

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2013**

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, 2013**

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Related Report Issued Under a Separate Cover

Governors State University
Compliance Examination (In Accordance with the Single Audit Act
and OMB Circular A-133) for the Year Ended June 30, 2013

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2013**

University Officials

| | |
|---|--------------------------|
| President | Dr. Elaine Maimon |
| Executive Vice President, Chief of Staff, Treasurer | Dr. Gebeyehu Ejigu |
| Vice President, Administration and Finance | Ms. Karen Kissel |
| General Counsel and Vice President | Ms. Alexis Kennedy |
| Internal Auditor | Mr. David Dixon |
| Controller | Ms. Melinda Gieseke, CPA |

University offices are located at:

1 University Parkway
University Park, Illinois 60484

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2013**

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the Governors State University (University) was performed by E.C. Ortiz and Co., LLP.

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

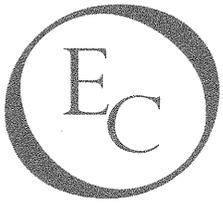
Summary of Findings

The auditors did not identify matters involving the University's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies.

The material weakness reported in the June 30, 2012 audit as finding 12-1, *Financial Adjustments*, was not repeated during the current audit.

Exit Conference

The University waived having an exit conference in a letter dated December 17, 2013 from the University's Vice President, Administration and Finance, Ms. Karen Kissel.



INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of the Governors State University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University and its aggregate discretely presented component unit, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component unit of the University in our report dated April 19, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The University Facilities System Revenue Bonds Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, Student Enrollment by Term, University Fees, and Schedule of Insurance in Force, listed as supplementary information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The University Facilities System Revenue Bonds Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows, listed as supplementary information in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, the University Facilities System Revenue Bonds Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows, listed as supplementary information in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The University Facilities System Revenue Bonds Student Enrollment by Term, University Fees, and Schedule of Insurance in Force, listed as supplementary information in the table of contents, are the responsibility of management and have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

E.C. Ortis & Co., LLP

Chicago, Illinois
December 20, 2013

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013**

PURPOSE

This section of the Governors State University's (GSU or University) annual financial report presents an analysis and overview of the financial activities of the University for the fiscal year ended June 30, 2013. The GSU Foundation is considered a component unit of the University. Separate financial statements for the Foundation may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

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 Position 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 Position 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

During Fiscal Year 2010, the Higher Learning Commission team completed its review and reaccredited GSU for the maximum number of years (ten years, with the next reaffirmation scheduled for academic year 2019-2020).

Student Housing

On April 5, 2012 the University issued \$20,415,000 University Facilities System Revenue Bonds, Series 2012, for the purpose of financing the construction of an on-campus student housing complex scheduled for occupancy in late summer 2014. Construction commenced during the fiscal year and is expected to be completed by fall 2014.

Appropriations

For Fiscal Year 2013, the University received State appropriations for general operations.

The Fiscal Year 2013 total appropriation used to fund ongoing core programs constituted a decrease of 6.1% over the Fiscal Year 2012 appropriation.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013**

| Net Revenue Available from Operational Appropriations | | | |
|---|----------------|---------------------------------|--------------------------|
| Fiscal Years | Appropriations | Payments to Health Reserve Fund | Available Appropriations |
| 2013 | \$ 24,650,500 | \$ (656,200) | \$ 23,994,300 |
| 2012 | 26,253,400 | (656,200) | 25,597,200 |

Enrollment

Student credit hours billed during Fiscal Year 2013 decreased by 1.2% from the levels of Fiscal Year 2012, from 116,570 to 115,162.

Mandated Tuition Waivers

Certain tuition waivers are mandated by the State and have been funded or partially funded in the past. For the Fiscal Year 2013, about \$1.0 million in mandated tuition waivers were awarded by the University but not reimbursed from the State.

Statement of Net Position

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

| | (in thousands) | | | Percent Change |
|------------------------|----------------|-----------|-----------|----------------|
| | 2013 | 2012 | Change | |
| Current assets | \$ 74,328 | \$ 74,641 | \$ (313) | 0% |
| Noncurrent assets | 102,302 | 85,808 | 16,494 | 19% |
| Total assets | 176,630 | 160,449 | 16,181 | 10% |
| Current liabilities | 11,594 | 9,725 | 1,869 | 19% |
| Noncurrent liabilities | 51,887 | 54,182 | (2,295) | -4% |
| Total liabilities | 63,481 | 63,907 | (426) | -1% |
| Net position | \$ 113,149 | \$ 96,542 | \$ 16,607 | 17% |

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013**

The 17% increase in the University's net position is due to the following:

Current Assets

Current assets consist primarily of cash and cash equivalents, and receivables. The \$0.3 million decrease in current assets was mostly attributable to the \$2.0 million decrease in restricted cash primarily due to expending the proceeds from debt financing on construction and deferred maintenance projects, and the \$1.4 million decrease in State appropriation receivable due to timely payments of State reimbursements and the decrease in the amount appropriated by the State to the University. These decreases were partially offset by the \$0.8 million increase in accounts receivable primarily due to an increase in the outstanding reimbursements from the University's contract with the Department of Children and Family Services (DCFS), and the \$3.0 million increase in grants receivable primarily due to the timing of drawdowns and increased grant spending near year end.

Noncurrent Assets

Noncurrent assets consist primarily of long-term portion of student loans receivable, unamortized costs of issuance for the revenue bonds and certificates of participation, and capital assets net of accumulated depreciation. The \$16.5 million increase in noncurrent assets was mostly attributable to the \$16.9 million increase in net capital assets, which was due to the substantial completion of deferred maintenance projects that have been underway for the past six years, ongoing construction of the University's E and F buildings as funded by the Capital Development Board, ongoing construction of an on-campus student housing complex as funded by the University's Revenue Bonds, Series 2012, and ongoing construction of the grant-supported biology research laboratory. This increase was partially offset by the \$0.3 million decrease in student loans receivable primarily due to the timing of collections of loans from students.

Current Liabilities

Current liabilities include accounts payable, agency funds payable, accrued compensated absences, deferred revenue, and the current portion of long-term liabilities, which are payable in less than one year. The \$1.9 million increase in current liabilities was mostly attributable to the \$1.2 million increase in accounts payable caused by an increase in spending related to construction projects and grants, \$0.2 million amount due to GSU Foundation, and the \$0.4 million increase in deferred revenue primarily due to the increased collection of tuition and fee revenue attributable to future terms (summer 2013 and fall 2013).

Noncurrent Liabilities

Noncurrent liabilities are liabilities with due dates beyond one year, which include accrued compensated absences, refundable grants, revenue bonds payable, notes payable, and certificates of participation. The \$2.3 million decrease in noncurrent liabilities was mostly attributable to the \$0.4 million decrease in liability for compensated absences as retirements have led to a newer workforce, and the \$1.8 million principal payments in revenue bonds payable, notes payable, and certificates of participation.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013**

More detailed information about the University's long-term debt is presented in the notes to the basic financial statements.

Statement of Revenues, Expenses and Changes in Net Position

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

| | (in thousands) | | | |
|---|----------------|---------------|--------------|-------------------|
| | 2013 | 2012 | Change | Percent Change |
| OPERATING REVENUES | | | | |
| Net student tuition and fees | \$ 31,420 | \$ 33,072 | \$ (1,652) | -5% |
| Grants and contracts | 9,115 | 8,403 | 712 | 8% |
| Sales and services of educational departments | 5,666 | 6,259 | (593) | -9% |
| Auxiliary enterprises | 1,274 | 1,307 | (33) | -3% |
| Other operating revenues | 1,631 | 2,169 | (538) | -25% |
| Total operating revenues | 49,106 | 51,210 | (2,104) | -4% |
| OPERATING EXPENSES | 105,307 | 99,736 | 5,571 | 6% |
| Net operating loss | (56,201) | (48,526) | (7,675) | 16% |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriation | 24,651 | 26,253 | (1,602) | -6% |
| Payments made on behalf of the University | 29,165 | 22,668 | 6,497 | 29% |
| Federal Pell grant | 6,292 | 6,607 | (315) | -5% |
| Investment income | 38 | 27 | 11 | 41% |
| Interest expense | (1,120) | (1,162) | 42 | -4% |
| Capital additions provided by the State of Illinois | 13,649 | 2,812 | 10,837 | 385% |
| Capital asset contributions | 135 | - | 135 | 100% |
| Other nonoperating expense | (2) | (4) | 2 | -50% |
| Net nonoperating revenues | 72,808 | 57,201 | 15,607 | 27% |
| Increase in net position | 16,607 | 8,675 | 7,932 | 91% |
| Net position - beginning of year | 96,542 | 87,867 | 8,675 | 10% |
| Net position - end of year | \$ 113,149 | \$ 96,542 | \$ 16,607 | 17% |

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013**

This year, the increase in net position was 91% or \$7.9 million higher than Fiscal Year 2012 due to the following:

Operating Revenues

The \$2.1 million decrease in operating revenues was mostly attributable to the \$1.7 million decrease in net student tuition and fees due to the decline in enrollment and credit hours, and an increase in the aid and scholarships used to offset tuition, which was partially offset by the slight increase of 2% in the average tuition fee rates, the \$0.6 million decrease in sales and services of educational departments primarily due to the reduced reimbursements related to the University's contract with DCFS, and the \$0.5 million decrease in other operating revenues primarily due to rebates and adjustments in the prior year that were not repeated in the current year. These decreases were partially offset by the \$0.7 million increase in grants and contracts primarily due to the increase in spending for expiring federal grants.

Operating Expenses (by functional classification)

| | (in thousands) | | | |
|------------------------------------|-------------------|------------------|-----------------|-------------------|
| | 2013 | 2012 | Change | Percent Change |
| Instruction | \$ 50,912 | \$ 46,092 | \$ 4,820 | 10% |
| Research | 678 | 1,020 | (342) | -34% |
| Public service | 14,460 | 14,695 | (235) | -2% |
| Academic support | 2,681 | 2,009 | 672 | 33% |
| Student services | 7,383 | 6,688 | 695 | 10% |
| Institutional support | 16,127 | 16,506 | (379) | -2% |
| Operation and maintenance of plant | 8,280 | 8,096 | 184 | 2% |
| Auxiliary enterprises | 1,170 | 1,072 | 98 | 9% |
| Depreciation | 3,616 | 3,558 | 58 | 2% |
| | <u>\$ 105,307</u> | <u>\$ 99,736</u> | <u>\$ 5,571</u> | <u>6%</u> |

The overall increase of \$5.6 million in operating expenses was mostly attributable to the \$6.5 million increase in benefit payments made by the State on behalf of the University. This is most notable in the \$4.8 million increase in instruction where the majority of salaries and benefits expense are expended. Academic support increased by \$0.7 million mostly due to the transition of University library resources being contracted through electronic sources rather than through the purchase and capitalization of books. Student services increased by \$0.7 million mostly due to the increase in the mandated tuition waivers that were unfunded by the State. These increases were partially offset by the \$0.3 million decrease in research mostly due to federal research grants that ended and were not replaced by further funding.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013**

Operating Expenses (by natural classification)

| | (in thousands) | | | |
|-------------------------------|-------------------|------------------|-----------------|-------------------|
| | 2013 | 2012 | Change | Percent Change |
| Salaries and benefits | \$ 81,351 | \$ 74,924 | \$ 6,427 | 9% |
| Scholarships and awards | 4,265 | 4,552 | (287) | -6% |
| Capital expenditures | 1,391 | 1,442 | (51) | -4% |
| Services, supplies and others | 14,684 | 15,260 | (576) | -4% |
| Depreciation | 3,616 | 3,558 | 58 | 2% |
| | <u>\$ 105,307</u> | <u>\$ 99,736</u> | <u>\$ 5,571</u> | <u>6%</u> |

Salaries and benefits, representing the University's largest operating expense, increased by \$6.4 million mostly due to the 29% increase in on behalf payments made by the State.

Nonoperating Revenues (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 Fiscal Year 2013, the State's funding of retirement benefits increased by \$4.6 million and its funding of health care increased by \$1.9 million. State appropriation decreased by \$1.6 million from prior year funding. Capital additions provided by the State of Illinois increased by \$10.8 primarily due to the funding from the Capital Development Board for the ongoing construction of the University's E and F buildings.

Statement of Cash Flows

The Statement of Cash Flows 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 become due, and its need for external financing.

| | (in thousands) | | | |
|--|------------------|------------------|-------------------|-------------------|
| | 2013 | 2012 | Change | Percent Change |
| Cash provided by (used in): | | | | |
| Operating activities | \$ (26,281) | \$ (23,634) | \$ (2,647) | 11% |
| Noncapital financing activities | 32,158 | 36,822 | (4,664) | -13% |
| Capital financing activities | (8,685) | 13,511 | (22,196) | -164% |
| Investing activities | 38 | 27 | 11 | 41% |
| Net increase (decrease) in cash and cash equivalents | (2,770) | 26,726 | (29,496) | -110% |
| Cash and cash equivalents - beginning of year | 60,020 | 33,294 | 26,726 | 80% |
| Cash and cash equivalents - end of year | <u>\$ 57,250</u> | <u>\$ 60,020</u> | <u>\$ (2,770)</u> | <u>-5%</u> |

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2013**

The primary cash receipts from operating activities consist of student tuition and fees and grants and contracts revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash used in operating activities increased primarily due to the increase in overall operating expenses. Cash provided by noncapital financing activities decreased primarily due to the decrease in State appropriation and Federal Pell grant revenue. Net cash provided by (used in) capital financing activities significantly changed primarily due to the issuance of the \$20.4 million Revenue Bonds, Series 2012 as reflected in prior year, and the related principal and interest payments that started during the current year.

UNIVERSITY'S DEBT RATINGS

On March 18, 2013, Moody's Investors Service downgraded the University's ratings to "A3" from "A2" on its University Facilities System Revenue Bonds, Series 2007, and Certificates of Participation, Series 2008 and 2009, and concluded its review for possible downgrade.

Subsequently on August 9, 2013, Moody's Investors Service downgraded the University's ratings to "Baa1" from "A3" on its University Facilities System Revenue Bonds, Series 2007, and Certificates of Participation, Series 2008 and 2009, and concluded its review for possible downgrade.

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in Fiscal Year 2014 and beyond will lie in:

- The University's ability to market itself to new and continuing students to continue to increase registered student credit hours.
- The University's ability to continue to innovate with new quality program offerings to the community.
- The University's continuous success with the dual degree programs, which built pathways from the Illinois community colleges to Governors State University.
- The University's success in recruiting and admitting first-year students beginning with the fall semester of 2014 and sustaining that effort in the years to follow.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET POSITION**

| | JUNE 30, | | | |
|---|-----------------------|---------------------|-----------------------------------|---------------------|
| | 2013 | | (Comparative totals only) 2012 | |
| | University | Component Unit | University | Component Unit |
| ASSETS | | | | |
| <i>Current assets</i> | | | | |
| Cash and cash equivalents (Notes 2 and 3) | \$ 35,924,997 | \$ 488,498 | \$ 36,666,214 | \$ 589,155 |
| Cash and cash equivalents, restricted (Notes 2, 3 and 4) | 21,325,296 | - | 23,353,814 | - |
| Accounts receivable, net of allowance for uncollectible accounts of \$4,900,000 (Note 2) | 5,078,113 | 7,168 | 4,314,272 | 10,606 |
| Grants receivable (Note 2) | 4,675,759 | - | 1,629,390 | - |
| State appropriation receivable | 6,718,815 | - | 8,157,160 | - |
| Student loans - current (Note 2) | 373,448 | - | 323,010 | - |
| Due from component unit | - | - | 43,956 | - |
| Due from University (Note 10) | - | 211,917 | - | - |
| Unamortized debt issuance costs - current (Note 2) | 65,789 | - | 37,297 | - |
| Inventories (Note 2) | 71,410 | - | 76,712 | - |
| Other assets | 94,213 | - | 39,120 | - |
| Total current assets | 74,327,840 | 707,583 | 74,640,945 | 599,761 |
| <i>Noncurrent assets</i> | | | | |
| Investments (Notes 2 and 3) | - | 1,718,190 | - | 1,502,387 |
| Student loans, net of allowance for uncollectible loans of \$766,000 (Note 2) | 2,588,867 | - | 2,921,681 | - |
| Unamortized debt issuance costs (Note 2) | 868,617 | - | 962,897 | - |
| Other noncurrent assets (Note 2) | 176,920 | - | 168,703 | - |
| Capital assets (Note 7) | 157,561,317 | 2,203,156 | 137,233,171 | 1,717,356 |
| Accumulated depreciation (Note 7) | (58,893,927) | - | (55,478,675) | - |
| Total noncurrent assets | 102,301,794 | 3,921,346 | 85,807,777 | 3,219,743 |
| Total assets | 176,629,634 | 4,628,929 | 160,448,722 | 3,819,504 |
| LIABILITIES | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable | 5,101,988 | 465 | 3,885,366 | 8,410 |
| Agency funds payable | 149,814 | - | 203,953 | - |
| Accrued compensated absences (Notes 2 and 9) | 500,000 | - | 500,000 | - |
| Due to component unit (Note 10) | 211,917 | - | - | - |
| Due to University | - | - | - | 43,956 |
| Deferred revenue (Note 2) | 3,737,412 | - | 3,315,333 | - |
| Revenue bonds payable (Notes 8 and 15) | 365,853 | - | 350,853 | - |
| Notes payable (Note 8) | 469,129 | - | 451,889 | - |
| Certificates of participation (Notes 8 and 15) | 1,057,672 | - | 1,017,672 | - |
| Total current liabilities | 11,593,785 | 465 | 9,725,066 | 52,366 |
| <i>Noncurrent liabilities</i> | | | | |
| Accrued compensated absences (Notes 2 and 9) | 3,687,015 | - | 4,121,197 | - |
| Refundable grants | 3,644,107 | - | 3,611,829 | - |
| Revenue bonds payable (Notes 8 and 15) | 27,363,922 | - | 27,729,775 | - |
| Notes payable (Note 8) | 2,676,272 | - | 3,145,401 | - |
| Certificates of participation (Notes 8 and 15) | 14,515,571 | - | 15,573,243 | - |
| Total noncurrent liabilities | 51,886,887 | - | 54,181,445 | - |
| Total liabilities | 63,480,672 | 465 | 63,906,511 | 52,366 |
| NET POSITION (Note 2) | | | | |
| Net investment in capital assets | 71,031,349 | 2,203,156 | 54,881,276 | 1,717,356 |
| Restricted: | | | | |
| Nonexpendable | - | 1,554,037 | - | 1,338,404 |
| Expendable | | | | |
| Loans | 671,181 | - | 675,534 | - |
| Debt service | 1,202,627 | - | 1,223,379 | - |
| Other | - | 838,621 | - | 695,055 |
| Unrestricted | 40,243,805 | 32,650 | 39,762,022 | 16,323 |
| Total net position | \$ 113,148,962 | \$ 4,628,464 | \$ 96,542,211 | \$ 3,767,138 |

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | FOR THE YEAR ENDED JUNE 30, | | | |
|---|-----------------------------|-------------------|-----------------------------------|-------------------|
| | 2013 | | (Comparative totals only) 2012 | |
| | University | Component Unit | University | Component Unit |
| OPERATING REVENUES | | | | |
| Student tuition and fees, net of scholarship allowances of \$6,501,013 (Note 2) | \$ 31,420,401 | \$ - | \$ 33,071,685 | \$ - |
| Federal grants and contracts | 8,072,663 | 3,400 | 6,547,597 | - |
| State grants and contracts | 769,682 | - | 1,326,691 | - |
| Other grants and contracts | 272,228 | - | 529,154 | - |
| Sales and services of educational departments | 5,666,456 | - | 6,258,494 | - |
| Auxiliary enterprises | 1,273,713 | - | 1,306,975 | - |
| Other operating revenues | 1,630,708 | 345,179 | 2,169,073 | 207,928 |
| Total operating revenues | 49,105,851 | 348,579 | 51,209,669 | 207,928 |
| OPERATING EXPENSES | | | | |
| Instruction | 50,912,283 | - | 46,092,139 | - |
| Research | 677,588 | - | 1,019,479 | - |
| Public service | 14,459,403 | - | 14,695,209 | - |
| Academic support | 2,681,093 | - | 2,008,781 | - |
| Student services | 7,383,078 | - | 6,688,295 | - |
| Institutional support | 16,127,074 | - | 16,505,830 | - |
| Operation and maintenance of plant | 8,280,331 | - | 8,096,132 | - |
| Auxiliary enterprises | 1,169,541 | - | 1,071,820 | - |
| Depreciation | 3,616,325 | - | 3,558,226 | - |
| University support | - | 475,969 | - | 312,308 |
| Other expense | - | 354,188 | - | 246,985 |
| Total operating expenses | 105,306,716 | 830,157 | 99,735,911 | 559,293 |
| Net operating loss | (56,200,865) | (481,578) | (48,526,242) | (351,365) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriation | 24,650,500 | - | 26,253,400 | - |
| Payments made on behalf of the University | 29,165,000 | - | 22,668,000 | - |
| Federal Pell grant | 6,291,793 | - | 6,606,874 | - |
| Gifts | - | 533,028 | - | 304,758 |
| Investment income | 23,227 | 108,443 | 25,835 | 19,384 |
| Investment income on debt proceeds | 14,871 | - | 1,505 | - |
| Interest expense | (1,120,064) | - | (1,162,385) | - |
| Other nonoperating expense | (1,500) | - | (3,500) | - |
| Net nonoperating revenues | 59,023,827 | 641,471 | 54,389,729 | 324,142 |
| Income (loss) before other revenues, expenses, gains and losses | 2,822,962 | 159,893 | 5,863,487 | (27,223) |
| Capital additions provided by State of Illinois | 13,648,789 | - | 2,811,723 | - |
| Additions to permanent endowments | - | 215,633 | - | 101,573 |
| Capital asset contributions | 135,000 | 485,800 | - | 103,005 |
| Increase in net position | 16,606,751 | 861,326 | 8,675,210 | 177,355 |
| NET POSITION | | | | |
| Net position - beginning of year | 96,542,211 | 3,767,138 | 87,867,001 | 3,589,783 |
| Net position - end of year | \$ 113,148,962 | \$ 4,628,464 | \$ 96,542,211 | \$ 3,767,138 |

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF CASH FLOWS

| | FOR THE YEAR ENDED JUNE 30, | | | |
|---|-----------------------------|---------------------|------------------------|---------------------|
| | (Comparative totals only) | | | |
| | 2013 | | 2012 | |
| University | Component Unit | University | Component Unit | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Student tuition and fees | \$ 30,293,369 | \$ - | \$ 30,595,901 | \$ - |
| Grants and contracts | 6,469,465 | 3,400 | 8,644,123 | - |
| Payments to suppliers | (14,791,419) | (339,848) | (15,267,303) | (269,156) |
| Payments for scholarships | (4,264,912) | (91,597) | (4,551,710) | (73,705) |
| Payments to employees and fringe benefits | (52,716,558) | - | (52,649,694) | - |
| Auxiliary enterprises | 1,273,713 | - | 1,306,975 | - |
| Sales and services of educational departments | 5,666,456 | - | 6,258,494 | - |
| Student loans issued | (235,096) | - | (389,317) | - |
| Student loans collected | 392,759 | - | 248,803 | - |
| Other operating revenues | 1,630,708 | 29,566 | 2,169,073 | 32,514 |
| <i>Net cash used in operating activities</i> | <u>(26,281,515)</u> | <u>(398,479)</u> | <u>(23,634,655)</u> | <u>(310,347)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| State appropriation | 26,088,845 | - | 29,631,138 | - |
| Federal Pell grant | 6,069,349 | - | 7,190,921 | - |
| Contributions | - | 189,549 | - | 361,948 |
| Contributions for permanent endowments | - | 215,633 | - | 101,573 |
| <i>Cash provided by noncapital financing activities</i> | <u>32,158,194</u> | <u>405,182</u> | <u>36,822,059</u> | <u>463,521</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | | |
| Purchase of capital assets | (5,013,584) | - | (3,520,342) | - |
| Proceeds from issuance of debt, net | - | - | 19,988,514 | - |
| Principal payments on capital debt | (1,826,889) | - | (1,752,120) | - |
| Interest payments on capital debt | (1,844,039) | - | (1,204,696) | - |
| <i>Net cash provided by (used in) capital financing activities</i> | <u>(8,684,512)</u> | <u>-</u> | <u>13,511,356</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sales and maturities of investment securities | - | 935,485 | - | 873,034 |
| Investment income | 38,098 | 31,969 | 27,340 | 25,661 |
| Investment management fees | - | (17,614) | - | (15,832) |
| Purchase of investment securities | - | (1,057,200) | - | (1,162,998) |
| <i>Net cash provided by (used in) investing activities</i> | <u>38,098</u> | <u>(107,360)</u> | <u>27,340</u> | <u>(280,135)</u> |
| Net increase (decrease) in cash and cash equivalents | (2,769,735) | (100,657) | 26,726,100 | (126,961) |
| Cash and cash equivalents - beginning of year | 60,020,028 | 589,155 | 33,293,928 | 716,116 |
| Cash and cash equivalents - end of year | <u>\$ 57,250,293</u> | <u>\$ 488,498</u> | <u>\$ 60,020,028</u> | <u>\$ 589,155</u> |
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | | | |
| Net operating loss | \$ (56,200,865) | \$ (481,578) | \$ (48,526,242) | \$ (351,365) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | | | | |
| Noncash expenses included in net operating loss: | | | | |
| Depreciation | 3,616,325 | - | 3,558,226 | - |
| University support | - | 135,000 | - | - |
| Payments made on behalf of the University | 29,165,000 | - | 22,668,000 | - |
| Changes in assets and liabilities: | | | | |
| Accounts receivable, grants receivable and due from account | (3,559,077) | - | (1,405,445) | - |
| Inventories | 5,302 | - | (10,829) | - |
| Other assets | (55,093) | - | 11,785 | - |
| Other noncurrent assets | (8,217) | - | (19,206) | - |
| Student loans | 282,376 | - | (461,664) | - |
| Accounts payable and due to account | 491,431 | (51,901) | 692,940 | 41,018 |
| Agency funds payable | (54,139) | - | 54,852 | - |
| Deferred revenue | 437,346 | - | (506,736) | - |
| Accrued compensated absences | (434,182) | - | (234,464) | - |
| Refundable grants | 32,278 | - | 544,128 | - |
| <i>Net cash used in operating activities</i> | <u>\$ (26,281,515)</u> | <u>\$ (398,479)</u> | <u>\$ (23,634,655)</u> | <u>\$ (310,347)</u> |
| NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES | | | | |
| Capitalized interest payments | \$ 907,719 | \$ - | \$ 161,051 | \$ - |
| Unrealized gain (loss) on investments | \$ - | \$ 46,569 | \$ - | \$ (22,975) |
| Donations of capital assets | \$ - | \$ 485,800 | \$ - | \$ 103,005 |
| Other noncash contributions | \$ 135,000 | \$ 135,000 | \$ - | \$ - |

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

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Financial Reporting Entity and Component Unit Disclosure

Governors State University (GSU or University) 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, master and doctoral levels.

The financial reporting entity as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, 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 (Foundation) as a component unit of the University.

The Foundation was incorporated as a not-for-profit organization in June 1969. The Foundation provides support services to the University to assist the University in achieving its educational, research, and service goals.

The audit of the Foundation's financial statements for the fiscal year ended June 30, 2013 was conducted by an independent certified public accountant. Complete financial statements for this component unit may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

The University (and its component unit) is a component unit of the State of Illinois for financial reporting purposes and its fiscal balances and activities 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.

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Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. 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.

The financial statements are prepared in accordance with GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and follow the special purpose governments engaged only in "business-type" activities requirements, which requires the following components of the University's financial statements:

Management's Discussion and Analysis

This provides an objective analysis of the University's financial activities based on facts, decisions and conditions.

Basic Financial Statements including a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows

- The Statement of Net Position details current assets/liabilities and noncurrent assets/liabilities. In general, current assets are those that are available to satisfy current liabilities. Current liabilities are those that will be paid within one year of the date of the Statement of Net Position. Other assets and liabilities due beyond one year are noncurrent. Net position is divided into three major categories: (1) Net investment in capital assets, (2) Restricted net position, and (3) Unrestricted net position.
- The Statement of Revenues, Expenses and Changes in Net Position reports operating and nonoperating revenues and expenses, and displays the net income or loss from operations and total changes in net position.
- The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year and is prepared using the direct method. This statement provides information related to cash receipts and cash payments during the year. The statement also helps users evaluate the University's ability to meet financial obligations as they mature.

Notes to Basic Financial Statements

This provides additional analysis of the University's basic financial statements.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Cash and Cash Equivalents

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near to their maturities that they present insignificant risk of changes in value because of changes in interest.

Accounts and Grants Receivable

An aging of accounts and grants receivable as of June 30, 2013 is as follows:

| | |
|------------------------------------|---------------------|
| Current | \$ 8,708,067 |
| Up to 120 days past due | 997,451 |
| From 121 to 365 days past due | 551,446 |
| More than 365 days past due | 4,396,908 |
| Allowance for doubtful accounts | <u>(4,900,000)</u> |
| Net accounts and grants receivable | <u>\$ 9,753,872</u> |

Non-student receivables are not aged and have been presented above as current.

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.

Unamortized Debt Issuance Costs

The costs associated with the issuance of the revenue bonds and certificates of participation are being amortized on a straight-line basis over the life of the related debts.

Inventories

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

unallocated reserve in the restricted fund. Allocation to specific accounts is based on contractual obligations and the Foundation's investment policy.

Student Loans

Student loans include loans made to students under the Federal Perkins Loan Program and the Nurse Faculty Loan Program. 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 noncurrent asset.

Accrued Compensated Absences

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

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.

Classification of Revenues

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

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 educational departments, (3) auxiliary enterprises, and (4) most federal, State and local grants and contracts.

Nonoperating revenues - include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statements No. 9 and No. 35, such as State appropriation, payments made on behalf of the University for healthcare and retirement costs, federal Pell grant, and investment income.

Scholarship Discounts and Allowances

Student tuition and fees are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. 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 federal

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FOR THE YEAR ENDED JUNE 30, 2013**

Pell grant, and other federal, State or nongovernmental programs are recorded as either operating or nonoperating 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.

Net Position

The University's net position are classified as follows:

Net investment in capital assets - consists of capital assets net of accumulated depreciation, reduced by the outstanding debt obligations that are attributable to the acquisition, construction or improvement of those assets.

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

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

Unrestricted - consists of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. 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.

Risk Management

The University participates in the Illinois Public Higher Education Cooperative (IPHEC) and Midwestern Higher Education Compact (MHEC), which leverages all Illinois public universities' 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.

According to the Bylaws of SURMA, members may withdraw at any time and (subject to the approval by remaining members) be eligible to receive its proportionate share of capital contributions, or upon termination of SURMA, be entitled to receive its proportionate share of capital contributions. The capital contributions are to be allocated

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GOVERNORS STATE UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

based on the proportional premium contributions made by each member over the past five years. In accordance with GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools*, the University has recorded as other assets the estimated amount that could be recoverable in the event of withdrawal or termination.

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.

New Accounting Pronouncements

Effective July 1, 2012, the University adopted the following accounting pronouncements:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, which improves financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Public Accountants' Committee on Accounting Procedure that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

The implementation of these statements had no significant impact on the University's financial statements.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERISTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

Deposits with financial institutions consist of the following at June 30, 2013:

| | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|---|----------------------------|-------------------------|
| University: | | |
| Cash in bank | \$ 8,364,591 | \$ 10,722,535 |
| Illinois Funds (Standard & Poor's AAAM) | 48,529,688 | 48,529,688 |
| Total | <u>\$ 56,894,279</u> | <u>\$ 59,252,223</u> |
| Foundation: | | |
| Cash in bank | \$ 212,729 | \$ 212,729 |
| Illinois Funds (Standard & Poor's AAAM) | 74,056 | 74,056 |
| Total | <u>\$ 286,785</u> | <u>\$ 286,785</u> |

The University also had cash on hand of \$20,022 as of June 30, 2013.

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 \$500,000 (University and Foundation) at June 30, 2013. The remaining bank balances as of June 30, 2013 were fully 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 credit risk.

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FOR THE YEAR ENDED JUNE 30, 2013**

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

Credit Risk - exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations.

University Investments

The carrying value of the investment portfolio of the University at June 30, 2013 is as follows:

| | <u>Credit Rating</u> | <u>Maturity</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
|--------------------|--------------------------|-----------------|----------------------------|-----------------------|
| Money Market Funds | Not rated | < 1 year | \$ 335,992 | \$ 335,992 |

These funds are included under cash and cash equivalents, restricted in the Statement of Net Position.

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2013, investments consisted solely of money market funds held in corporate trust accounts at Amalgamated Bank of Chicago.

Interest Rate Risk - exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The University does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 University does not have a formal policy limiting credit risk.

Foundation Investments

The fair value of the investment portfolio of the Foundation at June 30, 2013 is as follows:

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

| | <u>Fair Value</u> |
|----------------------------------|---------------------|
| Money Market Funds | \$ 201,713 |
| Mutual Funds investing in stocks | 738,354 |
| Mutual Funds investing in bonds | 468,995 |
| Corporate Bonds | 308,967 |
| U.S. Treasury Obligations | 176,825 |
| U.S. Agency Obligations | 25,049 |
| | <u>\$ 1,919,903</u> |

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2013, investments consisted of money market funds, mutual funds, corporate bonds, U.S. Treasury Obligations and U.S. Agency Obligations. All investments are being held by the First Midwest Bank Trust Division.

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 but encourages a laddered portfolio with maturities occurring at regular intervals.

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 encourages the investment manager to focus on high quality bonds, maintaining an average credit quality of AA, to achieve an attractive risk-adjusted total return over the long run. The money market fund was invested in Northern Trust Institutional U.S. Government Select Portfolio which has a maturity of < 1 year and a credit rating of AAAm.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2013 are as follows:

| Investment Type | Fair Value | Investment Maturity (in Years) | | |
|---------------------------------|-------------------|--------------------------------|-------------------|------------------|
| | | Less Than 1 | 1-5 | 5-10 |
| Corporate Bonds | \$ 308,967 | \$ 56,636 | \$ 202,526 | \$ 49,805 |
| U.S. Treasury Obligations | 176,825 | 75,069 | 101,756 | - |
| U.S. Agency Obligations | 25,049 | - | 25,049 | - |
| Mutual Funds investing in Bonds | 468,995 | 468,995 | - | - |
| Total | <u>\$ 979,836</u> | <u>\$ 600,700</u> | <u>\$ 329,331</u> | <u>\$ 49,805</u> |

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The Standard & Poor’s credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2013 are as follows:

| <u>Credit Rating</u> | <u>Total Debt Securities</u> |
|---------------------------|------------------------------|
| U.S. Treasury Obligations | \$ 176,825 |
| No Rating | 431,755 |
| AA+ | 25,049 |
| AA | 25,780 |
| AA- | 50,540 |
| A | 131,477 |
| A- | 75,868 |
| BBB+ | 25,302 |
| BB-f | 37,240 |
| Total | <u>\$ 979,836</u> |

Foreign Currency Risk - exists when there is a possibility that the exchange rate of foreign currencies against the U.S. dollar may vary. The Foundation’s policy is to limit its investments in foreign securities to 25%.

4. Cash and Cash Equivalents, Restricted

The net proceeds from issuing the University revenue bonds and certificates of participation were separately deposited in Trust Escrow accounts with Amalgamated Bank of Chicago (Bank). As trustee, the Bank has invested the funds in Illinois Funds and Goldman Sachs “Financial Square Money Market” funds pending expenditure for the University’s deferred maintenance and housing projects. In addition, certain accounts created by the University revenue bonds and the certificates of participation are held by the Bank pending expenditure for debt service. The balance of these accounts as of June 30, 2013 amounted to \$21,325,296.

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 on 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

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other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois' financial reporting entity and is included in the State's financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40 of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org or by calling 1-800-275-7877.

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate (for Fiscal Year 2014) is 35.2% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2013, 2012, and 2011 were \$15,281,351, \$10,809,277, and \$8,713,583, respectively, equal to the required contributions for each year.

6. Postemployment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs will be assessed beginning July 1, 2013.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois 62606-4100.

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. For intangible assets, the University's capitalization policy includes all items with a unit cost of \$25,000 or more. Renovations to buildings and site 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: 40 to 60 years for buildings, 20 to 60 years for site improvements, seven years for intangible assets, and three to 40 years for equipment and library collection.

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest of \$907,719 was capitalized during the year ended June 30, 2013.

Capital assets activities for the University and Foundation for the year ended June 30, 2013 are summarized as follows:

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| | Balance June 30, 2012 | Additions | Retirements | Transfers | Balance June 30, 2013 |
|--|--------------------------|-----------------------|-------------------|-------------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 1,389,086 | \$ - | \$ - | \$ - | \$ 1,389,086 |
| Construction in progress | 2,893,328 | 18,363,178 | - | - | 21,256,506 |
| Artwork/Artifacts-University | 268,323 | 135,000 | - | - | 403,323 |
| Artwork/Artifacts-Foundation | 1,717,356 | 485,800 | - | - | 2,203,156 |
| Total capital assets not being depreciated | <u>\$ 6,268,093</u> | <u>\$ 18,983,978</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 25,252,071</u> |
| Other capital assets: | | | | | |
| Site improvements | \$ 7,576,773 | \$ - | \$ - | \$ - | \$ 7,576,773 |
| Buildings | 101,414,373 | 1,088,765 | - | - | 102,503,138 |
| Intangible assets | 1,077,097 | - | - | - | 1,077,097 |
| Equipment | 9,055,860 | 750,954 | (132,195) | - | 9,674,619 |
| Library collection | 13,558,331 | 192,822 | (70,378) | - | 13,680,775 |
| Total other capital assets | <u>132,682,434</u> | <u>2,032,541</u> | <u>(202,573)</u> | <u>-</u> | <u>134,512,402</u> |
| Accumulated depreciation: | | | | | |
| Site improvements | (1,685,609) | (327,876) | - | - | (2,013,485) |
| Buildings | (34,574,331) | (1,869,237) | - | - | (36,443,568) |
| Intangible assets | (307,742) | (153,871) | - | - | (461,613) |
| Equipment | (7,368,874) | (729,161) | 130,695 | - | (7,967,340) |
| Library collection | (11,542,119) | (536,180) | 70,378 | - | (12,007,921) |
| Total accumulated depreciation | <u>(55,478,675)</u> | <u>(3,616,325)</u> | <u>201,073</u> | <u>-</u> | <u>(58,893,927)</u> |
| Other capital assets, net | <u>\$ 77,203,759</u> | <u>\$ (1,583,784)</u> | <u>\$ (1,500)</u> | <u>\$ -</u> | <u>\$ 75,618,475</u> |
| Capital assets summary: | | | | | |
| Capital assets not being depreciated | \$ 6,268,093 | \$ 18,983,978 | \$ - | \$ - | \$ 25,252,071 |
| Other capital assets | 132,682,434 | 2,032,541 | (202,573) | - | 134,512,402 |
| Accumulated depreciation | (55,478,675) | (3,616,325) | 201,073 | - | (58,893,927) |
| Total capital assets, net | <u>\$ 83,471,852</u> | <u>\$ 17,400,194</u> | <u>\$ (1,500)</u> | <u>\$ -</u> | <u>\$ 100,870,546</u> |

8. Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2013 were as follows:

| | Balance June 30, 2012 | Additions | Deductions | Balance June 30, 2013 | Amounts Due Within One Year |
|------------------------------------|--------------------------|-------------|---------------------|--------------------------|-----------------------------------|
| Notes payable | \$ 3,597,290 | \$ - | \$ 451,889 | \$ 3,145,401 | \$ 469,129 |
| Revenue bonds 2007 | 7,665,000 | - | 350,000 | 7,315,000 | 365,000 |
| Revenue bonds 2012 | 20,415,000 | - | - | 20,415,000 | - |
| Certificates of participation 2008 | 9,535,000 | - | 115,000 | 9,420,000 | 125,000 |
| Certificates of participation 2009 | 7,185,000 | - | 910,000 | 6,275,000 | 940,000 |
| | <u>48,397,290</u> | <u>-</u> | <u>1,826,889</u> | <u>46,570,401</u> | <u>1,899,129</u> |
| Unamortized discounts | (164,772) | - | (9,584) | (155,188) | (9,584) |
| Unamortized premiums | 36,315 | - | 3,109 | 33,206 | 3,109 |
| | <u>\$ 48,268,833</u> | <u>\$ -</u> | <u>\$ 1,820,414</u> | <u>\$ 46,448,419</u> | <u>\$ 1,892,654</u> |

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Notes Payable

On June 25, 2009, the University entered into an installment payment contract amounting to \$4,750,000 to fund a portion of its expenditures related to the guaranteed energy savings contract. The original interest rate was 5.19%; however, the interest rate was renegotiated during Fiscal Year 2012 to 3.75%. Future maturities at June 30, 2013 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|-------------------|---------------------|
| 2014 | \$ 469,129 | \$ 109,944 | \$ 579,073 |
| 2015 | 487,027 | 92,046 | 579,073 |
| 2016 | 505,608 | 73,465 | 579,073 |
| 2017 | 524,897 | 54,176 | 579,073 |
| 2018 | 544,923 | 34,150 | 579,073 |
| 2019 - 2020 | 613,817 | 13,511 | 627,328 |
| | <u>\$ 3,145,401</u> | <u>\$ 377,292</u> | <u>\$ 3,522,693</u> |

Revenue Bonds, Series 2007

On November 20, 2007, the University issued \$8,930,000 of University Facilities System Revenue Bonds, Series 2007, with interest rates 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 (\$175,736) in 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.

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:

| <u>Term Bonds due 10/01/25</u> | | <u>Term Bonds due 10/01/27</u> | |
|--------------------------------|-------------------------|--------------------------------|-------------------------|
| <u>Year</u> | <u>Principal Amount</u> | <u>Year</u> | <u>Principal Amount</u> |
| 2024 | \$ 565,000 | 2026 | \$ 610,000 |
| 2025 | 585,000 | 2027 | 635,000 |

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Future debt service requirements at June 30, 2013 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|---------------------|---------------------|
| 2014 | \$ 365,000 | \$ 286,856 | \$ 651,856 |
| 2015 | 380,000 | 271,956 | 651,956 |
| 2016 | 395,000 | 256,456 | 651,456 |
| 2017 | 410,000 | 240,356 | 650,356 |
| 2018 | 425,000 | 223,656 | 648,656 |
| 2019 - 2023 | 2,405,000 | 842,882 | 3,247,882 |
| 2024 - 2028 | 2,935,000 | 309,141 | 3,244,141 |
| | <u>\$ 7,315,000</u> | <u>\$ 2,431,303</u> | <u>\$ 9,746,303</u> |

Revenue Bonds, Series 2012

On April 5, 2012, the University issued \$20,415,000 of University Facilities System Revenue Bonds, Series 2012, with interest rates ranging from 2.00% to 4.65% to construct an on-campus student housing complex and pay the costs incurred (\$470,824) in connection with the issuance of the Series 2012 Bonds. The original issue discount is being accreted to interest expense over the term of the bonds.

Optional Redemption - The Series 2012 Bonds maturing on or after October 1, 2020 are subject to redemption on or after October 1, 2019, at the option of the University.

Mandatory Redemption of Term Bonds - The Series 2012 Term Bonds, maturing on October 1, 2026, October 1, 2037 and October 1, 2042, 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:

| <u>Term Bonds due 10/01/26</u> | | <u>Term Bonds due 10/01/37</u> | | <u>Term Bonds due 10/01/42</u> | |
|--------------------------------|-----------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| <u>Year</u> | <u>Principal Amount</u> | <u>Year</u> | <u>Principal Amount</u> | <u>Year</u> | <u>Principal Amount</u> |
| 2024 | \$ 550,000 | 2033 | \$ 800,000 | 2038 | \$ 1,010,000 |
| 2025 | 570,000 | 2034 | 840,000 | 2039 | 1,055,000 |
| 2026 | 595,000 | 2035 | 880,000 | 2040 | 1,105,000 |
| | | 2036 | 920,000 | 2041 | 1,160,000 |
| | | 2037 | 960,000 | 2042 | 1,215,000 |

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Future debt service requirements at June 30, 2013 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|----------------------|----------------------|----------------------|
| 2014 | \$ - | \$ 832,412 | \$ 832,412 |
| 2015 | 415,000 | 828,262 | 1,243,262 |
| 2016 | 425,000 | 819,862 | 1,244,862 |
| 2017 | 430,000 | 811,313 | 1,241,313 |
| 2018 | 440,000 | 802,337 | 1,242,337 |
| 2019 - 2023 | 2,390,000 | 3,824,239 | 6,214,239 |
| 2024 - 2028 | 2,860,000 | 3,354,446 | 6,214,446 |
| 2029 - 2033 | 3,510,000 | 2,696,893 | 6,206,893 |
| 2034 - 2038 | 4,400,000 | 1,813,613 | 6,213,613 |
| 2039 - 2043 | 5,545,000 | 668,554 | 6,213,554 |
| | <u>\$ 20,415,000</u> | <u>\$ 16,451,931</u> | <u>\$ 36,866,931</u> |

Certificates of Participation, Series 2008

On June 12, 2008, the University issued \$9,995,000 of University Capital Improvement Project Certificates of Participation, Series 2008, with interest rates 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 (\$256,328) of issuing the Series 2008 Certificates. The original issue discount is being accreted to interest expense over the term of the Certificates.

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.

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% |

The University did not exercise the right to redeem the Certificates on January 1, 2013 at a redemption price of 110% as permitted by the purchase contract.

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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 advance refunding and, accordingly, those Certificates are not reflected in the accompanying financial statements. Those Certificates of Participation which were advance refunded were paid in full on July 25, 2008.

Future debt service requirements at June 30, 2013 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------------|---------------------|----------------------|
| 2014 | \$ 125,000 | \$ 389,125 | \$ 514,125 |
| 2015 | 125,000 | 384,750 | 509,750 |
| 2016 | 130,000 | 380,375 | 510,375 |
| 2017 | 140,000 | 375,500 | 515,500 |
| 2018 | 140,000 | 369,900 | 509,900 |
| 2019 - 2023 | 3,885,000 | 1,567,475 | 5,452,475 |
| 2024 - 2028 | 4,875,000 | 648,175 | 5,523,175 |
| | <u>\$ 9,420,000</u> | <u>\$ 4,115,300</u> | <u>\$ 13,535,300</u> |

Certificates of Participation, Series 2009

On March 31, 2009, the University issued \$9,870,000 of University Capital Improvement Project Certificates of Participation, Series 2009, with interest rates ranging from 3.00% to 4.50% to pay a portion of the costs of the improvements and to pay the costs (\$284,914) of issuing the Series 2009 Certificates. The original issue premium is being accreted to interest expense over the term of the Certificates.

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Extraordinary Redemption upon Event of Non-appropriation and Termination of Purchase Contract - The Series 2009 Certificates are subject to redemption upon termination by the Board of the purchase contract due to (i) an event of non-appropriation having occurred, (ii) the Board determining that there are not sufficient legally available non-appropriated funds to pay the installment payments coming due, and (iii) the Board has exercised its option to prepay the outstanding certificates plus accrued interest.

Extraordinary Redemption Upon Optional Termination of Purchase Contract - The Certificates are subject to mandatory redemption, in whole, at the redemption price of 110% of the principal amount thereof, plus accrued interest to the date fixed for redemption, on March 1, 2014, if the University notifies the Trustee not less than 60 days prior thereto that it is exercising its option to terminate the purchase contract.

Future debt service requirements at June 30, 2013 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------------|-------------------|---------------------|
| 2014 | \$ 940,000 | \$ 269,200 | \$ 1,209,200 |
| 2015 | 980,000 | 226,900 | 1,206,900 |
| 2016 | 1,025,000 | 182,800 | 1,207,800 |
| 2017 | 1,065,000 | 143,081 | 1,208,081 |
| 2018 | 1,110,000 | 99,150 | 1,209,150 |
| 2019 | 1,155,000 | 51,975 | 1,206,975 |
| | <u>\$ 6,275,000</u> | <u>\$ 973,106</u> | <u>\$ 7,248,106</u> |

9. Accrued Compensated Absences

Accrued compensated absences include earned but unused vacation and sick leave days valued at the current rate of pay. The change in accrued compensated absences for the year ended June 30, 2013 was as follows:

| | |
|-----------------------------|---------------------|
| Balance, beginning of year | \$ 4,621,197 |
| Movement | <u>(434,182)</u> |
| Balance, end of year | 4,187,015 |
| Less: current portion | <u>500,000</u> |
| Balance, noncurrent portion | <u>\$ 3,687,015</u> |

10. Component Unit

The financial statements of the Foundation (the University's component unit) have been discretely presented in the University's financial statements.

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The Foundation has an ongoing contract with the University which includes provisions requiring the Foundation to comply with Section VI of the “University Guidelines 1982 (as amended 1997)” as adopted by the State of Illinois Legislative Audit Commission. The contract requires that the University provide the Foundation with accounting and other clerical services at no cost. University officials estimate the value of these services for the year ended June 30, 2013 at \$315,613, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of \$475,969 for the year ended June 30, 2013. As of June 30, 2013, \$211,917 is due from the University to the Foundation.

Below are the condensed financial statements of the Foundation.

Condensed Statement of Net Position

| | |
|----------------------------------|---------------------|
| ASSETS | |
| Current assets | \$ 707,583 |
| Noncurrent assets | 3,921,346 |
| Total assets | <u>4,628,929</u> |
| LIABILITIES | |
| Current liabilities | 465 |
| Total liabilities | <u>465</u> |
| NET POSITION | |
| Net investment in capital assets | 2,203,156 |
| Restricted | |
| Nonexpendable | 1,554,037 |
| Expendable | 838,621 |
| Unrestricted | 32,650 |
| Total net position | <u>\$ 4,628,464</u> |

Condensed Statement of Revenues, Expenditures and Changes in Net Position

| | |
|-----------------------------------|---------------------|
| Operating revenues | \$ 348,579 |
| Operating expenses | 830,157 |
| Net operating loss | <u>(481,578)</u> |
| Nonoperating revenues | 641,471 |
| Additions to permanent endowments | 215,633 |
| Capital asset contributions | 485,800 |
| Increase in net position | <u>861,326</u> |
| Net position - beginning of year | 3,767,138 |
| Net position - end of year | <u>\$ 4,628,464</u> |

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Condensed Statement of Cash Flows

| | |
|--|--------------------------|
| Net cash used in operating activities | \$ (398,479) |
| Cash provided by noncapital financing activities | 405,182 |
| Net cash used in investing activities | <u>(107,360)</u> |
| Net decrease in cash and cash equivalents | <u>(100,657)</u> |
| Cash and cash equivalents - beginning of year | 589,155 |
| Cash and cash equivalents - end of year | <u><u>\$ 488,498</u></u> |

Reconciliation of net operating loss to net cash used in operating activities:

| | |
|---|----------------------------|
| Net operating loss | \$ (481,578) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | |
| Non-cash University support | 135,000 |
| Accounts payable and due to account | <u>(51,901)</u> |
| Net cash used in operating activities | <u><u>\$ (398,479)</u></u> |

11. Commitments and Contingencies

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

The University has outstanding commitments totaling approximately \$17.1 million related to the construction of its student housing complex and biology research laboratory.

12. Restricted Endowments

The Foundation's endowment funds are generally invested in marketable securities which are valued at market as of the statement of net position date. Investment income is initially 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.

On June 30, 2009, the State of Illinois passed the Uniform Prudent Management of Institutional Funds Act. This State law allows the Foundation to appropriate for expenditure an amount that it determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund was established. In making these

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appropriations, the Foundation must act in good faith and with the care that an ordinary prudent person in a similar position would do.

The Foundation has adopted a spending policy of not to exceed 6.0% of a trailing twelve month average of the market value of the assets as of April 1. The Foundation transfers available investment earnings to the related expendable accounts on an annual basis.

13. Operating Leases

The University leases equipment and space in various buildings for off-campus classroom use. The rental expense for these lease agreements was \$216,412 for the year ended June 30, 2013.

Future minimum lease payments are as follows:

| Year Ending June 30 | Base Rent |
|------------------------|-------------------|
| 2014 | \$ 152,213 |
| 2015 | 49,142 |
| 2016 | 5,330 |
| | <u>\$ 206,685</u> |

14. Pledged Revenues and Debt Service Requirements

The University has pledged specific revenues, 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:

| PLEGGED REVENUES | | | | | (CURRENT YEAR) PLEGGED REVENUES TO DEBT SERVICE ² |
|--|--|--|--|-----------------------|---|
| BOND ISSUE | PURPOSE | SOURCE OF REVENUES PLEGGED | FUTURE REVENUES PLEGGED ¹ | TERM OF COMMITMENT | |
| Auxiliary Facilities System Revenue Bonds (Series 2007 and 2012) | Various improvements and additions to the University, and construction of student housing complex | Net revenues of the Student Center, University Bookstore, University Parking Facilities, University Food Service and Vending Facilities, and University Housing | \$ 46,613,234 | 2043 | 3.43% |

¹ Total future principal and interest payments on debt

² Current year pledged net operating revenues (disregarding depreciation) versus total future debt service

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15. Subsequent Events

On August 9, 2013, Moody's Investors Service downgraded the University's ratings to "Baa1" from "A3" on its University Facilities System Revenue Bonds, Series 2007, and Certificates of Participation, Series 2008 and 2009, and concluded its review for possible downgrade.

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UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF NET POSITION

| | JUNE 30, | |
|---|---------------------|--------------------------------------|
| | 2013 | (Comparative totals only) 2012 |
| ASSETS | | |
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 302,059 | \$ 99,412 |
| Cash and cash equivalents, restricted | 20,657,364 | 21,392,547 |
| Unamortized debt issuance costs - current | 24,481 | 24,481 |
| <i>Total current assets</i> | <u>20,983,904</u> | <u>21,516,440</u> |
| <i>Noncurrent assets</i> | | |
| Unamortized debt issuance costs | 554,133 | 578,614 |
| Capital assets | 13,302,972 | 11,025,702 |
| Accumulated depreciation | (2,073,264) | (1,734,207) |
| <i>Total noncurrent assets</i> | <u>11,783,841</u> | <u>9,870,109</u> |
| <i>Total assets</i> | <u>32,767,745</u> | <u>31,386,549</u> |
| LIABILITIES | | |
| <i>Current liabilities</i> | | |
| Accounts payable | 1,056,112 | 292,530 |
| Revenue bonds payable | 365,853 | 350,853 |
| <i>Total current liabilities</i> | <u>1,421,965</u> | <u>643,383</u> |
| <i>Noncurrent liabilities</i> | | |
| Revenue bonds payable | 27,363,922 | 27,729,775 |
| <i>Total noncurrent liabilities</i> | <u>27,363,922</u> | <u>27,729,775</u> |
| <i>Total liabilities</i> | <u>28,785,887</u> | <u>28,373,158</u> |
| NET POSITION | | |
| Net investment in capital assets | 1,973,516 | 1,071,710 |
| Restricted: expendable - debt service | 1,202,652 | 1,377,205 |
| Unrestricted | 805,690 | 564,476 |
| <i>Total net position</i> | <u>\$ 3,981,858</u> | <u>\$ 3,013,391</u> |

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

| | FOR THE YEAR ENDED JUNE 30, | |
|---|------------------------------------|---------------------|
| | (Comparative totals only) | |
| | 2013 | 2012 |
| OPERATING REVENUES | | |
| Bookstore commissions | \$ 149,067 | \$ 151,740 |
| Food and vending commissions | 26,481 | 23,336 |
| Parking fees | 494,304 | 478,243 |
| Student center fees | 1,312,782 | 1,345,232 |
| University facilities fee | 1,184,269 | - |
| <i>Total operating revenues</i> | 3,166,903 | 1,998,551 |
| OPERATING EXPENSES | | |
| Salaries and benefits | 796,830 | 782,848 |
| Scholarships and awards | 25,127 | 19,499 |
| Capital expenditures | 72,987 | 64,984 |
| Services, supplies and others | 673,591 | 449,013 |
| Depreciation | 339,057 | 277,947 |
| <i>Total operating expenses</i> | 1,907,592 | 1,594,291 |
| <i>Net operating income</i> | 1,259,311 | 404,260 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 13,861 | 205 |
| Interest expense | (304,705) | (318,555) |
| <i>Net nonoperating expenses</i> | (290,844) | (318,350) |
| <i>Increase in net position</i> | 968,467 | 85,910 |
| NET POSITION | | |
| Net position - beginning of year | 3,013,391 | 2,927,481 |
| Net position - end of year | \$ 3,981,858 | \$ 3,013,391 |

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF CASH FLOWS**

| | FOR THE YEAR ENDED JUNE 30, | |
|---|------------------------------------|----------------------|
| | (Comparative totals only) | |
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Bookstore commissions | \$ 149,067 | \$ 151,740 |
| Food and vending commissions | 26,481 | 23,336 |
| Parking fees | 494,304 | 478,243 |
| Student center fees | 1,312,782 | 1,345,232 |
| University facilities fee | 1,184,269 | - |
| Payments to suppliers for goods and services | (834,966) | (470,934) |
| Payments to employees for services | (796,614) | (778,256) |
| <i>Net cash provided by operating activities</i> | <u>1,535,323</u> | <u>749,361</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Purchase of capital assets | (704,515) | (356,187) |
| Proceeds from issuance of debt, net | - | 19,988,514 |
| Principal payments on capital debt | (350,000) | (335,000) |
| Interest payments on capital debt | (1,027,205) | (314,856) |
| <i>Net cash provided by (used in) capital financing activities</i> | <u>(2,081,720)</u> | <u>18,982,471</u> |
| CASH FLOWS FROM INVESTING ACTIVITY | | |
| Investment income | 13,861 | 205 |
| <i>Cash provided by investing activity</i> | <u>13,861</u> | <u>205</u> |
| Net increase (decrease) in cash and cash equivalents | (532,536) | 19,732,037 |
| Cash and cash equivalents - beginning of year | 21,491,959 | 1,759,922 |
| Cash and cash equivalents - end of year | <u>\$ 20,959,423</u> | <u>\$ 21,491,959</u> |
| RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net operating income | \$ 1,259,311 | \$ 404,260 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | |
| Noncash expense included in net operating income: | | |
| Depreciation | 339,057 | 277,947 |
| Changes in liabilities: | | |
| Accounts payable | (63,045) | 67,154 |
| Net cash provided by operating activities | <u>\$ 1,535,323</u> | <u>\$ 749,361</u> |

Noncash Capital Financing Activities

During Fiscal Year 2013, interest expense of \$873,270 was reclassified to capital assets as interest incurred during the period of construction.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2013**

Student Enrollment by Term (Unaudited)

| | <u>Total Enrollment</u> | <u>Full-Time Equivalent</u> |
|-------------------|-----------------------------|---------------------------------|
| Fall Term, 2012 | 5,609 | 3,327 |
| Spring Term, 2013 | 5,630 | 3,336 |
| Summer Term, 2013 | 3,552 | 1,639 |

University Fees (Unaudited)

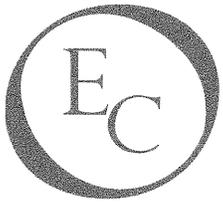
The following fees were in effect during the 2012-2013 academic year:

| | <u>Amount</u> |
|--------------------------------|---------------|
| Student Center | \$ 30 |
| Student Activity | 36 |
| Counseling and Career Services | 32 |
| Parking | 35 |
| University Facilities | 16 |

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 | \$ 184,385,750 |
| EDP and contents | 33,282,784 |
| Business interruption | 16,525,694 |
| Boiler and machinery (included in blanket coverage limit) | 100,000,000 |
| Earthquake | 100,000,000 |
| Flood | 100,000,000 |
| General liability | 19,650,000 |



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Governors State University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 20, 2013. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

E. C. Ortiz & Co., LLP

Chicago, Illinois
December 20, 2013

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
PRIOR FINDING NOT REPEATED
FOR THE YEAR ENDED JUNE 30, 2013**

A. **FINDING** (Financial Adjustments)

During the prior audit, the University's draft financial statements provided to auditors contained the following errors: (a) interest on borrowed funds used to finance deferred maintenance projects that were already fully completed was capitalized to fixed assets instead of recognizing it as interest expense; (b) deferred revenue pertaining to the Fiscal Year 2013 portion of the summer 2012 tuition and fees was incorrectly calculated; (c) calculation of scholarship discounts and allowances was inaccurate; and (d) difference in the balance of accounts receivable between the general ledger and the related subsidiary ledger was incorrectly adjusted.

During the current audit, our testing disclosed that the University hired additional experienced accounting personnel and implemented processes in the preparation and review of the annual financial statements to ensure that financial information is complete, accurate, and prepared in accordance with the generally accepted accounting principles. (Finding Code No. 12-1)