpa.com

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, as of June 30, 2020, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the unrestricted net position as of July 1, 2019 has been restated to correct an accounting error. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2019 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and the discretely presented component unit of the University in our report dated December 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8 through 15, Schedule of the University's Proportionate of Share of Net Pension Liability, Schedule of Contributions for Pensions, Notes to Required Supplementary Information - Pension on pages 53 through 54, Schedule of the

University’s Proportionate Share of the Net OPEB Liability, and Notes to Required Supplementary Information - OPEB on page 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University’s basic financial statements.

The University Auxiliary Facilities System Revenue Bond Fund, Series 1998 financial statements and Table of Operating Expenses (accompanying supplementary information) and Student Enrollment by Term, University Center Fee, Rental Disclosures, and Schedule of Insurance in Force (accompanying other information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021 on our consideration of the 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 solely 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 effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 30, 2021

Background

Chicago State University (CSU or University) was founded as a teacher-training school over 150 years ago. It is located in a residential community on the south side of Chicago, approximately 12 miles south of downtown Chicago. Today the University is composed of five colleges - the College of Arts & Sciences, the College of Business, the College of Education, the College of Health Sciences, and the College of Pharmacy. CSU offers thirty-six undergraduate degrees, twenty-two graduate degrees, and two doctoral degrees (the Doctorate of Education in Educational Leadership and the Doctor of Pharmacy). It also offers an interdisciplinary Honors College for highly motivated students in all areas of study and has a Division of Continuing Education. CSU has been accredited through the 2022 - 2023 academic year by the Higher Learning Commission.

Operational and Financial Highlights

The fiscal year 2020 operating loss ($79.9 million) increased by $4.4 million compared to the previous fiscal year's operating loss ($75.5 million). This increase is mostly attributed to the reduction in net student tuition and fees ($2.3 million), the reduction in federal grants ($1.1 million) and the increase in operating expenses ($0.7 million). The increase in net nonoperating revenues ($3.5 million) is primarily attributed to the increases in State appropriation funding ($1.7 million), State nonoperating grants ($1.3 million), federal nonoperating grants ($1.0 million), along with the net increase in special funding situation and on-behalf payments ($0.5 million), offset by Perkins Loan net position decrease ($0.7 million). The following is a financial comparison for the twelve months ended June 30, 2020 and 2019.

	2020 (in thousands)	2019 (in thousands)	Increase (Decrease)
Operating loss	$ (79,875)	$ (75,484)	$ (4,391)
Net nonoperating revenues	75,068	71,538	3,530
Other revenues, expenses, gains or losses	1,795	1,056	739
Decrease in net position	$ (3,012)	$ (2,890)	$ (122)

Management's Discussion and Analysis

The management's discussion and analysis (MD&A) section of this report presents the University's financial information in a condensed financial presentation format for fiscal years ended June 30, 2020 and 2019. This section of the report is designed to provide an overview of the changes in financial activities from one year to the next and should be read in conjunction with the University's basic financial statements. The University's management is responsible for the completeness and fairness of this information.

The MD&A focuses on the University and excludes the discretely presented component unit, the Chicago State Foundation. MD&A for the component unit is included in its separately issued financial statements. Refer to the Notes to the Basic Financial Statements (Note 1 on page 19) for information on how to obtain the financial statements of the component unit.

Using the Financial Statements

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows emulate the corporate presentation models whereby all of the University's activities are consolidated into one total. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities–an amendment of GASB Statement No. 34*. The financial statements encompass the University and its discretely presented component unit.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the University using the accrual basis of accounting and reflects the financial position of the University at the end of the fiscal year. The statement reflects the University's financial position at a certain date. Net position, consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one indicator of the current financial condition of the University, while the change in net position that occurs over time is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. Net position has been further categorized as (i) Net investment in capital assets, (ii) Restricted nonexpendable - net position that is permanently restricted by externally imposed stipulations, (iii) Restricted expendable - net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time, and (iv) Unrestricted - net position that is not subject to externally imposed stipulations and may be used at the discretion of the governing board to meet current expenses for any purpose.

A summary of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for the year ended June 30, 2020 in comparison with June 30, 2019 is as follows:

	2020 (in millions)	2019 (in millions)	Change (in millions)
Assets			
Current assets	$ 31.1	$ 35.1	$ (4.0)
Noncurrent assets:			
Capital assets, net	140.8	142.6	(1.8)
Other	5.2	3.2	2.0
Total Assets	177.1	180.9	(3.8)
Deferred outflows for OPEB and pension expense	0.5	0.3	0.2
Liabilities			
Current liabilities	12.9	11.8	1.1
Noncurrent liabilities	15.2	15.2	-
Total Liabilities	28.1	27.0	1.1
Deferred inflows for OPEB expense	5.9	8.2	(2.3)
Net Position			
Net investment in capital assets	134.1	134.4	(0.3)
Restricted, expendable	1.4	2.2	(0.8)
Unrestricted	8.1	9.4	(1.3)
Total Net Position	$ 143.6	$ 146.0	$ (2.4)

Current Assets

Current assets decreased by $4.0 million from the balance one year ago ($35.1 million) to the current balance ($31.1 million). The decrease is attributable to the net cash outflow for operations ($9.2 million), offset by the increase in balance due from State appropriations ($5.0 million).

Noncurrent Assets (Capital assets, net)

Noncurrent assets (Capital) decreased by $1.8 million from the balance one year ago ($142.6 million) to the current balance ($140.8 million). The decrease consists of annual depreciation charges ($5.1 million), offset by net capital additions/transfers ($3.3 million).

Current Liabilities

Current liabilities increased by $1.1 million from the balance one year ago ($11.8 million) to the current balance ($12.9 million) mainly due to the increase in unearned revenues recognized, offset by a decrease in general accounts payable and accrued liabilities.

Net Position (Restricted, expendable)

Net position, restricted ($1.4 million) decreased by $0.8 million from the balance one year ago ($2.2 million). This decrease is primarily a result of the reclassification of Perkins loans net position ($0.8 million) to the liability section of the financials.

Net Position (Unrestricted)

Unrestricted net position ($8.1 million) decreased by $1.3 million from the balance one year ago ($9.4 million). This is predominantly attributed to decreased operating results.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position focuses on the gross costs and the net costs of the University's activities that are supported substantially by student tuition and fees, State and federal grants and contracts, auxiliary enterprise revenues, and State appropriations. The purpose of the statement is to present the revenues earned and expenses incurred by the University, both operating and nonoperating.

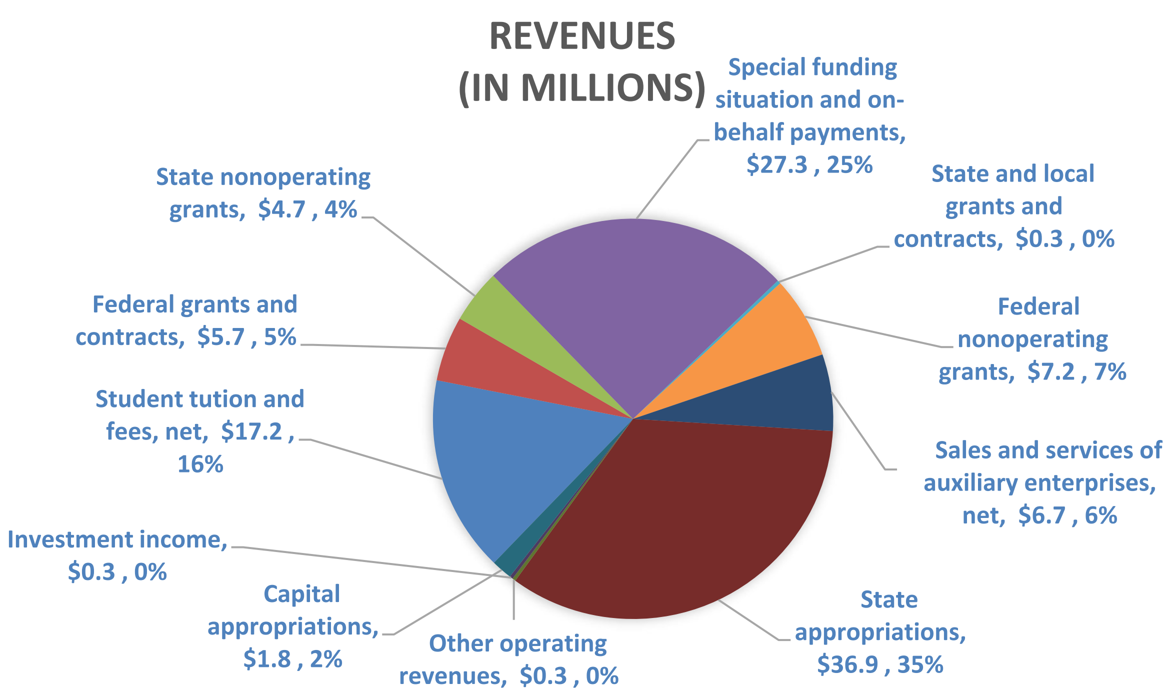
Operating revenues primarily result from exchange transactions where each of the parties to the transaction either gives up or receives something of equal or similar value. The major sources of the University's operating revenues are student tuition and fees, certain grants, and auxiliary revenues.

Nonoperating revenues primarily result from non-exchange transactions and are revenues received for which goods and services are not provided in return. The most significant sources of nonoperating revenues that the University relies on to provide funding for operations are State appropriations, special funding situation, and on-behalf payments for fringe benefits.

Revenues

A summary of the University's revenues for the fiscal year ended June 30, 2020 in comparison with the fiscal year ended June 30, 2019 is as follows:

	2020 (in millions)	2019 (in millions)	Change (in millions)
Operating Revenues			
Student tuition and fees, net	$ 17.2	$ 19.5	$ (2.3)
Federal grants and contracts	5.7	6.9	(1.2)
State and local grants and contracts	0.3	0.2	0.1
Sales and services of auxiliary enterprises, net	6.7	7.0	(0.3)
Other operating revenues	0.3	0.3	-
Total Operating Revenues	30.2	33.9	(3.7)
Nonoperating Revenues			
State appropriations	36.9	35.2	1.7
Special funding situation	21.6	19.7	1.9
On-behalf payments	5.7	7.1	(1.4)
State nonoperating grants	4.7	3.4	1.3
Federal nonoperating grants	7.2	6.2	1.0
Investment income	0.3	0.5	(0.2)
Total Nonoperating Revenues	76.4	72.1	4.3
Other Capital Revenues			
Capital appropriations	1.8	1.1	0.7
Total Other Revenues	1.8	1.1	0.7
Total Revenues	$ 108.4	$ 107.1	$ 1.3



Student Enrollment

	Head Count		Change	Credit Hours		Change
Terms	**FY 2020**	**FY 2019**	**%**	**FY 2020**	**FY 2019**	**%**
Fall	3,039	2,964	2.5%	32,588	31,799	2.5%
Spring	2,707	2,701	0.2%	29,501	29,341	0.5%
Summer	1,094	1,026	6.6%	5,822	5,546	5.0%

Operating Revenues

Operating revenues ($30.2 million) decreased by $3.7 million from the prior year's amount ($33.9 million) due to a reduction in net tuition and fees revenue ($2.3 million), as a result of $1.2 million increase in the uncollectible allowance, along with a $1 million increase in the scholarship allowances, coupled with a decrease in Federal grants ($1.2 million).

Nonoperating Revenues

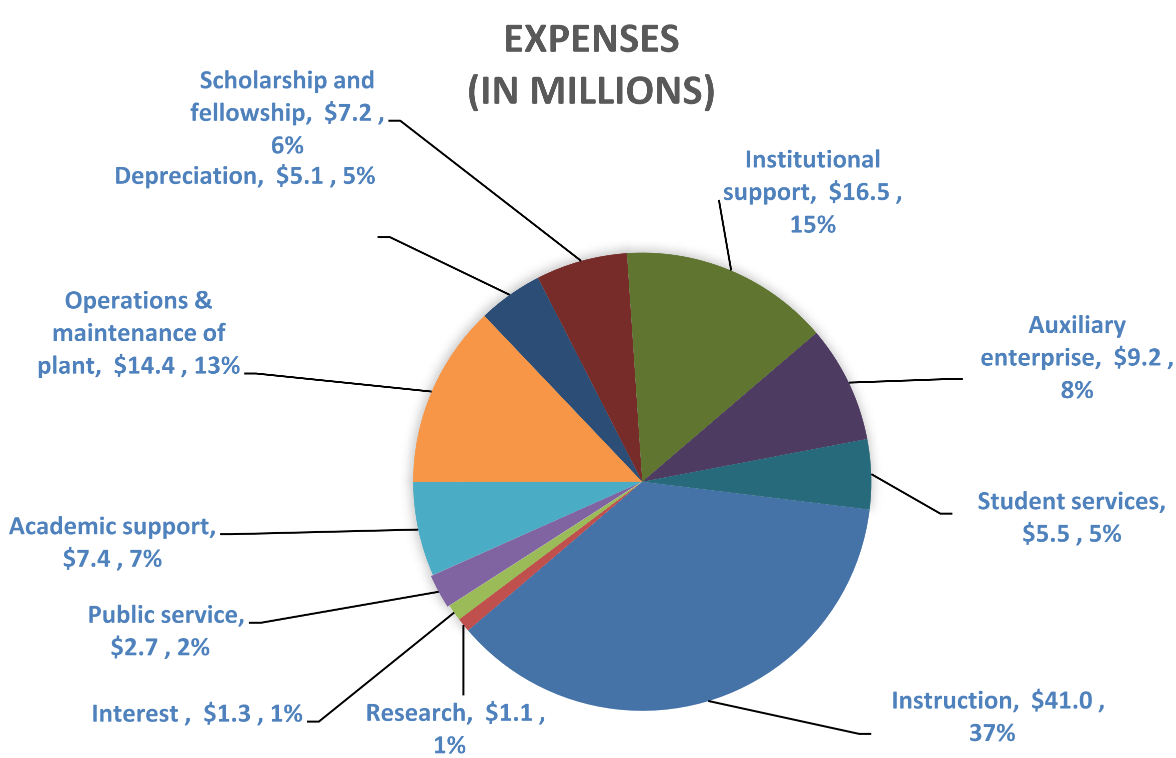
Nonoperating revenues ($76.4 million) increased by $4.3 million from the prior year's amount ($72.1 million). This increase is mainly a result of the rise in State appropriations ($1.7 million), increase in State and federal nonoperating grants ($1.3 million and $1.0 million, respectively), along with an increase in special funding situation ($1.9 million), offset by a decrease in on-behalf benefits ($1.4 million).

Expenses

A summary of the University's operating expenses for the fiscal year ended June 30, 2020 in comparison with the fiscal year ended June 30, 2019 is as follows:

	2020 (in millions)	2019 (in millions)	Increase (Decrease)
Operating Expenses			
Education and general:			
Instruction	$ 41.0	$ 40.0	$ 1.0
Research	1.1	1.6	(0.5)
Public service	2.7	3.3	(0.6)
Academic support	7.4	7.1	0.3
Student services	5.5	5.6	(0.1)
Institutional support	16.5	15.4	1.1
Operations and maintenance of plant	14.4	15.4	(1.0)
Depreciation	5.1	5.4	(0.3)
Scholarship and fellowship	7.2	5.0	2.2
Auxiliary enterprise expenses	9.2	10.6	(1.4)
Total Operating Expenses	110.1	109.4	0.7
Other Nonoperating Expenses			
Interest and other expenses	1.3	0.6	0.7
Total Expenses	$ 111.4	$ 110.0	$ 1.4

The following graphic illustration presents the operating expenses by function.



Operating Expenses

Operating expenses increased by $0.7 million from the balance one year ago ($109.4 million) to the current balance ($110.1 million). The increase is mainly related to increase in allocated special funding situation and on-behalf payments ($0.5 million), and increase in spending under scholarship and fellowship due to Coronavirus Aid, Relief, and Economic Security (CARES) Act funding received from the federal government resulting from the nationwide coronavirus (COVID-19) pandemic ($0.8 million).

Other Nonoperating Expenses

Other nonoperating expenses increased by $0.7 million from the balance one year ago ($0.6 million) to the current balance ($1.3 million). The increase is mainly related to reclassification of the restricted net position to liabilities, for Perkins loans.

Economic Factors That Will Affect the Future

The State of Illinois continues to face economic challenges, including escalating employee benefit costs and clearing its backlog of obligations. While the COVID-19 pandemic has impacted unemployment throughout the nation, the State continues to lag in the unemployment economic indicator relative to its neighboring states. For the month ended August 2020, the Illinois unemployment rate was 11.0% while its neighboring states unemployment rate ranged from 6.0% to 8.7%.

The University believes that despite the financial affairs of the State, higher education will continue to play a vital role in developing a well-educated workforce to compete in a modern economy in various industries including healthcare, information technology, distribution and logistics, and manufacturing. Accordingly, the University in coordination with other sister higher education institutions continues to advocate for continued State financial support.

BASIC FINANCIAL STATEMENTS

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
STATEMENT OF NET POSITION
JUNE 30, 2020
(With Summarized Comparative Information as of June 30, 2019)

	2020		2019	
	University	**CSF**	**University**	**CSF**
ASSETS				
Current Assets				
Cash equity with State Treasurer	$ 469,626	$ -	$ 557,482	$ -
Cash and cash equivalents (Note 2)	17,467,119	46,175	26,667,928	96,766
Cash and cash equivalents - restricted (Note 2)	490,004	399,804	619,274	594,164
Securities lending collateral equity of State Treasurer (Note 2)	145,520	-	180,926	-
Balance in State Appropriation	6,200,276	-	1,245,427	-
Accounts receivable, net (Note 3)	4,975,736	119,422	4,675,933	850
Accounts receivable, net - restricted (Note 3)	590,248	-	484,399	-
Inventories	12,209	-	14,394	-
Loans and notes receivable, net (Note 3)	20,348	-	19,905	-
Prepaid expenses and other assets	701,926	58,202	537,059	-
Prepaid expenses and other assets - restricted	1,500	-	57,337	-
Total current assets	31,074,512	623,603	35,060,064	691,780
Noncurrent Assets				
Cash and cash equivalents - restricted (Note 2)	4,909,703	-	2,795,806	-
Endowment investments (Note 2)	-	7,525,689	-	6,068,215
Loans and notes receivable, net (Note 3)	322,427	-	393,309	-
Capital assets, net (Note 4)	140,851,797	-	142,633,233	-
Total noncurrent assets	146,083,927	7,525,689	145,822,348	6,068,215
Total Assets	177,158,439	8,149,292	180,882,412	6,759,995
DEFERRED OUTFLOWS FOR OPEB AND PENSION EXPENSE (Notes 9 and 10)	523,495	-	323,727	-
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	3,776,574	38,447	4,693,772	17,566
Obligations under securities lending collateral equity of State Treasurer	145,520	-	180,926	-
Accrued wages (Note 5)	2,085,907	-	2,164,843	-
Unearned revenue (Note 6)	4,659,512	72,000	2,348,890	-
Long-term liabilities - current portion (Note 7)	2,198,314	19,942	2,382,394	-
Total current liabilities	12,865,827	130,389	11,770,825	17,566
Noncurrent Liabilities				
Accrued compensated absences (Note 7)	4,012,412	-	3,366,523	-
Net OPEB liability (Note 7)	5,615,391	-	5,172,082	-
Bonds payable (Note 7)	5,115,000	-	6,640,000	-
Premium on bonds (Note 7)	56,141	-	78,598	-
Federal loan program contributions refundable (Note 7)	456,255	-	-	-
Total noncurrent liabilities	15,255,199	-	15,257,203	-
Total Liabilities	28,121,026	130,389	27,028,028	17,566
DEFERRED INFLOWS FOR OPEB EXPENSE (Note 10)	5,936,155		8,190,946	-
NET POSITION				
Net investment in capital assets	134,133,200	-	134,447,179	-
Restricted for:				
Nonexpendable				
Scholarships and academic support	-	3,893,898	-	3,023,982
Expendable				
Direct programs and scholarships	25,164	3,918,336	25,720	3,465,616
Loans	501	-	755,001	-
Capital projects	450,038	-	450,038	-
Auxiliary services	882,594	-	945,521	-
Unrestricted	8,133,256	206,669	9,363,706	252,831
Total Net Position	$ 143,624,753	$ 8,018,903	$ 145,987,165	$ 6,742,429

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

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(With Summarized Comparative Information for the Year Ended June 30, 2019)

	2020		2019	
	University	**CSF**	**University**	**CSF**
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of $10,465,197 for 2020 and $9,470,691 for 2019)	$ 17,178,673	$ -	$ 19,513,740	$ -
Federal grants and contracts	5,746,554	-	6,864,139	-
State and local grants and contracts	284,370	-	180,094	-
Nongovernmental grants and contracts	274,763	-	275,919	-
Sales and services of auxiliary enterprises (net of scholarship allowances of $148,714 for 2020 and $87,563 for 2019)	6,721,419	-	7,050,464	-
Other operating revenues	2,266	2,252,219	7,742	406,115
Total operating revenues	30,208,045	2,252,219	33,892,098	406,115
OPERATING EXPENSES				
Educational and general				
Instruction	40,959,420	-	39,968,488	-
Research	1,054,292	-	1,598,951	-
Public service	2,662,727	-	3,341,199	-
Academic support	7,421,386	-	7,041,555	-
Student services	5,537,490	-	5,600,057	-
Institutional support	16,471,976	-	15,391,314	-
Operations and maintenance of plant	14,427,390	-	15,370,194	-
Depreciation	5,132,643	-	5,438,200	-
Scholarship and fellowship	7,215,500	568,299	5,002,400	110,006
Auxiliary enterprise expenses	9,200,711	-	10,624,151	-
Other operating expenses	-	1,302,160	-	580,990
Total operating expenses	110,083,535	1,870,459	109,376,509	690,996
OPERATING INCOME (LOSS)	(79,875,490)	381,760	(75,484,411)	(284,881)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	36,926,151	-	35,258,300	-
Special funding situation	21,591,918	-	19,698,040	-
On-behalf payments	5,645,000	-	7,074,000	-
State nonoperating grants	4,690,825	-	3,384,041	-
Federal nonoperating grants	7,159,883	-	6,194,919	-
Investment income	321,397	144,714	538,013	363,521
Reclassification of restricted net position to a liability	(714,291)	-	-	-
Interest on capital asset - related debt	(375,849)	-	(450,769)	-
Other nonoperating expenses	(177,250)	-	(158,363)	-
Net nonoperating revenues (expenses)	75,067,784	144,714	71,538,181	363,521
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(4,807,706)	526,474	(3,946,230)	78,640
Capital appropriations	1,790,678	-	1,058,656	-
Capital grants and gifts	8,089	-	-	-
Endowment contributions	-	750,000	-	50,000
Loss on disposal of capital assets	(3,364)	-	(2,151)	-
Total other revenues and losses	1,795,403	750,000	1,056,505	50,000
INCREASE (DECREASE) IN NET POSITION	(3,012,303)	1,276,474	(2,889,725)	128,640
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	145,987,165	6,742,429	148,529,977	6,613,789
PRIOR PERIOD ADJUSTMENT (Note 20)	649,891	-	346,913	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	146,637,056	6,742,429	148,876,890	6,613,789
NET POSITION, END OF YEAR	$ 143,624,753	$ 8,018,903	$ 145,987,165	$ 6,742,429

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

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(With Summarized Comparative Information for the Year Ended June 30, 2019)

	2020 University	2019 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 16,573,115	$ 18,366,619
Grants and contracts	9,593,135	8,875,036
Payment to suppliers for goods and services	(20,191,171)	(23,097,911)
Payments to employees for services	(52,383,199)	(51,601,859)
Payments for scholarship and fellowship	(7,215,500)	(5,298,761)
Loans issued to students and employees	(1,621)	1,620
Loans collected from students	68,316	-
Student direct lending receipts	30,662,231	31,838,268
Student direct lending disbursements	(30,662,231)	(31,838,268)
Sales and services of auxiliary enterprises	6,520,066	7,065,573
Other receipts (disbursements)	(334,062)	4,318
Net cash used in operating activities	(47,370,921)	(45,685,365)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	31,972,535	34,667,367
State nonoperating grants	4,400,450	3,382,497
Federal nonoperating grants	7,213,529	6,703,829
Repayment of federal loan program contributions refundable	(258,036)	-
Other noncapital financing activities	(177,250)	(158,363)
Net cash provided by noncapital financing activities	43,151,228	44,595,330
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(1,555,804)	(829,698)
Capital grants	-	(225,743)
Principal paid on capital debt	(1,445,000)	(1,382,315)
Interest paid on capital debt	(404,938)	(478,925)
Net cash used in capital financing activities	(3,405,742)	(2,916,681)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and/or dividends on investments	321,397	538,013
Net cash provided by investing activities	321,397	538,013
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,304,038)	(3,468,703)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,640,490	34,109,193
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 23,336,452	$ 30,640,490
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (79,875,490)	$ (75,484,411)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,132,643	5,438,200
Special funding situation	21,591,918	19,698,040
On-behalf payments	5,645,000	7,074,000
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivables, net	(241,231)	349,278
Inventories	2,185	3,992
Prepaid expenses and other assets	(109,029)	(186,709)
Deferred outflows for OPEB and pension expense	(199,768)	(4,566)
Loans and notes receivable	70,439	136,824
Accounts payable and accrued liabilities	(260,675)	(762,408)
Accrued wages	(78,936)	261,160
Unearned revenue	2,381,696	(65,034)
Accrued compensated absences	367,946	43,473
Net OPEB liability	457,172	(1,980,690)
Deferred inflows for OPEB expense	(2,254,791)	(206,514)
Net cash used in operating activities	$ (47,370,921)	$ (45,685,365)
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES		
Capital appropriations	$ 1,790,678	$ 1,058,656
Special funding situation	21,591,918	19,698,040
On-behalf payments	5,645,000	7,074,000
Capital grants and gifts	8,089	-
Loss on disposal of capital assets	3,364	2,151

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity - The financial reporting entity, as defined by the Governmental Accounting Standards Board (GASB), consists of the primary government entity, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of all agencies of Chicago State University, as the primary government, the accounts of Chicago State Foundation (CSF or Foundation), and the accounts of the University Auxiliary Facilities System Revenue Bond Fund, Series 1998.

CSF was established on March 24, 2015 for the purpose of providing the University's students, faculty, and staff financial support through fund raising activities. CSF is a non-profit tax-exempt 501(c)(3) organization. CSF is reported as a discretely presented component unit in the University's financial statements.

Separate financial statements for the Foundation may be obtained at the Foundations' administrative office: Executive Director, Chicago State Foundation, Cook Administration Building, 9501 South King Drive, Chicago, Illinois, 60628.

The University (including the Foundation) is a component unit of the State of Illinois for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's Annual Comprehensive Financial Report.

Financial Statement Presentation - The University follows the financial statement presentation requirements prescribed by GASB Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities–an amendment of GASB Statement No. 34,* and subsequent amendments. This statement requires the University's resources be classified into net position categories and reported in the Statement of Net Position. These categories are defined as (a) Net investment in capital assets, (b) Restricted nonexpendable - net position restricted by externally imposed stipulations, (c) Restricted expendable - net position subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time, and (d) Unrestricted - net position not subject to externally imposed stipulations but may be designated for specific purposes by an action of the Board. The University first applies restricted resources when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The financial statements include certain prior period comparative information, which has been derived from the University's 2019 financial statements. Such information does not include all of the information required to constitute a complete presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2019.

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

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

Cash and Cash Equivalents - Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near to maturity that they present insignificant risk of changes in value because of changes in interest rates. The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Illinois Funds are considered cash equivalents.

Investments - The University accounts for its investments at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the changes in fair value of investments are reported as an increase or decrease to investment assets and a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position.

Accounts Receivable - Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of which reside in the State of Illinois (State). Accounts receivable also includes amounts due from federal, state and local governments, or private sources, in connection with the reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable is presented net of estimated uncollectible accounts. Allowances for doubtful accounts are charged against revenues when estimated or determined to be uncollectible.

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

Prepaid Expenses and Other Assets - Prepaid expenses include amounts paid in advance for services benefitting future periods.

Capital Assets - Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Intangible assets greater than $100,000 are capitalized. 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 expenses in the year in which the expense is incurred.

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

Unearned Revenue - Unearned revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that are related to the subsequent accounting period. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been recognized because eligibility requirements have not been met.

Accrued Compensated Absences - Employee sick and vacation pay are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences.

Net accrued compensated absences charges are as follows:

	2020	2019	Net Change
Vacation leave	$ 3,823,160	$ 3,389,229	$ 433,931
Sick leave	706,020	772,005	(65,985)
Total	$ 4,529,180	$ 4,161,234	$ 367,946

Noncurrent Liabilities - Noncurrent liabilities include (1) estimated amounts for accrued compensated absences; (2) University's portion of net other postemployment benefits; (3) principal amounts of revenue bonds payable; (4) the premium on the revenue bonds payable (which are being amortized over the term of the bonds using the straight-line method); and (5) liability related to the Perkins Loan program.

Pensions - For the purpose of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the plan net position of the State Universities Retirement System (SURS) and additions to/deductions from SURS plan net position have been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For financial reporting purposes, the State and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the University) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The University recognizes its proportionate share of the State's pension expense relative to the University's employees as nonoperating revenue and pension expense, with the expense further allocated to the related function by employees.

Other Postemployment Benefits (OPEB) - The State Employees Group Insurance Act of 1971 (SEGIA) (5 ILCS 375), as amended, authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, to provide health, dental, vision and life insurance benefits as a single-employer defined benefit OPEB plan not administered as a trust. Substantially, all State and university component unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. The Department of Central Management Services (CMS) administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State, including the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and SURS.

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

Given the preceding environment, the University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees paid from the University's Income Fund or auxiliary enterprises, while (2) the University is responsible for OPEB employer contributions for employees paid from trust, federal, and other funds.

Special Funding Situation Portion of OPEB - A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan.

During the OPEB measurement period ended June 30, 2019, the University made voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of $373,555 to help offset the amount the State needed to provide for retirees under the special funding situation described in the preceding paragraph.

The University recognizes the proportionate share of the State's OPEB expense relative to the University's employees as nonoperating revenue and OPEB expense, with the expense further allocated to the related function performed by the employees.

University's Portion of OPEB - The University reports a liability, expense allocated to the related function performed by the employees, and related deferred inflows and outflows of resources for OPEB based on the University's proportionate share of amounts paid to SEGIP pursuant to SEGIA for its employees paid from trust, federal, and other funds compared to the collective amounts paid to SEGIP pursuant to SEGIA. The collective amounts paid to SEGIP pursuant to SEGIA includes (1) payments from State agencies for State employees, (2) the amount calculated by CMS to represent the amount paid by the General Fund related to the special funding situation, (3) the total voluntary appropriation repayment from all of the universities, and (4) the total of all payments from the universities for employees paid from trust, federal, and other funds. This methodology has been determined by the State to be the best estimate of how future OPEB payments will be determined.

Deferred inflows and outflows of resources are recognized in OPEB expense at the beginning of the current period, using a systematic and rational method over a closed period, equal to the average expected remaining service lives of all employees, either active or inactive, provided with OPEB through SEGIP, determined as of the beginning of the measurement period.

On-Behalf Payments - The University had outside sources of financial assistance provided by the State on behalf of the University during the year ended June 30, 2020.

Substantially all active employees participate in group insurance plans provided by the State and administered by CMS, primarily providing healthcare benefits. In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are totally compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

During the year ended June 30, 2020, total estimated group insurance contributions for the University's employees paid from the University's Income Fund and auxiliary enterprises were $6,070,000. The University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of $425,000 to help offset the amount the State needed to provide for current employees under the situation described in the preceding paragraph. As such, the State contributed the estimated remaining balance of $5,645,000 on-behalf of the University to meet this obligation for current employees.

As the University is not legally responsible to pay for the on-behalf support provided by the State, the University recognizes nonoperating revenues and operating expenses allocated to the related function performed by the employees within the University's financial statements for its current employees' participation in group insurance.

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

Net Position - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, reports equity as "Net Position." The University's net position is classified as follows:

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

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

Restricted net position - expendable - Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Unrestricted net position - Unrestricted net position represents resources derived from student tuition and fees, sales and service of educational departments and auxiliary enterprises, and unrestricted gifts from donors. These resources are used for transactions relating to the educational and general operations of the University and Foundation and may be used at the discretion of the governing board to meet current expenses for any purpose.

Income Taxes - The University, as a political subdivision of the State of Illinois, is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

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

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and GASB Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities–an amendment of GASB Statement No. 34*, such as State appropriations, special funding situation, on-behalf payments, pass-through grants, and investment income.

Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding - The University received funding through the Higher Education Emergency Relief (HEER) Fund. One component of the amounts received was $1,086,007, for student aid funding. These funds provided emergency financial aid grants to students for expenses related to the disruption of campus operations due to the novel coronavirus (COVID-19) pandemic. Funds expended are reflected in the University accounts as operating expenses, in accordance with guidance established by NACUBO, as providing student aid is a part of the ongoing mission of a university.

New Accounting Pronouncements - The University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* This Statement intended to provide relief to governments and other stakeholders in light of the COVID-19 pandemic, by postponing the effective dates of certain provisions in the applicable pronouncements.

As a result, the University will be required to implement GASB Statements No. 84, *Fiduciary Activities,* and No. 90, *Majority Equity Interest,* in fiscal year 2021, and GASB Statements No. 87, *Leases;* No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period;* No. 92, *Omnibus 2020*; and, No. 93, *Replacement of Interbank Offered Rates,* in fiscal year 2022. The University has not yet evaluated the impact of adopting these future pronouncements on its financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

Cash Equity with State Treasurer - The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the University does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois' Annual Comprehensive Financial Report.

Deposits - At June 30, 2020, the carrying amount of the University and the CSF deposits with private financial institutions were $22,866,826 and $445,979, respectively. This amount consisted of cash deposited with the financial institutions. For financial reporting purposes, these deposits have been classified as cash and cash equivalents or investments, depending upon the original maturity of the financial instrument.

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

	University		CSF	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Deposit Type				
Cash in bank	$15,749,113	$16,807,783	$ 445,979	$ 520,340
Add: Investments classified as cash equivalents (maturity <90 days) - Illinois Funds - Standard & Poor's AAAm	7,103,950			
Add: Cash on hand	13,763			
Total cash and cash equivalents	$22,866,826		$ 445,979	

	Carrying Amount	
	University	CSF
Cash and cash equivalents	$ 17,467,119	$ 445,979
Cash and cash equivalents - restricted - current	490,004	–
Cash and cash equivalents - restricted - noncurrent	4,909,703	–
Total	$ 22,866,826	$ 445,979

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The University requires that balances on deposit with financial institutions be either insured by the Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name. The University maintains cash deposits at certain Chicago-area financial institutions. The FDIC insured bank balances totaled $1,000,000 and $445,979 for the University and CSF, respectively, at June 30, 2020. Another $15,807,783 in University's bank balances were covered by pledged collateral in the University's name.

Interest Rate Risk - Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Illinois Funds has a weighted average maturity of less than one year.

Investments

The carrying value (and market value) of the investment portfolio of the University and CSF at June 30, 2020 consisted of the following:

	University Fair Value	CSF Fair Value
Money market funds and other	$ –	$ 1,631,547
U.S. Treasury & agency obligations	–	1,387,380
Common stock	–	3,566,585
Corporate debt securities	–	940,177
Illinois Funds (Standard & Poor's AAAm)	7,103,950	–
Total	7,103,950	7,525,689
Less: Investments classified as cash equivalents (maturity < 90 days)	(7,103,950)	–
Total investments	$ –	$ 7,525,689

The Illinois Funds is an external investment pool administered by the State Treasurer. The value of the University's investment fund is the same as the value of pool shares and the investments are reported by the State Treasurer at amortized cost. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of the Public Funds Investment Act (30 ILCS 235), the State Treasurer Act (15 ILCS 505/17) and the Deposit of State Moneys Act (15 ILCS 520/22.5).

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the fair value of investments is further categorized by levels depending on the type of inputs used for their valuation.

- Level 1: Unadjusted quoted prices for identical assets in active markets that are accessible at the date of measurement.

- Level 2: Quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the assets.

- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, the inputs are supported by little or no market activity).

The fair value of CSF's equity securities, totaling $6,585,512 is based on an observable unadjusted quoted market price in an active market therefore this investment has been categorized as Level 1 in the fair value hierarchy. While the fair value of CSF's corporate debt securities totaling $940,177 has been categorized as Level 2 in the fair value hierarchy.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an agency's investment in a single user. All investments are insured or registered and held by CSF or its agent in CSF's name. CSF does not have a policy limiting its exposure to concentration of credit risk.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligation. CSF's statement of investment objectives and guidelines states that investments in non-convertible fixed income securities other than short-term securities will be restricted to issues within a maximum fixed or expected average maturity of ten years and will be made primarily in (1) securities issued or guaranteed by the U.S. government or its agencies, (2) marketable issues of non-nuclear utility companies rated at the time of purchase within the three highest grades assigned by Moody's Investor Services, Inc. (Aaa, Aa, or A) or by Standard & Poors (AAA, AA or A), and (3) bond mutual funds which invest primarily in bonds with rating of A and higher. The University's funds expected to be used within one year are invested in the Illinois Funds, which is fully collateralized and has a Standard & Poors credit rating of AAAm.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The CSF does not have a policy limiting its exposure to foreign currency risk.

Details of CSF investment portfolio follow:

Type	Fair Market Value	Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years	S&P/Moody's Rating
U.S. Treasury obligations	$1,101,614	$128,418	$ 799,273	$173,923	$ –	No rating/ AAA to Ba2
U.S. agency/guaranteed obligations	285,766	–	205,562	80,204	–	AAA to Ba2
Total U.S. Treasury/agency	1,387,380	128,418	1,004,835	254,127	–	
Corporate debt securities	940,177	–	496,651	443,526	–	AAA to Ba2
Total	$2,327,557	$128,418	$1,501,486	$697,653	$ –	

Investment return at June 30, 2020 and its classification in the CSF financial statements are shown below:

Interest and dividends	$ 78,989
Net realized and unrealized gains	65,725
Total investment return	$ 144,714

Securities Lending Transactions

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal years 2020 and 2019, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2020 and 2019 on the amount of loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal years 2020 and 2019 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2020 and 2019, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2020 were $4,344,267,500 and $4,290,619,359, respectively. The securities lending collateral received, that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2019 were $3,103,274,125 and $3,064,814,670, respectively.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the State Treasurer has allocated the assets and obligations at June 30, 2020 arising from securities lending agreements to the various funds of the State. The total allocated to the University at June 30, 2020 was $145,520.

NOTE 3 - ACCOUNTS, PLEDGES AND LOANS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2020:

Student tuition and fees	$	13,847,467
Federal, State and private grants and contracts		2,355,048
Third party and other receivable		831,840
Total gross receivable		17,034,355
Less allowance for doubtful accounts		(11,468,371)
Net accounts receivable	$	5,565,984

Loans receivable (Federal Perkins Loans) consisted of the following at June 30, 2020:

Loans receivable	$	1,332,669
Less allowance for doubtful accounts		(989,894)
Net loans receivable	$	342,775
Current portion	$	20,348
Noncurrent portion		322,427
Net loans receivable	$	342,775

Perkins loan program expired on September 30, 2017. The University had the option to either assign the loan portfolio and the revolving fund to the Department of Education, or to continue the management of the Perkins loan portfolio that excludes the act of issuing new loans. The University made a determination to continue to manage the loan portfolio. During the current fiscal year, the University recorded a long-term obligation to recognize the federal contribution to the program that will be paid back as loans are paid off.

NOTE 4 - CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2020:

	Amounts expressed in thousands				
	Balance July 1, 2019	Additions	Retirements	Net Transfers	Balance June 30, 2020
Capital assets not being depreciated:					
Land	$ 9,611	$ –	$ –	$ –	$ 9,611
Works of art	41	–	–	–	41
Construction in progress	13,191	1,791	–	–	14,982
Total capital assets not being depreciated	22,843	1,791	–	–	24,634

	Amounts expressed in thousands				
	Balance July 1, 2019	Additions	Retirements	Net Transfers	Balance June 30, 2020
Other capital assets:					
Site improvements	17,476	–	–	–	17,476
Buildings and building improvements	190,057	515	–	–	190,572
Equipment	19,836	739	(295)	–	20,280
Intangible assets	1,490	–	–	–	1,490
Library books	13,593	310	–	–	13,903
Total other capital assets	242,452	1,564	(295)	–	243,721
Less accumulated depreciation	(122,662)	(5,132)	291	–	(127,503)
Total	119,790	(3,568)	(4)	–	116,218
Capital assets, net	$ 142,633	$ (1,777)	$ (4)	$ –	$ 140,852

NOTE 5 - ACCRUED WAGES

Accrued wages include employee contracts for certain academic personnel that provide for twelve month salary payments, although the contracted services are rendered during a nine-month period, and services provided by hourly employees that were paid after June 30. The liability for those employees who are on a deferred pay schedule and those that have completed their contracted services, but have not yet received final payment totaled $1,758,221 at June 30, 2020. Accrued wages also include unpaid insurance benefits of $327,686.

NOTE 6 - UNEARNED REVENUE

Unearned revenue consists of the following at June 30, 2020:

Tuition and fees	$ 257,912
Grants and contracts	4,401,600
Total Unearned Revenue	$ 4,659,512

NOTE 7 - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2020 consist of the following:

	June 30, 2020	Current Portion	Noncurrent Portion
Accrued compensated absences	$ 4,529,180	$ 516,768	$ 4,012,412
Net OPEB Liability	5,749,481	134,090	5,615,391
Bonds payable	6,640,000	1,525,000	5,115,000
Premium on bonds	78,597	22,456	56,141
Federal loan program contributions refundable	456,255	-	456,255
Total Long-Term Liabilities	$ 17,453,513	$ 2,198,314	$15,255,199

The changes in long-term liabilities are as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued compensated absences	$ 4,161,234	$ 994,239†	$ (626,293) *	$ 4,529,180
Net OPEB Liability	5,292,309	457,172	-	5,749,481
Bonds payable	8,085,000	-	(1,445,000)	6,640,000
Premium on bonds	101,054	-	(22,457)	78,597
Federal loan program contributions refundable	-	456,255	-	456,255
Total Long-Term Liabilities	$17,639,597	1,907,666	$(2,093,750)	$17,453,513

**Payments for accrued compensated absences include lump sum payouts for vacation and sick time only.*
†Additions include vacation earned in excess of days used.

Bonds Payable

On December 23, 1998, the University issued $25,650,000 of Auxiliary Facilities Revenue Bonds with an average interest rate of 4.84% to advance refund $22,620,000 of outstanding 1994 Series Bonds.

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

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

Bonds Maturing December 1, 2023		
Year	Principal Amount	
2020	$	1,525,000
2021		1,610,000
2022		1,705,000
2023		1,800,000

Bond Insurance Rating - The bonds are insured by MBIA Corp. and National Public Finance Guarantee. Moody's Investor Service applies the National Public Finance Guarantee rating to municipal bonds subject to the reinsurance agreement with MBIA Corp. As of July 2020, the Moody's ratings were Ba3 for MBIA Corp. and Baa2 for National Public Finance Guarantee.

Maturity Information

The scheduled maturities of the bonds payable are as follows:

Fiscal Year	Revenue Bonds	Interest	Total Payments
2021	$ 1,525,000	$ 323,263	$ 1,848,263
2022	1,610,000	237,050	1,847,050
2023	1,705,000	145,887	1,850,887
2024	1,800,000	49,500	1,849,500
Total	$ 6,640,000	$ 755,700	$ 7,395,700

NOTE 8 - NATURAL CLASSIFICATIONS

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

Compensation and benefits	$ 77,911,740
Contractual services	16,699,830
Commodities	1,932,067
Awards and grants	7,215,500
Telecommunication	574,522
Other operating expenses	617,233
Depreciation	5,132,643
Total Operating Expenses	$ 110,083,535

NOTE 9 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description. The University contributes to the State Universities Retirement System of Illinois (SURS or System), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State of Illinois (State) 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 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's financial reporting entity and is included in the State's Annual Comprehensive Financial Report as a pension trust fund. SURS is governed by Chapter 40, Act 5, Article 15 of the *Illinois Compiled Statutes.* SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org.

Benefits Provided. A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible reciprocal system service. The revised plan is referred to as Tier 2. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either traditional or portable benefit plans. A summary of the benefit provisions as of June 30, 2019 can be found in the SURS's Annual Comprehensive Financial Report's Notes to the Financial Statements.

Contributions. The State is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a statutory funding plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members within SURS to reach 90% of the total Actuarial Accrued Liability by the end of fiscal year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2019 and 2020, respectively, was 12.29% and 13.02% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary, except for police officers and fire fighters who contribute 9.5% of their earnings. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants), Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period), and Section 15-155(j-5) (relating to contributions payable due to earnings exceeding the salary set for the Governor).

Pension Liabilities, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

Net Pension Liability
The net pension liability (NPL) was measured as of June 30, 2019. At June 30, 2019, SURS reported a NPL of $28,720,071,173.

Employer Proportionate Share of Net Pension Liability
The amount of the proportionate share of the NPL to be recognized for the University is $0. The proportionate share of the State's NPL associated with the University is $325,972,808 or 1.1350%. This amount is not recognized in the University's financial statement. The NPL and total pension liability as of June 30, 2019, was determined based on the June 30, 2018 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during fiscal year 2019.

Pension Expense
At June 30, 2019, SURS reported a collective net pension expense of $3,094,666,252.

Employer Proportionate Share of Pension Expense
The University's proportionate share of collective pension expense is recognized as non-operating revenue with matching operating expense (compensation and benefits) in the financial statements. The basis of allocation used for the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2019. As a result, the University recognized revenue and pension expense of $35,124,462 from this special funding situation for the fiscal year ended June 30, 2020.

Deferred Outflows and Deferred Inflows of Resources Related to Pensions
Deferred outflows of resources are the consumption of net position by SURS that is applicable to future reporting periods. Conversely, deferred inflows of resources are the acquisition of net position by SURS that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 160,132,483	$ 80,170,745
Changes in assumptions	773,321,300	–
Net difference between projected and actual earnings on pension plan investments	–	55,456,660
Total	$ 933,453,783	$ 135,627,405

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future Pension Expenses:

Year Ending June 30	Net Deferred Outflows of Resources
2020	$ 786,021,133
2021	(11,534,848)
2022	(6,661,326)
2023	30,001,419
2024	–
Thereafter	–
Total	$ 797,826,378

University's Deferral of Fiscal Year 2020 Contributions

The University paid $181,261 in federal, trust or grant contributions during the fiscal year ended June 30, 2020. These contributions were made subsequent to the pension liability measurement date of June 30, 2019 and are recognized as deferred outflows of resources as of June 30, 2020.

Assumptions and Other Inputs

Actuarial assumptions. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from June 30, 2014, through June 30, 2017. The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	3.25 to 12.25 percent, including inflation
Investment rate of return	6.75 percent beginning with the actuarial valuation as of June 30, 2018

Mortality rates were based on the RP-2014 White Collar, gender distinct tables with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultants and actuary. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2019, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-term Expected Real Rate of Return
U.S. Equity	23%	5.25%
Private Equity	6%	8.65%
Non-U.S. Equity	19%	6.75%
Global Equity	8%	6.25%
Fixed Income	19%	1.85%
Treasury-Inflation Protected Securities	4%	1.20%
Emerging Market Debt	3%	4.00%
Real Estate REITs	4%	5.70%
Direct Real Estate	6%	4.85%
Commodities	2%	2.00%
Hedged Strategies	5%	2.85%
Opportunity Fund	1%	7.00%
Total	100%	4.80%
Inflation		2.75%
Expected Arithmetic Return		7.55%

Discount Rate. A single discount rate of 6.59% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.13% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under SURS funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS Net Pension Liability to Changes in the Discount Rate. Regarding the sensitivity of the NPL to changes in the single discount rate, the following presents the State's NPL, calculated using a single discount rate of 6.59%, as well as what the State's NPL would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 5.59%	Current Single Discount Rate Assumption 6.59%	1% Increase 7.59%
$34,786,851,779	$28,720,071,173	$23,712,555,197

Additional information regarding the SURS basic financial statements including the plan's net position can be found in SURS Annual Comprehensive Financial Report by accessing the website at www.SURS.org.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description. SEGIA, as amended, authorizes SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these OPEB. The eligibility provisions for SURS are defined within Note 9.

CMS administers OPEB for annuitants with the assistance of GARS, JRS, SERS, TRS, and SURS. The State recognizes SEGIP as a single-employer defined benefit plan, which does not issue a stand-alone financial report.

Benefits Provided. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in SEGIA. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. SEGIA requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding Policy and Annual OPEB Cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, SEGIP contributions pursuant to SEGIA (5 ILCS 375/11), and Federal government subsidies from the Medicare Part D program. These contributions are deposited in the Health Insurance Reserve Fund, which covers both active employees and retired members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in GARS, JRS, SERS, TRS, and SURS do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. DCMS Director, on an annual basis, determines the amount of contributions necessary to fund the basic program of group benefits. The State's contributions are made primarily from the State's General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to fund the retiree benefits and a separate trust has not been established for the funding of OPEB.

For fiscal year 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,681 ($6,704 if Medicare eligible) per member if the annuitant chose benefits provided by a health maintenance organization and $14,959 ($5,592 if Medicare eligible) per member if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

CMS' Changes in Estimates. For the measurement date of June 30, 2018, CMS experienced two significant changes within its estimation process. The OPEB for both the special funding situation and the portion of OPEB where the University is responsible for employer contributions are both significantly impacted by (1) the University's number of participants in SEGIP and (2) the average cost per employee within SEGIP. CMS made changes to its estimation methodology that resulted in significant differences within its estimates which represent an outcome of estimation uncertainty that, as time has passed and new sources of better data have become available, continued to be refined to achieve a more representative reflection of the actual outcome of the estimate in future periods. As such, this change in estimate was amortized for subsequent recognition in the University's OPEB expense over a period of approximately five years, which began in fiscal year 2019.

Special Funding Situation Portion of OPEB. The proportionate share of the State's OPEB expense relative to the University's employees totaled ($13,532,544) during the year ended June 30, 2020. This amount was recognized by the University as nonoperating special funding situation revenue and operating expense allocated to the related function performed by the employees during the year ended June 30, 2020.

While the University is not required to record the portion of the State's OPEB liability related to the University's employees resulting from the special funding situation, the University is required to disclose this amount. The following chart displays the proportionate share of the State's contributions related to the University's special funding situation relative to all employer contributions during the years ended June 30, 2019 and 2018, each based on the June 30, 2018 and 2017, respectively, actuarial valuation rolled forward:

Measurement Date:	June 30, 2019	June 30, 2018
State of Illinois' OPEB liability related to the University under the Special Funding Situation	$ 194,310,281	$ 190,409,251
SEGIP total OPEB liability	43,889,169,017	40,093,248,494
Proportionate share of the total OPEB liability	0.4427%	0.4749%

University's Portion of OPEB and Disclosures Related to SEGIP Generally

Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to OPEB. The University's total OPEB liability, as reported at June 30, 2020, was measured as of the measurement date on June 30, 2019, with an actuarial valuation as of June 30, 2018, which was rolled forward to the measurement date. The following chart displays the proportionate share of the University's contributions relative to all employer contributions during the years ended June 30, 2019 and 2018, each based on the June 30, 2018 and 2017, respectively, actuarial valuation rolled forward:

Measurement Date:	June 30, 2019	June 30, 2018
University's OPEB liability	$ 5,749,481	$ 5,292,309
SEGIP total OPEB liability	43,889,169,017	40,093,248,494
Proportionate share of the total OPEB liability	0.0131%	0.0132%

The University's portion of the OPEB liability was based on the University's proportion share amount determined under the methodology described in Note 1 during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the University's proportion declined 0.0001% from its proportion measured as of the prior year measurement date of June 30, 2018.

The University recognized OPEB expense for the year ended June 30, 2020, of ($1,876,369). At June 30, 2020, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2019, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,254	$ 87,708
Changes in assumptions	-	354,789
Changes in proportion and differences between University contributions and proportionate share of contributions	199,890	5,493,658
University contributions subsequent to the measurement date	134,090	-
Total	$ 342,234	$ 5,936,155

$134,090 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2021. Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Total Amount Recognized of Deferred Inflows and Outflows over the Remaining Service Life of All Employees
2021	$ (2,244,511)
2022	(2,244,511)
2023	(1,225,504)
2024	(19,468)
2025	5,983
Total	$ (5,728,011)

Actuarial Methods and Assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

The valuation date of June 30, 2018, below was rolled forward to June 30, 2019.

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Projected Salary Increases*	2.75% - 12.25%
Discount Rate	3.13%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.5% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental and Vision	6.0% grading down 0.5% per year over 3 years to 4.5%
Retiree's share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of services earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2019 and 2020 are based on actual premiums. Premiums after 2020 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

*Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. On December 20, 2019, the *Further Consolidated Appropriations Act, 2020* (Public Law 116-94) was signed into law repealing the federal excise taxes of 40% on total employer premium spending in excess of specified dollar amounts, also known as the "Cadillac Tax." The impact of this repeal to the State's financial statements, which could be significant, is not known at this time.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2018 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age Experience study^	Mortality^^
GARS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex, distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex, distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2012 - June 2015	105 percent of the RP 2014 Healthy Annuitant mortality table, sex, distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. Further, no changes have occurred since the measurement date and the University's fiscal year end on June 30, 2020, that are expected to have a significant impact on the University's proportionate share of the total collective OPEB liability.

Discount Rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.62% at June 30, 2018, and 3.13% as of June 30, 2019, was used to measure the total OPEB liability.

Sensitivity of Total OPEB Liability to Changes in the Single Discount Rate. The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2019, calculated using a Single Discount Rate of 3.13%, as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.13%) or lower (2.13%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.13%)	Current Single Discount Rate Assumption (3.13%)	1% Increase (4.13%)
University's proportionate share of total OPEB liability	$ 6,772	$ 5,749	$ 4,932

Sensitivity of the Total OPEB liability to Changes in the Healthcare Cost Trend Rate. The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2019, calculated using the healthcare cost trend rates as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts expressed in thousands). For calculating the healthcare cost trend rates assumption, the key trend rates are 8.00% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027 for non-Medicare coverage, and 9.00% decreasing to an ultimate trend rate of 4.50% in 2029 for Medicare coverage. For the 1.00% decrease for calculating the healthcare cost trend rates assumption, the key trend rates are 8.00% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027, for non-Medicare coverage, and 9.00% in 2020 decreasing to an ultimate trend rate of 4.50% in 2029 for Medicare coverage. For the 1.00% increase for calculating the healthcare cost trend rates assumption, the key trend rates are 9.00% in 2020 decreasing to an ultimate trend rate of 5.89% in 2027, for non-Medicare coverage, and 10.00% in 2020 decreasing to an ultimate trend rate of 5.50% in 2029 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
University's proportionate share of total OPEB liability	$ 4,821	$ 5,749	$ 6,952

Total OPEB Liability Associated with the University, Regardless of Funding Source. The University is required to disclose all OPEB liabilities related to it, including (1) the portion of the State's OPEB liability related to the University's employees resulting from the special funding situation the University is not required to record and (2) the portion of OPEB liability recorded by the University for its employees paid from trust, federal, and other funds. The following chart displays the proportionate share of contributions, regardless of funding source, associated with the University's employees relative to all employer contributions during the years ended June 30, 2019 and 2018, each based on the June 30, 2018 and 2017, respectively, actuarial valuation rolled forward:

Measurement Date:	June 30, 2019	June 30, 2018
State of Illinois' OPEB liability related to the University under the Special Funding Situation	$ 194,310,281	$ 190,409,251
University's OPEB liability	5,749,481	5,292,309
Total OPEB liability associated with the University	$ 200,059,762	$ 195,701,560
SEGIP total OPEB liability	$ 43,889,169,017	$40,093,248,494
Proportionate share of the OPEB liability associated with the University	0.4558%	0.4881%

NOTE 11 - LIABILITY INSURANCE

The University participates in a statutory cooperative known as the Illinois Public Higher Education Cooperative (IPHEC). Through IPHEC, the University has contracted with commercial insurance carriers to provide liability insurance coverages, including educators' legal and other general liability insurance. The University purchased commercial excess general liability coverage of $10.65 million. The University's liability coverages have a general $350,000 deductible per occurrence. The University also has commercial general property insurance coverage for the replacement value of the University's property.

NOTE 12 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the year ended June 30, 2020, is as follows:

The University and CSF, under the terms of a "Memorandum of Understanding" (MOU) effective May 14, 2019, specified the relationship between the two organizations as required by the University Guidelines adopted on November 30, 1982, and revised on September 10, 1997, by the Legislative Audit Commission. Under the terms of the MOU, CSF is provided administrative support services by the University, such as maintenance, telephone, personnel, and property control. CSF does not directly pay the University for these services, which were valued at $404,205 for the current fiscal year. CSF recognized these services as in-kind revenues and expenses on its financial statements.

CSF reciprocates by providing fundraising and other services to the University. These services were valued at $928,645 for the year ended June 30, 2020. Scholarships or stipends provided by CSF, which benefited the University, totaled $575,124 for the year ended June 30, 2020, and is included in the value of total services.

Since CSF information is discretely presented, the activities between CSF and the University are not eliminated on the entity's financial statements. Conversely, the University and its component unit are consolidated on the State's comprehensive annual financial report, the following disclosure is presented.

University	CSF Operating Revenue
Operating Expense	$ 404,205

NOTE 13 - STUDENT FINANCIAL ASSISTANCE

The University participates in the U.S. Department of Education's Direct Student Loan Program. The University awarded $30,662,231 in direct student loans for the year ended June 30, 2020. The University classified this loan program as noncash federal awards and it is disclosed in the footnotes to the University's Schedule of Expenditures of Federal Awards in the University's *Compliance Examination Report.* Accordingly, no revenues or expenses are included in the financial statements of the University. All cash flows associated with these amounts have been reported as cash flows from operating activities as either tuition and fees or as payments for scholarships and fellowships.

NOTE 14 - SEGMENT INFORMATION

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

The Chicago State University, University Auxiliary Facilities System Revenue, Bond Fund, Series 1998 (Revenue Bond Fund), an integral part of Chicago State University, has replaced the Revenue Bond Series of 1971 and includes all operations of the Cordell Reed Student Union Building. Its revenues are principally University Center fees, rental and use fees, leased food services, bookstore commissions, and parking fees. The associated expenditures are principally personnel costs, contracted services and travel incurred in support of those auxiliary operations.

As a requirement of issuing certain revenue bonds, the University is subject to certain covenants. The University regularly monitors its compliance with those covenants.

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

Condensed Statement of Net Position	**As of June 30, 2020**
Assets	
Current assets - restricted	$ 1,081,752
Capital assets, net	10,274,945
Total Assets	11,356,697
Liabilities	
Current liabilities	1,649,559
Noncurrent liabilities	5,268,196
Total Liabilities	6,917,755
Net Position	
Net investment in capital assets	3,556,348
Restricted for auxiliary services	882,594
Total Net Position	$ 4,438,942

Condensed Statement of Revenues, Expenses, and Changes in Net Position	**Year Ended June 30, 2020**
Operating revenues	$ 4,231,445
Operating expenses	2,981,878
Operating income	1,249,567
Nonoperating expenses, net	(375,115)
Increase in net position	874,452
Net position, beginning of year	3,564,490
Net position, end of year	$ 4,438,942

Condensed Statement of Cash Flows		Year Ended June 30, 2020
Net cash provided (used) by:		
Operating activities	$	1,721,182
Capital financing activities		(1,849,938)
Investing activity		734
Net decrease in cash and cash equivalents		(128,022)
Cash and cash equivalents, beginning of year		618,026
Cash and cash equivalents, end of year	$	490,004

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The University is named as a defendant in several pending lawsuits. The University believes that these matters will generally be settled in favor of the University and will not result in any significant liabilities to the University.

In addition to potential legal matters, the University also receives monies from federal and State government agencies under grants and contracts. The costs charged to these grants are subject to audit and disallowance by the granting agency. The University administration believes any disallowance or adjustment would not have a material effect on the University's financial position.

NOTE 16 - ENDOWMENT

The CSF Board of Trustees resolved that endowments' dividend and interest income be used for scholarships and that a reasonable amount of dividends and interest be added back to the endowment principal. The portion of dividends and interest available for scholarships is transferred to unrestricted funds. For the year ended June 30, 2020, endowment dividends and interest in the amount were transferred to the unrestricted funds for CSF. Additionally, $483,422 of principal was transferred from nonexpendable to expendable net position, due to the donor's signed approval.

Gains or losses on sales of investments are retained and reported as part of the expendable restricted net position. Although not required by law, it is the intent of the CSF to maintain the corpus of both donor restricted endowment funds and endowment funds designated by the CSF Board of Trustees.

NOTE 17 - PLEDGED REVENUES AND DEBT SERVICE REQUIREMENTS

The University has pledged specific revenue, net of specific operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

Bond Issue	Purpose	Source of Revenue Pledged	Future Net Revenues Pledged (1)	Term of Commitment	Current Year Pledged Net Revenue to Debt Service (2)
Auxiliary Facilities System Revenue Bonds, Series 1998	Advance refund the Series 1994 Bonds and various improvements to the University facilities.	Net revenues of the University Center, Housing, Bookstore, Child Care, Facilities Rental and Parking.	$ 7,395,700	2024	24.06%

(1) Total future principal and interest payments on debt.
(2) Current year pledged net operating revenue (excluding depreciation) vs. total future debt service.

NOTE 18 - STATE OF ILLINOIS APPROPRIATIONS

In June 2019, the General Assembly passed SB0262, Public Act 101-0007. In this Act, the University received fiscal year 2020 appropriations as follows: $35,018,900 from the Education Assistance Fund, $1,600,000 from the Education Improvement Fund and $307,000 from the General Professions Dedicated Fund.

NOTE 19 - OPERATING LEASES

In fiscal year 2020, the University leased various computer equipment under operating lease agreements. Total rental expense under these agreements was $262,120 as of June 30, 2020. Future minimum lease payments are as follows for the year ending June 30:

2021	$ 262,120
2022	262,120
2023	262,120
2024	25,998
Total	$ 812,358

NOTE 20 - PRIOR PERIOD ADJUSTMENT

The University restated its net position as of July 1, 2019 to correct an accounting error. The University continued and concluded an analysis of its stale checks during fiscal year 2020 and determined $649,891 in stale checks should be written off as the University had already settled these stale checks with the vendors, students, or employees. As it had previously recognized an expense for these transactions when the amount was paid during prior periods, the University restated its beginning net position to reflect the write-off. This adjustment increased the University's net position by $649,891.

A reconciliation of net position reported in prior period financial statements and as restated follows:

Net position, beginning of year, as previously reported	$ 145,987,165
Effect of correction of an error	649,891
Net position, beginning of year, as restated	$ 146,637,056

NOTE 21 - COVID-19/SUBSEQUENT EVENT

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, which continues to spread throughout the United States. On March 21, 2020, the Governor of Illinois declared a health emergency and issued an order to close all nonessential businesses until further notice. As an institution of higher education, the University was deemed an essential business. Nonetheless, out of concern for its students and employees, and pursuant to the government order, the University has reduced the scope of its operations and where possible, started delivering educational classes remotely and certain employees are telecommuting from their homes. The University experienced a 12% reduction in student enrollment and a 50% reduction in residence hall occupancy for the Fall 2020 semester. While the long-term related impact cannot be reasonably estimated at this time, the University expects that it will have a negative impact on its results of operations, cash flows and financial position.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Chicago State University
A Component Unit of the State of Illinois
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2020

Schedule of the University's Proportionate Share of Net Pension Liability (Unaudited)

	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014
(a) University's Proportional Percentage of the Collective Net Pension Liability	0%	0%	0%	0%	0%	0%
(b) Proportional Amount of the Collective Net Pension Liability	$ -	$ -	$ -	$ -	$ -	$ -
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability Associated with the University	325,972,808	297,436,114	272,418,504	348,769,627	346,747,343	342,183,267
Total (b) + (c)	$ 325,972,808	$ 297,436,114	$ 272,418,504	$ 348,769,627	$ 346,747,343	$ 342,183,267
Employer Defined Benefit Covered Payroll	$ 40,676,298	$ 38,313,622	$ 37,412,339	$ 48,247,884	$ 52,894,247	$ 56,869,819
Proportion of Collective Net Pension Liability Associated with the University as a Percentage of Defined Benefit Covered Payroll	801.38%	776.32%	728.15%	722.87%	655.55%	601.70%
SURS Plan Net Position as a Percentage of Total Pension Liability	40.71%	41.27%	42.04%	39.57%	42.37%	44.39%

Fiscal Year 2020 Total Defined Benefit Covered Payroll: $40,207,478

Schedule of Contributions for Pensions (Unaudited)

	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014
Federal, Trust, Grant and Other Contribution	$ 181,261	$ 202,145	$ 179,185	$ 165,753	$ 287,671	$ 318,777	$ 348,064
Contribution in Relation to Required Contribution	181,261	202,145	179,185	165,753	287,671	318,777	348,064
Contribution Deficiency (Excess)	-	-	-	-	-	-	-
University's Covered Payroll	$ 1,486,285	$ 2,065,529	$ 1,690,851	$ 2,531,033	$ 3,538,415	$ 4,104,465	$ 4,533,557
Contributions as a Percentage of Covered Payroll	12.20%	10.10%	10.60%	6.55%	8.13%	7.77%	7.68%

**Note: The System implemented GASB Statement No. 68 in Fiscal Year 2015. The information above is presented for as many years as available. The Schedule is intended to show information for 10 years.*

Fiscal Year 2020 Total Defined Benefit Contributions: $ 3,251,002
Fiscal Year 2020 Total Self-Managed Plan Contributions: $ 435,814

Notes to Required Supplementary Information - Pension (Unaudited)

These pension schedules are presented to illustrate the requirements of the Governmental Accounting Standards Board (GASB)'s Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* to show information for 10 years. However, until a full 10-year trend is compiled, the University will only present available information measured in accordance with the requirements of GASB Statement No. 68.

Changes of Benefit Terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2019.

Changes of Assumptions. In accordance with *Illinois Compiled Statutes,* an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

- Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25 percent to 12.25 percent based on years of service, with underlying wage inflation of 2.25 percent.
- Investment return. Decrease the investment return assumption to 6.75 percent. This reflects maintaining an assumed real rate of return of 4.50 percent and decreasing the underlying assumed price inflation to 2.25 percent.
- Effective rate of interest. Decrease the long-term assumption for the effective rate of interest for crediting the money purchase accounts to 6.75 percent (effective July 2, 2019).
- Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74 and 80+, but a slight decrease in rates at all other ages. A rate of 50 percent if the member has 40 or more years of service and is younger than age 80.
- Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59).
- Turnover rates. Change rates to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service.
- Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale from the MP-2014 to the MP-2017 scale.
- Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
For the Year Ended June 30, 2020

Schedule of University's Proportionate Share of the Net OPEB Liability (Unaudited)
State Employees Group Insurance Program
Last Three Fiscal Years*

	FY 2019	FY 2018	FY 2017
University's Proportion of the Collective Net OPEB Liability	0.0131%	0.0132%	0.0176%
University's Proportion Share of the Collective Net OPEB liability	$ 5,749,481	$ 5,292,309	$ 7,272,999
Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net OPEB Liability Associated with the University	194,310,281	190,409,251	226,008,453
Total Net OPEB Liability Associated with the University	$ 200,059,762	$ 195,701,560	$ 223,281,452
University's Covered-Employee Payroll	$ 47,358,928	$ 47,254,679	$ 41,994,503
University's Proportionate Share of the Collective Net OPEB Liability as a Percentage of its Covered Payroll	12.14%	11.20%	17.32%

**The amounts presented for each fiscal year were determined as of the prior fiscal year end.*

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Notes to Required Supplementary Information - OPEB (Unaudited)

Asset Accumulated in the Plan. Contributions are made on a pay-as-you-go basis. No assets are accumulated or dedicated to fund the retiree health insurance benefit and a separate trust has not been established.

Changes of Benefit Terms. There were no benefit changes recognized in the Total Net OPEB Liability as of June 30, 2019.

Changes of Assumptions. Change of assumptions and other inputs reflect the effects of changes in the discount rates each period. The following are the discount rates used in each period:

2019	3.13%
2018	3.62%
2017	3.56%

SUPPLEMENTARY INFORMATION

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Net Position
As of June 30, 2020
(With Comparative Totals as of June 30, 2019)

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents - restricted	$ 490,004	$ 618,026
Accounts receivable, net - restricted	590,248	484,399
Prepaid expenses and other assets - restricted	1,500	57,337
Total Current Assets	1,081,752	1,159,762
Noncurrent Assets		
Land improvements	596,600	596,600
Buildings and improvements	20,778,764	20,778,764
Furniture and equipment	481,653	502,142
Less: accumulated depreciation	(11,582,072)	(11,072,483)
Total Noncurrent Assets	10,274,945	10,805,023
Total Assets	11,356,697	11,964,785
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	102,103	110,251
Unearned revenue	-	16,182
Long-term liabilities - current portion	1,547,456	1,467,456
Total Current Liabilities	1,649,559	1,593,889
Noncurrent Liabilities		
Accrued compensated absences	97,055	87,808
Bonds payable	5,115,000	6,640,000
Premium on bonds	56,141	78,598
Total Noncurrent Liabilities	5,268,196	6,806,406
Total Liabilities	6,917,755	8,400,295
NET POSITION		
Net investment in capital assets	3,556,348	2,618,969
Restricted for auxiliary services	882,594	945,521
	$ 4,438,942	$ 3,564,490

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	2020	2019
OPERATING REVENUES		
Room and board (net of scholarship allowances of $158,714)	$ 1,720,638	$ 1,786,831
Bookstore commissions	-	40,287
Vending and catering commissions	23,861	43,108
Parking fees	407,924	517,195
University center fees	2,079,022	1,223,582
Total operating revenues	4,231,445	3,611,003
OPERATING EXPENSES		
Personal services	974,396	991,914
Expended for plant	-	17,617
Commodities	21,728	73,294
Contractual services	1,249,097	1,383,188
Depreciation	530,078	549,456
Miscellaneous	206,579	155,652
Total operating expenses	2,981,878	3,171,121
OPERATING INCOME	1,249,567	439,882
NONOPERATING REVENUES (EXPENSES)		
Investment income	734	1,657
Transfers in (out), net	-	1,370,767
Interest on capital asset - related debt	(375,849)	(450,769)
Net nonoperating revenue (expenses)	(375,115)	921,655
INCREASE IN NET POSITION	874,452	1,361,537
NET POSITION, BEGINNING OF YEAR	3,564,490	2,202,953
NET POSITION, END OF YEAR	$ 4,438,942	$ 3,564,490

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
University Auxiliary Facilities System Revenue Bond Fund, Series 1998
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Room and board	$ 1,645,034	$ 1,432,780
Bookstore commissions	437	24,708
Vending and catering commissions	23,861	43,108
Parking fees	404,825	505,337
University center fees	2,035,257	1,131,876
Payment to suppliers for goods and services	(1,423,083)	(1,714,736)
Payments to employees for services	(965,149)	(999,939)
Net cash provided by operating activities	1,721,182	423,134
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY		
Transfers from (to) local income fund	-	1,370,767
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	-	(85,553)
Principal paid on capital debt	(1,445,000)	(1,370,000)
Interest paid on capital debt	(404,938)	(478,924)
Net cash used by capital financing activities	(1,849,938)	(1,934,477)
CASH FLOWS FROM INVESTING ACTIVITY		
Interest on investments	734	1,657
NET DECREASE IN CASH AND CASH EQUIVALENTS	(128,022)	(138,919)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	618,026	756,945
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 490,004	$ 618,026
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,249,567	$ 439,882
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	530,078	549,456
Changes in assets and liabilities:		
Accounts receivables, net - restricted	(105,849)	(481,132)
Prepaid expenses - restricted	55,837	1,017
Accounts payable and accrued liabilities	(1,516)	(86,002)
Unearned revenue	(16,182)	7,938
Accrued compensated absences	9,247	(8,025)
Net cash provided by operating activities	$ 1,721,182	$ 423,134

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
TABLE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

The following table presents a break-down of the various types of expenses which collectively comprise the University's functional operating expense accounts for the fiscal year ended June 30, 2020.

	Compensation and Benefits										
	University's Expenses				State of Illinois' Expenses						
	Salaries[1]	Benefits[2]	OPEB[3]	Sub-Total	Benefits[2]	OPEB[3]	Pension	Sub-Total	Total	Other Expenses	Total Operating Expenses
Educational and general:											
Instruction	$ 23,882,873	$ 596,496	$ (989,033)	$ 23,490,336	$ 2,806,771	$ (6,631,485)	$ 17,464,360	$ 13,639,646	$ 37,129,982	$ 3,829,438	$ 40,959,420
Research	514,948	35,424	(20,557)	529,815	50,343	(137,833)	313,243	225,753	755,568	298,724	1,054,292
Public service	1,167,317	280,474	(34,653)	1,413,138	-	(232,347)	-	(232,347)	1,180,791	1,481,936	2,662,727
Academic support	4,201,465	80,158	(154,655)	4,126,968	441,885	(1,036,961)	2,749,510	2,154,434	6,281,402	1,139,984	7,421,386
Student services	3,190,734	91,055	(101,927)	3,179,862	284,153	(683,423)	1,768,061	1,368,791	4,548,653	988,837	5,537,490
Institutional support	7,141,085	529,372	(295,140)	7,375,317	848,194	(1,978,921)	5,277,657	4,146,930	11,522,247	4,949,729	16,471,976
Operation and maintenance of plant	6,765,355	144,436	(277,059)	6,632,732	796,232	(1,857,688)	4,954,338	3,892,882	10,525,614	3,901,776	14,427,390
Depreciation	-	-	-	-	-	-	-	-	-	5,132,643	5,132,643
Scholarship and fellowship	-	-	-	-	-	-	-	-	-	7,215,500	7,215,500
Auxiliary facilities:											
Student housing, activity facilities, and parking	3,996,181	75,720	(145,247)	3,926,654	417,422	(973,886)	2,597,293	2,040,829	5,967,483	3,233,228	9,200,711
Total	$ 50,859,958	$ 1,833,135	$ (2,018,271)	$ 50,674,822	$ 5,645,000	$ (13,532,544)	$ 35,124,462	$ 27,236,918	$ 77,911,740	$ 32,171,795	$ 110,083,535

[1] *Salaries includes employer contributions for Social Security, Medicare, and unemployment.*
[2] *Benefits includes certain group insurance costs, such as healthcare and life insurance. For the University, it also includes employer §403(b) contributions.*
[3] *OPEB refers to other post-employment benefits.*

OTHER INFORMATION (UNAUDITED)

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
OTHER INFORMATION (UNAUDITED)
For the Year Ended June 30, 2020

Student Enrollment by Term (Unaudited)

	Total Enrollment	Unduplicated Full-Time Equivalent
Fall session, 2019	3,039	2,321
Spring session, 2020	2,707	2,118
Summer session, 2020	1,094	526

University Center Fee (Unaudited)

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

	Full-Time Student	Part-Time Student
Fall session, 2019	$ 209	$ 167
Spring session, 2020	209	167
Summer session, 2020	-	-

Rental Disclosures (Unaudited)

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

Schedule of Insurance in Force (Unaudited)

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

Fire and extended coverage ($50,000 deductible) of:	
Building	$ 40,837,418
Contents	1,343,912
Business interruption	8,963,726
Boiler and machinery (included in blanket coverage limit)	100,000,000
Earthquake	100,000,000
Flood	100,000,000
Basic general liability (self-insured retention)	350,000
Excess general liability (policy limit)	10,650,000

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Chicago State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the financial statements of the business-type activities and the discretely presented component unit of the Chicago State University (University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated April 30, 2021. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting (internal control) or compliance and other matters that are reported on separately by those auditors.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2020-001 through 2020-003.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the University's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item 2020-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 2020-001 and 2020-002 to be significant deficiencies.

University's Responses to the Findings

The University's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 30, 2021

Current Findings - *Government Auditing Standards*

2020-001 - Weaknesses over Computer Security

The Chicago State University (University) did not maintain adequate controls over computer security.

The University had invested in computer hardware and systems and established several critical, confidential or financially sensitive systems for use in meeting its mission. However, the University did not have controls to ensure adequate security controls over their computing environment. During testing, we noted:

- Three of eight (38%) user accounts of the University's Enterprise Application Software (EAS) tested had excessive access rights allowing them to access other information which was not required based on their job responsibilities.

- Three of 119 (3%) separated employees continued to have access in the EAS after separation; one of which accessed the system after the separation date. The University performed an assessment, and no malicious activity was noted.

- Access to confidential information granted was not based on job responsibilities. We noted 126 of 281 (45%) EAS users had the ability to search for social security numbers within the EAS and match them to University IDs, names, and birthdates. The job responsibilities of these users did not require access to this information.

- Network user accounts were not periodically reviewed. We noted 75 separated employees continued to have access to the domain, 5,277 users never accessed their accounts, and 1,939 users had not accessed their accounts in over six months.

- Encryption software was not consistently installed on laptops and workstations storing University data. We inspected laptops and workstations from departments that store confidential information and noted four of nine (44%) workstations tested did not have encryption software installed.

- Servers and workstations were not secured properly. We sampled 14 of 139 servers, and noted:
    - six servers (43%) had outdated operating system;
    - three servers (21%) were not supported; and
    - ten servers (71%) did not have antivirus software installed.

  Additionally, we sampled 25 of 729 workstations, noting:
    - 11 workstations (44%) had outdated operating system; and
    - 14 workstations (56%) did not have antivirus software and endpoint security installed.

Current Findings - *Government Auditing Standards* (Continued)

2020-001 - Weaknesses over Computer Security (Continued)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently and effectively and in compliance with applicable law.

Generally accepted information systems technology guidance endorses the development of computer security policies that adequately addresses the current technological environment and well-designed and well-managed controls to protect computer systems and confidential data.

Further, the University had procedures to periodically review user accounts to ensure they are compatible with job responsibilities. The Information Technology Department (ITD) was required to send a user access report on a quarterly basis to the user department's supervisor or director with each of their employee's access rights for verification.

University management indicated the above issues were due to the University's failure to consistently apply a role-based access level. In addition, University management indicated the lack of staff and related resources had undermined the manual processes the University utilized to manage the end user experience.

Failure to have adequate security controls over computing resources increases the risk of unauthorized access to the computing environment and the risk that confidentiality, integrity, and availability of systems and data will be compromised. (Finding Code No. 2020-001)

Recommendation

We recommend the University:

- Establish a user access matrix based on job responsibilities to prevent excessive access rights.
- Ensure access rights are periodically reviewed and appropriate changes are made. As part of the review of access rights, the University should review and determine whether access rights of separated employees are removed or deactivated.
- Review access rights to ensure only users with job requirements have the ability to search for social security numbers within the systems and match them to University IDs, names, and birthdates.

Current Findings - *Government Auditing Standards* (Continued)

2020-001 - Weaknesses over Computer Security (Continued)

Recommendation (Continued)

- Encrypt laptops and workstations that store, process and contain confidential and sensitive information.
- Ensure anti-virus software is running on all servers and operating systems are upgraded to ensure availability of vendor support for issues encountered.

University Response

The University agrees with these findings and is taking significant steps to resolve these issues. The following is a summary of steps being taken to resolve these findings:

- The University is sourcing a new identity access management (IAM) platform that will provide a smoother and more effective onboarding and off-boarding mechanism to ensure the University is effectively managing its user accounts. This platform will also help build and support a new role-based approach to security.
- The University is conducting a review of all access-based systems and integrating them into the IAM platform. This will ensure users only have access to systems they require.
- The University is working with a vendor to implement security and encryption around personally identifiable information within the EAS.
- The University has implemented an endpoint management technology and is in the process of walking the campus to add every endpoint (laptop, desktop, server) into the platform for centralized administration. The University is encrypting all laptops/mobile devices and at the same time, ensuring the most current University-supported anti-virus client is installed on each device.
- The University is currently reviewing each server in the datacenter and performing a security assessment against each server. The University intends to modernize, upgrade, or remove all outdated operating systems to implement an appropriate patching on each system.

Current Findings - *Government Auditing Standards* (Continued)

2020-002 - Change Control Weaknesses

The Chicago State University (University) had weaknesses over change management.

We tested a sample of nine changes made to the University's Enterprise Application Software, noting:

- Eight changes (89%) did not have a change request documented.
- Eight changes (89%) did not have evidence of approval prior to the development of the change.
- Seven changes (78%) were developed and deployed to the production environment by the same individual without maintaining adequate segregation of duties.
- Seven changes (78%) did not have evidence of user acceptance testing and approval prior to deployment of the changes to the production environment.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

Additionally, generally accepted information technology guidance endorses the implementation of change management procedures that require modifications to application systems be properly approved, thoroughly tested, and consistently documented. These procedures include restricting programmers from making a change and moving it into the production environment to ensure all changes have been independently authorized and implemented.

The University Change Management Process requires changes to be tracked via a Request for Change form and reviewed and approved prior to execution.

University management indicated the exceptions were due to staffing limitations.

Failure to control changes increases the risk of unauthorized or improper changes to computer systems. Inadequate segregation of duties in the computing environment increases the risk that the confidentiality, integrity, and availability of data will be compromised. (Finding Code No. 2020-002)

Current Findings - *Government Auditing Standards* (Continued)

2020-002 - Change Control Weaknesses (Continued)

Recommendation

We recommend the University comply with its Change Management Policy, including the completion of Request for Change forms, approval of changes prior to development, and testing of changes prior to implementation to production. In addition, adequate segregation of duties should be observed to prevent the risk that unauthorized changes are implemented to production.

University Response

The University agrees with the recommendation and is working on the following:

- Updating the change control policy.
- Establishing a Change Advisory Board (CAB) with appropriate members within the University community to ensure adequate oversight of proposed changes.
- Creation of a new process to funnel all change requests to CAB for assessment.
- Updating documentation requirements around change requests.

Current Findings - *Government Auditing Standards* (Continued)

2020-003 - Inadequate Internal Controls over Census Data

The Chicago State University (University) did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the University's employees are members of both the State Universities Retirement System (SURS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During testing, we noted the following:

- The University had not performed an initial complete reconciliation of its census data recorded by SURS and CMS to its internal records to establish a base year of complete and accurate census data.

- After establishing a base year, the University had not developed a process to annually obtain from SURS and CMS the incremental changes recorded by SURS and CMS in their census data records and reconcile these changes back to the University's internal supporting records.

Upon due consideration and based upon the significance of these issues alone, we concluded a material weakness exists within the University's internal controls related to ensuring both SURS and CMS can provide their respective actuaries with complete and accurate census

Current Findings - *Government Auditing Standards* (Continued)

2020-003 - Inadequate Internal Controls over Census Data (Continued)

data related to the University. Even given these two exceptions, we performed detail testing and certain data analysis tests and noted the following additional exceptions:

1) One of 80 (1%) employees tested had a disability leave of absence reported as a termination by the University to SURS and the employee's eventual return from leave was not reported by the University to SURS.

2) We conducted data matches of (1) individuals pulled from the University's records whom the University believed should have been participating in SURS during the census data accumulation period throughout Fiscal Year 2018 and (2) the University's faculty members teaching a class during the census data accumulation period throughout Fiscal Year 2018 to SURS' records. As a result of this testing, we identified one individual who had been improperly excluded from participating in SURS, which resulted in this person not having any employee contributions collected by the University and reported to SURS during the census data accumulation period throughout Fiscal Year 2018.

3) Three of 80 (4%) employees tested had two events reported to CMS 305 and 453 days after the effective date of the event and one event where the employee's insurance should have terminated due to the employee reaching the maximum leave of absence period in September 2017 which was never reported by the University to CMS.

4) We performed an analysis of transactions reported by the University to SURS during the census data accumulation period throughout Fiscal Year 2018, noting the following problems:

   - Six of 120 (5%) employees reported as hired had actually been hired in other fiscal years. SURS determined the total potential impact to each employee's total service credit was it could be off by 1 to 2.75 years.

   - One of one (100%) employee reported as laid off by the University was untimely reported to SURS by the University. SURS determined the total potential impact to the employee's total service credit was it could be off by 1 year.

Current Findings - *Government Auditing Standards* (Continued)

2020-003 - Inadequate Internal Controls over Census Data (Continued)

5) As of the end of the census data accumulation year on June 30, 2018, we identified two employees where each employee's associated termination or rehire date(s) had been untimely reported to SURS. While these employees were all associated with the University at June 30, 2018, some or all of these untimely reports may have occurred at other public universities and community colleges across the State. SURS determined these errors resulted in the employees being misclassified between the active, retired, and inactive member categories within SURS. The total potential impact to each former employee's total service credit was it could be off between 0.0 and 1.75 years.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' Audit and Accounting Guide: State and Local Governments (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Additionally, eligibility criteria for participation in SURS under the Illinois Pension Code (Code) (40 ILCS 5/15-134(a)) states any person who is an employee of the University becomes a participant in SURS. Under the Code (40 ILCS 5/15-107), an employee is a person who works for the University in a secretarial, mechanical, labor, clerical, educational, administrative, or other staff position which is either (a) permanent and continuous or (b) for a period of four months or an academic term, whichever is less, who is:

1) not a student employed on a less than full-time temporary basis;
2) not receiving a retirement or disability annuity from SURS;
3) not on military leave;
4) not eligible to participate in the Federal Civil Service Retirement System,
5) not currently on a leave of absence without pay more than 60 days after the termination of SURS' disability benefits;

Current Findings - *Government Auditing Standards* (Continued)

2020-003 - Inadequate Internal Controls over Census Data (Continued)

6) not paid from funds received under the Federal Comprehensive Employment and Training Act as a public service employment program participant hired on or after July 1, 1979;
7) not a patient in a hospital or home;
8) not an employee compensated solely on a fee basis where such income would net earnings from self-employment;
9) not providing military courses pursuant to a federally-funded contract where the University has filed a written notice with SURS electing to exclude these persons from the definition of an employee;
10) currently on lay-off status of not more than 120 days after the lay-off date;
11) not on an absence without pay of more than 30 days; and,
12) a nonresident alien on a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the United States Code who (1) has met the Internal Revenue Service's substantial presence test and (2) became an employee on and after July 1, 1991.

Further, for CMS' OPEB plan, we noted participation in OPEB is derivative of an employee's eligibility to participate in SURS, as members of SURS participate in OPEB as annuitants under the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3(b)).

In addition, the Illinois Pension Code (40 ILCS 5/15-157) requires the University to, at a minimum, withhold contributions of each employee's total compensation of 8% (9.5% for firefighters or police officers) for their participation in SURS, unless further contributions by the employee would either exceed the maximum retirement annuity in the Code (40 ILCS 5/15-136(c)) or the Tier 2 earnings limitation within the Code (40 ILCS 5/15-111(b)), and remit these amounts to SURS. Further, the Code (40 ILCS 5/15-155(b)) requires the University remit employer contributions to SURS reflecting the accruing normal costs of an employee paid from federal or trust funds. Additionally, the Act (5 ILCS 375/10) requires active employees to make contributions as set by CMS and the Act (5 ILCS 375/11) requires employer contributions by the University for all employees not totally compensated from its Income Fund, local auxiliary funds, and the Agricultural Premium Fund.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Current Findings - *Government Auditing Standards* (Continued)

2020-003 - Inadequate Internal Controls over Census Data (Continued)

University management indicated the University did not have adequate internal controls or reconciliation structures in place to ensure accuracy of census data between SURS, CMS, and its own supporting records retained at the University.

Failure to ensure complete and accurate census data was reported to SURS and CMS could have resulted in a material misstatement of the University's financial statements and reduced the overall accuracy of pension/OPEB-related liabilities, deferred inflows and outflows of resources, and expense recorded by the State, the State's agencies, and other public universities and community colleges across the State. In addition, failure to reconcile active members' census data reported to and held by SURS and CMS to the University's internal records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the University's pension and OPEB balances, which could result in a material misstatement of these amounts. (Finding Code No. 2020-003)

Recommendation

We recommend the University implement controls to ensure census data events are timely and accurately reported to SURS and CMS.

Further, we recommend the University work with SURS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the University may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

Additionally, we recommend the University work with SURS and CMS to identify and address any unremitted or erroneously remitted employee and, if applicable, employer contributions related to these events.

Finally, due to the interrelatedness of SURS, the mobility of employees to change their employers within SURS, and a specific noncompliance matter regarding whether a person is eligible to participate in SURS identified during testing at Governors State University (please see Governors State University's Fiscal Year 2020 financial audit report for more information), we recommend the University work with both SURS and Governors State University to identify employees initially hired by Governors State University with a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the

Current Findings - *Government Auditing Standards* (Continued)

2020-003 - Inadequate Internal Controls over Census Data (Continued)

United States Code who had not met the Internal Revenue Service's substantial presence test and started employment on and after July 1, 1991.

University Response

The University agrees with the recommendation. The University will work with SURS and CMS to develop a reconciliation process. The University will request necessary employee visa data from SURS and Governor State University and act accordingly based on information received. Internal workflows and procedures will be documented and improved to minimize mistakes. Additionally, cross-training will be performed to provide improved backup and a system of secondary review.

CHICAGO STATE UNIVERSITY
A Component Unit of the State of Illinois
PRIOR FINDING NOT REPEATED
For the Year Ended June 30, 2020

A. Inadequate Control over Financial Reporting

During the prior year, the Chicago State University (University) did not exercise adequate internal control over its financial reporting.

Status: Not Repeated

During the current year, our testing noted the University strengthened its internal control over its financial reporting. (Finding Code No. 2019-001)