ILLINOIS STATE UNIVERSITY

REPORT OF THE COMPTROLLER

(In Accordance with the Single Audit Act
And OMB Circular A-133)

For Years Ended June 30, 2008 and 2007

TABLE OF CONTENTS

Page

OTHER REPORTS ISSUED UNDER SEPARATE COVER

Compliance Report (including Single Audit Report) for Illinois State University and Supplementary Information – For Year Ended June 30, 2008

Financial Audit Report for Illinois State University Foundation For Years Ended June 30, 2008 and 2007

ILLINOIS STATE UNIVERSITY

ADMINISTRATION

C. Alvin Bowman	President
Sheri Noren Everts	Vice President for Academic Affairs and Provost
Stephen M. Bragg	Vice President for Finance and Planning
Steven L. Adams	Vice President for Student Affairs
Dianne E. Ashby	Vice President for University Advancement

Jeffrey Wood, Dean	College of Applied Science and Technology
Gary A. Olson, Dean	College of Arts Sciences
Charles R. McGuire, Dean	College of Business
Deborah J. Curtis, Dean	College of Education
James Major, Dean	College of Fine Arts
Sara Campbell, Dean	Mennonite College of Nursing

ILLINOIS STATE
UNIVERSITY

Office of the
Vice President for
Finance and Planning

302 Hovey Hall
Campus Box 1100
Normal, IL 61790-1100
Telephone: (309) 438-2143
Facsimile: (309) 438-2768

LETTER OF TRANSMITTAL

President C. Alvin Bowman
Illinois State University
Normal, IL 61790

Dear Dr. Bowman,

I am pleased to submit the annual Report of the Comptroller of Illinois State University for the fiscal year ended June 30, 2008.

The report contains the Independent Auditor's Report, Management's Discussion and Analysis, the financial statements of the University and notes to the financial statements. It presents the financial position of the University and its component units and is intended for the use of administrative officers and other interested parties.

The financial statements of the University for fiscal year 2008 have been audited by Clifton Gunderson LLP, Certified Public Accountants, as special assistants to the Illinois Auditor General.

Respectfully submitted,

Gregory Alt

Gregory Alt
University Comptroller

THIS PAGE INTENTIONALLY LEFT BLANK

ILLINOIS STATE UNIVERISTY
Financial Statement Report
For Year Ended June 30, 2008

SUMMARY

The audit of the accompanying basic financial statements of Illinois State University was performed by Clifton Gunderson LLP, Certified Public Accountants & Consultants.

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Illinois State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the years ended June 30, 2008 and 2007, as listed in the Table of Contents. These financial statements are the responsibility of Illinois State University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Illinois State University Foundation as of and for the year ended June 30, 2008. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Illinois State University Foundation is based on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position and the respective changes in financial position of Illinois State University and its discretely presented component unit as of and for the years ended June 30, 2008 and 2007, and the cash flows of Illinois State University for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 14, 2009 on our consideration of the Illinois State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 7 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson, LLP

CLIFTON GUNDERSON, LLP
Oak Brook, Illinois

January 14, 2009

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Illinois State University (the "University") for the year ended June 30, 2008 with selective comparative information for the years ended June 30, 2007 and 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982, as amended. The Illinois State University Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Campus Box 8000, Normal, Illinois 61790-8000.

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

Overview of the Financial Statements and Financial Analysis

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

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

Statements of Net Assets

The Statements of Net Assets present the assets, liabilities, and net assets of the University as of the end of the fiscal years. The Statements of Net Assets are point in time financial statements. The purpose of the Statements of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Illinois State University at June 30, 2008 and 2007. The Statements of Net Assets present end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers of the Statements of Net Assets are able to determine the assets available to continue the operations of the institution. Readers should also be able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statements of Net Assets provide a picture of the net assets and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, shows the institution's equity in the property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time and/or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are those net assets available to the institution for any lawful purpose of the institution.

Following are condensed Statements of Net Assets at June 30, 2008, 2007 and 2006:

	(Thousands of dollars)		
	2008	2007	2006
Assets:			
Current assets	$ 124,524	$ 102,007	$ 94,811
Noncurrent assets:			
Capital assets, net	307,375	275,429	262,486
Other noncurrent assets	102,930	70,430	66,102
Total assets	534,829	447,866	423,399
Liabilities:			
Current liabilities	41,253	37,203	33,054
Noncurrent liabilities	145,333	97,491	100,303
Total liabilities	186,586	134,694	133,357
Net Assets:			
Invested in capital assets, net of related debt	238,317	221,414	211,980
Restricted	9,356	9,356	9,343
Unrestricted	100,570	82,402	68,719
Total net assets	$ 348,243	$ 313,172	$ 290,042

The University's current assets from 2007 to 2008 increased $22.5 million of which cash and cash equivalents (including restricted) and investments increased $22.2 million. This increase is primarily attributable to the issuance of bonds during the third and fourth quarters for local and auxiliary construction projects.

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

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

	(Thousands of dollars)	
2008	2007	2006
124,524 / 41,253 = 3.02	102,007 / 37,203 = 2.74	94,811 / 33,054 = 2.87

Noncurrent assets are comprised primarily of net capital assets. Net capital assets increased $31.9 million and $12.9 million from June 30, 2007 to 2008 and 2006 to 2007, respectively. The increases are primarily attributable to construction and major renovation of University buildings.

Noncurrent liabilities are comprised primarily of Bonds Payable and Accrued Compensated Absences.

Statements of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets presented on the Statements of Net Assets are based upon the activity presented in the Statements of Revenues, Expenses, and Changes in Net Assets. The purpose of the Statements of Revenues, Expenses, and Changes in Net Assets is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. These are called non-exchange transactions. For example, State appropriations are classified as nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

Student tuition and fees, grants and contracts, the Auxiliary facilities system, State appropriations and payments by the State of Illinois on behalf of the University are the primary sources of funding.

Following are condensed Statements of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2008, 2007 and 2006:

	(Thousands of dollars)		
	2008	2007	2006
Operating revenues			
Student tuition and fees, net	$ 122,216	$ 108,623	$ 95,397
Grants and contracts	28,499	25,062	27,357
Auxiliary facilities	71,253	67,176	61,864
Other	24,110	22,652	21,872
Total operating revenues	246,078	223,513	206,490
Operating Expenses	372,665	347,503	329,529
Operating (loss)	(126,587)	(123,990)	(123,039)
Nonoperating revenues (expenses)			
State appropriations	83,057	81,528	80,452
Payments on behalf of the University	54,600	47,705	42,163
Other, net	13,524	13,040	9,397
Net nonoperating revenues (expenses)	151,181	142,273	132,012
Capital appropriations	10,178	2,830	4,708
Capital gifts and grants	299	2,017	1,878
Increase in net assets	35,071	23,130	15,559
Net assets – beginning of year	313,172	290,042	274,483
Net assets – end of year	$ 348,243	$ 313,172	$ 290,042

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

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

(Thousands of dollars)		
2008	2007	2006
35,071 / 313,172 = 11.20%	23,130 / 290,042 = 7.97%	15,559 / 274,483 = 5.67%

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

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

(Thousands of dollars)		
2008	2007	2006
24,594 / 400,173 = 6.15%	18,283 / 368,483 = 4.96%	8,973 / 341,559 = 2.63%

State appropriations revenue has remained in a range from approximately $83 million to $81 million for fiscal years 2006, 2007 and 2008. The University had enacted tuition and fee increases for fiscal years 2006, 2007 and 2008 to help offset the State appropriation funding trend.

Payments on behalf of the University are comprised of State of Illinois payments for University employees to the State Universities Retirement System and Central Management Services Group Insurance.

Operating Expenses	(Thousands of dollars) 2008	2007	2006
Expenses by Function			
Instruction	$ 102,858	$ 97,775	$ 92,775
Research	13,945	14,499	13,585
Public service	15,246	12,063	15,367
Academic support	12,741	12,629	11,213
Student services	31,616	30,506	27,754
Institutional support	25,097	24,071	24,011
Operation and maintenance of plant	26,186	23,771	21,604
Depreciation	15,395	14,870	14,783
Staff benefits	1,734	2,273	975
Student aid	21,189	18,732	17,832
Payments on behalf of the University	53,493	46,693	41,326
Auxiliary facilities	51,008	47,665	46,481
Other	2,157	1,956	1,823
Total operating expenses	$ 372,665	$ 347,503	$ 329,529
Expenses by Natural Classification			
Compensation and benefits	$ 238,535	$ 225,084	$ 204,157
Supplies and services	101,220	92,378	96,054
Scholarships	17,515	15,171	14,535
Depreciation	15,395	14,870	14,783
Total operating expenses	$ 372,665	$ 347,503	$ 329,529

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

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

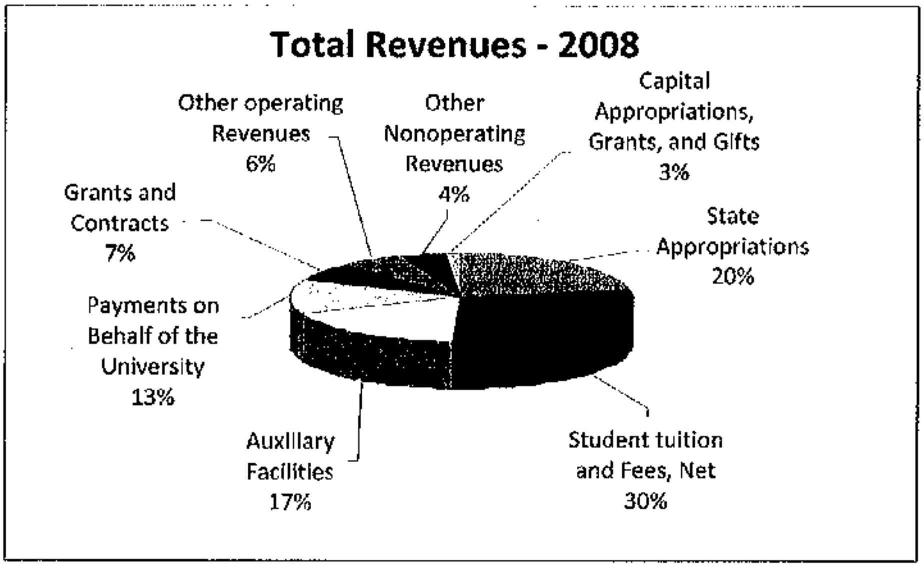
(Thousands of dollars)

2008	2007	2006
109,926 / 375,579 = 29.27%	91,758 / 350,200 = 26.20%	78,062 / 332,586 = 23.47%

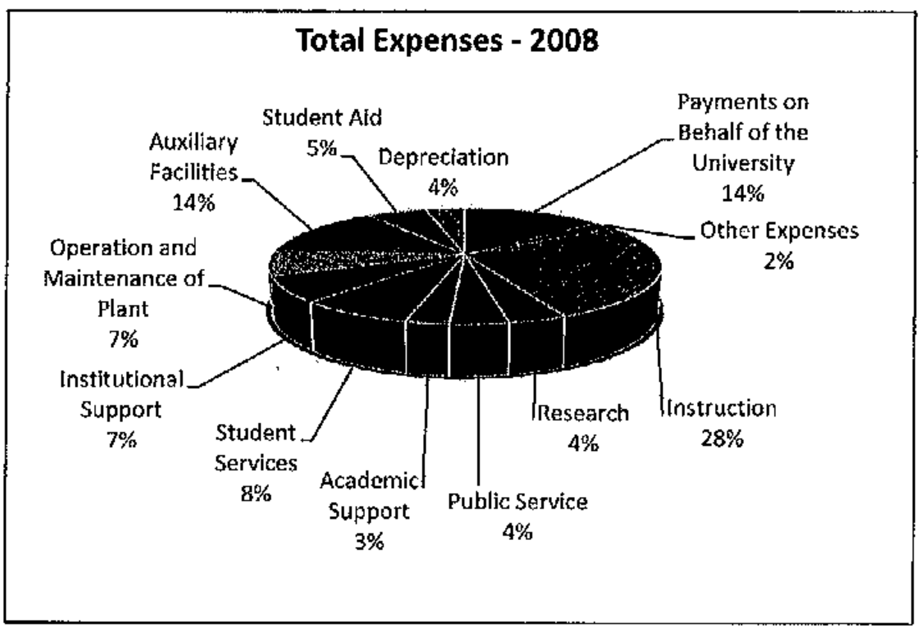
The following summarizes a comparative table of total revenues and total expenses by source/function and percentage:

	Percentage 2008	2007	2006
Revenues by Source			
Student tuition and fees, net	30%	29%	28%
Grants and contracts	7	7	8
Auxiliary facilities	17	18	18
Other operating revenues	6	6	6
State appropriations	20	22	23
Payments on behalf of the University	13	13	12
Other nonoperating revenues	4	4	3
Capital appropriations, gifts, and grants	3	1	2
Total revenues percentage	100%	100%	100%
Expenses by Function			
Instruction	28%	28%	29%
Research	4	4	4
Public service	4	3	5
Academic support	3	3	3
Student services	8	9	8
Institutional support	7	7	7
Operation and maintenance of plant	7	7	6
Depreciation	4	4	4
Staff Benefits	1	1	0
Student Aid	5	5	5
Payments on behalf of the University	14	13	12
Auxiliary facilities	14	14	15
Other	1	2	2
Total expenses percentage	100%	100%	100%
Expenses by Natural Classification			
Compensation and benefits	64%	65%	63%
Supplies and services	27	27	29
Scholarships	5	4	4
Depreciation	4	4	4
Total operating percentage	100%	100%	100%

The following graph illustrates total revenues by source:



The following graph illustrates total expenditures by function:



Statements of Cash Flows

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

Following are condensed Statements of Cash Flows for the Years ended June 30, 2008, 2007 and 2006:

	(Thousands of dollars) 2008	2007	2006
Net cash used by operating activities	$ (54,987)	$ (58,656)	$ (61,578)
Cash flows from noncapital financing activities	92,945	91,025	99,918
Cash flows from capital and related financing activities	7,501	(30,541)	16,940
Cash flows from investing activities	7,992	6,105	(55,212)
Net increase (decrease) in cash and cash equivalents	53,451	7,933	68
Cash – beginning of year	41,682	33,749	33,681
Cash – end of year	$ 95,133	$ 41,682	$ 33,749

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

Cash and cash equivalents increased $53.5 million from 2007 to 2008. The increase is primarily attributable to the issuance of capital bonds.

Capital Asset and Debt Administration

The University's capital assets include land, land improvements, infrastructure, buildings, equipment, library books and construction in progress.

The following summarizes a table of capital assets, accumulated depreciation and depreciation expense for fiscal years ended June 30, 2008, 2007 and 2006.

	(Thousands of dollars) 2008	2007	2006
Capital Assets	$ 593,706	$ 552,599	$ 526,383
Accumulated Depreciation	286,331	277,170	263,897
Capital Assets, Net	$ 307,375	$ 275,429	$ 262,486
Depreciation Expense	$ 15,395	$ 14,870	$ 14,783

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

The University primarily uses revenue bonds and, in 2008, certificates of participation to fund construction projects. The University also occasionally uses capital leases for certain equipment.

The following summarizes a table of long-term debt for fiscal years ended June 30, 2008, 2007 and 2006.

	(Thousands of dollars) 2008	2007	2006
Revenue Bonds	$ 111,689	$ 84,892	$ 88,478
Certificates of Participation	$ 22,137		
Capital Leases	$ 128	$ 331	$ 550

In March 2008 and 2006, the University issued Revenue Bonds, Series 2008 and 2006 in the amounts of $30.6 million and $45.6 million respectively. This funding includes capital projects for auxiliary facilities system buildings.

In June 2008 the University issued Certificates of Participation in the amount of $22.2 million.

With the issuance of Revenue Bonds Series 2008, the University's bond credit rating from Moody's Investors Service was confirmed as A2 with positive outlook and the rating from Standard & Poor's was raised from A to A+ with stable outlook. These ratings have resulted from the University's continued stable financial position and strong enrollment demand.

The debt burden ratio examines the dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenditures. It compares the level of current debt service with the University's total expenditures.

The Debt Burden Ratio (debt service / total expenses) is:

2008	(Thousands of dollars) 2007	2006
8,124 / 365,652 = 2.22%	8,178 / 340,735 = 2.40%	6,521 / 323,126 = 2.02%

Economic Outlook

State appropriation revenue representing operating support for the fiscal year 2009 was approved with a $2.1 million increase over fiscal year 2008. The University approved a tuition increase for first time resident students of 9.9% for fall 2008. Throughout the economic challenges of the past few years, the University continues to enjoy a strong financial position, and there continues to be a strong enrollment demand and student retention.

In October 2007, University Board Trustees approved construction of the Student Fitness and Kinesiology Recreation Center at a cost of $44 million. The Board increased the project cost to $49.6 million in July 2008. Project construction costs will be provided through Revenue Bonds Series 2008, student fees related, and Certificates of Participation, academics related. The project is estimated to be completed by fall 2010.

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

ILLINOIS STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30

	2008		2007	
	University	Foundation	University	Foundation
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 30,235,722	$ 3,913,679	$ 29,649,302	$ 1,431,731
Restricted cash and cash equivalents	64,896,772		12,032,929	
Investments	12,046,368	4,953,865	24,105,891	6,330,801
Restricted investments			19,174,582	
Accrued interest receivable	781,553	14,390	1,063,065	42,091
Accounts receivable, net	9,919,440	374,169	8,427,522	12,774
Student loans receivable, net	995,951		1,541,289	
Pledges receivable, net		1,171,220		1,911,986
Appropriations receivable from State	374,114		874,119	
Inventories	2,745,886		2,965,810	
Prepaid expenses, deposits and other	2,528,505		2,172,888	
Total current assets	124,524,313	10,427,323	102,007,397	9,729,383
Noncurrent Assets:				
Restricted cash and cash equivalents		1,061,605		1,264,839
Investments	91,609,794	16,630,845	61,245,809	17,605,986
Endowment investments		57,022,126		56,807,661
Student loans receivable, net	9,145,673		8,548,632	
Pledges receivable, net		615,579		1,040,100
Bond issuance costs	2,174,349		634,991	
Capital assets, net	307,374,562	4,282,486	275,429,237	3,420,129
Other noncurrent assets		1,010,109		892,578
Total noncurrent assets	410,304,378	80,622,750	345,858,669	81,031,293
Total assets	534,828,691	91,050,073	447,866,066	90,760,676
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	16,609,551	638,900	14,929,562	1,260,710
Obligations payable	402,347		255,786	
Obligations under capital leases	128,226		202,457	
Assets held in custody for others and deposits	9,817,199		8,873,112	
Deferred revenue	7,380,579		6,859,252	
Notes payable				100,000
Revenue bonds payable	5,202,348		4,391,826	
Accrued compensated absences	1,712,964		1,690,896	
Other		34,525		34,525
Total current liabilities	41,253,214	673,425	37,202,891	1,395,235
Noncurrent Liabilities:				
Assets held in custody for others and deposits	188,548		222,189	
Certificates of participation	22,137,126			
Revenue bonds payable	106,486,910		80,499,872	
Accrued compensated absences	16,519,840		16,640,902	
Obligations under capital leases			128,226	
Other		304,033		271,368
Total noncurrent liabilities	145,332,424	304,033	97,491,189	271,368
Total liabilities	186,585,638	977,458	134,694,080	1,666,603
NET ASSETS				
Invested in capital assets, net of related debt	238,316,724	4,282,486	221,414,367	3,320,129
Restricted for:				
Nonexpendable		57,442,876		56,807,661
Expendable	9,355,823	25,975,853	9,355,623	26,252,999
Unrestricted	100,570,506	2,371,400	82,401,996	2,713,284
Total net assets	$ 348,243,053	$ 90,072,615	$ 313,171,986	$ 89,094,073

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

ILLINOIS STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30

	2008		2007	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees, net	$ 122,216,375	$	$ 108,622,959	$
Federal grants and contracts	20,617,315		18,554,147	
State and local grants and contracts	2,906,176	1,728,276	2,938,946	1,571,536
Nongovernmental grants and contracts	4,975,043		3,568,567	
Sales and services of educational activities	2,621,885		2,459,794	
Auxiliary enterprises:				
Auxiliary facilities	71,253,164		67,175,847	
Other operating revenues	21,487,888	40,380	20,192,587	54,395
Total operating revenues	246,077,846	1,768,656	223,512,847	1,625,931
OPERATING EXPENSES				
Educational and General				
Instruction	102,858,228		97,774,921	
Research	13,945,458		14,498,859	
Public service	15,246,220		12,062,844	
Academic support	12,740,712		12,628,600	
Student services	31,615,841		30,506,471	
Institutional support	25,096,687		24,070,803	
Operations		2,233,341		1,987,594
Operation and maintenance of plant	26,185,861		23,771,074	
Depreciation	15,394,481	192,567	14,869,618	63,237
Staff benefits	1,734,276		2,273,063	
Student aid	21,189,266	2,183,712	18,732,693	2,137,974
Payments on behalf of the University	53,493,304		46,692,888	
Auxiliary facilities:				
Student housing, activity facilities, and parking	51,007,542		47,664,808	
Other operating expenditures	2,156,939	552,993	1,955,823	70,774
Expenditures on behalf of the University		4,217,707		4,413,656
Total operating expenses	372,665,015	9,380,320	347,502,465	8,673,235
Operating (loss)	(126,587,169)	(7,611,664)	(123,989,618)	(7,047,304)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	83,056,800		81,527,500	
Payments on behalf of the University - State	53,493,304		46,692,888	
Payments on behalf of the University - Foundation	1,107,030		1,012,012	
Laboratory Schools	8,865,222		8,456,329	
Gifts and donations	425,551	5,530,388	362,814	4,406,188
Investment income, net of investment expenses	6,509,333	(285,435)	6,237,173	12,088,401
Interest expense	(2,914,329)	(2,336)	(2,697,572)	(13,005)
Other nonoperating revenues	637,845	632,204	680,988	811,359
Other nonoperating expenses		(619,894)		(569,946)
Net nonoperating revenues (expenses)	151,180,756	5,254,927	142,272,132	16,702,997
Income (Loss) before capital items	24,593,587	(2,356,737)	18,282,514	9,655,693
Capital appropriations	10,178,571		2,829,843	
Capital grants and gifts	298,909		2,017,476	
Additions to permanent endowments		3,335,279		1,348,978
Total capital items	10,477,480	3,335,279	4,847,319	1,348,978
Increase in net assets	35,071,067	978,542	23,129,833	11,004,671
NET ASSETS				
Net assets - beginning of year	313,171,986	89,094,073	290,042,153	78,089,402
Net assets - end of year	$ 348,243,053	$ 90,072,615	$ 313,171,986	$ 89,094,073

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

ILLINOIS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2008 University	2007 University
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 116,418,627	$ 105,036,133
Grants and contracts	31,700,178	26,546,982
Payments to suppliers	(86,703,289)	(77,648,165)
Payments to employees for salaries and benefits	(195,077,549)	(186,120,604)
Payments for scholarships and fellowships	(17,514,684)	(15,170,999)
Student loans issued	(1,576,758)	(2,251,805)
Collection of student loans	1,436,069	1,919,308
Auxiliary enterprise charges:		
Auxiliary Facilities	71,250,812	66,496,862
Sales and service of educational activities	2,621,885	2,459,794
Payments to internal service departments	(14,390,599)	(14,506,404)
Internal service departments receipts	14,390,599	14,506,404
Agency custodial receipts	68,045,235	71,758,257
Agency custodial disbursements	(67,065,260)	(71,105,229)
Other receipts	21,477,635	19,423,134
Net cash used by operating activities	(54,987,099)	(58,656,332)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	83,556,805	81,972,382
Gifts and grants for other than capital purposes	936	6,272
Student direct lending receipts	68,344,841	63,962,079
Student direct lending disbursements	(68,344,841)	(63,962,079)
Other receipts	637,845	680,988
Laboratory schools	8,749,683	8,365,772
Net cash provided by noncapital financing activities	92,945,269	91,025,414
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt:		
Capital long-term debt	52,771,734	
Gifts and grants for capital purposes	201,703	2,456,333
Purchases of capital assets	(35,724,411)	(24,819,223)
Principal paid on capital debt and leases:		
Capital debt and leases	(5,467,457)	(5,404,221)
Interest paid on capital debt and leases	(2,656,690)	(2,774,214)
Payments of bond issuance costs	(1,624,230)	
Net cash provided (used) by capital financing activities	7,500,649	(30,541,325)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	104,792,000	146,074,462
Interest on investments	6,173,819	7,065,572
Purchase of investments	(102,974,375)	(147,034,812)
Net cash provided by investing activities	7,991,444	6,105,222
NET INCREASE IN CASH AND CASH EQUIVALENTS	53,450,263	7,932,979
Balance - beginning of year	41,682,231	33,749,252
Balance - end of year	$ 95,132,494	$ 41,682,231

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

	2008 University	2007 University
RECONCILIATION		
Operating (loss)	$ (126,587,169)	$ (123,989,618)
Adjustments to reconcile operating (loss) to net cash used by operating activities:		
Depreciation expense	15,394,481	14,869,618
Payments on behalf of the University	54,600,334	47,704,900
Donated equipment below capitalization threshold	424,615	356,542
Changes in assets and liabilities:		
Accounts receivables, net	(1,706,873)	(2,098,086)
Student loans receivable, net	(51,703)	(160,897)
Inventories	219,922	(358,023)
Other assets	(355,696)	(386,985)
Accounts payable and accrued liabilities	1,677,243	4,513,805
Deferred revenue	586,295	277,494
Assets held in custody for others and deposits	910,446	408,435
Compensated absences	(98,994)	206,483
Net cash used by operating activities	$ (54,987,099)	$ (58,656,332)

SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS

	2008 University	2007 University
Payments on behalf of the University	$ 54,600,334	$ 47,704,900
Donated capital assets	74,216	199,309
Capital appropriation acquisitions	10,178,571	2,829,843
Donated equipment below capitalization threshold	424,615	356,542
Tuition and fee waivers where services were provided	3,668,300	3,559,200
Bond accretion	1,391,377	1,599,857

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

Note 1. Summary of Significant Accounting Policies

THE FINANCIAL REPORTING ENTITY AND COMPONENT UNIT DISCLOSURES

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

The Foundation is a University Related Organization as defined under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982. The Illinois State University Foundation is reported in a separate column to emphasize that it is an Illinois non-profit organization that is legally separate from the University. Complete financial statements for the Foundation may be obtained by writing the Illinois State University Foundation, Campus Box 8000, Normal, Illinois 61790-8000.

The Foundation was incorporated in May 1948 under the "General Not-for-Profit Corporation Act" for the purpose of providing fund raising and other assistance to the University in order to attract private gifts to support the University's instructional, research, and public service activities. The Foundation is an organization as described in Section 501(c)(3) of the Internal Revenue Code and, accordingly, exempt from federal income tax. *See Note 13, Transactions with Related Organizations.*

The Foundation has formed two limited liability companies (LLC) to carry out the Foundation's mission to assist the University. The Foundation is a sole member of each of these LLC's. The governing board for each LLC, known as "Launching Futures, LLC" and "Launching Futures II, LLC", consists of the executive officers of the Foundation. LLC activity is included as part of the Foundation's financial statements.

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

Financial Statements Presentation: The University's financial statements include the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. The financial statements are prepared in accordance with GASB principles and presented on an entity-wide basis. The University has implemented GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, with this report.

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

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

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

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

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

Restricted Cash and Cash Equivalents: Included in restricted cash and cash equivalents is the unspent proceeds from revenue bonds and certificates of participation.

Investments: The University accounts for its investments at fair value as determined by quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses, and Changes in Net Assets.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary facilities service provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than two years. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

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

Capitalization of Interest: Auxiliary Facilities interest is charged to expense as incurred except for interest related to borrowings used for construction projects which is capitalized net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially complete.

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

Compensated Absences: Employee vacation and sick pay is accrued at year-end for financial statement purposes. The liability is recorded at year-end as current and long-term liabilities (*see Note 9*) in the Statements of Net Assets. The expense is recorded in the Statements of Revenues, Expenses, and Changes in Net Assets as a component of operating expenses.

Bond issuance costs: The costs related to the issuance of revenue bonds and certificates of participation are being amortized over the life of the bonds and/or certificates using the straight line method.

Employment Contracts for Certain Academic Personnel: Employment contracts for certain academic personnel provide for twelve monthly salary payments, although the contracted services are rendered during a nine month period. The liability for those employees who have completed their contracted services, but have not yet received final payment, was $3,841,713 and $3,649,403 at June 30, 2008 and 2007, respectively, and is recorded in the accompanying financial statements.

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

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

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

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

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

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

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

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

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

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

Nonoperating revenue: Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenue by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets using the NACUBO Advisory Report 2000-05 alternate method calculation. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or nongovernmental programs, are recorded as either operating or nonoperating revenue in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

	2008	2007
Student tuition and fees	$ 146,801,524	$ 131,111,689
Less scholarship discounts and allowances	(24,113,585)	(22,043,443)
Less discounts for employee waivers	(471,564)	(445,287)
Net student tuition and fees	$ 122,216,375	$ 108,622,959
Auxiliary facilities	$ 79,558,092	$ 75,140,382
Less scholarship discounts and allowances	(8,304,928)	(7,964,535)
Net auxiliary facilities	$ 71,253,164	$ 67,175,847

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

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

Note 2. Deposits

At June 30, 2008 and 2007, the University's bank balances were $257,497 and $366,438, respectively, and were covered by the Federal Deposit Insurance Corporation or pledged collateral. Excess funds in the University's main checking account are transferred to a U.S. Treasury money market account at the close of business each day. Outstanding items in excess of the bank account balance are netted against the U.S. Treasury money market account which has been included in investments for categorization purposes.

At June 30, 2008 and 2007, the Illinois State University Foundation, the discretely presented component unit, bank balances, including amounts invested in U.S. Treasury money market funds were $6,596,969 and $3,040,808, respectively, and were covered by the Federal Deposit Insurance Corporation, Security Investor Protection Corporation, or were guaranteed by the U.S. Treasury.

DEPOSITS:	2008		2007	
University	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Bank Checking Funds	$ 257,497	$	$ 366,438	$ -
Foundation				
Cash in bank	$ 6,596,969	$ 4,975,284	$ 3,040,808	$ 2,696,570

Reconciliation of cash and cash equivalents to deposits:

	2008	
	University	Foundation
Cash and cash equivalents		
Current	$ 95,132,494	$ 3,913,679
Noncurrent		1,061,605
Total cash and cash equivalents	95,132,494	4,975,284
Less: Vault cash and change funds	(220,742)	
Less: Money market mutual funds classified as investments for purposes of categorization	(94,911,752)	
Carrying amount of deposits	$	$ 4,975,284

	2007	
	University	Foundation
Cash and cash equivalents		
Current	$ 41,682,231	$ 1,431,731
Noncurrent		1,264,839
Total cash and cash equivalents	41,682,231	2,696,570
Less: Vault cash and change funds	(197,997)	
Less: Money market mutual funds classified as investments for purposes of categorization	(41,484,234)	
Carrying amount of deposits	$	$ 2,696,570

Note 3. Investments

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

UNIVERSITY INVESTMENTS

As of June 30, 2008, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 6 Years	S&P/Moody's Rating
U.S. Treasuries	$ 8,298,060	$	$ 8,298,060	
Federal Farm Credit Bank	34,940,003	4,516,208	30,423,795	AAA/Aaa
Federal National Mortgage Association	5,078,140	2,005,000	3,073,140	AAA/Aaa
Federal Home Loan Mortgage Corporation	4,013,283		4,013,283	AAA/Aaa
Federal Home Loan Bank	51,326,676	5,525,160	45,801,516	AAA/Aaa
Illinois Funds Investment Pool	23,768,626	23,768,626		AAAm
Bank Money Market Funds	71,143,126	71,143,126		Not Rated
Total University	$ 198,567,914	$ 106,958,120	$ 91,609,794	

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

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (17.6%) and Federal Home Loan Bank (25.85%).

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

As of June 30, 2007, the University had the following investments:

	Fair Market Value	Less Than 1 Year	1 to 6 Years	S&P/Moody's Rating
U.S. Treasuries	$ 21,173,182	$ 21,173,182	$	
Federal Farm Credit Bank	16,255,959		16,255,959	AAA/Aaa
Federal National Mortgage Association	10,934,720		10,934,720	AAA/Aaa
Federal Home Loan Mortgage Corporation	10,859,340	1,981,940	8,877,400	AAA/Aaa
Federal Home Loan Bank	45,303,081	20,125,351	25,177,730	AAA/Aaa
Illinois Funds Investment Pool	2,230,315	2,230,315		AAAm
Bank Money Market Funds	39,253,919	39,253,919		Not Rated
Total University	$ 146,010,516	$ 84,764,707	$ 61,245,809	

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

Concentration of Credit Risk: The University places no limit on the amount that may be invested in any one issuer. More than 5% of the University investments are in Federal Farm Credit Bank (11.13%), Federal Home Loan Bank (31.03%), Federal National Mortgage Association (7.49%), and Federal Home Loan Mortgage Corporation (7.44%).

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

FOUNDATION INVESTMENTS

The carrying value of the investment portfolio of the Foundation at June 30, 2008 and 2007 is as follows:

	2008	2007
U.S. Government Securities	$	$ 996,680
Common Stock	344,490	373,543
Mutual Funds – investing in:		
Stocks	35,461,095	58,506,404
Bonds	12,465,827	11,632,658
Commodities	2,842,348	1,352,156
International	6,969,606	
Bank Common Trusts	5,228,105	5,040,646
Limited Partnerships	5,931,741	2,241,730
Hedged Funds	8,762,993	
Real Estate	600,631	600,631
Total Foundation	$ 78,606,836	$ 80,744,448

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

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

As of June 30, 2008, the Foundation had $6,398,643, U.S. Dollar balances of international mutual fund investments exposed to foreign currency risk. Listed below are the U.S dollar balances of the Foundation's international mutual fund investments exposed to foreign currency risk as of June 30, 2008:

	International Equity	Emerging Markets	Total
Euro	$ 1,621,525	$	$ 1,621,525
British Pound	947,058		947,058
Japanese Yen	746,189		746,189
Taiwanese Dollar		327,952	327,952
South Korean Won		372,233	372,233
Other (individually below 5% of total)	1,057,128	1,326,558	2,383,686
Total	$ 4,371,900	$ 2,026,743	$ 6,398,643

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

As of June 30, 2008, the Foundation had the following investments exposed to interest rate risk and credit risk:

		Fair Market Value	Effective Duration	S&P Rating
Bond Mutual Funds	$	12,465,827	4.8 years	AA
Bank Common Trusts		5,228,105	3.1 months	AAA
Commodities Mutual Funds		2,842,348	1.4 years	AA+

As of June 30, 2007, the Foundation had the following investments exposed to interest rate risk and credit risk:

		Fair Market Value	Effective Duration	S&P Rating
Bond Mutual Funds	$	11,632,658	4.4 years	AA
Bank Common Trusts		5,040,646	3.3 months	AAA
Commodities Mutual Fund		1,352,156	2.2 years	AA+
U.S Government Securities*		996,680	8/2007 maturity	

* Not subject to credit risk

Duration is a measure of a fixed income's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt. The interest rate risk information for U.S. Government Securities is disclosed by specific identification since these investments have a distinct investment objective and were maintained separately.

INVESTMENTS CONSIST OF THE FOLLOWING:

	2008		2007	
	University	Foundation	University	Foundation
Current:				
Investments	$ 12,046,368	$ 4,953,865	$ 24,105,891	$ 6,330,801
Restricted investments			19,174,582	
Noncurrent:				
Investments	91,609,794	16,630,845	61,245,809	17,605,986
Restricted investments				
Endowment investments		57,022,126		56,807,661
	103,656,162	78,606,836	104,526,282	80,744,448
Money market mutual funds classified as cash and cash equivalents	94,911,752		41,484,234	
Total	$ 198,567,914	$ 78,606,836	$ 146,010,516	$ 80,744,448

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

Foundation policy states that assets are to be invested in a diversified portfolio of equity, fixed income, and alernative securities. No investment is to be made that will cause the total investment in equities or fixed income securities issued or guaranteed by any one person, firm, or corporation to exceed five percent of the then fair market value of the Foundation, provided, this restriction is not to apply to either well diversified mutual funds, pooled funds, unit trust, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies. Equity investments have an asset allocation range from 70% to 80% of the portfolio with a target weight of 75% with fixed income investments ranging from 20% to 30% with a target weight of 25%.

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2008 and 2007:

	2008	2007
Student tuition and fees	$ 7,512,362	$ 5,106,702
Auxiliary facilities and other operating activities	2,428,953	2,781,209
Other	658,701	357,736
Federal, state, and private grants and contracts	1,480,207	2,181,794
Sub-total	12,080,223	10,427,441
Less allowance for uncollectible accounts	(2,160,783)	(1,999,919)
Net Accounts Receivable	$ 9,919,440	$ 8,427,522

Note 5. Student Loans Receivable

Student loans receivable at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Perkins student loan fund	$ 10,675,448	$ 10,691,995
Nursing loan fund	347,263	236,146
University loan fund	56,697	56,564
Sub-total	11,079,408	10,984,705
Less allowance for uncollectible accounts	(937,784)	(894,784)
Net Student Loans Receivable	$ 10,141,624	$ 10,089,921
Estimated current portion	$ 995,951	$ 1,541,289
Estimated noncurrent portion	9,145,673	8,548,632
Total	$ 10,141,624	$ 10,089,921

Note 6. Foundation Pledges Receivable

Foundation pledges receivable at June 30, 2008 and 2007 are summarized as follows:

		2008		2007
Pledges to be collected	$	1,987,379	$	3,168,382
Less discount for the time value of money		(51,527)		(111,012)
Less allowance for uncollectible accounts		(149,053)		(105,284)
Net Foundation Pledges Receivable	$	1,786,799	$	2,952,086
Estimated current portion	$	1,171,220	$	1,911,986
Estimated noncurrent portion		615,579		1,040,100
Total	$	1,786,799	$	2,952,086

Note 7. Deferred Revenue

Deferred revenue consists of the following at June 30, 2008 and 2007:

		2008		2007
Prepaid tuition and fees	$	4,335,740	$	4,188,182
Auxiliary facilities		564,516		663,349
Grants and contracts		2,315,620		1,884,279
Other		164,703		123,442
Deferred Revenue	$	7,380,579	$	6,859,252

Note 8. Capital Assets

Capital assets activity for the year ended June 30, 2008 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 14,158,006	$	$	$ 14,158,006
Land Improvements	19,484,166	3,910,742	135,704	23,259,204
Infrastructure	12,682,559			12,682,559
Buildings	352,089,630	19,875,284	3,121,125	368,843,789
Equipment	63,598,518	4,863,922	3,083,514	65,378,926
Library Materials	64,026,171	3,221,415		67,247,586
Construction in Progress	26,559,721	38,080,212	22,504,197	42,135,736
Sub-total	$ 552,598,771	$ 69,951,575	$ 28,844,540	$ 593,705,806
Less Accumulated Depreciation for:				
Land Improvements	$ 7,618,034	$ 635,592	$ 135,704	$ 8,117,922
Infrastructure	5,136,133	311,853		5,447,986
Buildings	166,744,884	7,152,948	3,121,125	170,776,707
Equipment	49,123,600	4,436,686	2,975,942	50,584,344
Library Materials	48,546,883	2,857,402		51,404,285
Total Accumulated Depreciation	$ 277,169,534	$ 15,394,481	$ 6,232,771	$ 286,331,244
Capital Assets, net	$ 275,429,237			$ 307,374,562

Capital assets activity for the year ended June 30, 2007 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 14,158,006	$	$	$ 14,158,006
Land Improvements	17,358,785	2,125,381		19,484,166
Infrastructure	12,682,559			12,682,559
Buildings	351,264,579	825,051		352,089,630
Equipment	61,178,619	4,122,896	1,702,997	63,598,518
Library Materials	60,868,711	3,157,460		64,026,171
Construction in Progress	8,871,713	18,470,883	782,875	26,559,721
Sub-total	$ 526,382,972	$ 28,701,671	$ 2,485,872	$ 552,598,771
Less Accumulated Depreciation for:				
Land Improvements	$ 7,205,571	$ 412,463	$	$ 7,618,034
Infrastructure	4,824,212	311,921		5,136,133
Buildings	159,729,527	7,015,357		166,744,884
Equipment	46,128,913	4,591,419	1,596,732	49,123,600
Library Materials	46,008,425	2,538,458		48,546,883
Total Accumulated Depreciation	$ 263,896,648	$ 14,869,618	$ 1,596,732	$ 277,169,534
Capital Assets, net	$ 262,486,324			$ 275,429,237

Foundation net capital assets were $4,282,486 and $3,420,129 at June 30, 2008 and 2007, respectively.

Note 9. Long-term Liabilities

UNIVERSITY LONG-TERM LIABILITIES

Long-term liability activity at June 30, 2008 was as follows:

		Beginning Balance		Additions		Retirements		Ending Balance
Total								
Accrued compensated absences	$	18,331,798	$	1,623,440	$	1,722,434	$	18,232,804
Certificates of participation				22,137,126				22,137,126
Revenue bonds payable		84,891,698		32,026,377		5,228,817		111,689,258
Total	$	103,223,496	$	55,786,943	$	6,951,251	$	152,059,188
Current portion								
Accrued compensated absences	$	1,690,896					$	1,712,964
Revenue bonds payable, net		4,391,826						5,202,348
Total current portion	$	6,082,722					$	6,915,312
Noncurrent portion								
Accrued compensated absences	$	16,640,902					$	16,519,840
Certificates of participation								22,137,126
Revenue bonds payable, net		80,499,872						106,486,910
Total noncurrent portion	$	97,140,774					$	145,143,876

Long-term liability activity at June 30, 2007 was as follows:

		Beginning Balance		Additions		Retirements		Ending Balance
Total								
Accrued compensated absences	$	18,125,315	$	1,963,076	$	1,756,593	$	18,331,798
Revenue bonds payable		88,477,899		1,599,857		5,186,058		84,891,698
Total	$	106,603,214	$	3,562,933	$	6,942,651	$	103,223,496
Current portion								
Accrued compensated absences	$	1,768,437					$	1,690,896
Revenue bonds payable, net		5,058,693						4,391,826
Total current portion	$	6,827,130					$	6,082,722
Noncurrent portion								
Accrued compensated absences	$	16,356,878					$	16,640,902
Revenue bonds payable, net		83,419,206						80,499,872
Total noncurrent portion	$	99,776,084					$	97,140,774

Revenue bonds payable at June 30, 2008 and 2007 consists of the following:

	2008	2007
Revenue Bonds, Series 1989:		
Capital Appreciation Bonds	$ 10,841,412	$ 11,619,421
Insured Revenue Bonds, Series 1992:		
Capital Appreciation Bonds		2,167,759
Insured Revenue Bonds, Series 1993:		
Capital Appreciation Bonds	1,348,967	1,270,297
Revenue Bonds, Series 1996:		
Current Interest Bonds		979,751
Capital Appreciation Bonds	8,468,720	7,993,004
Revenue Bonds, Series 2003:		
New Project Bonds	6,182,185	6,584,721
Current Refunding Bonds	9,637,696	9,691,113
Revenue Bonds, Series 2006:		
New Project Bonds	38,754,302	38,716,030
Current Refunding Bonds	5,820,976	5,869,602
Revenue Bonds, Series 2008		
New Project Bonds	30,635,000	
Total revenue bonds payable	$ 111,689,258	$ 84,891,698

Maturities and interest requirements on revenue bonds payable at June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 5,330,000	$ 4,058,321	$ 9,388,321
2010	5,380,000	3,893,839	9,273,839
2011	6,280,000	3,839,414	10,119,414
2012	6,190,000	3,757,986	9,947,986
2013	6,330,000	3,617,701	9,947,701
Sub-total	29,510,000	19,167,261	48,677,261
2014-2018	27,615,000	15,377,306	42,992,306
2019-2023	19,845,000	12,048,426	31,893,426
2024-2028	21,635,000	7,584,973	29,219,973
2029-2033	19,565,000	2,372,073	21,937,073
Sub-total	118,170,000	$ 56,550,039	$ 174,720,039
Additions(Deductions):			
Unaccreted Appreciation	(5,895,901)		
Unamortized Discounts	(924,722)		
Unamortized Premiums	339,881		
Total	$ 111,689,258		

The Series 1989, 1992, 1993, 1996, 2003, 2006, and 2008 bonds are secured by a pledge of the net revenue of auxiliary facilities, as well as the pledged portion of the health service and athletic & service fees charged to students.

On October 1, 1989, $11,702,450 in Revenue Bonds, Series 1989 were issued. The Series 1989 Bonds consisted of $7,770,000 in Current Interest Bonds and $3,932,450 in Capital Appreciation Bonds. The Current Interest Bonds mature annually on April 1, commencing April 1, 2013, through April 1, 2014, and bear interest at 7.40%. Interest is payable on April 1 and October 1 of each year, commencing April 1, 1990. The Capital Appreciation Bonds have a principal at maturity of $17,065,000 and an original issue discount of $13,132,550. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation bonds mature semi-annually commencing April 1, 2008, through October 1, 2012. The Capital Appreciation bonds were issued at prices to yield 7.30% to 7.35% at maturity.

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

On June 23, 1993, $10,221,971 in Insured Revenue Bonds, Series 1993 were issued. The Series 1993 Bonds consisted of $9,675,000 in Current Interest Bonds and $546,971 in Capital Appreciation Bonds. The Current Interest Bonds were called and redeemed in full on April 10, 2003. The Capital Appreciation Bonds have a principal at maturity of $1,665,000 and an original issue discount of $1,118,029. The original issue discount is being accreted to interest expense over the term of the bonds. The Capital Appreciation Bonds yield 6.10% interest and mature October 1, 2011, and April 1, 2012.

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

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

On March 21, 2006, $45,595,000 in Revenue Bonds, Series 2006 were issued. The Series 2006 Bonds consisted of $39,625,000 of New Project Bonds and $5,970,000 in Current Refunding Bonds. The New Project Bonds mature beginning April 1, 2017, and continuing through April 1, 2031. These New Project Bonds bear interest from 3.90% to 4.40%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2006. The Current Refunding Bonds mature beginning April 1, 2007, and continuing through April 1, 2013. The Current Refunding Bonds bear interest from 3.35% to 3.70%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2006.

Proceeds from the sale of the Series 2006 Current Refunding Bonds, were used to provide for the advance refunding of a portion of the Series 1996 Bonds and to pay certain expenses related to the issuance of the bonds. The Series 1996 Current Interest Bonds were redeemed with a call premium of 2% for a total of $5,829,300 on October 1, 2006. The Series 1996 Bonds had a book value of $5,674,321 and unamortized issuance costs of $45,332. Although the advanced refunding resulted in the recognition of an accounting loss of $227,321 for the year ended June 30, 2006, the issuance of the 2006 refunding bonds at lower interest rates will cause aggregate debt service payments to be decreased by $209,511 and will result in an economic gain or present value gain of $190,972 over the life of the refunded bonds.

On March 1, 2008, $30,635,000 in Revenue Bonds, Series 2008 were issued. The New Project Bonds mature beginning April 1, 2011, and continuing through April 1, 2033. These New Project Bonds bear interest from 2.70% to 5.00%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2008.

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

PLEDGED REVENUES & DEBT SERVICE REQUIRMENTS

The University has pledged fees relating to health services, athletics, health insurance, student activities and all other fees (excluding tuition, laboratory, and library fees) collected from students, to repay the principal and interest of revenue bonds. A total of $174,720,039 of future revenues is pledged though 2033. Debt service to pledged revenues for the current year is 6.86 %.

DEFEASED BONDS

In June 1993, the University defeased a portion of the Series 1989 bonds by creating a separate irrevocable trust fund. New debt (series 1993 bonds) was issued and the proceeds used to purchase U.S. Treasury securities that were placed in the trust fund. The investments and fixed earnings from the investment are sufficient to service the defeased amount until the debt matures. For financial reporting purposes, the debt has been considered defeased and removed as a liability on the Statements of Net Assets. The defeased debt outstanding for the years ended June 30, 2008 and 2007 was $10,330,032 and $10,151,756, respectively.

CERTIFICATES OF PARTICIPATION PAYABLE

On June 4, 2008, $22,230,000 in Certificates of Participation were issued. The Series 2008 Certificates of Participation mature beginning April 1, 2010 and continuing through April 1, 2028. These Certificates of Participation bear interest from 3.00% to 4.50%. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2008.

Maturities and Interest Requirements on certificates of participation at June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$	$ 735,570	$ 735,570
2010	825,000	891,600	1,716,600
2011	855,000	866,850	1,721,850
2012	875,000	839,063	1,714,063
2013	910,000	810,625	1,720,625
Sub-total	3,465,000	4,143,708	7,608,708
2014-2018	5,055,000	3,530,688	8,585,688
2019-2023	6,155,000	2,441,763	8,596,763
2024-2028	7,555,000	1,032,600	8,587,600
Sub-total	22,230,000	$ 11,148,759	$ 33,378,759
Additions(Deductions):			
Unamortized Discounts	(92,874)		
Total	$ 22,137,126		

FOUNDATION LONG-TERM LIABILITIES

Long-term liability activity at June 30, 2008 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 305,893	$ 32,665	$	$ 338,558
Notes payable	100,000		100,000	
Total	$ 405,893	$ 32,665	$ 100,000	$ 338,558
Current portion				
Beneficiary payments	$ 34,525			$ 34,525
Notes payable	100,000			
Total current portion	$ 134,525			$ 34,525
Noncurrent portion				
Beneficiary payments	$ 271,368			$ 304,033
Total noncurrent portion	$ 271,368			$ 304,033

Long-term liability activity at June 30, 2007 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Total				
Beneficiary payments	$ 311,946	$	$ 6,053	$ 305,893
Notes payable	240,000		140,000	100,000
Total	$ 551,946	$	$ 146,053	$ 405,893
Current portion				
Beneficiary payments	$ 35,237			$ 34,525
Notes payable	240,000			100,000
Total current portion	$ 275,237			$ 134,525
Noncurrent portion				
Beneficiary payments	$ 276,709			$ 271,368
Total noncurrent portion	$ 276,709			$ 271,368

Foundation notes payable at June 30, 2007 consisted of a $100,000 promissory note secured by all inventory, chattel paper, accounts and general intangibles; requiring monthly interest payments at a fixed rate interest rate of 6.95% and having a principal maturity date of April 10, 2008. The note was retired in October 2007.

ACCRUED COMPENSATED ABSENCES

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

2008	Vacation	Sick	Total
University	$ 9,623,629	$ 8,609,175	$ 18,232,804

2007	Vacation	Sick	Total
University	$ 9,289,453	$ 9,042,345	$ 18,331,798

Note 10. Leases

CAPITALIZED LEASES

Certain leases in which the Board of Trustees, governing board of the University, is the lessee are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date as required by Financial Accounting Standards Board (FASB) Statement No. 13. Cost and accumulated depreciation for these capital assets were $671,729 and $278,294 at June 30, 2008 and $691,329 and $212,775 at June 30, 2007, respectively.

Obligations under capital leases activity at June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Obligations under capital leases	$ 330,683	$	$ 202,457	$ 128,226
Current portion	202,457			128,226
Noncurrent portion	128,226			

Obligations under capital leases activity at June 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Obligations under capital leases	$ 549,904	$	$ 219,221	$ 330,683
Current portion	219,221			202,457
Noncurrent portion	330,683			128,226

Future minimum lease payments for the above assets under capital leases together with the present value of the minimum lease payments at June 30, 2008 are as follows:

Year Ending June 30		Total
2009	$	132,188
Total minimum lease payments		132,188
Less amount representing interest		(3,962)
Net present value	$	128,226

OPERATING LEASES

The University has entered into agreements to lease recreational space and office space that the University is treating as operating leases. Rent expense for the years ended June 30, 2008 and 2007 was $512,402 and $433,407, respectively. The leases expire between July 2008 and June 2013. Following is a schedule of future minimum lease payments.

Year Ending June 30		Building
2009	$	411,973
2010		385,773
2011		367,773
2012		340,933
2013		230,004
Total	$	1,736,456

Subsequent to June 30, 2008, Launching Futures, LLC acquired real estate that is currently being leased by the University from an outside party. As described in Note 13, the University will continue to lease the property under new terms.

In 1990, the Foundation established a Chicago office to provide the University with direct access to Chicago area alumni, corporation, and Foundation networks. Lease payments for the Chicago office were $61,327 in 2008 and $56,914 in 2007. The current lease has been amended to expire on December 31, 2014. In addition, the Foundation leases a vehicle for the Executive Director of the Foundation and fifteen vehicles for the University Athletic Department employees at a cost of $73,245 in 2008 and $74,529 in 2007. The lease for the Executive Director expires in the fiscal year ending June 30, 2009. Thirteen of the Athletic Department vehicle leases expire in the fiscal year ending June 30, 2011, and the remaining two vehicle leases expire in the fiscal year ending June 30, 2012. The following is a schedule of future minimum lease payments for both.

Year Ending June 30		Building		Vehicles
2009	$	74,140	$	68,083
2010		75,548		64,430
2011		76,956		31,372
2012		78,363		2,208
2013		79,771		
2014-2015		122,119		
Total	$	506,897	$	166,093

Note 11. State Universities Retirement System (SURS)

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

Funding Policy: Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 12.88% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ending June 30, 2008, 2007, and 2006, were $15,141,102, $11,217,492, and $7,536,451, respectively, equal to the required contributions for each year.

Note 12. Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service do not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays Illinois State University's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

Note 13. Transactions with Related Organizations

Illinois State University Foundation (The Foundation) is a related organization formed to support in various ways the University's instructional, research, and public service missions. During fiscal years 2008 and 2007, Illinois State University entered into contractual agreements with the Foundation requiring payments of $260,000 annually for fund raising services. In addition, the University contributed services and expenditures of $1,468,276 and $1,311,536 during fiscal years 2008 and 2007, respectively. During fiscal year 2008 and 2007, the Foundation contributed services and expenditures of $7,021,313 and $7,121,576, respectively, that were for the direct and/or indirect support of the University. These transactions have not been eliminated from the financial statements of the University or the Foundation.

In June 2007, Launching Futures II, LLC invested in real estate for $600,631 for use by the University as a remote parking lot. Concurrently, Launching Futures II, LLC signed a lease agreement with the University for the real estate providing for annual payments of $49,992 from the University to Launching Futures II. The lease has a five year term with the University having the option to extend the lease term for an additional five year period.

Subsequent to June 30, 2008, Launching Futures, LLC acquired real estate for approximately $6.3 million that is currently being leased by the University from an outside party. Once the sales contract was signed, the University will continue to lease the property from the seller until the initial closing. The acquired real estate will serve as the University's Alumni Center. To assist with construction improvement costs, the University made a $3 million prepaid rent payment in July 2008. After initial closing, Launching Futures, LLC will lease the property to the University at $19,167 per month and will begin monthly contract-for-deed payments of $22,500 to the seller. After 119 months of payments at 6.5% interest to the seller, Launching Futures, LLC will pay the seller the balance of the sales contract.

The Illinois Institute for Entrepreneurship Education (IIEE) was created by an act of the Illinois General Assembly in 1988. The purpose of the IIEE is to foster growth and development of entrepreneurship by educating Illinois citizens to the viability of entrepreneurship as a career option and to the role and contributions of entrepreneurs in economic development and job creation. The IIEE is mandated to reach all areas of the State, all ages, all ethnic groups, and income levels. The IIEE was created under the oversight of Illinois State University and, by working cooperatively with the University, the IIEE offers Illinois teachers two university-accredited graduate courses in entrepreneurship. During fiscal years 2008 and 2007, the University contributed $183,724 and $184,058, respectively, of revenue and public service expenditures to the IIEE. These amounts are discretely blended in the University financial statements.

Note 14. Student Health Insurance

The University contracts with Aetna Student Health (formerly known as The Chickering Group, an Aetna Company), of Cambridge, Massachusetts for administration of the Aetna Health and Accident Plan to provide group insurance benefits to students of the University. Students enrolled in 9 or more semester hours of credit pay a fee for this coverage. The contract provides for a premium stabilization reserve (PSR) which is used to minimize increases in the premium and to be used against unexpected claims utilization to reduce future premium increases. As each Plan Year is finalized, costs are debited (gains are credited) to an account funded by the University each year (15% of expected premium, later adjusted to 15% of actual premium). The estimated refund for 2006-2007 of $1,339,348 is currently available, with the balance becoming available upon final calculation. A portion of the refund, $646,792, was rolled over to complete funding of 2008-2009, and the remaining $692,556 is currently available for distribution to the University (subject to Illinois premium tax adjustment). The estimated remaining refund of $334,837 will become available to the University for distribution in November upon final calculations. Because potential refunds are still at risk for unexpected claims losses, they are not recorded as assets. The PSR fund held by the University as of September 2008 is $413,170. The amount required to fund the PSR for 2008-2009 is $759,690.

Note 15. Student Financial Assistance

The University participates in the U.S. Department of Education Direct Student Loan Program. The University awarded $68,344,841 and $63,962,079 in Direct Student Loans for the years ended June 30, 2008 and 2007, respectively. The University classified this loan program as noncash federal awards, and it is disclosed in the footnotes to the Office of Management and Budget (OMB) Circular A-133 Schedule of Expenditures of Federal Awards. Accordingly, no revenue or expenditures are included in the financial statements of the University.

Note 16. Self-Insurance

The University is exposed to various risks of loss related to torts, theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University purchases commercial insurance for these risks of loss. During the year ended June 30, 2008, there were no significant reductions in coverage.

As a public University in the State of Illinois, Illinois State University enjoys certain statutory protections from liability through the Illinois Court of Claims statute and the State Indemnification Act. In addition, the University purchases an excess liability policy that covers claims above the $350,000 deductible level and has annual aggregate levels of $5,000,000 for educator's legal liability and $19,650,000 for general liability. This policy also contains a limit of $10,650,000 for each occurrence under general liability.

To augment existing State and commercial coverage, and to assist in addressing potential risks and liabilities incurred through its operations, the Board of Trustees has established the Self-Insurance Fund. The balance in the fund at June 30, 2008 and 2007 was $1,081,947 and $1,045,962, respectively. The University did not pay any claims for fiscal years 2007 and 2006. The University made contributions of interest to the fund of $35,985 for fiscal year 2008 and $36,888 for fiscal year 2007. In accordance with the requirement of GASB Statement No. 10, a liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. At June 30, 2008 and June 30, 2007, no liability for claims was reported.

Note 17. Net Assets

UNIVERSITY NET ASSETS

University restricted net assets are comprised of the following at June 30, 2008 and 2007:

		2008		2007
Expendable Student loans	$	9,355,823	$	9,355,623

University unrestricted net assets:

Board designated capital asset renewal and replacement for the internal service departments at June 30, 2008 and 2007 was $1,117,493 and $1,385,127, respectively. These amounts are included in unrestricted net assets.

FOUNDATION NET ASSETS

Foundation restricted net assets are comprised of the following at June 30, 2008 and 2007:

		2008		2007
Nonexpendable				
Scholarship and fellowship	$	31,521,870	$	30,657,351
College and academic department support		10,720,999		10,606,994
Faculty and staff compensation		7,249,844		7,251,214
Other		7,950,163		8,292,102
Total nonexpendable	$	57,442,876	$	56,807,661

		2008		2007
Expendable				
Scholarship and fellowship	$	9,278,593	$	9,265,843
Instructional departmental uses		11,398,074		11,007,981
University capital projects		3,314,448		3,852,459
Other restricted expendable		1,984,738		2,126,716
Total expendable	$	25,975,853	$	26,252,999

Note 18. Foundation Restricted Endowments

If a donor has not provided specific instructions, State law permits the Foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. The Foundation Investment Committee adopts spending policies for authorized expenditures.

At June 30, 2008 and 2007, net appreciation of $11,452,800 and $14,342,000, respectively, remains available for future authorization for expenditure by the Investment Committee. This amount is included in the Net Assets section of the Statements of Net Assets as Restricted for Nonexpendable.

Note 19. Commitments

The University entered into two real estate deposit and option agreements during 2005, with one of the agreements being amended in 2006 and 2008. The agreements grant the University an irrevocable seven year option period to purchase the properties. The agreements provide that the option periods may be renewed for up to two additional periods of seven years. The University has made non-refundable option deposit payments of $1,345,250 at June 30, 2008 ($165,000 in 2008, $340,000 in 2007 and $840,250 in 2006 and 2005 collectively) which can be credited toward the purchase price. If the University exercises the option agreements, the purchase price for the properties will be $4,180,000. The agreements also require annual maintenance fees which will not be credited toward the purchase price.

The University has entered into contracts for significant repairs and replacement of University capital assets. Total estimated costs under these contracts are $8,648,567, approximately $6,510,678 (75 percent) of the work has been completed as of June 30, 2008. The University is obligated to pay the remainder of the costs under the contracts as the work is completed.

In October 2007, University Board Trustees approved construction of the Student Fitness and Kinesiology Recreation Center at a cost of $44 million. The Board increased the project cost to $49.6 million in July 2008. Project construction costs will be provided through Revenue Bonds Series 2008, student fees related, and Certificates of Participation, academics related. The project is estimated to be completed by fall 2010.

The Foundation has invested in various limited partnerships. According to the terms of the investment agreements, the Foundation has committed to invest $15,296,457 and $10,096,457 as of June 30, 2008 and 2007 respectively. As of June 30, 2008 and 2007, the Foundation has invested $5,710,331 and $2,166,981 and has future investment commitments of $9,586,126 and $7,929,476.

Note 20. Contingencies

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

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters on the financial condition or results of operations of the University is necessary at June 30, 2008, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

Note 21. Crosswalk of Natural Classification with Functional Classifications

Natural Classification for the Year Ended June 30, 2008

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 89,156,355	$ 13,701,873	$	$	$ 102,858,228
Research	10,520,999	3,424,459			13,945,458
Public Service	7,649,145	7,597,075			15,246,220
Academic Support	10,204,723	2,535,989			12,740,712
Student Services	15,283,272	16,332,569			31,615,841
Institutional Support	15,062,191	10,034,696			25,096,887
Operation of Plant	11,293,559	14,892,302			26,185,861
Depreciation				15,394,481	15,394,481
Staff Benefits	1,708,286		25,990		1,734,276
Student Aid		3,700,581	17,488,685		21,189,266
Payments on Behalf	53,493,304				53,493,304
Auxiliary Facilities	22,093,103	28,914,439			51,007,542
Other	2,070,695	86,244			2,156,939
Total University	$ 238,535,632	$ 101,220,227	$ 17,514,675	$ 15,394,481	$ 372,665,015

Natural Classification for the Year Ended June 30, 2007

University	Compensation and Benefits	Supplies and Services	Scholarships	Depreciation	Total
Instruction	$ 86,582,898	$ 11,192,023	$	$	$ 97,774,921
Research	10,566,122	3,932,737			14,498,859
Public Service	6,157,936	5,904,908			12,062,844
Academic Support	10,171,866	2,456,734			12,628,600
Student Services	15,118,738	15,387,733			30,506,471
Institutional Support	14,393,592	9,677,211			24,070,803
Operation of Plant	10,751,378	13,019,696			23,771,074
Depreciation				14,869,618	14,869,618
Staff Benefits	2,265,543		7,520		2,273,063
Student Aid		3,569,215	15,163,478		18,732,693
Payments on Behalf	46,692,888				46,692,888
Auxiliary Facilities	20,489,345	27,175,463			47,664,808
Other	1,893,140	62,683			1,955,823
Total University	$ 225,083,446	$ 92,378,403	$ 15,170,998	$ 14,869,618	$ 347,502,465

Note 22. Additional Auxiliary Facilities System Disclosure Information

The University operates auxiliary facilities that include student housing, student activities and parking.

Following are condensed financial statements for the Auxiliary Facilities System:

Condensed Statements of Net Assets at June 30	2008	2007
Assets:		
Current assets	$ 52,794,138	$ 62,224,907
Noncurrent assets:		
Capital assets, net	128,048,963	103,493,562
Other noncurrent assets	73,391,209	44,105,090
Total assets	254,234,310	209,823,559
Liabilities:		
Current liabilities	18,156,055	17,187,625
Noncurrent liabilities	108,476,042	82,405,571
Total liabilities	126,632,097	99,593,196
Net assets:		
Invested in capital assets, net of related debt	59,689,034	37,776,446
Unrestricted	67,913,179	72,453,917
Total net assets	$ 127,602,213	$ 110,230,363

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the year ended at June 30	2008	2007
Operating revenues	$ 71,253,164	$ 67,175,847
Depreciation expense	(3,896,489)	(3,412,041)
Other operating expenses	(51,007,542)	(47,664,808)
Operating income	16,349,133	16,098,998
Nonoperating revenues	3,927,527	4,543,886
Nonoperating expenses	(2,904,810)	(2,680,803)
Increase in net assets	17,371,850	17,962,081
Net assets – beginning of year	110,230,363	92,268,282
Net assets – end of year	$ 127,602,213	$ 110,230,363

Condensed Statements of Cash Flows for the year ended June 30	2008	2007
Net cash flows provided by operating activities	$ 20,603,128	$ 22,168,935
Net cash flows provided by non-capital financing activities	207,763	188,468
Net cash flows provided by (used in) capital and related financing activities	(5,193,224)	(22,989,381)
Net cash flows provided by (used in) investing activities	10,009,705	6,668,293
Net increase (decrease) in cash and cash equivalents	25,627,372	6,036,315
Cash and cash equivalents, beginning of year	16,678,987	10,642,672
Cash and cash equivalents, end of year	$ 42,306,359	$ 16,678,987

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

RESERVES FOR DEBT SERVICE, REPAIR AND REPLACEMENT, AND DEVELOPMENT

Debt Service

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

Repair and Replacement and Development

The Bond indentures also require a deposit be made in the Repair and Replacement Reserve Account. The sum of the deposit shall be greater than 10% of the Maximum Debt Service and shall not exceed the sum of 5% of the replacement cost of the auxiliary facilities' structures plus 20% of the replacement cost of their equipment plus 10% of the either the historical cost of the parking lots or 100% of the estimated cost of resurfacing any existing auxiliary facilities' parking lot. The Development Reserve Account consists of funds for projects approved by the Board.

	2008		2007	
	Repair and Replacement Reserve	Development Reserve	Repair and Replacement Reserve	Development Reserve
Maximum Allowable Deposits at June 30	$ 31,746,330	$ N/A	$ 30,826,715	$ N/A
Assets Reserved	15,791,301	1,310,367	16,806,936	1,306,632
Project Amount Approved by Board	N/A	1,250,000	N/A	1,250,000

Note 23. Foundation Subsequent Events

From June 30, 2008 to October 1, 2008, the market value of the Foundation's long-term investments has declined approximately $7 million (10%) due to continuing economic uncertainties and their impact on capital markets. Since October 1, 2008, in line with the decline of markets in general, the market value of the Foundation's long-term investments have also declined.

Subsequent to June 30, 2008, the Trustee of the Common Fund Short-Term Fund (the Fund) announced its plan to terminate the Fund and resign as Trustee. The Trustee is establishing procedures for the liquidation and distribution of the Fund's assets. Consequently, the Foundation has had its liquidity in the Fund substantially restricted. Management considers its investment in the Fund as a noncurrent asset, and believes the Foundation's operations will not be negatively impacted by this liquidity restriction.

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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 William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Illinois State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2008, and have issued our report thereon dated January 14, 2009. 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. Other auditors audited the financial statements of Illinois State University Foundation, as described in our report on Illinois State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Illinois State University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Illinois State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Illinois State University's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Illinois State University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, the Board of Trustees and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson, LLP

CLIFTON GUNDERSON LLP
Oak Brook, Illinois

January 14, 2009