STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT

For the Year Ended June 30, 2008

TABLE OF CONTENTS

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

AGENCY OFFICIALS

GOVERNORS STATE UNIVERSITY

President	Dr. Elaine Maimon
Executive Vice President, Chief of Staff, Treasurer	Dr. Gebeyehu Ejigu
Assistant Vice President, Financial Services/ Comptroller	Ms. Karen Kissel
Internal Auditor	Mr. David Dixon

Agency offices are located at:

1 University Parkway
University Park, IL 60466

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

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

Based on their audit, the auditors expressed unqualified opinions on Governors State University's basic financial statements.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Governors State University and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2008, as listed in the Table of Contents. These financial statements are the responsibility of Governors State University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Governors State University's 2007 basic financial statements, and in our reported dated January 29, 2008, we expressed unqualified opinions on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Governors State University and its aggregate discretely presented component units as of June 30, 2008 and the respective changes in net assets and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 6 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with, *Government Auditing Standards*, we have also issued a report dated February 6, 2009, on our consideration of Governors 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Governors State University's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The University Facilities System Revenue Bond, Series 2007 financial statements on pages 35 – 37 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in relation to the basic financial statement taken as a whole. The "Unaudited" supplementary information on page 38 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Clifton Gunderson LLP

CLIFTON GUNDERSON LLP
Oak Brook, Illinois

February 6, 2009

Purpose

This section of Governors State University's (GSU) annual financial report presents an analysis and overview of the financial activities of the University for the fiscal year ended June 30, 2008. The GSU Foundation and the GSU Alumni Association are considered to be component units of the University. Separate financial statements for the Foundation or Alumni Association may be obtained by writing the: Vice-President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60466.

The financial statement presentation focuses on the University as a whole. The financial statements are designed to emulate corporate presentation models whereby all University activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the University; it combines and consolidates current financial resources with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and net costs of University activities which are supported mainly by State appropriations and tuition revenues. The Statement of Cash Flows presents the receipt and use of cash resources by the University. This approach is intended to summarize and simplify the user's analysis of the cost of services provided.

Financial and Enrollment Highlights

<u>Accreditations</u>
During FY08, accreditation visits were conducted by the Council for Accreditation of Healthcare Management Education for our graduate program in health administration and by the Council on Academic Accreditation in Speech-Language Pathology and Audiology of the American Speech-Language Hearing Association for our graduate program in communication disorders. Both visits were successful and both programs involved received reaccreditation for the maximum periods allowed by their respective accrediting associations. For graduate health administration, this is a six year period (until year 2014); for graduate communications disorders this is a eight-year period (until year 2015).

<u>Rescissions and Appropriations</u>
For fiscal years 2008 and 2007 the University received two types of State appropriations, "special" and "operational". The "special" appropriations amounted to $1,306,000 and $1,806,000 respectively and were used to pursue the development and expansion of:

- International Trade Center - $331,000 (FY07 and FY08),
- Institute for Urban Education – $650,000 (FY07 and FY08),
- Center for Excellence in Health Services - $325,000 (FY07 and FY08), and
- Center for Law Enforcement Technology - $500,000 (FY07 only)

Financial and Enrollment Highlights (continued)

The FY08 operational appropriation, used to fund ongoing programs, increased 1.88% over FY07. As the table shows, the FY08 operational appropriation increased for the fourth consecutive year.

Net Revenue Available From Operational Appropriations

		Less:		
Fiscal Years	Initial Appropriations	Payments to Health Reserve Fund	Appropriation Rescissions	Available Appropriations
2008	$ 26,353,400	$ (656,200)	$ -	$ 25,697,200
2007	25,867,800	(656,200)	-	25,211,600
2006	24,680,100	(656,200)	-	24,023,900
2005	24,280,100	(656,200)	-	23,623,900
2004	24,180,100	(656,200)	(470,478)	23,053,422
2003	26,350,600	(656,200)	(722,000)	24,972,400
2002	28,045,900	(656,200)	(369,500)	27,020,200

Enrollment

Student credit hours produced during FY08 increased by 4.9% from the levels of FY07; from 107,201 to 112,471. Degrees awarded increased from 1,872 to 1,911. Credit hours for FY09 are expected to increase, because of:

- Expanding program offerings in the Kankakee and Naperville areas;
- Creating more online and weekend courses;
- Adding new off campus cohort sites;
- Expanding degree programs in Digital Imaging and Independent Film-Making (MFA), Advanced Physical Therapy (DPT), and adding new programs in Advanced Occupational Therapy (DROT), and Advance Nursing Practice (DNP);
- Strengthening our partnerships and articulation agreements with Illinois community colleges; and
- Increasing marketing efforts in the Chicagoland area.

Sick and Vacation Payouts

Many of the University's faculty and staff were hired shortly after the University was chartered in 1969 and are now approaching retirement. For the past three years, sick and vacation payouts have averaged $1,000,000; we anticipate that payouts will continue at this rate.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets represent the University's equity and are a way to measure the financial health of the University.

(in thousands)

	2008	2007	Change
Current assets	$ 37,355	$ 23,886	56%
Non-current assets	59,713	56,686	5%
Total assets	97,068	80,572	20%
Current Liabilities	8,790	9,835	-11%
Non-current liabilities	26,566	10,506	153%
Total liabilities	35,356	20,341	74%
Net assets	$ 61,712	$ 60,231	2%

Current Assets

Current assets consist primarily of cash, trust escrow, accounts receivable, and loans receivable (due in less than one year). Most of the $1.85 million cash increase came from increased tuition and fee rates, as well as an increase in student credit hours. The restricted trust escrow for revenue bonds and certificates of participation, account for $13.8 million of the increase.

Non-Current Assets

Non-current assets include the long-term portion of student Federal Perkins Loan receivables, costs of issuance for the revenue bonds and certificates of participation, and capital assets net of accumulated depreciation.

Statement of Net Assets (continued)

Current Liabilities

Current liabilities include accounts payable, deferred revenue, and the current portions of long-term liabilities which are payable in less than one year. The decrease this year was primarily due to a decrease in accounts payable due to the timing of financial aid refund payouts to students.

Non-Current Liabilities

Non-current liabilities are liabilities with due dates greater than one year. They include compensated absences, refundable grants, revenue bonds payable, certificates of participation, and notes payable. The increase to these liabilities was due to the issuance of Revenue Bonds Series 2007 and Certificates of Participation Series 2008. More detailed information about the University's long-term debt is presented in the footnotes to the financial statements.

Sick leave decreases as payouts are made to employees who separate from service or when vested sick time is utilized by employees. Sick leave is paid out at 50% of the value of compensable leave earned through December 31, 1998. Since January 1, 1999 sick leave is no longer compensable.

Refundable grants represent the U.S. Department of Education's equity in the Perkins Loan fund administered by the University. GSU lends Perkins Loan fund dollars to students at interest rates much lower than those charged for Direct Loans.

Net Assets

The change in the University's net assets (increase of 2%) resulted primarily from increased tuition and fee revenue.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets represent the operating results of the University, as well as the non-operating revenues and expenses. Annual State appropriations, while budgeted for operations, are considered non-operating revenues according to accounting principles generally accepted in the United States of America.

Statement of Revenues, Expenses, and Changes in Net Assets (continued)

(Certain 2007 amounts have been reclassified to agree to the 2008 presentation.)

	(in thousands)		
	2008	2007	Change
Operations:			
Revenues			
Net tuition and fees	$ 22,126	$ 19,931	11%
Grants and contracts	10,203	8,951	14%
Sales of educational departments	7,406	7,796	-5%
Auxiliary enterprises	1,827	2,191	-17%
Other operating revenues	1,670	1,762	-5%
Total operating revenues	43,232	40,631	6%
Expenses	81,232	74,821	9%
Net operating loss	(38,000)	(34,190)	11%
Non-operating and Other Revenues and Expenses			
State appropriations	27,659	27,674	0%
Payments made on behalf of the university	11,357	9,818	16%
Investment income	802	826	-3%
Interest expense	(435)	(150)	190%
Capital Development Board transfers	104	454	-77%
Other income and expense	(6)	(8)	-25%
Total non-operating and other revenue and expenses	39,481	38,614	2%
Increase in net assets	1,481	4,424	-67%
Net assets - Beginning of year	60,231	55,807	8%
Net assets - End of year	$ 61,712	$ 60,231	2%

Operating Revenue and Expenses

Tuition and fee revenues increased because of a 5% increase in enrolled credit hours and a 10% tuition rate increase for new students.

Grant and contract revenue increased as the U.S. Department of Health and Human Services increased funding on several grants in FY08.

The auxiliary enterprise revenue decreased due to reduced revenue by the Center of Performing Arts.

Statement of Revenues, Expenses, and Changes in Net Assets (continued)

Non-Operating Revenues and Expenses
Payments made by the State on behalf of the University, to fund retirement, health, life, and dental insurance benefits for University employees and retirees, are paid directly by other State agencies on-behalf of the University. In FY08, the State's funding of retirement benefits increased $1.02 million and health care increased $0.5 million.

Investment income includes $165,659 earned on unspent debt proceeds. Unrestricted investment income consists entirely of interest income, and decreased due to declining interest rates. In addition, reimbursements requested from appropriated funds (from the Illinois Office of the Comptroller) were not received timely, resulting in reduced balances of locally held funds which were not able to earn investment income.

The Illinois Capital Development Board (CDB) makes campus capital improvements on-behalf of the University and the University recognizes those improvements as a capital contribution and additions to its capital assets. In FY08, CDB expenditures for the University were approximately $0.1 million, most of which was capital renewal projects.

Operating Expenses (by functional classifications and in thousands)

	2008	2007	Change	Percent
Instruction	$ 36,691	$ 33,371	$ 3,320	10%
Research	1,374	1,548	(174)	-11%
Public service	11,501	10,492	1,009	10%
Academic support	2,110	1,947	163	8%
Student services	5,843	4,975	868	17%
Institutional support	12,654	11,127	1,527	14%
Operation and maintenance of Facilities	6,767	7,158	(391)	-5%
Auxiliary activities	1,690	1,623	67	4%
Depreciation	2,602	2,580	22	1%
	$ 81,232	$ 74,821	$ 6,411	9%

In most categories of endeavor, University expenditures increased between FY07 and FY08. Funding to support these increases primarily came from tuition revenue increases and grants and contracts.

Statement of Revenues, Expenses, and Changes in Net Assets (continued)

Operating Expenses (by natural classifications and in thousands)

	2008	2007	Change	Percent
Salaries and benefits	$ 59,025	$ 53,985	$ 5,040	9%
Scholarships and awards	2,246	1,743	503	29%
Capital expenditures	2,462	3,436	(974)	-28%
Services, supplies and other	14,897	13,077	1,820	14%
Depreciation	2,602	2,580	22	1%
	$ 81,232	$ 74,821	$ 6,411	9%

The 9% increase in salary and benefit expenses, representing the University's largest operating expense, was due to the following: (a) 5% was from annual State employee increases; (b) 3.7% was due to employee promotions. The scholarships and awards increase relates to increased funding for health professions scholarships and tuition and fee rate increases.

Statement of Cash Flows

The Statement of Cash Flows below provides information about cash receipts and cash payments received and made during the year. This statement also helps users assess the University's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

	(in thousands) 2008	2007	Change	Percent
Cash provided by (Used in):				
Operating activities	$ (24,390)	$ (24,929)	$ 539	-2%
Non-capital financing activities	27,675	27,647	28	0%
Capital and related financing activities	(2,074)	(1,255)	(819)	-65%
Investing activities	636	824	(188)	-23%
Net increase in cash	1,847	2,287	(440)	-19%
Cash – Beginning of year	16,157	13,870	2,287	16%
Cash – End of year	$ 18,004	$ 16,157	$ 1,847	11%

Statement of Cash Flows (continued)

The primary cash receipts from operating activities consist of tuition and fee revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash increased primarily due to increase in tuition and fees.

Factors Affecting Future Operations

The following known information affecting the future fiscal health of the University is summarized in the statements below:

- The Illinois Student Assistance Commission (ISAC) has again under-funded the Illinois Veterans program to the extent that the University anticipates that it will be writing off between $300,000 and $350,000 of fiscal year 2009 revenue, an amount similar to what was written off for FY08.
- During 2008, the Governor vetoed the University's add-on appropriation of $500,000 for the Center for Law Enforcement Technology Collaboration and $100,000 for Permanent Improvements. The Illinois General Assembly failed to override these vetos. The Center remains open and operating, due to reallocation of available funds to support a trimmed version of its operations.
- For the fall 2008 trimester, the University established a $16/credit hour facilities fee, which is designated for debt service. When this fee was established it was anticipated that the University would issue approximately $25 million in revenue bonds and certificates of participations in three phases to fund deferred maintenance and capital improvement projects. In fiscal year 2009, Governors State University intends to issue the third phase. The Board of Trustees of Governors State University has authorized the issuance of another $9.995 million of Certificate of Participation. This will allow the University to continue its deferred maintenance projects to renovate the buildings and facilities.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008
With Comparative Totals as of June 30, 2007

	June 30, 2008		June 30, 2007	
	University	**Component Units**	University	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 2 & 3)	$ 18,004,111	$ 609,336	$ 16,156,817	$ 471,288
Trust escrow, restricted (Note 4)	13,822,457	-	-	-
Accounts receivable, net of allowance for uncollectible accounts of $3,690,600 (Note 2)	4,295,451	54,005	4,280,006	21,721
Grants receivable (Note 2)	576,544	-	2,756,830	-
Inventories (Note 2)	20,925	-	23,933	-
Student loans - current	635,000	-	668,000	-
Total Current Assets	37,354,488	663,341	23,885,586	493,009
Non-current Assets				
Investments (Notes 2 & 3)	-	741,448	-	766,295
Student loans, net of allowance for uncollectible loans of $677,000	2,929,528	-	2,845,025	-
Debt issuance costs (Note 2)	426,603	-	-	-
Capital assets (Note 7)	101,459,771	1,167,851	96,830,856	1,167,851
Less accumulated depreciation (Note 7)	(45,103,084)	-	(42,989,773)	-
Total Non-current Assets	59,712,818	1,909,299	56,686,108	1,934,146
Total Assets	97,067,306	2,572,640	80,571,694	2,427,155
LIABILITIES				
Current Liabilities				
Accounts payable	3,350,568	4,109	5,416,797	15,763
Agency funds payable	308,935	-	-	-
Accrued compensated absences (Notes 2 & 9)	1,000,000	-	1,000,000	-
Deferred revenue (Note 2)	3,190,582	-	2,839,038	-
Revenue bonds payable (Note 8)	301,738	-	-	-
Note payable and capital leases (Note 8)	511,582	-	494,556	-
Certificates of participation (Note 8)	126,301	-	85,000	-
Total Current Liabilities	8,789,706	4,109	9,835,391	15,763
Non-current Liabilities				
Accrued compensated absences (Notes 2 & 9)	4,582,342	-	4,629,947	-
Refundable grants	3,339,298	-	3,317,545	-
Revenue bonds payable (Note 8)	8,662,159	-	-	-
Note payable and capital leases (Note 8)	286,680	-	798,262	-
Certificates of participation (Note 8)	9,695,448	-	1,760,000	-
Total Non-current Liabilities	26,565,927	-	10,505,754	-
Total Liabilities	35,355,633	4,109	20,341,145	15,763
NET ASSETS (Note 2)				
Invested in capital assets, net of related debt	49,821,758	1,167,851	50,703,265	1,167,851
Restricted				
Nonexpendable	-	1,025,201	-	807,650
Expendable				
Loans	698,278	-	691,027	-
Debt service	469,394	-	-	-
Other	73,938	301,996	89,535	335,050
Unrestricted	10,648,305	73,483	8,746,722	100,841
Total Net Assets	$ 61,711,673	$ 2,568,531	$ 60,230,549	$ 2,411,392

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	June 30, 2008		June 30, 2007	
	University	Component Units	University	Component Units
OPERATIONS				
Revenue				
Student tuition and fees net of scholarship allowances of $2,800,127 (Note 2)	$ 22,126,445	$ -	$ 19,930,861	$ -
Federal grants and contracts	7,521,940	-	6,903,312	-
State grants and contracts	1,579,401	-	1,271,998	-
Other grants and contracts	1,101,993	10,030	775,409	19,030
Sales and services of educational departments	7,405,774	-	7,795,969	-
Auxiliary enterprises	1,826,822	-	2,191,241	-
Other operating revenues	1,669,450	174,258	1,762,685	141,832
Total operating revenues	43,231,825	184,288	40,631,475	160,862
Expense				
Instruction	36,691,013	-	33,371,017	-
Research	1,374,409	-	1,548,553	-
Public service	11,501,416	-	10,491,664	-
Academic support	2,110,258	-	1,947,095	-
Student services	5,842,809	-	4,975,003	-
Institutional support	12,653,488	-	11,126,579	-
Operation and maintenance of plant	6,767,113	-	7,158,003	-
Auxiliary enterprises	1,689,546	-	1,623,130	-
Depreciation	2,601,715	-	2,580,018	-
University support	-	170,767	-	189,386
Other expense	-	290,477	-	205,632
Total operating expenses	81,231,767	461,244	74,821,062	395,018
Operating loss	(37,999,942)	(276,956)	(34,189,587)	(234,156)
NON-OPERATING REVENUES (EXPENSES)				
State appropriation	27,659,400	-	27,673,800	-
Payments made on behalf of the University	11,356,654	-	9,817,536	-
Gifts	-	270,366	-	209,838
Investment income (loss)	636,360	(18,854)	825,649	117,731
Investment income on debt proceeds	165,659	-	-	-
Interest expense	(434,799)	-	(150,208)	-
Other non-operating expense	(6,408)	-	(7,592)	-
Net non-operating revenues	39,376,866	251,512	38,159,185	327,569
Income (loss) before other revenues, expenses, gains and losses	1,376,924	(25,444)	3,969,598	93,413
Transfers from the Capital Development Board (Note 13)	104,200	-	454,253	-
Additions to permanent endowments	-	182,583	-	35,564
Increase in net assets	1,481,124	157,139	4,423,851	128,977
NET ASSETS				
Net assets - beginning of year	60,230,549	2,411,392	55,806,698	2,282,415
Net assets - end of year	$ 61,711,673	$ 2,568,531	$ 60,230,549	$ 2,411,392

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	June 30, 2008		June 30, 2007	
	University	**Component Units**	University	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 23,285,708	$ -	$ 18,366,883	$ -
Grants and contracts	12,405,373	10,030	8,542,620	19,030
Payments to suppliers	(20,708,890)	(318,044)	(16,316,294)	(278,035)
Payments for scholarships	(4,605,477)	(52,516)	(3,795,588)	(29,454)
Payments to employees and fringe benefits	(45,619,772)	-	(43,299,354)	-
Auxiliary enterprises	1,826,822	-	2,191,241	-
Sales and services of educational departments	7,405,774	-	7,795,969	-
Student loans issued	(731,662)	-	(905,903)	-
Student loans collected	680,159	-	718,574	-
Other operating revenue	1,672,458	40,507	1,773,100	55,876
Net cash used by operating activities	(24,389,507)	(320,023)	(24,928,752)	(232,583)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	27,674,593	-	27,646,862	-
Contributions	-	269,494	-	188,117
Contributions for permanent endowments	-	182,583	-	35,564
Net cash provided by noncapital financing activities	27,674,593	452,077	27,646,862	223,681
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(1,232,414)	-	(545,878)	-
Principal payments on capital debt	(579,556)	-	(559,369)	-
Interest payments on capital debt	(262,182)	-	(150,208)	-
Net cash used by capital financing activities	(2,074,152)	-	(1,255,455)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	34,539	-	93,328
Interest and dividend income	636,360	81,469	823,763	66,297
Investment management fees	-	(7,709)	-	(4,742)
Purchase of investment securities	-	(102,305)	-	(803,447)
Net cash provided (used) by investing activities	636,360	5,994	823,763	(648,564)
Net increase (decrease) in cash and cash equivalents	1,847,294	138,048	2,286,418	(657,466)
Cash and cash equivalents - beginning of year	16,156,817	471,288	13,870,399	1,128,754
Cash and cash equivalents - end of year	$ 18,004,111	$ 609,336	$ 16,156,817	$ 471,288
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	$ (37,999,942)	$ (276,956)	$ (34,189,587)	$ (234,156)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Non-cash expenses included in operating loss:				
Depreciation expense	2,601,715	-	2,580,018	-
Payments made on behalf of the University	11,356,654	-	9,817,536	-
Changes in assets and liabilities -				
Accounts and grants receivable	2,149,648	(31,412)	(3,348,675)	43,520
Agency fund payable	308,935	-	-	-
Inventories	3,008	-	10,415	-
Accounts payable	(3,083,714)	(11,655)	323,908	(41,947)
Refundable grants	21,753	-	103,974	-
Accrued compensated absences	(47,605)	-	(537,729)	-
Deferred revenue	351,544	-	498,717	-
Student loans	(51,503)	-	(187,329)	-
Net cash used by operating activities	$ (24,389,507)	$ (320,023)	$ (24,928,752)	$ (232,583)

NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES

During fiscal year 2008, the University issued $18,925,000 in Revenue Bonds and Certificates of Participation. The net proceeds of $18,521,203 were deposited in an escrow account with the trustee. The trustee paid $3,061,541 for project costs from the trust funds during 2008, $1,802,864 for the advance refunding of the 1998 Series Certicates of Participation, and had investment earnings on the trust balances of $165,659. The remaining balance ($13,822,457) is recorded as a trust escrow account on the Statement of Net Assets. The Capital Development Board turned over assets totalling $104,200 to the University (Note 13).

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - FINANCIAL REPORTING ENTITY AND COMPONENT UNIT DISCLOSURE

Governors State University (GSU) was chartered in 1969 to provide affordable and accessible undergraduate and graduate education to its culturally and economically diverse life-long learners in the Chicago metropolitan area. It is governed by the Board of Trustees of Governors State University created in January 1996 as a result of legislation to reorganize governance of State higher education institutions and provides liberal arts, science, and professional preparation at the upper-division and master's levels.

The financial reporting entity as defined by Governmental Accounting Standards Board (GASB) Statement No. 14 *The Financial Reporting Entity,* and GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of Governors State University as the primary government and the Governors State University Foundation and the Governors State University Alumni Association as component units of the University. The two component units are combined for presentation.

The University (and its component units) are a component unit of the State of Illinois for financial reporting purposes and its fiscal balances and activity are included in the State's comprehensive annual financial report.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the University are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB using the economic resources measurement focus and the accrual basis of accounting. When both restricted and unrestricted resources are available for use, it is the University's policy to use restricted resources first, then unrestricted resources as needed.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University follows all applicable GASB pronouncements. In addition, the University applies all Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and accounting research bulletins of the Committee of Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

1) Readily convertible to known amounts of cash.

2) So near to their maturity that they present insignificant risk of changes in value because of changes in interest.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out inventory valuation method.

Debt Issuance Costs

The costs associated with the issuance of the revenue bonds and certificates of participation are being amortized over the life of the issuance on the straight line method.

Accrued Compensated Absences

Accrued compensated absences include earned but unused vacation and sick leave days valued at the current rate of pay.

Allowance for Uncollectible Accounts

The allowance for doubtful accounts is based on management's best estimate of uncollectible accounts considering type, age, collection history, and other appropriate factors.

Student Loans

Student loans include loans made to students under the Federal Perkins Loan Program as well as University loans. Loan repayments expected during the next fiscal year have been reported as a current asset. Loans that are not expected to be repaid during the next fiscal year, less an allowance for uncollectible loans, have been presented as a non-current asset.

Deferred Revenue

Deferred revenue includes amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period.

Estimates

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Foundation investments are recorded at fair market value as determined by quoted market prices. Investments are pooled for the purposes of allocating realized gains and losses, unrealized gains and losses and ordinary income, net of investment fees, to the unallocated reserve in the restricted fund. Allocation to specific accounts is based on contractual obligations and the Foundation's investment policy.

Accounts and Grants Receivable

An aging of accounts and grants receivable is as follows:

Current	$ 4,532,240
Up to 120 days past due	185,365
From 121 to 240 days past due	151,956
From 241 to 365 days past due	95,279
More than 365 days past due	3,597,755
Allowance for doubtful accounts	(3,690,600)
Net accounts and grants receivable	$ 4,871,995

Non-student receivables are not aged and have been presented as current above. Any receivables that are more than $900 and 90 days past due are sent to the Illinois Comptroller's Office for levy on any State income.

Net Assets

GASB Statement No. 35 requires the University's net resources to be classified into net asset categories and reported in its Statement of 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 accumulated depreciation and outstanding debt obligations used to acquire capital assets.

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 intact 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 in accordance with restrictions imposed by external third parties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 enterprises. 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.

Classification of Revenues

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State and local grants and contracts.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 35, such as State appropriations, payments made on behalf of the University for healthcare and retirement costs, and investment income.

Risk Management

The University participates in the Illinois Public Higher Education Cooperative (IPHEC) and Midwestern Higher Education Compact (MHEC), which leverages all Illinois public university's assets to reduce the total and individual cost of property and liability insurances to Illinois public universities. Additionally, the University is a member of the State University Risk Management Association (SURMA), which is an inter-governmental risk sharing pool. The University's general liability coverage has a $350,000 self insured retention level per occurrence, which is covered by SURMA. Participant contributions to SURMA are based upon actuarial valuations.

Scholarship Discounts and Allowances

Student tuition and fee revenues are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charges and the amounts paid directly by students and/or third parties. Certain governmental grants, such as Pell grants, and other Federal, State or nongovernmental programs are recorded as either operating or non-operating revenues 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

NOTE 3 - DEPOSITS AND INVESTMENTS

GASB Statement No. 40 *Deposit and Investment Risk Disclosures* requires general disclosures by investment type with disclosures of the specific risks those investments are exposed to.

Deposits consist of the following at June 30, 2008:

University:	Carrying Amount	Bank Balance
Cash in bank	$ 913,472	$ 2,893,263
Cash on hand	21,956	-
Illinois Funds	17,068,683	17,068,683
Total	$ 18,004,111	$ 19,961,946

Foundation:	Carrying Amount	Bank Balance
Cash in bank	$ 273,036	$ 273,036
Total	$ 273,036	$ 273,036

Alumni Association:	Carrying Amount	Bank Balance
Cash in bank	$ 21,075	$ 21,075
Illinois Funds	78,247	78,247
Total	$ 99,322	$ 99,322

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation insured bank balances totaling $221,075 (all three entities) at June 30, 2008. The bank balances of the Foundation and Alumni Association were fully collateralized as of June 30, 2008 and had no deposits that were subject to Custodial Credit Risk. The University had $1,222,815 in bank balances that were not collateralized and subject to the Custodial Credit Risk. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract. Depositories and brokers are chosen based on stability and longevity, and due to insurance and collateralization, bank balances were not subject to custodial risk

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	Not Rated	< 1 year	$ 159,406	$ 159,406
Mutual Funds investing in stocks			370,045	370,045
Mutual Funds investing in bonds	Not Rated	1 to 5 years	371,403	371,403
Total			$ 900,854	$ 900,854

Custodial Credit Risk – Investments: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2008, investments consisted of money market funds and mutual funds. The money market funds and mutual funds were insured by the Securities Investor Protection Corporation (SIPC) up to $500,000. The remaining amounts were insured through brokers "excess coverage" insurance with Customer Asset Protection Company.

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation's investment policy addresses the overall diversification of the portfolio with consideration for liquidity. It does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average duration of the mutual fund investing in bonds was 4.9 years.

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 permits investments in securities rated within the four highest grades assigned by Moody's Investor Service, Inc. or Standard & Poor's Corporation or, if unrated, deemed by the investment manager to be of comparable quality. The money market fund is invested in Centennial Money Market Trust. The Centennial Money Market Trust is not rated, but the fund only invests in investments that are rated in one of the two highest short-term ratings categories of two national rating organizations. The mutual fund investing in bonds also was not rated.

Foreign Currency Risk: Foreign currency risk exists when there is a possibility that the exchange rate of foreign currencies against the US dollar may vary. The Foundation does not have a policy limiting its exposure to foreign currency risk. The Foundation had the following exposure to foreign currency risk as of June 30, 2008:

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Country	Amount
France	$ 8,690
Germany	5,689
Japan	11,887
Switzerland	6,294
United Kingdom	12,731
Other Countries (< 5%)	20,716
Total	$ 66,007

The carrying value of the investment portfolio of the Alumni Association at June 30, 2008 is as follows:

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	Not Rated	< 1 year	$ 77,572	$ 77,572

Custodial Credit Risk – Investments: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2008, investments consisted solely of money market funds. The money market account was fully insured by the Securities Investor Protection Corporation (SIPC). The Alumni Association currently has no custodial credit risk.

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Alumni Association has maintained its funds in highly liquid investments, but has not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Alumni Association currently has no interest rate risk.

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 money market funds were invested in the Morgan Stanley Liquid Asset Fund and are not rated. The Morgan Stanley Liquid Asset Fund invests in debt obligations of high quality and short term maturities.

NOTE 4 - TRUST ESCROW

The net proceeds from issuing the University Revenue Bonds and Certificates of Participation were separately deposited in two Trust Escrow accounts with Amalgamated Bank (Bank). As trustee, the Bank has invested the funds in Illinois Funds and Morgan Stanley money market accounts pending expenditure for the University's deferred maintenance projects.

NOTE 5 - STATE UNIVERSITIES RETIREMENT SYSTEM

Plan Description

The 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 calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8% 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% (7.6% for Self-Managed Plan) 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 $3,797,714, $2,790,142, and $1,747,612, respectively, equal to the required contributions for each year.

NOTE 6 - POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the State provides certain health, dental and life insurance benefits to annuitants that are former State employees. This includes annuitants of the University. Substantially all State employees, including the University's employees, may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for those under age 60 are equal to the annual salary at the time of retirement; life insurance benefits for those ages 60 and older are limited to $5,000 per annuitant.

NOTE 6 - POSTEMPLOYMENT BENEFITS (continued)

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

NOTE 7 - CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are also capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 60 years for buildings and three to ten years for equipment.

Capital asset activity for the University and Foundation for the year ended June 30, 2008 is summarized as follows:

NOTE 7 - CAPITAL ASSETS (Continued)

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Capital assets not being depreciated					
Land	$ 1,389,086	$ -	$ -	$ -	$ 1,389,086
Construction in progress	-	3,787,113	-	(118,590)	3,668,523
Artwork/Sculptures-University	268,323	-	-	-	268,323
Artwork/Sculptures-GSU Foundation	1,167,851	-	-	-	1,167,851
Total capital assets not being depreciated	$ 2,825,260	$ 3,787,113	$ -	$ (118,590)	$ 6,493,783
Other capital assets					
Site improvements	$ 1,011,175	$ -	$ -	$ 118,590	$ 1,129,765
Buildings	74,241,266	104,200	-	-	74,345,466
Equipment	8,075,628	613,147	(313,096)	-	8,375,679
Equipment under capital lease	169,545	-	-	-	169,545
Library collection	11,675,833	619,267	(181,716)	-	12,113,384
Total other capital assets	95,173,447	1,336,614	(494,812)	118,590	96,133,839
Less accumulated depreciation for					
Site improvements	(682,036)	(17,888)	-	-	(699,924)
Buildings	(27,108,746)	(1,172,043)	-	-	(28,280,789)
Equipment	(5,071,611)	(882,594)	306,688	-	(5,647,517)
Equipment under capital lease	(60,928)	(33,609)	-	-	(94,537)
Library collection	(10,066,452)	(495,581)	181,716	-	(10,380,317)
Total accumulated depreciation	(42,989,773)	(2,601,715)	488,404	-	(45,103,084)
Other capital assets, net	$ 52,183,674	$ (1,265,101)	$ (6,408)	$ 118,590	$ 51,030,755
Capital asset summary:					
Capital assets not being depreciated	$ 2,825,260	$ 3,787,113	$ -	$ (118,590)	$ 6,493,783
Other capital assets	95,173,447	1,336,614	(494,812)	118,590	96,133,839
Less accumulated depreciation	(42,989,773)	(2,601,715)	488,404	-	(45,103,084)
Total capital assets, net	$ 55,008,934	$ 2,522,012	$ (6,408)	$ -	$ 57,524,538

NOTE 8 - LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2008 were as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Amounts Due Within One Year
Notes Payable	$ 1,185,321	$ -	$ 462,301	$ 723,020	$ 477,983
Capital Leases	107,497	-	32,255	75,242	33,599
Revenue Bonds	-	8,930,000	-	8,930,000	300,000
Certificates of Participation	1,845,000	9,995,000	1,845,000	9,995,000	135,000
	3,137,818	18,925,000	2,339,556	19,723,262	946,582
Unamortized Discounts	-	(173,976)	(725)	(173,251)	(8,699)
Unamortized Premiums	-	34,766	869	33,897	1,738
	$ 3,137,818	$ 18,785,790	$ 2,339,700	$19,583,908	$ 939,621

Note Payable and Capital Leases

The interest rate for the note payable is 3.341% for the voice over internet protocol system, 4.17% for a color copier system under capital lease, and 4.07% for another copier under capital lease. Each are secured by the equipment being financed. Maturity dates range from December, 2009 through May, 2011. Future maturities of the note payable and capital leases are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 511,582	$ 21,391	$ 532,973
2010	280,037	4,816	284,853
2011	6,643	276	6,919
	$ 798,262	$ 26,483	$ 824,745

Revenue Bonds Payable

On November 20, 2007, the University issued $8,930,000 of University Facilities System Revenue Bonds, Series 2007, with an interest rate ranging from 4.00% to 4.125% to make various improvements and additions to the University included in its deferred maintenance initiative and pay the costs incurred in the connection with the issuance of the Series 2007 Bonds. The original issue premium is being accreted to interest expense over the term of the bonds.

Optional Redemption – The Series 2007 Bonds maturing on or after October 1, 2018 are subject to redemption on or after October 1, 2017, at the option of the University.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Mandatory Redemption of Term Bonds – The Series 2007 Term Bonds maturing on October 1, 2025 and October 1, 2027, are subject to mandatory redemption prior to maturity through the application of sinking fund payments, at a redemption price equal to the principal amount plus accrued interest to the date fixed for redemption, in the following principal amounts on October 1 in each of the years set forth below:

Term Bonds due 10/01/25			Term Bonds due 10/01/27		
Year		Principal Amount	Year		Principal Amount
2024	$	565,000	2026	$	610,000
2025	$	585,000	2027	$	635,000

Future debt service requirements are as follows:

Year Ending June 30		Principal		Interest		Total
2009	$	300,000	$	352,756	$	652,756
2010		310,000		340,556		650,556
2011		320,000		327,956		647,956
2012		335,000		314,856		649,856
2013		350,000		301,156		651,156
2014 – 2018		1,975,000		1,279,281		3,254,281
2019 – 2023		2,405,000		842,881		3,247,881
2024 – 2028		2,935,000		309,141		3,244,141
	$	8,930,000	$	4,068,583	$	12,998,583

Certificates of Participation

On June 12, 2008, the University issued $9,995,000 of University Capital Improvement Project Certificates of Participation, Series 2008, with an interest rate ranging from 3.50% to 4.50% to pay a portion of the costs of improvements, to refund in advance of maturity and advance refund all of the $1,760,000 outstanding principal on the Certificates of Participation, Series 1998, and to pay the costs of issuing the Series 2008 Certificates. The original issue discount is being accreted to interest expense over the term of the certificate. The advance refunding resulted in savings of $98,730 over the life of the issue at a present value of approximately $72,158. There was no difference between the reacquisition price and the net carrying amount of the old debt.

Optional Redemption – The Series 2008 Certificates are callable on any date on or after January 1, 2018, at the option of the University, upon at least 35 days prior written notice from the University to the Trustee.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Redemption Upon Optional Termination of Purchase Contract – The Certificates are subject to mandatory redemption, in whole, at the redemption prices set forth below, plus accrued interest to the date fixed for redemption, on the following dates, if the University notifies the Trustee not less than 60 days prior thereto that it is exercising its option to terminate the Purchase Contract:

Redemption Date	Redemption Price
January 1, 2013	110%
On or after January 1, 2018	100%

Redemption Upon Failure to Renew Purchase Contract – The Series 2008 Certificates are subject to mandatory redemption, in whole, at the price of the principal amount thereof, plus accrued interest to the date fixed for redemption, on January 1, 2018, unless the University notifies the Trustee not less than 60 days prior thereto that the Purchase Contract has been renewed and the Expiration Date extended to January 1, 2028 in accordance with the terms of the Purchase Contract.

Redemption Upon Event of Non-appropriation and Termination of Purchase Contract – The Series 2008 Certificates are subject to redemption, in whole, at the price of par (100%), plus accrued interest to the date fixed for redemption, on any date on which the Purchase Contract is terminated by the Board because (i) an event of non-appropriation has occurred, (ii) the Board has determined that there are not sufficient legally available non-appropriated funds to pay the installment payments coming due during the then–current fiscal year, and (iii) the Board has exercised its option to prepay the certificates.

The University defeased its outstanding Certificates of Participation, Series 1998 through advanced funding and, accordingly, those certificates are not reflected in the accompanying financial statements. The amount of certificates of participation, which have been advance refunded as of June 30, 2008, consists of the following:

Advance Refunded Certificates of Participation		
Series 1998	Outstanding at June 30, 2008	$ 1,760,000

Future debt service requirements are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 135,000	$ 211,446	$ 346,446
2010	105,000	404,525	509,525
2011	110,000	400,850	510,850
2012	110,000	397,000	507,000
2013	115,000	393,150	508,150
2014 – 2018	660,000	1,899,650	2,559,650
2019 – 2023	3,885,000	1,567,475	5,452,475
2024 – 2028	4,875,000	648,175	5,523,175
	$ 9,995,000	$ 5,922,271	$ 15,917,271

NOTE 9 - ACCRUED COMPENSATED ABSENCES

Accrued compensated absences include earned but unused vacation and sick leave days valued at the current rate of pay.

	Change in Compensated Absences (in thousands)
Balance, beginning of year	$ 5,630
Additions / (Deductions), Net	(48)
Balance, end of year	5,582
Less: current portion	1,000
Balance, long-term portion	$ 4,582

NOTE 10 - COMPONENT UNITS

The University's financial statements include the activities of the University's component units, which represent discretely presented University related organizations. Below are the condensed financial statements by organization.

	Foundation	Alumni Association	Total
Condensed Statement of Net Assets			
ASSETS:			
Current assets	$ 486,447	$ 176,894	$ 663,341
Non-current assets	1,909,299	-	1,909,299
TOTAL ASSETS	2,395,746	176,894	2,572,640
LIABILITIES:			
Current liabilities	3,003	1,106	4,109
TOTAL LIABILITIES	3,003	1,106	4,109
NET ASSETS:			
Invested in capital assets	1,167,851	-	1,167,851
Restricted:			
Nonexpendable	948,049	77,152	1,025,201
Expendable	294,536	7,460	301,996
Unrestricted	(17,693)	91,176	73,483
TOTAL NET ASSETS	$ 2,392,743	$ 175,788	$ 2,568,531

NOTE 10 - COMPONENT UNITS (Continued)

Condensed Statement of Revenues, Expenditures, and Changes in Net Assets

	Foundation	Alumni Association	Total
Operating revenues	$ 132,087	$ 52,201	$ 184,288
Operating expenses	(391,418)	(69,826)	(461,244)
Operating income (loss)	(259,331)	(17,625)	(276,956)
Non-operating revenue	244,450	7,062	251,512
Net change to endowments	182,583	-	182,583
Increase to net assets	167,702	(10,563)	157,139
Net assets, beginning of year	2,225,041	186,351	2,411,392
Net assets, end of year	$ 2,392,743	$ 175,788	$ 2,568,531

Condensed Statement of Cash Flows

	Foundation	Alumni Association	Total
Net cash provided (used) by operating activities	$ (294,982)	$ (25,041)	$ (320,023)
Net cash provided by noncapital financing activities	452,035	42	452,077
Net cash provided (used) by investing activities	(1,026)	7,020	5,994
Cash increase (decrease)	156,027	(17,979)	138,048
Cash, beginning of year	276,415	194,873	471,288
Cash, end of year	$ 432,442	$ 176,894	$ 609,336

Reconciliation of net operating income (loss) to net cash used by operating activities

	Foundation	Alumni Association	Total
Operating loss	$ (259,331)	$ (17,625)	$ (276,956)
Adjustments to reconcile net loss to net cash used by operating activities:			
Changes in assets and liabilities -			
Accounts receivable	(31,412)	-	(31,412)
Accounts payable	(4,239)	(7,416)	(11,655)
Net cash used by operating activities	$ (294,982)	$ (25,041)	$ (320,023)

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The outcome of any current litigation/arbitration related to lawsuits against the University and/or its management is unknown at this time.

The University has outstanding commitments related to its Deferred Maintenance Initiative totaling approximately $9 million.

NOTE 12 - RESTRICTED ENDOWMENTS

All of the Foundation's endowment funds and a portion of endowed scholarship funds are generally invested in marketable securities which are valued at market as of the statement of net assets date. Investment earnings include dividends, interest, and capital appreciation/depreciation (both realized and unrealized) and are initially 100% assigned to the unallocated reserve in the restricted fund. Income is then allocated to various accounts based on the endowment agreements and the approved spending plans.

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 the endowment funds. The Foundation has adopted a spending policy of 6.0% of a trailing twelve month average of the market value of the assets.

NOTE 13 - NON-CASH TRANSACTIONS

The Capital Development Board (CDB) performs various capital improvements on behalf of the University. CDB turns over these improvements to the University throughout the year. During the year ended June 30, 2008, the University recognized capital contributions from CDB of $104,200.

Certain tuition and fee waivers are considered compensation and are not eliminated on the Statement of Revenue, Expenses, and Changes in Net Assets. These waivers do not involve cash. During the year ended June 30, 2008, $838,357 of such waivers were awarded.

During this fiscal year, the University issued University Facilities Revenue Bond, Series 2007 and Certificates of Participation, Series 2008. The net proceeds were deposited in a Trust Escrow with Amalgamated Bank and are being used for the University's Deferred Maintenance Initiative.

NOTE 14 – SUBSEQUENT EVENTS

During 2008, financial markets as a whole have incurred significant declines in values. The Foundation's and Alumni Association's investment portfolio has incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that will be recognized in the future financial statements, if any, can not be determined.

The Board of Trustees of Governors State University is in the process of issuing approximately $9,995,000 of Certificates of Participation with an anticipated closing date in March, 2009. The proceeds will be used to fund University deferred maintenance projects.

NOTE 15 – OPERATING LEASES

The University leases space in various buildings for off-campus classroom use and office space for its training contract with the Department of Children and Family Services. The rental expense for these lease agreements was $548,461 for the year ended June 30, 2008. Future minimum lease payments are as follows:

2009	$ 84,165
2010	82,251
2011	77,451
2012	31,315
	$ 275,182

NOTE 16 – PLEDGED REVENUES & DEBT SERVICE REQUIREMENTS

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

PLEDGED REVENUES

BOND ISSUE	PURPOSE	SOURCE OF REVENUE PLEDGED	FUTURE NET REVENUES PLEDGED[1]	TERM OF COMMITMENT	(CURRENT YEAR) PLEDGED NET REVENUE TO DEBT SERVICE[2]
University Facilities System	Various improvements and additions to the University included in its Deferred Maintenance Initiative	Net revenue of The Student Center, The University Bookstore, University Parking Facilities, and University Food Service and Vending Facilities.	$ 12,998,583	2028	4.18%

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

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

SUPPLEMENTAL INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BOND, SERIES 2007
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS	
Current Assets	
Cash and cash equivalents	$ 412,520
Trust escrow, restricted	6,945,565
Total Current Assets	7,358,085
Noncurrent Assets	
Debt issuance costs	171,342
Capital assets	2,488,994
Less accumulated depreciation	(1,879)
Total Noncurrent Assets	2,658,457
Total Assets	10,016,542
LIABILITIES	
Current Liabilities	
Accounts payable	589,754
Revenue bonds payable	301,738
Total Current Liabilities	891,492
Noncurrent Liabilites	
Revenue bonds payable	8,662,159
Total Non-current Liabilities	8,662,159
Total Liabilities	9,553,651
NET ASSETS	
Invested in capital assets, net of related debt	(90,592)
Restricted: expendable - debt service	469,394
Unrestricted	84,089
Total Net Assets	$ 462,891

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BOND, SERIES 2007
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2008

OPERATING REVENUES	
Bookstore commissions	$ 188,791
Food and vending commissions	12,733
Parking fees	220,363
Student center fees	1,257,532
Total Operating Revenues	1,679,419
OPERATING EXPENSES	
Salaries and benefits	474,465
Scholarships and awards	41,718
Capital expenditures	78,480
Services, supplies and other	541,236
Depreciation	1,879
Total Operating Expenses	1,137,778
Operating Income	541,641
NONOPERATING REVENUES (EXPENSES)	
Investment income	165,659
Interest expense	(242,695)
Other expenses	(1,714)
Net Nonoperating Revenues (Expenses)	(78,750)
Increase in net assets	462,891
NET ASSETS	
Net assets - beginning of the year	-
Net assets - end of the year	$ 462,891

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BOND, SERIES 2007
STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Bookstore commissions	$ 188,791
Food and vending commissions	12,733
Parking fees	220,363
Student center fees	1,257,532
Payments to suppliers for goods and services	(661,434)
Payments to employees for services	(474,465)
Net cash provided by operating activities	543,520
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Interest expense	(131,000)
Net cash provided (used) by capital financing activities	(131,000)
NET INCREASE IN CASH	
Cash increase	412,520
Cash - beginning of year	-
Cash - end of year	$ 412,520
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 541,641
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Non-cash expenses included in operating income:	
Depreciation expense	1,879
Net cash provided by operating activities	$ 543,520

NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES

During fiscal year 2008, the University issued $8,930,000 in Revenue Bonds. The net proceeds of $8,889,956 were deposited in an escrow account with the trustee. The trustee paid $2,110,050 for project costs from the trust funds during 2008, and had investment earnings on the trust balances of $165,659. The remaining balance ($6,945,565) is recorded as a trust escrow account on the Statement of Net Assets.

GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BOND, SERIES 2007
Year Ended June 30, 2008

STUDENT ENROLLMENT BY TERM (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2007	5,692	3,117
Winter Term, 2008	5,513	3,040
Spring/Summer Term, 2008	4,650	2,277

UNIVERSITY FEES (Unaudited)

The following fees were in effect during each of trimesters for the 07/08 academic year:

	Amount
Student Center Fee	$ 28
Student Activity Fee	$ 34
Counseling and Career Services Fee	$ 28
Parking Fee	$ 15

SCHEDULE OF INSURANCE IN FORCE (Unaudited)

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

Fire and extended coverage ($25,000 deductible) of:	
Buildings	$ 162,872,394
EDP & Contents	$ 3,933,000
Business interruption	$ 14,179,500
Boiler and Machinery (included in blanket coverage limit)	$ 100,000,000
Earthquake	$ 100,000,000
Flood	$ 100,000,000
General Liability	$ 19,650,000

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

and

Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Governors State University and its aggregate discretely presented component units, 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 February 6, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Governors 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 Governors State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Governors 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 Governors 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.*

We noted certain matters which have been reported to management of Governors State University in a separate letter dated February 6, 2009.

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

February 6, 2009