

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT**

FOR THE YEAR ENDED JUNE 30, 2006

**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, 2006

TABLE OF CONTENTS

	<u>Page No.</u>
Table of Contents	1
Financial Statement Report	
Summary	2
Independent Auditors' Report	3
Management's Discussion and Analysis	4
Basic Financial Statements	
Statement of Net Assets	12
Statement of Revenue, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14
Notes to the Financial Statements	15

Other Reports Issued Under Separate Cover:

Compliance Reports (including Single Audit) for Governors State
University for the Year Ended June 30, 2006

Financial Audit Report for Governors State University
Foundation for the Year Ended June 30, 2006

Financial Audit Report for Governors State University
Alumni Association for the Year Ended June 30, 2006

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of Governors State University was performed by Nykiel, Carlin & Co., Ltd.

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

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of 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, 2006, 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 basic financial statements as of and for the year ended June 30, 2005, on which we expressed unqualified opinions on the basic financial statements in our report dated December 7, 2005.

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, 2006 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 4 through 11 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*, a report 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 will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Nykiel, Carlin & Co., Ltd.

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

December 14, 2006

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2006**

Purpose

This section of Governors State University's (GSU) annual financial report presents an analysis and overview of the financial activities of the University and its component units' financial activities for the fiscal year ended June 30, 2006. 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

Accreditations

No external accrediting bodies visited GSU programs during FY06; all programs remained fully accredited by the relevant organization and agencies. During FY06, preparations were underway for accreditation visits to be conducted during FY07 by the Council for Accreditation of Counselor Education and Related Programs (for our graduate program in counseling), the American Speech-Language-Hearing Association (for our graduate program in communications disorders) and the council on Social work education (for our undergraduate and graduate programs in social work).

Rescissions and Appropriations

For fiscal years 2006 the University received two types of state appropriations, "special" and "operational". The "special" appropriations amounted to \$1,306,000 were used to pursue the development and expansion of the:

- International Trade Center - \$331,000,
- Institute for Urban Education - \$650,000, and
- Center for Excellence in Health Services - \$325,000.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2006**

Financial and Enrollment Highlights (continued)

The FY06 operational appropriation, used to fund ongoing programs, amounted to a 1.65% increase over FY05. The State of Illinois revenue shortfalls that began during FY01 continue to impact University funding as is seen on the table below. As the table shows, the FY 06 operational appropriation, even though increasing for the third consecutive year, is **still only 88.9% of what it was in FY02.**

Net Revenue Available From Operational Appropriations

<u>Fiscal Years</u>	<u>Initial Appropriations</u>	<u>Less:</u>			<u>Available Appropriations</u>	<u>Appropriation Available As A Percentage of FY2002</u>
		<u>Payments to Health Reserve Fund</u>	<u>Appropriation Rescissions</u>			
2006	\$ 24,680,100	\$ (656,200)	\$ -	\$ 24,023,900	88.9%	
2005	24,280,100	(656,200)	-	23,623,900	87.4%	
2004	24,180,100	(656,200)	(470,478)	23,053,422	85.3%	
2003	26,350,600	(656,200)	(722,000)	24,972,400	92.4%	
2002	28,045,900	656,200)	(369,500)	27,020,200	100.0%	

To offset the reduction in state support the University has engaged in a number of cost reduction actions. In FY 03, courses were eliminated, existing positions were eliminated for the second year, and vacant positions due to retirements or resignations were eliminated. In FY 04, reductions in non-personnel areas including equipment, commodities and contractual services were implemented. During FY 05 and FY06, the University minimized expenses at all opportunities.

Enrollment

Student credit hours produced during FY 06 decreased by 0.5% from the levels of FY 05; from 103,045 to 102,446. Degrees awarded increased by 5.5%, well within the usual variance from year to year. Credit hours for FY 07 are expected to increase, because of:

- Program expansions into new markets in the Kankakee and Naperville areas,
- Creating more online and weekend courses,
- Adding new off campus cohort sites, and
- Offering new degree programs.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2006**

Financial and Enrollment Highlights (continued)

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. We anticipate that sick and vacation payouts to departing employees will exceed \$1,000,000 per year for the next three to five years; this is as opposed to an average payout of less than \$400,000 per year over the first twenty-five years of existence.

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)		
	2006	2005	Change
Current assets	\$ 18,282	\$ 16,786	9%
Non-current assets	58,004	56,602	2%
Total assets	76,286	73,388	4%
Current Liabilities	8,986	7,340	22%
Non-current liabilities	11,494	12,175	-6%
Total liabilities	20,480	19,515	5%
Net assets	\$ 55,806	\$ 53,873	4%

Current Assets

Current assets consist primarily of cash, trust escrow assets, accounts receivable, and loans receivable (due in less than one year). The \$5 million cash increase and related \$1.0 million decrease in gross accounts receivable were brought about by new, more aggressive tuition and fee payment policies instituted in the Fall, 2005 trimester.

Trust escrow assets decreased by \$2,000,000 as vendors were paid for installation of the voice over internet protocol (VOIP) telephone system which became operational in December, 2005.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2006

Statement of Net Assets (continued)

Non-Current Assets

Non-current assets include the long-term portion of student federal Perkins loan receivables and capital assets net of accumulated depreciation. Most of the increase in this class of assets is accounted for by the expenditure of almost \$2,200,000 to complete the VOIP telephone system.

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 increase this year was due to:

- Larger than usual vendor payments (\$1 million increase) paid during its two-month lapse period, and
- Deferred revenue increase of over \$500,000. Deferred revenue consists of Spring/Summer tuition and fees assessed prior to the end of the fiscal year but not fully earned until after the end of the fiscal year.

Non-Current Liabilities

Non-current liabilities are liabilities with due dates greater than one year. They include compensated absences, refundable grants, and notes and capital leases payable. The slight decrease to these liabilities occurred as available funds were used to pay off over \$400,000 of old debt and an almost \$300,000 decrease in the sick leave portion of compensated absences. 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. Sick leave is paid out at 50% of the value of compensable leave earned through December 31, 1998. Since January 1, 1989 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.

The increase in the University's net assets is the result of an approximately \$2 million increase in unrestricted net assets. That increase was primarily the result of increased tuition and fee revenue, federal grant revenue, and educational department sales as well as the reduction of accrued compensated absences.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2006**

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets represents 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.

	(in thousands)		
	2006	2005	Change
Operations:			
Revenues			
Net tuition and fees	\$ 17,210	\$ 15,659	10%
Grants and contracts	7,579	6,754	12%
Sales of educational departments	6,645	6,520	2%
Auxiliary enterprises	1,755	1,909	-8%
Other operating revenues	486	1,235	-61%
Total operating revenues	33,675	32,077	5%
Expenses	67,516	63,313	7%
Net operating loss	(33,841)	(31,236)	8%
Non-operating and Other Revenues and Expenses			
State appropriations	25,986	24,280	7%
Payments made on behalf of the university	9,057	8,350	8%
Investment income	496	154	222%
Capital Development Board transfers	477	629	-24%
Other income and expense	(242)	(194)	25%
Total non-operating and other revenue and expenses	35,774	33,219	8%
Increase in net assets	1,933	1,983	-3%
Net assets - Beginning of year	53,873	51,890	4%
Net assets - End of year	\$ 55,806	\$ 53,873	4%

Operating Revenue and Expenses

Tuition and fees increased primarily as a result of tuition and fee rate increases during FY 06.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2006**

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

Grant and contract revenue increased as new grants were generated through the College of Health Professions and as increased financial aid was received and awarded.

Other operating revenues decreased as marginal activities were reduced in scope.

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. The increase this year resulted from increased cost of health care as well as the increased amounts funded by the State into the retirement system.

Investment income consists entirely of interest income and increased due to improved cash flow and higher interest rates.

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 FY 06, CDB expenditures for the University were approximately \$477,000, most of which was capital renewal projects.

Operating Expenses (by functional classifications and in thousands)

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Percent</u>
Instruction	\$ 29,785	\$ 26,220	\$ 3,565	14%
Research	1,064	1,116	-52	-5%
Public service	9,735	8,954	781	9%
Academic support	1,781	1,648	133	8%
Student services	4,171	3,732	439	12%
Institutional support	10,085	11,376	-1,291	-11%
Operation and maintenance of facilities	6,462	6,011	451	8%
Auxiliary activities	1,855	1,810	45	2%
Depreciation	2,578	2,446	132	5%
	<u>\$ 67,516</u>	<u>\$ 63,313</u>	<u>\$ 4,203</u>	<u>7%</u>

In most categories of endeavor, University expenditures increased between FY 05 and FY 06. Funding to support these increases came from both appropriation increases and tuition increases as noted above. The strongest percentage increases came in the areas of instruction and student services.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2006**

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

Operating Expenses (by natural classifications and in thousands)

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Percent</u>
Salaries and benefits	\$ 48,306	\$ 46,930	\$ 1,376	3%
Scholarships and awards	1,506	1,356	150	11%
Capital expenditures	1,943	2,020	(77)	-4%
Services, supplies and other	13,183	10,561	2,622	25%
Depreciation	2,578	2,446	132	5%
	<u>\$ 67,516</u>	<u>\$ 63,313</u>	<u>\$ 4,203</u>	7%

Salary and benefit expenses, representing the largest operating expense, increased modestly. The scholarships and awards cost increase is almost entirely attributable to tuition and fee rate increases. The substantial increase in "services, supplies and other" is largely attributable to spending on computer and other technology and on renovations to our facilities.

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)			
	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Percent</u>
Cash provided by (used in):				
Operating activities	\$ (19,098)	\$ (19,487)	\$ 389	-2%
Non-capital financing activities	25,719	23,235	2,484	11%
Capital and related financing activities	(2,049)	(1,117)	(932)	-83%
Investing activities	478	143	335	234%
Net increase in cash	<u>5,050</u>	<u>2,774</u>	<u>2,276</u>	<u>82%</u>
Cash - Beginning of year	8,820	6,046	2,774	46%
Cash - End of year	<u>\$ 13,870</u>	<u>\$ 8,820</u>	<u>\$ 5,050</u>	<u>57%</u>

The primary cash receipts from operating activities consist of tuition and fee revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Overall, net cash increased, reflecting cash management, focus on reducing student receivables, maximizing cash flow, increased revenues, and control of expenditures.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending June 30, 2006**

Statement of Cash Flows (continued)

State appropriations are the only sources of non-capital financing. The current accounting standards require that we reflect these sources of revenue as non-operating even though the University's budget depends on appropriations to maintain its current level of operations.

Factors Affecting Future Operations

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

- The president announced his retirement effective June 30, 2007 and the search for his replacement is well underway.
- A deferred maintenance initiative begun in early FY06 has identified more than fifteen priority projects estimated to cost in excess of \$22,000,000.
- The Illinois Student Assistance Commission (ISAC) has again under-funded the Illinois Veterans program to the extent that the University anticipates writing off between \$200,000 and \$300,000 in fiscal year 2007.
- The Illinois legislature has continued to fund the special appropriations at the same level as in FY06 and has also added another \$500,000 funding for The Center for Law Enforcement. The Illinois Board of Higher Education has been supportive of our efforts to have these special appropriations added to the University's base.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2006
With Comparative Totals as of June 30, 2005

	June 30, 2006		June 30, 2005	
	University	Component Units	University	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 2 & 3)	\$ 13,870,399	\$ 1,128,754	\$ 8,820,364	\$ 431,962
Trust escrow (Notes 2 & 12)	111,256	-	2,119,169	-
Certificates of deposit (Notes 2 & 3)	-	-	-	818,349
Accounts receivable, net of allowance for uncollectible accounts of \$3,782,000	1,416,466	43,520	3,296,140	-
Grants receivable	2,244,757	-	1,964,237	-
Inventories (Note 2)	34,348	-	28,996	-
Student loans - current	605,000	-	557,000	-
Total Current Assets	18,282,226	1,172,274	16,785,906	1,250,311
Non-current Assets				
Student loans, net of allowance for uncollectible loans of \$915,000	2,720,696	-	2,642,104	-
Capital assets (Note 6)	97,448,037	1,167,851	95,106,322	1,167,851
Less accumulated depreciation (Note 6)	(42,164,566)	-	(41,146,189)	-
	58,004,167	1,167,851	56,602,237	1,167,851
Total Assets	76,286,393	2,340,125	73,388,143	2,418,162
LIABILITIES				
Current Liabilities				
Accounts payable	5,092,889	57,710	3,987,424	148,014
Accrued compensated absences (Notes 2 & 8)	1,000,000	-	1,000,000	-
Deferred revenue	2,340,321	-	1,835,900	-
Note payable and capital lease (Note 7)	472,450	-	436,936	-
Certificates of participation (Note 7)	80,000	-	80,000	-
	8,985,660	57,710	7,340,260	148,014
Non-current Liabilities				
Accrued compensated absences (Notes 2 & 8)	5,167,676	-	5,557,435	-
Refundable grants	3,213,571	-	3,060,361	-
Note payable and capital lease (Note 7)	1,267,788	-	1,632,455	-
Certificates of participation (Note 7)	1,845,000	-	1,925,000	-
	11,494,035	-	12,175,251	-
Total Liabilities	20,479,695	57,710	19,515,511	148,014
NET ASSETS (Note 2)				
Invested in capital assets, net of related debt	51,729,489	1,167,851	52,004,910	1,167,851
Restricted				
Nonexpendable	-	772,087	-	744,912
Expendable				
Loans	656,369	-	605,298	-
Other	289,270	251,339	222,249	330,243
Unrestricted	3,131,570	91,138	1,040,175	27,142
Total Net Assets	\$ 55,806,698	\$ 2,282,415	\$ 53,872,632	\$ 2,270,148

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	June 30, 2006		June 30, 2005	
	University	Component Units	University	Component Units
OPERATIONS				
Revenue				
Student tuition and fees net of scholarship allowances of \$1,847,628 (Note 2)	\$ 17,210,033	\$ -	\$ 15,658,923	\$ -
Federal grants and contracts	5,957,412	-	5,489,654	-
State grants and contracts	1,032,106	-	809,198	-
Other grants and contracts	589,346	-	455,359	40,000
Sales and services of educational departments	6,644,924	-	6,520,128	-
Auxiliary enterprises	1,754,631	-	1,908,766	-
Other operating revenues	486,502	53,088	1,234,707	47,729
Total operating revenues	33,674,954	53,088	32,076,735	87,729
Expense				
Instruction	29,784,579	-	26,219,975	-
Research	1,063,576	-	1,116,425	-
Public service	9,735,440	-	8,954,648	-
Academic support	1,780,596	-	1,648,342	-
Student services	4,171,088	-	3,731,811	-
Institutional support	10,084,776	-	11,375,776	-
Operation and maintenance of plant	6,462,158	-	6,010,867	-
Auxiliary enterprises	1,855,501	-	1,809,814	-
Depreciation	2,578,296	-	2,445,624	-
University support	-	229,303	-	257,674
Other expense	-	80,765	-	66,973
Total operating expenses	67,516,010	310,068	63,313,282	324,647
Operating loss	(33,841,056)	(256,980)	(31,236,547)	(236,918)
NON-OPERATING REVENUES (EXPENSES)				
State appropriation	25,986,100	-	24,280,100	-
Payments made on behalf of the University	9,056,892	-	8,350,099	-
Gifts	-	192,022	-	217,344
Investment income	496,022	50,050	154,083	31,088
Interest on capital assets-related debt	(164,223)	-	(122,225)	-
Other non-operating expense	(77,063)	-	(71,871)	-
Net non-operating revenues	35,297,728	242,072	32,590,186	248,432
Income (loss) before other revenues, expenses, gains and losses	1,456,672	(14,908)	1,353,639	11,514
Transfers from the Capital Development Board	477,394	-	628,978	-
Additions to permanent endowments	-	27,175	-	26,243
Increase in net assets	1,934,066	12,267	1,982,617	37,757
NET ASSETS				
Net assets - beginning of year	53,872,632	2,270,148	51,890,015	2,232,391
Net assets - end of year	\$ 55,806,698	\$ 2,282,415	\$ 53,872,632	\$ 2,270,148

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, 2006
With Comparative Totals for the Year Ended June 30, 2005

	June 30, 2006		June 30, 2005	
	University	Component Units	University	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 19,130,721	\$ -	\$ 16,598,800	\$ -
Grants and contracts	7,451,554	-	6,602,733	40,000
Payments to suppliers	(14,155,431)	(416,192)	(13,544,706)	(208,111)
Payments for scholarships	(3,523,453)	(27,700)	(3,323,261)	(73,202)
Payments to employees and fringe benefits	(36,755,429)	-	(35,448,928)	-
Auxiliary enterprises	1,754,631	-	1,908,766	-
Sales and services of educational departments	6,644,924	-	6,520,128	-
Student loans issued	(971,075)	-	(995,775)	-
Student loans collected	844,483	-	945,388	-
Other operating revenue	481,150	53,088	1,249,975	47,729
Net cash used by operating activities	<u>(19,097,925)</u>	<u>(390,804)</u>	<u>(19,486,880)</u>	<u>(193,584)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	25,718,704	-	23,235,441	-
Contributions	-	192,022	-	167,344
Contributions for permanent endowments	-	27,175	-	26,243
Net cash provided by noncapital financing activities	<u>25,718,704</u>	<u>219,197</u>	<u>23,235,441</u>	<u>193,587</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(1,338,206)	-	(678,624)	-
Principal payments on capital debt	(546,749)	-	(315,826)	-
Interest payments on capital debt	(164,223)	-	(122,225)	-
Net cash used by capital financing activities	<u>(2,049,178)</u>	<u>-</u>	<u>(1,116,675)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	820,000	-	870,465
Interest and dividend income	478,434	48,399	142,689	24,836
Purchase of investment securities	-	-	-	(1,029,858)
Investment fees refunded	-	-	-	21,963
Investment fees	-	-	-	(12,484)
Net cash provided (used) by investing activities	<u>478,434</u>	<u>868,399</u>	<u>142,689</u>	<u>(125,078)</u>
Net increase (decrease) in cash and cash equivalents	5,050,035	696,792	2,774,575	(125,075)
Cash and cash equivalents - beginning of year	<u>8,820,364</u>	<u>431,962</u>	<u>6,045,789</u>	<u>557,037</u>
Cash and cash equivalents - end of year	<u>\$ 13,870,399</u>	<u>\$ 1,128,754</u>	<u>\$ 8,820,364</u>	<u>\$ 431,962</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	\$ (33,841,056)	\$ (256,980)	\$ (31,236,547)	\$ (236,918)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Non-cash expenses included in operating loss:				
Depreciation expense	2,578,296	-	2,445,624	-
Payments made on behalf of the University	9,056,892	-	8,350,099	-
Changes in net assets -				
Accounts and grants receivable	1,866,550	(43,520)	1,367,857	-
Inventories	(5,352)	-	15,268	-
Accounts payable	1,105,465	(90,304)	(262,565)	43,334
Refundable grants	153,210	-	27,450	-
Accrued compensated absences	(389,759)	-	(159,579)	-
Deferred revenue	504,421	-	15,900	-
Student loans	(126,592)	-	(50,387)	-
Net cash used by operating activities	<u>\$ (19,097,925)</u>	<u>\$ (390,804)</u>	<u>\$ (19,486,880)</u>	<u>\$ (193,584)</u>

See note 12 for information on non-cash investing and financing activities.

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

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

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. All significant transactions between the University, the Foundation, and the Alumni Association have been eliminated. 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.

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.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

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

Although investments with original maturities of less than three months may be defined as cash equivalents, the Foundation and Alumni Association displays certificates of deposit as a discrete item and classifies it as investments.

Trust Escrow

The University borrowed \$2,294,857 for the purchase and installation of a voice over internet protocol system. The funds are being held in an escrow account at LaSalle Bank National Association pending payment to the vendors. The balance of the escrow account as of June 30, 2006 is \$111,256.

Inventories

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

Self Insurance

The University participates in the State University Risk Management Association (SURMA), a self-insurance pool. Through its participation in SURMA, the University has contracted with several commercial carriers to provide general liability insurance. The University's general liability coverage has a \$350,000 deductible per occurrence, which is covered by SURMA. Participant contributions to SURMA are based upon actuarial valuations.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2006:

University:	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in bank	\$ 3,988,481	\$ 4,145,102
Cash on hand	19,205	-
Illinois Funds	9,862,713	9,862,713
Total	<u>\$ 13,870,399</u>	<u>\$ 14,007,815</u>
Foundation:	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in bank	\$ 68,951	\$ 68,951
Illinois Funds	97,403	97,403
Total	<u>\$ 166,354</u>	<u>\$ 166,354</u>
Alumni Association:	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in bank	\$ 794	\$ 794
Illinois Funds	103,755	103,755
Total	<u>\$ 104,549</u>	<u>\$ 104,549</u>

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 \$169,745 (all three entities) at June 30, 2006. The remaining bank

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

3. DEPOSITS AND INVESTMENTS (Continued)

balances as of June 30, 2006, were collateralized through the University's agreement with the local bank. The Foundation places deposits through the University and all deposits are required to be either insured or collateralized. 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.

The carrying value of the investment portfolio of the Foundation at June 30, 2006 is as follows:

Investments:	<u>Carrying Amount</u>	<u>Fair Value</u>
Money Market Funds	<u>\$ 786,550</u>	<u>\$ 786,550</u>

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, 2006, investments consisted solely of money market funds. The money market account was fully insured by the Securities Investor Protection Corporation (SIPC) and the brokers "excess coverage" insurance.

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.

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 fixed income 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.

As of June 30, 2006 the Foundation had all of the Money Market Funds invested in the Morgan Stanley Liquid Asset Fund. The Foundation had no exposure to interest rate risk and credit risk. At June 30, 2006, all funds were unrated and did not contain any withdrawal restrictions.

The carrying value of the investment portfolio of the Alumni Association at June 30, 2006 is as follows:

Investments:	<u>Carrying Amount</u>	<u>Fair Value</u>
Money Market Funds	<u>\$ 71,301</u>	<u>\$ 71,301</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

3. DEPOSITS AND INVESTMENTS (Continued)

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, 2006, investments consisted solely of money market funds. The money market account was fully insured by the Securities Investor Protection Corporation (SIPC).

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.

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 Alumni Association currently holds no investments with substantial credit risk.

As of June 30, 2006, the Alumni Association had all of the Money Market Funds invested in the Morgan Stanley Liquid Asset Fund. The Alumni Association had no exposure to interest rate risk and credit risk. At June 30, 2006, all funds were unrated and did not contain any withdrawal restrictions.

4. 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 writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8% 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 10.18% 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, 2006, 2005, and 2004 were \$1,747,612, \$2,787,378, and \$17,129,658, respectively, equal to the required contributions for each year.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

5. 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 postemployment 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.

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

6. 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 seven years for equipment.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

6. CAPITAL ASSETS (continued)

Capital asset activity for the University and Foundation for the year ended June 30, 2006 is summarized as follows:

	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Capital assets not being depreciated					
Land	\$ 1,389,086	\$ -	\$ -	\$ -	\$ 1,389,086
Construction-in-progress	187,079	-	-	(187,079)	-
Artwork/Sculptures-University	268,323	-	-	-	268,323
Artwork/Sculptures-GSU Foundation	1,167,851	-	-	-	1,167,851
Total capital assets not being depreciated	<u>\$ 3,012,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(187,079)</u>	<u>\$ 2,825,260</u>
Other capital assets					
Site improvements	\$ 1,011,175	\$ -	\$ -	\$ -	\$ 1,011,175
Buildings	73,135,741	477,393	-	173,879	73,787,013
Equipment	8,282,007	2,848,133	(1,578,120)	13,200	9,565,220
Equipment under capital lease	-	137,596	-	-	137,596
Library collection	10,832,911	515,575	(58,862)	-	11,289,624
Total other capital assets	<u>93,261,834</u>	<u>3,978,697</u>	<u>(1,636,982)</u>	<u>187,079</u>	<u>95,790,628</u>
Less accumulated depreciation for					
Site improvements	(650,016)	(16,010)	-	-	(666,026)
Buildings	(24,612,725)	(1,157,292)	-	(173,879)	(25,943,896)
Equipment	(6,726,545)	(844,077)	1,501,057	173,879	(5,895,686)
Equipment under capital lease	-	(27,319)	-	-	(27,319)
Library collection	(9,156,903)	(533,598)	58,862	-	(9,631,639)
Total accumulated depreciation	<u>(41,146,189)</u>	<u>(2,578,296)</u>	<u>1,559,919</u>	<u>-</u>	<u>(42,164,566)</u>
Other capital assets, net	<u>\$52,115,645</u>	<u>\$ 1,400,401</u>	<u>\$ (77,063)</u>	<u>\$ 187,079</u>	<u>\$53,626,062</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 3,012,339	\$ -	\$ -	\$(187,079)	\$ 2,825,260
Other capital assets	93,261,834	3,978,697	(1,636,982)	187,079	95,790,628
Less accumulated depreciation	(41,146,189)	(2,578,296)	1,559,919	-	(42,164,566)
Total capital assets, net	<u>\$55,127,984</u>	<u>\$ 1,400,401</u>	<u>\$ (77,063)</u>	<u>\$ -</u>	<u>\$56,451,322</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

7. LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2006 were as follows:

	Balance			Amounts Due Within	
	July 1, 2005	Additions	Deductions	June 30, 2006	One Year
Notes Payable	\$ 2,069,391	\$ -	\$ 436,937	\$ 1,632,454	\$ 447,132
Capital Leases	-	137,596	29,812	107,784	25,318
Certificates of Participation	2,005,000	-	80,000	1,925,000	80,000
	<u>\$ 4,074,391</u>	<u>\$ 137,596</u>	<u>\$ 546,749</u>	<u>\$ 3,665,238</u>	<u>\$ 552,450</u>

Note Payable and Capital Lease

The interest rate for the note payable is 3.341% for the voice over internet protocol system and 4.17% for a color copier system under capital lease. Each are secured by the equipment being financed. Maturity dates range from December, 2009 through June, 2010. Future maturities of note payable and capital lease are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 472,450	\$ 53,604	\$ 526,054
2008	488,674	37,380	526,054
2009	505,457	20,597	526,054
2010	273,657	4,275	277,932
	<u>\$ 1,740,238</u>	<u>\$ 115,856</u>	<u>\$ 1,856,094</u>

Certificates of Participation

Certificates of participation totaling \$2,280,000 (maturity date February 1, 2022) were sold under an installment purchase agreement dated August 1, 1998 through the Amalgamated Bank of Chicago acting as vendor and trustee. These non-state issued certificates of participation were sold by a private concern and will be repaid from future appropriations. Interest rates range from 4.7% to 5.125%. Future debt service requirements are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 80,000	\$ 96,604	\$ 176,604
2008	85,000	92,764	177,764
2009	90,000	88,684	178,684
2010	95,000	84,274	179,274
2011	100,000	79,619	179,619
2012 - 2016	565,000	320,344	885,344
2017 - 2021	735,000	161,013	896,013
2022	175,000	8,967	183,967
	<u>\$ 1,925,000</u>	<u>\$ 932,269</u>	<u>\$ 2,857,269</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

8. 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 <u>(in thousands)</u>	
Balance, beginning of year	\$ 6,557
Additions / (Deductions), Net	<u>(389)</u>
Balance, end of year	6,168
Less: current portion	<u>1,000</u>
Balance, long-term portion	<u>\$ 5,168</u>

9. 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. In the opinion of University management, the payment of any losses would be covered by insurance companies after payment of the first \$350,000 by the State Universities Risk Management Association, a self-insurance pool.

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.

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Condensed Statement of Net Assets			
ASSETS:			
Current assets	\$ 992,647	\$ 179,627	\$ 1,172,274
Capital assets	<u>1,167,851</u>	<u>-</u>	<u>1,167,851</u>
TOTAL ASSETS	<u>2,160,498</u>	<u>179,627</u>	<u>2,340,125</u>
LIABILITIES:			
Current liabilities	<u>50,381</u>	<u>7,329</u>	<u>57,710</u>
TOTAL LIABILITIES	<u>50,381</u>	<u>7,329</u>	<u>57,710</u>
NET ASSETS:			
Invested in capital assets	1,167,851	-	1,167,851
Restricted:			
Nonexpendable	694,935	77,152	772,087
Expendable	242,365	8,974	251,339
Unrestricted	<u>4,966</u>	<u>86,172</u>	<u>91,138</u>
TOTAL NET ASSETS	<u>\$ 2,110,117</u>	<u>\$ 172,298</u>	<u>\$ 2,282,415</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

10. COMPONENT UNITS (Continued)

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

	<u>Foundation</u>	Alumni <u>Association</u>	<u>Total</u>
Operating revenues	\$ 600	\$ 52,488	\$ 53,088
Operating expenses	<u>(266,121)</u>	<u>(43,947)</u>	<u>(310,068)</u>
Operating loss	(265,521)	8,541	(256,980)
Non-operating revenue	229,630	12,442	242,072
Net change to endowments	<u>27,100</u>	<u>75</u>	<u>27,175</u>
Increase (decrease) to net assets	(8,791)	21,058	12,267
Net assets, beginning of year	<u>2,118,908</u>	<u>151,240</u>	<u>2,270,148</u>
Net assets, end of year	<u>\$ 2,110,117</u>	<u>\$ 172,298</u>	<u>\$ 2,282,415</u>

Condensed Statement of Cash Flows

Net cash used by operating activities	\$ (316,403)	\$ (74,401)	\$ (390,804)
Net cash provided by noncapital financing activities	215,847	3,350	219,197
Net cash provided (used) by investing activities	<u>791,389</u>	<u>77,010</u>	<u>868,399</u>
Cash increase (decrease)	690,833	5,959	696,792
Cash, beginning of year	<u>262,071</u>	<u>169,891</u>	<u>431,962</u>
Cash, end of year	<u>\$ 952,904</u>	<u>\$ 175,850</u>	<u>\$ 1,128,754</u>

Reconciliation of net operating revenue/(expenses) to net cash used by operating activities

Operating income (loss)	\$ (265,521)	\$ 8,541	\$ (256,980)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Changes in net assets -			
Accounts receivable	(39,743)	(3,777)	(43,520)
Accounts payable	<u>(11,139)</u>	<u>(79,165)</u>	<u>(90,304)</u>
Net cash used by operating activities	<u>\$ (316,403)</u>	<u>\$ (74,401)</u>	<u>\$ (390,804)</u>

11. 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. However, at June 30, 2006, these funds were held in a brokerage account money market fund pending transfer to a new investment manager. Investment earnings include dividends, interest, and capital appreciation (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 agreement and the approved spending plan.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

12. NON-CASH TRANSACTIONS

The Capital Development Board (CDB) performs various capital improvements on behalf on the University. CDB turns over these improvements to the University throughout the year. During the year ended June 30, 2006, the University recognized capital contributions from CDB of \$477,394.

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, 2006, \$730,803 of such waivers were awarded.

The University has installed a voice over internet protocol (VOIP) telephone system which was financed in 2005 and was expected to cost \$2,294,857. The borrowing is reflected in notes payable. The asset is reflected as equipment. The unspent funds are held in trust at LaSalle Bank, pending payment to the vendors. These funds are presented as an asset titled "Trust Escrow" on the Statement of Net Assets. The funds were be paid out directly to the vendors as the goods and services were provided. Interest earned on the "Trust Escrow" totaled \$17,588 for the year ended June 30, 2006.

The University entered a capital lease for a color copier in the amount of \$137,596.