

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2010**

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, 2010**

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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, 2010

**State of Illinois
Governors State University
Financial Audit
For the Year Ended June 30, 2010**

Agency Officials

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

Agency 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, 2010**

Financial Statement Report

Summary

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

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

Exit Conference

This report was discussed with University personnel on February 18, 2011. Attending were:

Representing Governors State University

Executive Vice President, Chief of Staff, Treasurer
Associate Vice President, Financial Services/Comptroller
Internal Auditor
Controller
Associate Vice President, Information Technology

Dr. Gebeyehu Ejigu
Ms. Karen Kissel
Mr. David Dixon
Ms. Cathy Casson, CPA
Mr. Pete Mizera

Representing E.C. Ortiz and Co., LLP

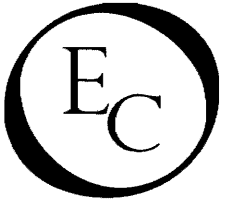
Partner
Manager
IS Manager

Mr. Edilberto C. Ortiz, CPA
Ms. Villalyn S. Baluga
Ms. Ann S. Abueg, CISA

Representing the Office of the Auditor General

Audit Manager
IS Audit Manager

Mr. Thomas L. Kizziah, CPA
Ms. Kathleen A. Devitt, CISA



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the business-type activities of Governors State University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2009 financial statements, which were audited by other auditors whose report dated January 21, 2010, expressed an unqualified opinion on the respective financial statements of the business-type activities and the aggregate discretely presented component units. We did not audit the financial statements of the aggregate discretely presented component units, as described in Note 1 of the financial statements. Those statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Governors State University, as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Governors State University's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The University Facilities System Revenue Bonds, Series 2007 financial statements on pages 36 through 38 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The "Unaudited" supplementary information on page 39 has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on it.

C. C. G. L. J. & C. L. Y.
February 25, 2011

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010. The GSU Foundation and the GSU Alumni Association are considered component units of the University. Separate financial statements for the Foundation or Alumni Association may be obtained by writing the: Vice-President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 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 Assets is designed to be similar to bottom line results for the University; it combines and consolidates current financial resources with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and net costs of University activities, which are supported mainly by State appropriations and tuition revenues. The Statement of Cash Flows presents the receipt and use of cash resources by the University. This approach is intended to summarize and simplify the user's analysis of the cost of services provided.

FINANCIAL AND ENROLLMENT HIGHLIGHTS

Accreditations

During fiscal year 2010, the Higher Learning Commission (HLC) team completed its review and reaccredited GSU for the maximum number of years (ten years, with the next accreditation visit in academic year 2019-2020). In addition, HLC approved GSU's request to offer the nursing programs and the program in Addiction Studies fully online.

Appropriations

For fiscal year 2010, the University received two types of State appropriations: "regular operational" and "American Recovery and Reinvestment Act (ARRA)." The ARRA appropriation amounted to \$2,338,300 and was used to retain personnel.

The fiscal year 2010 total appropriation (including the ARRA appropriation), used to fund ongoing core programs, was the same as the fiscal year 2009 initial appropriation. However, this total constituted an increase of 2.5% over the fiscal year 2009 net appropriation after the mid-year rescission.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Fiscal Years	Initial Appropriations	Net Revenue Available from Operational Appropriations		Available Appropriations
		Payments to Health Reserve Fund	Less: Appropriation Rescissions	
2010	\$ 28,324,400	\$ (656,200)	\$ -	\$ 27,668,200
2009	28,324,400	(656,200)	(708,110)	26,960,090

Enrollment

Student credit hours produced during fiscal year 2010 increased by 5.5% from the levels of fiscal year 2009; from 113,909 to 120,139.

Sick and Vacation Payouts

Many of the University's faculty and staff were hired after the University was chartered in 1969 and are now approaching retirement. For the past three years, sick and vacation payouts have averaged \$0.5 million; we anticipate that payouts will continue at this rate.

Statement of Net Assets

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

	(in thousands)			Percent Change
	2010	2009	Increase (Decrease)	
Current assets	\$ 48,982	\$ 44,143	\$ 4,839	11%
Noncurrent assets	78,085	68,359	9,726	14%
Total assets	127,067	112,502	14,565	13%
Current liabilities	11,629	9,974	1,655	17%
Noncurrent liabilities	37,249	34,530	2,719	8%
Total liabilities	48,878	44,504	4,374	10%
Net assets	\$ 78,189	\$ 67,998	\$ 10,191	15%

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The 15% increase in the University's net assets is due to the following:

Current Assets

Current assets consist primarily of cash and cash equivalents, and receivables. Unrestricted cash increased by \$3.4 million, which was primarily due to increased tuition and fee rates, as well as an increase in student credit hours. Restricted cash decreased by \$5.7 million, which was primarily due to expending the proceeds from debt financing on deferred maintenance projects. Receivables from the State appropriation increased by \$6.4 million, which was due to delayed payments from the State of Illinois. The \$6.4 million in delayed reimbursement was subsequently received in fiscal year 2011.

Noncurrent Assets

Noncurrent assets include the long-term portion of student Federal Perkins Loan receivables, unamortized costs of issuance for the revenue bonds and certificates of participation, and capital assets net of accumulated depreciation. Of the \$9.7 million increase in noncurrent assets, \$10.1 million came from an increase in net capital assets, which was due to the substantial completion of deferred maintenance projects that have been underway for the past three years. Student Federal Perkins Loan receivables decreased by \$0.4 million, which was primarily due to student debt being consolidated into the Federal Direct Loan program.

Current Liabilities

Current liabilities include accounts payable, deferred revenue, and the current portion of long-term liabilities, which are payable in less than one year. The \$1.7 million increase was mostly attributable to the \$1.4 million increase in accounts payable due to timing differences on vendor payments and \$0.5 million increase in deferred revenue due to increased summer student credit hours. This increase was partially offset by the \$0.5 million decrease in the current portion of accrued compensated absences due to payouts made to employees who separated from service or who used vested sick time. Sick leave is paid out at 50% of the value of compensable leave earned through December 31, 1997. Since January 1, 1998 sick leave is no longer compensable.

Noncurrent Liabilities

Noncurrent liabilities are liabilities with due dates beyond one year, which include accrued compensated absences, refundable grants, revenue bonds payable, certificates of participation, and notes payable. The \$2.7 million increase was mostly due to the \$4.7 million in new notes payable related to the energy savings projects. This increase was offset by the \$2.0 million decrease in notes payable, revenue bonds payable and certificates of participation due to payments of principal.

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

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets represents the operating results of the University, as well as the 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)			
	2010	2009	Increase (Decrease)	Percent Change
OPERATING REVENUES				
Net student tuition and fees	\$ 29,882	\$ 27,264	\$ 2,618	10%
Grants and contracts	6,976	7,204*	(228)	-3%
Sales and services of educational departments	6,278	6,845	(567)	-8%
Auxiliary enterprises	2,080	1,948	132	7%
Other operating revenues	1,151	1,463	(312)	-21%
Total operating revenues	46,367	44,724	1,643	4%
OPERATING EXPENSES				
	87,178	82,596	4,582	6%
Net operating loss	(40,811)	(37,872)	(2,939)	8%
NONOPERATING REVENUES (EXPENSES)				
State appropriation	25,986	27,616	(1,630)	-6%
State appropriation - Federal ARRA	2,338	-	2,338	100%
Payments made on behalf of the University	17,363	13,094	4,269	33%
Federal Pell grant	5,593	3,222*	2,371	74%
Investment income	55	299	(244)	-82%
Interest expense	(300)	(56)	(244)	436%
Other nonoperating expense	(33)	(17)	(16)	94%
Net nonoperating revenues	51,002	44,158	6,844	15%
Increase in net assets	10,191	6,286	3,905	62%
Net assets - beginning of year	67,998	61,712	6,286	10%
Net assets - end of year	\$ 78,189	\$ 67,998	\$ 10,191	15%

* A portion of the Federal Pell grant revenues used to satisfy tuition and fees and other student charges, which were originally presented as operating revenues under Federal grants and contracts in the prior year financial statements have been reclassified to nonoperating revenues.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Increase in Net Assets

This year, the increase in net assets was 62% or \$3.9 million due to the following:

Operating Revenues

Student tuition and fees increased due to a 10% tuition rate increase for new resident undergraduate students, a 5% tuition rate increase for most graduate students, and a 5.5% increase in total student credit hours. This increase was partially offset by the decrease in grants and contracts revenue mostly due to the State fiscal crisis.

Operating Expenses (by functional classification)

	(in thousands)			
	2010	2009	Increase (Decrease)	Percent Change
Instruction	\$ 39,975	\$ 38,597	\$ 1,378	4%
Research	1,344	1,664	(320)	-19%
Public service	11,656	11,259	397	4%
Academic support	2,175	2,077	98	5%
Student services	6,412	5,641	771	14%
Institutional support	14,137	12,793	1,344	11%
Operation and maintenance of plant	6,969	6,214	755	12%
Auxiliary enterprises	1,589	1,662	(73)	-4%
Depreciation	2,921	2,689	232	9%
	<u>\$ 87,178</u>	<u>\$ 82,596</u>	<u>\$ 4,582</u>	<u>6%</u>

In most categories of endeavor, University expenditures stayed fairly consistent between fiscal year 2010 and fiscal year 2009. Overall operating expenses increased by 6%; funding to support these increases primarily came from student tuition and fees revenue increases.

Operating Expenses (by natural classification)

	(in thousands)			
	2010	2009	Increase (Decrease)	Percent Change
Salaries and benefits	\$ 66,641	\$ 63,070	\$ 3,571	6%
Scholarships and awards	1,922	1,809	113	6%
Capital expenditures	1,160	1,117	43	4%
Services, supplies and others	14,534	13,911	623	4%
Depreciation	2,921	2,689	232	9%
	<u>\$ 87,178</u>	<u>\$ 82,596</u>	<u>\$ 4,582</u>	<u>6%</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The 6% increase in salary and benefits expense, representing the University's largest operating expense, was mostly due to the 33% 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 2010, The State's funding of retirement benefits increased by \$2.6 million and its funding of health care increased by \$1.6 million. In addition, the increase in Federal Pell grant revenue was due to increased funding received from the Federal government.

Investment income decreased due to declining interest rates. In addition, reimbursements requested from appropriated funds (from the Illinois Office of the Comptroller) were not received timely (in fiscal year 2010, 23% of the University's appropriation was still outstanding as of June 30, 2010), resulting in reduced balances of locally held funds that were not able to earn investment income.

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)			
	2010	2009	Increase (Decrease)	Percent Change
Cash provided by (used in):				
Operating activities	\$ (19,314)	\$ (21,374)*	\$ 2,060	-10%
Noncapital financing activities	27,482	30,822*	(3,340)	-11%
Capital financing activities	(10,510)	(2,393)	(8,117)	339%
Investing activities	55	299	(244)	-82%
Net increase (decrease) in cash and cash equivalents	(2,287)	7,354	(9,641)	-131%
Cash and cash equivalents - beginning of year	39,181	31,827	7,354	23%
Cash and cash equivalents - end of year	\$ 36,894	\$ 39,181	\$ (2,287)	-6%

* Certain cash received from operations have been reclassified to cash provided by noncapital financing activities. This is the result of the reclassification of Federal Pell grant from operating revenues to nonoperating revenues.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The primary cash receipts from operating activities consist of student tuition and fees revenue. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash used in operating activities improved primarily due to increased student tuition and fees revenue. Cash provided by noncapital financial activities decreased mostly due to the delayed payments of appropriations from the State. Net cash used in capital financing activities increased as the proceeds from the revenue bonds and certificates of participation that were issued in prior years were expended in fiscal year 2010.

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in fiscal year 2011 (and probably well beyond that, as well) will lie in:

- The 6.2% reduction in the fiscal year 2011 State appropriation from fiscal year 2010.
- The University's ability to execute the dual degree programs, which build pathways from the Illinois community colleges to Governors State University.
- The University's ability to continue to innovate with new quality program offerings to the community.
- The University's ability to market itself to new and continuing students to continue to increase registered student credit hours.

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

	JUNE 30,			
	2010		(Comparative totals only) 2009	
	University	Component Units	University	Component Units
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents (Notes 2 and 3)	\$ 27,675,080	\$ 1,161,677	\$ 24,262,319	\$ 555,083
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	9,218,496	-	14,918,868	-
Accounts receivable, net of allowance for uncollectible accounts of \$3,297,799 (Note 2)	3,114,174	63,596	2,447,432	22,647
Grants receivable (Note 2)	1,444,466	-	1,861,518	-
State appropriation receivable	6,440,425	-	10,851	-
Unamortized debt issuance costs - current (Note 2)	50,095	-	50,095	-
Inventories (Note 2)	33,601	-	23,027	-
Student loans - current	530,000	-	568,152	-
Other assets	476,110	-	-	-
Total current assets	48,982,447	1,225,273	44,142,262	577,730
<i>Noncurrent assets</i>				
Investments (Notes 2 and 3)	-	427,140	-	825,981
Student loans, net of allowance for uncollectible loans of \$717,000	2,506,450	-	2,874,710	-
Unamortized debt issuance costs (Note 2)	583,388	-	633,483	-
Capital assets (Note 7)	124,474,118	1,538,351	112,194,907	1,167,851
Accumulated depreciation (Note 7)	(49,479,437)	-	(47,343,708)	-
Total noncurrent assets	78,084,519	1,965,491	68,359,392	1,993,832
Total assets	127,066,966	3,190,764	112,501,654	2,571,562
LIABILITIES				
<i>Current liabilities</i>				
Accounts payable	4,462,786	9,713	3,027,633	4,953
Agency funds payable	373,379	-	170,074	-
Accrued compensated absences (Notes 2 and 9)	500,000	-	1,000,000	-
Deferred revenue (Note 2)	4,611,732	-	4,146,598	-
Revenue bonds payable (Note 8)	321,738	-	311,738	-
Notes payable and capital leases (Note 8)	396,861	-	280,037	-
Certificates of participation (Note 8)	962,672	-	1,037,672	-
Total current liabilities	11,629,168	9,713	9,973,752	4,953
<i>Noncurrent liabilities</i>				
Accrued compensated absences (Notes 2 and 9)	4,547,765	-	4,570,287	-
Refundable grants	3,074,355	-	3,061,115	-
Revenue bonds payable (Note 8)	8,028,683	-	8,350,421	-
Notes payable and capital leases (Note 8)	4,019,410	-	6,644	-
Certificates of participation (Note 8)	17,578,587	-	18,541,259	-
Total noncurrent liabilities	37,248,800	-	34,529,726	-
Total liabilities	48,877,968	9,713	44,503,478	4,953
NET ASSETS (Note 2)				
Invested in capital assets, net of related debt	50,094,043	1,538,351	49,586,755	1,167,851
Restricted				
Nonexpendable	-	1,133,562	-	1,121,440
Expendable				
Loans	609,963	-	605,550	-
Debt Service	647,956	-	805,163	-
Other	-	500,105	-	216,283
Unrestricted	26,837,036	9,033	17,000,708	61,035
Total net assets	\$ 78,188,998	\$ 3,181,051	\$ 67,998,176	\$ 2,566,609

See accompanying notes to basic financial statements

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

	FOR THE YEAR ENDED JUNE 30,			
	2010		(Comparative totals only) 2009	
	University	Component Units	University	Component Units
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowances of \$6,335,428 (Note 2)	\$ 29,882,217	\$ -	\$ 27,263,876	\$ -
Federal grants and contracts	5,483,935	-	4,722,744	-
State grants and contracts	492,229	-	1,391,028	-
Other grants and contracts	999,798	-	1,090,751	-
Sales and services of educational departments	6,278,087	-	6,844,693	-
Auxiliary enterprises	2,080,224	-	1,947,705	-
Other operating revenues	1,150,338	171,351	1,464,086	169,996
Total operating revenues	46,366,828	171,351	44,724,883	169,996
OPERATING EXPENSES				
Instruction	39,975,168	-	38,597,331	-
Research	1,344,335	-	1,663,614	-
Public service	11,656,065	-	11,258,728	-
Academic support	2,175,037	-	2,077,361	-
Student services	6,411,820	-	5,641,293	-
Institutional support	14,136,343	-	12,793,162	-
Operation and maintenance of plant	6,969,225	-	6,213,820	-
Auxiliary enterprises	1,589,064	-	1,662,066	-
Depreciation	2,921,072	-	2,689,039	-
University support	-	188,124	-	211,673
Other expense	-	199,755	-	205,960
Total operating expenses	87,178,129	387,879	82,596,414	417,633
Net operating loss	(40,811,301)	(216,528)	(37,871,531)	(247,637)
NONOPERATING REVENUES (EXPENSES)				
State appropriation	25,986,000	-	27,616,290	-
State appropriation - Federal ARRA	2,338,400	-	-	-
Payments made on behalf of the University	17,363,000	-	13,094,122	-
Federal Pell grant	5,593,162	-	3,221,205	-
Gifts	-	245,597	-	291,810
Investment income (loss)	42,099	133,571	187,075	(148,813)
Investment income on debt proceeds	12,565	-	112,022	-
Interest expense	(299,857)	-	(56,063)	-
Other nonoperating expense	(33,246)	-	(16,617)	-
Net nonoperating revenues	51,002,123	379,168	44,158,034	142,997
Income (loss) before other revenues, expenses, gains and losses	10,190,822	162,640	6,286,503	(104,640)
Additions to permanent endowments	-	81,302	-	102,718
Capital asset contributions	-	370,500	-	-
Increase (decrease) in net assets	10,190,822	614,442	6,286,503	(1,922)
NET ASSETS				
Net assets - beginning of year	67,998,176	2,566,609	61,711,673	2,568,531
Net assets - end of year	\$ 78,188,998	\$ 3,181,051	\$ 67,998,176	\$ 2,566,609

See accompanying notes to basic financial statements

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED JUNE 30,			
	(Comparative totals only)			
	2010		2009	
	University	Component Units	University	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 29,490,210	\$ -	\$ 28,577,538	\$ -
Grants and contracts	7,398,407	-	5,935,788	-
Payments to suppliers	(14,275,569)	(187,938)	(17,160,359)	(176,920)
Payments for scholarships	(1,921,637)	(50,669)	(1,809,029)	(68,846)
Payments to employees and fringe benefits	(49,790,469)	-	(47,118,797)	-
Auxiliary enterprises	2,080,224	-	1,947,705	-
Sales and services of educational departments	6,278,087	-	6,844,693	-
Student loans issued	(181,705)	-	(341,400)	-
Student loans collected	457,729	-	285,679	-
Other operating revenues	1,150,338	26,839	1,464,086	30,331
<i>Net cash used in operating activities</i>	<u>(19,314,385)</u>	<u>(211,768)</u>	<u>(21,374,096)</u>	<u>(215,435)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	19,556,426	-	27,617,184	-
State appropriations - Federal ARRA	2,338,400	-	-	-
Federal Pell grant	5,587,769	-	3,204,966	-
Contributions	-	199,617	-	291,810
Contributions for permanent endowments	-	81,302	-	102,718
<i>Cash provided by noncapital financing activities</i>	<u>27,482,595</u>	<u>280,919</u>	<u>30,822,150</u>	<u>394,528</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(12,049,417)	-	(10,459,155)	-
Proceeds from issuance of debt	4,750,000	-	9,598,798	-
Principal payments on capital debt	(1,975,410)	-	(946,581)	-
Interest payments on capital debt	(1,235,658)	-	(585,594)	-
<i>Net cash used in capital financing activities</i>	<u>(10,510,485)</u>	<u>-</u>	<u>(2,392,532)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	1,134,218	-	12,875
Investment income	54,664	27,647	299,097	32,622
Investment management fees	-	(10,086)	-	(8,021)
Purchase of investment securities	-	(614,336)	-	(270,822)
<i>Net cash provided by (used in) investing activities</i>	<u>54,664</u>	<u>537,443</u>	<u>299,097</u>	<u>(233,346)</u>
Net increase (decrease) in cash and cash equivalents	(2,287,611)	606,594	7,354,619	(54,253)
Cash and cash equivalents - beginning of year	39,181,187	555,083	31,826,568	609,336
Cash and cash equivalents - end of year	<u>\$ 36,893,576</u>	<u>\$ 1,161,677</u>	<u>\$ 39,181,187</u>	<u>\$ 555,083</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Net operating loss	\$ (40,811,301)	\$ (216,528)	\$ (37,871,531)	\$ (247,637)
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Noncash expenses included in net operating loss:				
Depreciation expense	2,921,072	-	2,689,039	-
Payments made on behalf of the University	17,363,000	-	13,094,122	-
Changes in assets and liabilities:				
Accounts and grants receivable	(244,297)	-	377,296	31,358
Inventories	(10,574)	-	(2,102)	-
Prepaid expense	(476,110)	-	-	-
Student loans	406,412	-	(56,039)	-
Accounts payable	1,378,256	4,760	(131,798)	844
Agency funds payable	203,305	-	(138,861)	-
Deferred revenue	465,134	-	956,016	-
Accrued compensated absences	(522,522)	-	(12,055)	-
Refundable grants	13,240	-	(278,183)	-
Net cash used in operating activities	<u>\$ (19,314,385)</u>	<u>\$ (211,768)</u>	<u>\$ (21,374,096)</u>	<u>\$ (215,435)</u>
NONCASH CAPITAL FINANCING ACTIVITIES				
Interest payments of \$1,082,422 during fiscal year 2010 were reclassified to capital assets as interest incurred during the period of construction.				

See accompanying notes to basic financial statements

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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*, 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) and the Governors State University Alumni Association (Alumni Association) as component units of the University. The two component units are combined for presentation.

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 Alumni Association was incorporated as a not-for-profit organization on January 30, 1987. It also provided support services to the University. Prior to incorporation, the Alumni Association existed as a University department with fund raising activities coordinated by an Alumni Advisory Board and the Foundation. During this fiscal year, the Alumni Association's Board of Directors voted to dissolve the Alumni Association. All of the Alumni Association's assets were transferred to the Foundation just prior to June 30, 2010.

Audits of the Foundation and Alumni Association's financial statements for the fiscal year ended June 30, 2010 were conducted by an independent certified public accountant. Complete financial statements for these component units may be obtained by writing the: Vice-President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

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The University (and its component units) 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. 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.

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

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.

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Basic financial statements including a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows

- The Statement of Net Assets 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 Assets. Other assets and liabilities due beyond one year are noncurrent. Net Assets are divided into three major categories: (1) Invested in capital assets, net of related debt, (2) Restricted net assets, and (3) Unrestricted net assets.
- The Statement of Revenues, Expenses and Changes in Net Assets provides operating and nonoperating revenues and expenses, and displays the net income or loss from operations and total changes in net assets.
- 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.

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.

Inventories

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

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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.

Accrued Compensated Absences

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

Allowance for Uncollectible Accounts

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

Student Loans

Student loans include loans made to students under the Federal Perkins Loan Program. 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.

Deferred Revenue

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

Estimates

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

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Investments

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

Accounts and Grants Receivable

An aging of accounts and grants receivable as of June 30, 2010 is as follows:

Current	\$ 4,090,905
Up to 120 days past due	245,780
From 121 to 240 days past due	215,750
From 241 to 365 days past due	129,451
More than 365 days past due	3,174,553
Allowance for doubtful accounts	<u>(3,297,799)</u>
Net accounts and grants receivable	<u>\$ 4,558,640</u>

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

Net Assets

GASB Statement No. 35 requires the University's net resources to be classified into net asset categories and reported in its Statement of Net Assets. The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations used to acquire capital assets.

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

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

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Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, sales and services of educational departments, and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenues

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of educational departments, (3) auxiliary enterprises, and (4) most Federal, State and local grants and contracts.

Nonoperating revenues: 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.

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.

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 Assets. Scholarship discounts and allowances are the difference between the stated charges and the amounts paid directly by students and/or third parties. Certain governmental grants, such as Federal 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

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revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. The most significant pertains to the following: (1) portion of the Federal Pell grant revenues used to satisfy tuition and fees and other student charges, which were originally presented as operating revenues under Federal grants and contracts in the prior year financial statements have been reclassified to nonoperating revenues, and (2) unapplied financial aid awards, which were originally presented as accounts payable in the prior year financial statements have been reclassified as an offset to accounts receivable.

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 consist of the following at June 30, 2010:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
University:		
Cash in bank	\$ 8,750,237	\$ 10,106,397
Cash on hand	22,189	-
Illinois Funds (Standard & Poor's AAAM)	27,460,164	27,460,164
Total	<u>\$ 36,232,590</u>	<u>\$ 37,566,561</u>
Foundation:		
Cash in bank	\$ 627,785	\$ 627,785
Illinois Funds (Standard & Poor's AAAM)	73,862	73,862
Total	<u>\$ 701,647</u>	<u>\$ 701,647</u>

Custodial Credit Risk: 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

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balances totaling \$500,000 (University and Foundation) at June 30, 2010. The remaining bank balances as of June 30, 2010 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.

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

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

University Investments

The carrying value of the investment portfolio of the University at June 30, 2010 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	\$ 660,986	\$ 660,986

Custodial Credit Risk: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2010, investments consisted solely of money market funds held in corporate trust accounts at Amalgamated Bank of Chicago.

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The 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: 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.

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Foundation Investments

The carrying value of the investment portfolio of the Foundation at June 30, 2010 is as follows:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Money Market Funds	AAAm	< 1 year	\$ 460,030	\$ 460,030
Mutual Funds investing in stocks			325,891	325,891
Mutual Funds investing in bonds	A+	1 to 5 years	51,047	51,047
US Treasury Note		1 to 5 years	50,202	50,202
			<u>\$ 887,170</u>	<u>\$ 887,170</u>

Custodial Credit Risk: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2010, investments consisted of money market funds, mutual funds and U.S. Treasury Notes. All investments are being held by the First Midwest Bank Trust Division.

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation's investment policy addresses the overall diversification of the portfolio with consideration for liquidity. It does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, but encourages a laddered portfolio with maturities occurring at regular intervals.

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy 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 Federated Government Obligations Tax-Managed Fund.

Foreign Currency Risk: Foreign currency risk exists when there is a possibility that the exchange rate of foreign currencies against U.S. dollar may vary. The Foundation's policy is to limit its investments in foreign securities to 25%. The Foundation had the following exposure to foreign currency risk as of June 30, 2010:

<u>Country</u>	<u>Amount</u>
China	<u>\$ 19,565</u>

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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 projects. In addition, certain accounts created by the University Revenue Bonds and for debt servicing the Certificates of Participation are held by the Bank pending expenditure for debt service. Balance of these accounts as of June 30, 2010 amounted to \$7,535,512.

The net proceeds from issuing the promissory note in relation to the University's guaranteed energy savings contract was separately deposited in the Escrow account with Old National Leasing Bank pending expenditure for the University's energy savings projects. Balance of this account as of June 30, 2010 amounted to \$1,682,984.

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 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 2011) is 21.27% (7.6% for Self-Managed Plan) of annual covered payroll. The contribution requirements of plan members and employers are established and may be

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amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2010, 2009, and 2008 were \$7,761,750, \$5,099,408, and \$3,797,714, 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 Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays 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 Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

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7. Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more. Renovations to buildings and 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, 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 \$1,082,422 was capitalized during the year ended June 30, 2010.

Capital assets activities for the University and Foundation for the year ended June 30, 2010 are summarized as follows:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Capital assets not being depreciated				
Land	\$ 1,389,086	\$ -	\$ -	\$ 1,389,086
Artwork/Sculptures-University	268,323	-	-	268,323
Artwork/Sculptures-Foundation	1,167,851	370,500	-	1,538,351
Total capital assets not being depreciated	<u>\$ 2,825,260</u>	<u>\$ 370,500</u>	<u>\$ -</u>	<u>\$ 3,195,760</u>
Other capital assets				
Site improvements	\$ 3,711,482	\$ 1,939,350	\$ -	\$ 5,650,832
Buildings	85,468,505	10,288,903	-	95,757,408
Equipment	8,712,350	332,032	(760,451)	8,283,931
Equipment under capital leases	169,545	-	-	169,545
Library collection	12,475,616	537,515	(58,138)	12,954,993
Total other capital assets	<u>110,537,498</u>	<u>13,097,800</u>	<u>(818,589)</u>	<u>122,816,709</u>
Accumulated depreciation				
Site improvements	(844,199)	(236,394)	-	(1,080,593)
Buildings	(29,630,683)	(1,512,801)	-	(31,143,484)
Equipment	(6,122,237)	(641,952)	727,205	(6,036,984)
Equipment under capital leases	(128,146)	(33,609)	-	(161,755)
Library collection	(10,618,443)	(496,316)	58,138	(11,056,621)
Total accumulated depreciation	<u>(47,343,708)</u>	<u>(2,921,072)</u>	<u>785,343</u>	<u>(49,479,437)</u>
Other capital assets, net	<u>\$ 63,193,790</u>	<u>\$ 10,176,728</u>	<u>\$ (33,246)</u>	<u>\$ 73,337,272</u>

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	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Capital assets summary:				
Capital assets not being depreciated	\$ 2,825,260	\$ 370,500	\$ -	\$ 3,195,760
Other capital assets	110,537,498	13,097,800	(818,589)	122,816,709
Accumulated depreciation	<u>(47,343,708)</u>	<u>(2,921,072)</u>	<u>785,343</u>	<u>(49,479,437)</u>
Total capital assets, net	<u>\$ 66,019,050</u>	<u>\$ 10,547,228</u>	<u>\$ (33,246)</u>	<u>\$ 76,533,032</u>

8. Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2010 were as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Notes Payable	\$ 245,038	\$ 4,750,000	\$ 585,411	\$ 4,409,627	\$ 390,217
Capital Leases	41,643	-	34,999	6,644	6,644
Revenue Bonds	8,630,000	-	310,000	8,320,000	320,000
Certificates of Participation 2008	9,860,000	-	105,000	9,755,000	110,000
Certificates of Participation 2009	<u>9,870,000</u>	<u>-</u>	<u>940,000</u>	<u>8,930,000</u>	<u>860,000</u>
	28,646,681	4,750,000	1,975,410	\$ 31,421,271	1,686,861
Unamortized Discounts	(164,552)	-	(8,699)	(155,853)	(8,699)
Unamortized Premiums	<u>45,642</u>	<u>-</u>	<u>3,109</u>	<u>42,533</u>	<u>3,109</u>
	<u>\$ 28,527,771</u>	<u>\$ 4,750,000</u>	<u>\$ 1,969,820</u>	<u>\$ 31,307,951</u>	<u>\$ 1,681,271</u>

Note Payable and Capital Lease

The interest rate for the note payable related to the energy savings system is 5.19%, and 4.07% for a copier under capital lease. The copier under capital lease is secured by the equipment being financed. Maturity dates range from May 2011 through July 2019. Future maturities of the note payable and capital lease at June 30, 2010 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 396,861	\$ 219,939	\$ 616,800
2012	410,958	198,923	609,881
2013	432,801	177,080	609,881
2014	455,806	154,075	609,881
2015	480,033	129,848	609,881
2016 - 2020	<u>2,239,812</u>	<u>250,535</u>	<u>2,490,347</u>
	<u>\$ 4,416,271</u>	<u>\$ 1,130,400</u>	<u>\$ 5,546,671</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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

Future debt service requirements at June 30, 2010 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 320,000	\$ 327,956	\$ 647,956
2012	335,000	314,856	649,856
2013	350,000	301,156	651,156
2014	365,000	286,856	651,856
2015	380,000	271,956	651,956
2016 - 2020	2,135,000	1,114,881	3,249,881
2021 - 2025	2,605,000	642,681	3,247,681
2026 - 2028	1,830,000	114,930	1,944,930
	<u>\$ 8,320,000</u>	<u>\$ 3,375,272</u>	<u>\$ 11,695,272</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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:

<u>Redemption Date</u>	<u>Redemption Price</u>
January 1, 2013	110%
On or after January 1, 2018	100%

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

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

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010 are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 110,000	\$ 400,850	\$ 510,850
2012	110,000	397,000	507,000
2013	115,000	393,150	508,150
2014	125,000	389,125	514,125
2015	125,000	384,750	509,750
2016 - 2020	1,480,000	1,848,375	3,328,375
2021 - 2025	4,650,000	1,221,800	5,871,800
2026 - 2028	3,040,000	271,250	3,311,250
	<u>\$ 9,755,000</u>	<u>\$ 5,306,300</u>	<u>\$ 15,061,300</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.

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.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Future debt service requirements at June 30, 2010 are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 860,000	\$ 348,850	\$ 1,208,850
2012	885,000	323,050	1,208,050
2013	910,000	296,500	1,206,500
2014	940,000	269,200	1,209,200
2015	980,000	226,900	1,206,900
2016 - 2019	4,355,000	477,006	4,832,006
	<u>\$ 8,930,000</u>	<u>\$ 1,941,506</u>	<u>\$ 10,871,506</u>

9. Accrued Compensated Absences

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

Change in
Accrued Compensated Absences
Year Ended June 30, 2010
(in thousands)

Balance, beginning of year	\$ 5,570
Movement	(522)
Balance, end of year	<u>5,048</u>
Less: current portion	<u>500</u>
Balance, noncurrent portion	<u>\$ 4,548</u>

10. Component Units

The University's financial statements include the activities of the University's component units, which represent discretely presented University related organizations. The University's component units in fiscal year 2010 and 2009 include the Foundation and Alumni Association.

The Foundation and Alumni Association have ongoing contracts with the University which includes provisions requiring the Foundation and the Alumni Association to comply with Section VI of the "University Guidelines 1982 (as amended 1997)" as adopted by the State of Illinois Legislative Audit Commission. The contracts require that the University provide the Foundation and the Alumni Association with accounting and other clerical services at no cost. University officials estimate the value of these services

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

for the year ended June 30, 2010 at \$142,254 and \$2,258 for the Foundation and Alumni Association, respectively, including all direct payroll expenses and fringe benefits. The Foundation and Alumni Association provided the University with support in the amount of \$187,461 and \$663, respectively, for the year ended June 30, 2010. As of June 30, 2010, \$47,688 is due from the University to the Foundation.

Below are the condensed financial statements by organization.

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Condensed Statement of Net Assets			
ASSETS			
Current assets	\$ 1,225,273	\$ -	\$ 1,225,273
Noncurrent assets	1,965,491	-	1,965,491
Total assets	<u>3,190,764</u>	<u>-</u>	<u>3,190,764</u>
LIABILITIES			
Current liabilities	9,713	-	9,713
Total liabilities	<u>9,713</u>	<u>-</u>	<u>9,713</u>
NET ASSETS			
Invested in capital assets	1,538,351	-	1,538,351
Restricted			
Nonexpendable	1,133,562	-	1,133,562
Expendable	500,105	-	500,105
Unrestricted	9,033	-	9,033
Total net assets	<u>\$ 3,181,051</u>	<u>\$ -</u>	<u>\$ 3,181,051</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Condensed Statement of Revenues, Expenditures and Changes in Net Assets			
Operating revenues	\$ 142,254	\$ 29,097	\$ 171,351
Operating expenses	358,891	28,988	387,879
Net operating income (loss)	<u>(216,637)</u>	<u>109</u>	<u>(216,528)</u>
Nonoperating revenues	369,545	9,623	379,168
Net change to endowments	81,302	-	81,302
Capital asset contributions	370,500	-	370,500
Transfers to Foundation	-	(149,857)	(149,857)
Transfers from Alumni Association	149,857	-	149,857
Increase (decrease) in net assets	<u>754,567</u>	<u>(140,125)</u>	<u>614,442</u>
Net assets - beginning of year	2,426,484	140,125	2,566,609
Net assets - end of year	<u>\$ 3,181,051</u>	<u>\$ -</u>	<u>\$ 3,181,051</u>

Condensed Statement of Cash Flows

Net cash used in operating activities	\$ (210,136)	\$ (1,632)	\$ (211,768)
Net cash provided by (used in) noncapital financing activities	430,776	(149,857)	280,919
Net cash provided by investing activities	<u>461,351</u>	<u>76,092</u>	<u>537,443</u>
Increase (decrease) in cash and cash equivalents	681,991	(75,397)	606,594
Cash and cash equivalents - beginning of year	479,686	75,397	555,083
Cash and cash equivalents - end of year	<u>\$ 1,161,677</u>	<u>\$ -</u>	<u>\$ 1,161,677</u>

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

Net operating income (loss)	\$ (216,637)	\$ 109	\$ (216,528)
Adjustment to reconcile net operating income (loss) to net cash used in operating activities:			
Accounts Payable	6,501	(1,741)	4,760
Net cash used in operating activities	<u>\$ (210,136)</u>	<u>\$ (1,632)</u>	<u>\$ (211,768)</u>

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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 \$1.5 million related to its Deferred Maintenance Initiative and guaranteed energy savings projects.

12. Restricted Endowments

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

On June 30, 2009, the State of Illinois passed the Uniform Prudent Management of Institutional Funds Act and repealed the Uniform Management of Institutional Funds Act. This State law allows the Foundation to appropriate for expenditure an amount it determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund was established. In making these 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 amounts 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 space in various buildings for off-campus classroom use and office space for its training contract with the Department of Children and Family Services. The rental expense for these lease agreements was \$134,261 for the year ended June 30, 2010.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Future minimum lease payments are as follows:

Year Ending June 30	Base Rent
2011	\$ 77,452
2012	31,315
	<u>\$ 108,767</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	
University Facilities System Revenue Bonds, Series 2007	Various improvements and additions to the University included in its Deferred Maintenance Initiative	Net revenues of the Student Center, University Bookstore, University Parking Facilities, and University Food Service and Vending Facilities	\$ 11,695,272	2028	4.33%

¹ Total future principal and interest payments on debt.

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

SUPPLEMENTARY INFORMATION

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS, SERIES 2007
STATEMENT OF NET ASSETS**

	JUNE 30,	
	2010	(Comparative totals only) 2009
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 777,460	\$ 723,137
Cash and cash equivalents, restricted	1,248,343	2,827,491
Unamortized debt issuance costs - current	8,787	8,787
<i>Total current assets</i>	2,034,590	3,559,415
 <i>Noncurrent assets</i>		
Unamortized debt issuance costs	144,981	153,768
Capital assets	10,181,596	8,641,881
Accumulated depreciation	(1,190,622)	(969,181)
<i>Total noncurrent assets</i>	9,135,955	7,826,468
<i>Total assets</i>	11,170,545	11,385,883
 LIABILITIES		
<i>Current liabilities</i>		
Accounts payable	227,621	398,274
Revenue bonds payable	321,738	311,738
<i>Total current liabilities</i>	549,359	710,012
 <i>Noncurrent Liabilities</i>		
Revenue bonds payable	8,028,683	8,350,421
<i>Total noncurrent liabilities</i>	8,028,683	8,350,421
<i>Total liabilities</i>	8,578,042	9,060,433
 NET ASSETS		
Invested in capital assets, net of related debt	1,012,827	598,160
Restricted: expendable - debt service	647,956	805,163
Unrestricted	931,720	922,127
<i>Total Net Assets</i>	\$ 2,592,503	\$ 2,325,450

Note: Certain prior year amount has been reclassified to conform to the current year financial statement presentation.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS, SERIES 2007
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	FOR THE YEAR ENDED JUNE 30,	
		(Comparative totals only)
	2010	2009
OPERATING REVENUES		
Bookstore commissions	\$ 173,623	\$ 183,693
Food and vending commissions	23,370	12,488
Parking fees	472,401	442,593
University facility fees	-	250,000
Student center fees	1,412,811	1,334,869
<i>Total operating revenues</i>	2,082,205	2,223,643
OPERATING EXPENSES		
Salaries and benefits	712,574	699,507
Scholarships and awards	8,278	25,398
Capital expenditures	88,461	105,051
Services, supplies and other	766,200	513,634
Depreciation	239,936	225,456
<i>Total operating expenses</i>	1,815,449	1,569,046
<i>Net operating income</i>	266,756	654,597
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,271	56,979
Interest expense	-	(7,049)
Other nonoperating expense	(974)	-
<i>Net nonoperating revenues</i>	297	49,930
<i>Increase in net assets</i>	267,053	704,527
NET ASSETS		
Net assets - beginning of year	2,325,450	1,620,923
Net assets - end of year	\$ 2,592,503	\$ 2,325,450

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS, SERIES 2007
STATEMENT OF CASH FLOWS**

	FOR THE YEAR ENDED JUNE 30,	
		(Comparative totals only)
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	\$ 173,623	\$ 183,693
Food and vending commissions	23,370	12,488
Parking fees	472,401	442,593
University facility fees	-	250,000
Student center fees	1,412,811	1,334,869
Payments to suppliers for goods and services	(862,939)	(644,083)
Payments to employees for services	(712,574)	(699,507)
<i>Net cash provided by operating activities</i>	506,692	880,053
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(1,382,232)	(4,814,870)
Principal payments	(310,000)	(300,000)
Interest payments	(340,556)	(352,756)
<i>Cash used by capital financing activities</i>	(2,032,788)	(5,467,626)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividend income	1,271	56,979
<i>Cash provided by investing activities</i>	1,271	56,979
Net decrease in cash and cash equivalents	(1,524,825)	(4,530,594)
Cash and cash equivalents - beginning of year	3,550,628	8,081,222
Cash and cash equivalents - end of year	\$ 2,025,803	\$ 3,550,628
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 266,756	\$ 654,597
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	239,936	225,456
Net cash provided by operating activities	\$ 506,692	\$ 880,053

Noncash Capital Financing Activities

During fiscal year 2010, the University made interest payments of \$340,556 to the bondholders. These payments were reclassified to capital assets as interest incurred during the period of construction.

**STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS, SERIES 2007
YEAR ENDED JUNE 30, 2010**

Student Enrollment by Term (Unaudited)

	<u>Total Enrollment</u>	<u>Full-Time Equivalent</u>
Fall Term, 2009	5,674	3,299
Winter Term, 2010	5,662	3,236
Spring/Summer Term, 2010	4,580	2,346

University Fees (Unaudited)

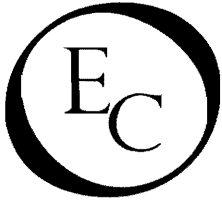
The following fees were in effect during each of trimesters for the 2009-2010 academic year:

	<u>Amount</u>
Student Center Fee	\$ 30
Student Activity Fee	36
Counseling and Career Services Fee	30
Parking Fee	30

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	\$ 181,250,143
EDP and contents	17,774,168
Business interruption	14,185,000
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 Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the business-type activities of the Governors State University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated February 25, 2011. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the University's discretely presented component units, 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, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

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

C. C. G. & Co. LLP
February 25, 2011