

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

**FOR THE YEAR ENDED JUNE 30, 2007**

**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, 2007**

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STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY

AGENCY OFFICIALS

GOVERNORS STATE UNIVERSITY

President (thru 6/30/07)	Dr. Stuart Fagan
President (7/1/07 to Present)	Dr. Elaine Maimon
Vice President of Administration & Planning (thru 5/31/07)	Mr. John Tuohy
Executive Vice President, Chief of Staff, Treasurer (6/1/07 to Present)	Dr. Gebeyehu Ejigu
Assistant Vice President, Financial Services/ Comptroller	Ms. Karen Kissel
Internal Auditor	Mr. David Dixon

Agency offices are located at:

1 University Parkway  
University Park, IL 60466

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY**

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

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

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



## INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Governors State University and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of Governors State University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Governors State University's basic financial statements as of and for the year ended June 30, 2006, which were audited by other auditors who expressed unqualified opinions on the basic financial statements in their reported dated December 14, 2006.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Governors State University and its aggregate discretely presented component units as of June 30, 2007 and the respective changes in net assets and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 29, 2008, on our consideration of Governors State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Clifton Gunderson LLP*  
CLIFTON GUNDERSON LLP  
Kankakee, Illinois

January 29, 2008

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ending June 30, 2007**

**Purpose**

This section of Governors State University's (GSU) annual financial report presents an analysis and overview of the financial activities of the University for the fiscal year ended June 30, 2007. The GSU Foundation and the GSU Alumni Association are considered to be component units of the University. Separate financial statements for the Foundation or Alumni Association may be obtained by writing the: Vice-President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60466.

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

**Financial and Enrollment Highlights**

Accreditations

During FY07, accreditation visits were conducted by the Council for Accreditation of Counselor Education and Related Programs (for our graduate program in counseling) and the Council on Social Work Education (for our undergraduate and graduate programs in social work). Both visits concluded with full reaccreditations for the programs visited and assessed. During FY07, the Higher Learning Commission also extended our accreditation for our physical therapy programs to cover the new Doctor of Physical Therapy Program (opened during the spring/summer term of 07). At the same time, preparations were underway for accreditation visits (to be conducted during FY08) by the Association of University Programs in Health Administration and the Commission on Accreditation of Healthcare Management Education (for our undergraduate and graduate programs in health administration, respectively), and by the American Speech-Language-Hearing Association (for our graduate program in communications disorders).

Rescissions and Appropriations

For fiscal years 2007 and 2006 the University received two types of state appropriations, "special" and "operational". The "special" appropriations amounted to \$1,806,000 and \$1,306,000 respectively and were used to pursue the development and expansion of:

- International Trade Center - \$331,000 (FY06 and FY07),
- Institute for Urban Education - \$650,000 (FY06 and FY07),
- Center for Excellence in Health Services - \$325,000 (FY06 and FY07), and
- Center for Law Enforcement Technology - \$500,000 (FY07)

STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ending June 30, 2007

**Financial and Enrollment Highlights (continued)**

The FY07 operational appropriation, used to fund ongoing programs, amounted to a 4.81% increase over FY06. The State of Illinois revenue shortfalls that began during FY01 continue to impact University funding as is seen on the table below. As the table shows, the FY07 operational appropriation, even though increasing for the fourth consecutive year, **is still only 93.3% of what it was in FY02.**

Net Revenue Available From Operational Appropriations					
Less:					
<u>Fiscal</u> <u>Years</u>	<u>Initial</u> <u>Appropriations</u>	<u>Payments to</u> <u>Health Reserve</u> <u>Fund</u>	<u>Appropriation</u> <u>Rescissions</u>	<u>Available</u> <u>Appropriations</u>	<u>Appropriation</u> <u>Available –</u> <u>As</u> <u>A Percentage</u> <u>of FY2002</u>
2007	\$ 25,867,800	\$ (656,200)	\$ -	\$ 25,211,600	93.3%
2006	24,680,100	(656,200)	-	24,023,900	88.9%
2005	24,280,100	(656,200)	-	23,623,900	87.4%
2004	24,180,100	(656,200)	(470,478)	23,053,422	85.3%
2003	26,350,600	(656,200)	(722,000)	24,972,400	92.4%
2002	28,045,900	(656,200)	(369,500)	27,020,200	100.0%

To offset the reduction in state support the University has engaged in a number of cost reduction actions. In FY03, courses were eliminated, existing positions were eliminated for the second year, and vacant positions due to retirements or resignations were eliminated. In FY04, reductions in non-personnel areas including equipment, commodities and contractual services were implemented. During FY05 and FY06 the University minimized expenses at all opportunities. During FY07, the additional funding was reallocated to high profile programs.

Enrollment

Student credit hours produced during FY07 increased by 4.6% from the levels of FY06; from 102,446 to 107,201. Degrees awarded increased from 1,549 to 1,872. Credit hours for FY08 are expected to increase, because of:

- Program expansions into new markets in the Kankakee and Naperville areas,
- Creating more online and weekend courses,
- Adding new off campus cohort sites, and
- Offering new degree programs in Digital Imaging and Independent Film-Making (MFA) and in Advanced Physical Therapy (DPT).

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ending June 30, 2007**

**Financial and Enrollment Highlights (continued)**

Sick and Vacation Payouts

Many of the University's faculty and staff were hired shortly after the University was chartered in 1969 and are now approaching retirement. We anticipate that sick and vacation payouts to departing employees will exceed \$1,000,000 per year for the next three to five years; this is as opposed to an average payout of less than \$400,000 per year over the first thirty years of existence.

**Statement of Net Assets**

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

	(in thousands)		
	2007	2006	Change
Current assets	\$ 23,886	\$ 18,282	31%
Non-current assets	56,686	58,004	-2%
<b>Total assets</b>	<b>80,572</b>	<b>76,286</b>	<b>6%</b>
Current Liabilities	9,835	8,986	9%
Non-current liabilities	10,506	11,494	-9%
<b>Total liabilities</b>	<b>20,341</b>	<b>20,480</b>	<b>-1%</b>
<b>Net assets</b>	<b>\$ 60,231</b>	<b>\$ 55,806</b>	<b>8%</b>

Current Assets

Current assets consist primarily of cash, accounts receivable, and loans receivable (due in less than one year). Most of the \$2.3 million cash increase came from broadband lease revenue, increased tuition and fee rates, and increased credit hours enrolled. The \$2.7 million increase in gross accounts receivable is attributable mainly to the extremely slow payments being made by one contract sponsor.

Non-Current Assets

Non-current assets include the long-term portion of student federal Perkins loan receivables and capital assets net of accumulated depreciation.



STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ending June 30, 2007

**Statement of Net Assets (continued)**

Current Liabilities

Current liabilities include accounts payable, deferred revenue, and the current portions of long-term liabilities which are payable in less than one year. The increase this year was due to:

- Accounts payable increased by \$324,000 compared to the prior year.
- Deferred revenue increase of over \$500,000. Deferred revenue consists of Spring/Summer tuition and fees assessed prior to the end of the fiscal year but not fully earned until after the end of the fiscal year.

Non-Current Liabilities

Non-current liabilities are liabilities with due dates greater than one year. They include compensated absences, refundable grants, and notes and capital leases payable. The slight decrease to these liabilities occurred as available funds were used to pay off over \$639,000 of old debt and \$538,000 of compensated absences. More detailed information about the University's long-term debt is presented in the footnotes to the financial statements.

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

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

The increase in the University's net assets results mostly from:

- \$2.7 million increase of tuition and fee revenue and
- \$2.1 million broadband lease revenue, a new revenue source in FY07.

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ending June 30, 2007**

**Statement of Revenues, Expenses, and Changes in Net Assets**

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

	(in thousands)		
	2007	2006	Change
Operations:			
Revenues			
Net tuition and fees	\$ 19,931	\$ 17,210	16%
Grants and contracts	8,951	7,579	18%
Sales of educational departments	7,796	6,645	17%
Auxiliary enterprises	2,191	1,755	25%
Other operating revenues	1,762	486	263%
Total operating revenues	<u>40,631</u>	<u>33,675</u>	21%
Expenses	<u>74,821</u>	<u>67,516</u>	11%
Net operating loss	<u>(34,190)</u>	<u>(33,841)</u>	1%
Non-operating and Other Revenues and Expenses			
State appropriations	27,674	25,986	6%
Payments made on behalf of the university	9,818	9,057	8%
Investment income	826	496	67%
Capital Development Board transfers	454	477	-5%
Other income and expense	(158)	(241)	-34%
Total non-operating and other revenue and expenses	<u>38,614</u>	<u>35,775</u>	8%
Increase in net assets	4,424	1,934	129%
Net assets - Beginning of year	<u>55,807</u>	<u>53,873</u>	4%
Net assets - End of year	<u>\$ 60,231</u>	<u>\$ 55,807</u>	8%

Operating Revenue and Expenses

Tuition and fee revenues increased because of increased credit hours enrolled at increased rates.

STATE OF ILLINOIS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ending June 30, 2007

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

Grant and contract revenue increased as new federal grant funding was received and as increased financial aid was received and disbursed.

The increase in other revenues resulted from the addition of a new revenue stream (broadband lease revenue) offset by a reduction of other miscellaneous activities.

Non-Operating Revenues and Expenses

Payments made by the State on behalf of the University, to fund retirement, health, life, and dental insurance benefits for University employees and retirees, are paid directly by other State agencies on-behalf of the University. The increase this year resulted from increased cost of health care as well as the increased amounts funded by the State into the retirement system.

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

The Illinois Capital Development Board (CDB) makes campus capital improvements on-behalf of the University and the University recognizes those improvements as a capital contribution and additions to its capital assets. In FY07, CDB expenditures for the University were approximately \$450,000, most of which was capital renewal projects.

**Operating Expenses (by functional classifications and in thousands)**

	2007	2006	Change	Percent
Instruction	\$ 33,371	\$ 29,785	\$ 3,586	12%
Research	1,548	1,064	484	45%
Public service	10,492	9,735	757	8%
Academic support	1,947	1,781	166	9%
Student services	4,975	4,171	804	19%
Institutional support	11,127	10,085	1,042	10%
Operation and maintenance of facilities	7,158	6,462	696	11%
Auxiliary activities	1,623	1,855	-232	-13%
Depreciation	2,580	2,578	2	0%
	<u>\$ 74,821</u>	<u>\$ 67,516</u>	<u>\$ 7,305</u>	<u>11%</u>

In most categories of endeavor, University expenditures increased between FY06 and FY07. Funding to support these increases came from both appropriation increases and tuition increases as noted above. The strongest percentage increases came in the areas of research and student services. This reflects the increased success in obtaining new grants on the part of our faculty.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ending June 30, 2007

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

**Operating Expenses (by natural classifications and in thousands)**

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Percent</u>
Salaries and benefits	\$ 53,985	\$ 48,306	\$ 5,679	12%
Scholarships and awards	1,743	1,506	237	16%
Capital expenditures	3,436	1,943	1,493	77%
Services, supplies and other	13,077	13,183	(106)	-1%
Depreciation	2,580	2,578	2	-
	<u>\$ 74,821</u>	<u>\$ 67,516</u>	<u>\$ 7,305</u>	<u>11%</u>

The 12% increase in salary and benefit expenses, representing the University's largest operating expense, was due to the following: (a) 5.3% was from annual State employee increases; (b) 3.3% was due to promotions or changes in pay grades; and (c) 3.3% was due to new staff. The scholarships and awards cost increase is almost entirely attributable to tuition and fee rate increases. The substantial increase in "capital expenditures" is largely attributable to spending on roof and restroom renovations, elevator repairs and the architectural and design efforts necessary to launch a sustained program of capital repair and replacement.

**Statement of Cash Flows**

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

	(in thousands)			
	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Percent</u>
Cash provided by (Used in):				
Operating activities	\$ (24,929)	\$ (19,098)	\$ (5,831)	31%
Non-capital financing activities	27,647	25,719	1,928	7%
Capital and related				
financing activities	(1,255)	(2,049)	794	-39%
Investing activities	824	478	346	72%
Net increase in cash	<u>2,287</u>	<u>5,050</u>	<u>(2,763)</u>	<u>-55%</u>
Cash – Beginning of year	13,870	8,820	5,050	57%
Cash – End of year	<u>\$ 16,157</u>	<u>\$ 13,870</u>	<u>\$ 2,287</u>	<u>16%</u>

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ending June 30, 2007**

**Statement of Cash Flows (continued)**

The primary cash receipts from operating activities consist of tuition and fee revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash increased primarily as the result of the following cash flows:

- State appropriations increase of \$1.9 million.
- Capital asset acquisitions decrease of \$0.8 million.
- Investment income increase of \$346 thousand.

**Factors Affecting Future Operations**

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

- The new executive vice-president took office on 6/1/07 and the new president followed on 7/1/07. The discussion of new initiatives to be launched during FY08 began immediately upon their arrival.
- A deferred maintenance initiative, which began in early FY06 that identified more than fifteen priority projects estimated to cost in excess of \$22,000,000, was formally approved by the GSU Board of Trustees in September of 2007. Along with that approval of projects went approval of a revenue bond sale and an issuance of certificates of participation. GSU received ratings of A3 and A- from Moody's and Standard and Poor's, respectively. The sale of bonds was completed on 11/20/07. Certificates of participation are expected to be issued in 2008 in the amount of \$12.3 million.
- The Illinois Student Assistance Commission (ISAC) has again under-funded the Illinois Veterans program to the extent that the University anticipates that it will be writing off between \$200,000 and \$300,000 of fiscal year 2008 revenue, an amount similar to what was written off for FY07.
- During the summer of 2007, the Governor vetoed the University's add-on appropriation of \$500,000 for the Center for Law Enforcement Technology Collaboration. The Illinois General Assembly failed to override that veto. The Center remains open and operating, thanks to reallocation of available funds to support a trimmed version of its operations, but the future of the remaining special appropriations is a matter of great concern.

**STATE OF ILLINOIS**  
**GOVERNORS STATE UNIVERSITY**  
**STATEMENT OF NET ASSETS**  
**As of June 30, 2007**  
**With Comparative Totals as of June 30, 2006**

	June 30, 2007		June 30, 2006	
	University	Component Units	University	Component Units
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents (Notes 2 & 3)	\$ 16,156,817	\$ 471,288	\$ 13,870,399	\$ 1,128,754
Trust escrow	-	-	111,256	-
Accounts receivable, net of allowance for uncollectible accounts of \$3,614,000 (Note 2)	4,280,006	21,721	1,416,466	43,520
Grants receivable (Note 2)	2,756,830	-	2,244,757	-
Inventories (Note 2)	23,933	-	34,348	-
Student loans - current	668,000	-	605,000	-
<b>Total Current Assets</b>	<b>23,885,586</b>	<b>493,009</b>	<b>18,282,226</b>	<b>1,172,274</b>
Non-current Assets				
Investments (Notes 2 & 3)	-	766,295	-	-
Student loans, net of allowance for uncollectible loans of \$788,000	2,845,025	-	2,720,696	-
Capital assets (Note 6)	96,830,856	1,167,851	97,448,037	1,167,851
Less accumulated depreciation (Note 6)	(42,989,773)	-	(42,164,566)	-
	<u>56,686,108</u>	<u>1,934,146</u>	<u>58,004,167</u>	<u>1,167,851</u>
<b>Total Assets</b>	<b>80,571,694</b>	<b>2,427,155</b>	<b>76,286,393</b>	<b>2,340,125</b>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	5,416,797	15,763	5,092,889	57,710
Accrued compensated absences (Notes 2 & 8)	1,000,000	-	1,000,000	-
Deferred revenue (Note 2)	2,839,038	-	2,340,321	-
Note payable and capital leases (Note 7)	494,556	-	472,450	-
Certificates of participation (Note 7)	85,000	-	80,000	-
	<u>9,835,391</u>	<u>15,763</u>	<u>8,985,660</u>	<u>57,710</u>
Non-current Liabilities				
Accrued compensated absences (Notes 2 & 8)	4,629,947	-	5,167,676	-
Refundable grants	3,317,545	-	3,213,571	-
Note payable and capital leases (Note 7)	798,262	-	1,267,788	-
Certificates of participation (Note 7)	1,760,000	-	1,845,000	-
	<u>10,505,754</u>	<u>-</u>	<u>11,494,035</u>	<u>-</u>
<b>Total Liabilities</b>	<b>20,341,145</b>	<b>15,763</b>	<b>20,479,695</b>	<b>57,710</b>
<b>NET ASSETS (Note 2)</b>				
Invested in capital assets, net of related debt	50,703,265	1,167,851	51,729,489	1,167,851
Restricted				
Nonexpendable	-	807,650	-	772,087
Expendable				
Loans	691,027	-	656,369	-
Other	89,535	335,050	289,270	251,339
Unrestricted	8,746,722	100,841	3,131,570	91,138
<b>Total Net Assets</b>	<b>\$ 60,230,549</b>	<b>\$ 2,411,392</b>	<b>\$ 55,806,698</b>	<b>\$ 2,282,415</b>

These financial statements should only be read in connection with  
the accompanying notes to the financial statements.

**STATE OF ILLINOIS**  
**GOVERNORS STATE UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Year Ended June 30, 2007**  
**With Comparative Totals for the Year Ended June 30, 2006**

	June 30, 2007		June 30, 2006	
	University	Component Units	University	Component Units
<b>OPERATIONS</b>				
Revenue				
Student tuition and fees net of scholarship allowances of \$1,884,456 (Note 2)	\$ 19,930,861	\$ -	\$ 17,210,033	\$ -
Federal grants and contracts	6,903,312	-	5,957,412	-
State grants and contracts	1,271,998	-	1,032,106	-
Other grants and contracts	775,409	19,030	589,346	18,370
Sales and services of educational departments	7,795,969	-	6,644,924	-
Auxiliary enterprises	2,191,241	-	1,754,631	-
Other operating revenues	1,762,685	55,876	486,502	53,088
Total operating revenues	40,631,475	74,906	33,674,954	71,458
Expense				
Instruction	33,371,017	-	29,784,579	-
Research	1,548,553	-	1,063,576	-
Public service	10,491,664	-	9,735,440	-
Academic support	1,947,095	-	1,780,596	-
Student services	4,975,003	-	4,171,088	-
Institutional support	11,126,579	-	10,084,776	-
Operation and maintenance of plant	7,158,003	-	6,462,158	-
Auxiliary enterprises	1,623,130	-	1,855,501	-
Depreciation	2,580,018	-	2,578,296	-
University support	-	189,386	-	229,303
Other expense	-	119,676	-	80,765
Total operating expenses	74,821,062	309,062	67,516,010	310,068
Operating loss	(34,189,587)	(234,156)	(33,841,056)	(238,610)
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
State appropriation	27,673,800	-	25,986,100	-
Payments made on behalf of the University	9,817,536	-	9,056,892	-
Gifts	-	209,838	-	173,652
Investment income	825,649	117,731	496,022	50,050
Interest on capital assets-related debt	(150,208)	-	(164,223)	-
Other non-operating expense	(7,592)	-	(77,063)	-
Net non-operating revenues	38,159,185	327,569	35,297,728	223,702
Income (loss) before other revenues, expenses, gains and losses	3,969,598	93,413	1,456,672	(14,908)
Transfers from the Capital Development Board	454,253	-	477,394	-
Additions to permanent endowments	-	35,564	-	27,175
Increase in net assets	4,423,851	128,977	1,934,066	12,267
<b>NET ASSETS</b>				
Net assets - beginning of year	55,806,698	2,282,415	53,872,632	2,270,148
Net assets - end of year	\$ 60,230,549	\$ 2,411,392	\$ 55,806,698	\$ 2,282,415

These financial statements should only be read in connection with the accompanying notes to the financial statements.

**STATE OF ILLINOIS**  
**GOVERNORS STATE UNIVERSITY**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2007**  
**With Comparative Totals for the Year Ended June 30, 2006**

	June 30, 2007		June 30, 2006	
	University	Component Units	University	Component Units
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Student tuition and fees	\$ 18,366,883	\$ -	\$ 19,130,721	\$ -
Grants and contracts	8,542,620	19,030	7,451,554	18,370
Payments to suppliers	(16,316,294)	(278,035)	(14,155,431)	(416,192)
Payments for scholarships	(3,795,588)	(29,454)	(3,523,453)	(27,700)
Payments to employees and fringe benefits	(43,299,354)	-	(36,755,429)	-
Auxiliary enterprises	2,191,241	-	1,754,631	-
Sales and services of educational departments	7,795,969	-	6,644,924	-
Student loans issued	(905,903)	-	(971,075)	-
Student loans collected	718,574	-	844,483	-
Other operating revenue	1,773,100	55,876	481,150	53,088
Net cash used by operating activities	<u>(24,928,752)</u>	<u>(232,583)</u>	<u>(19,097,925)</u>	<u>(372,434)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State appropriations	27,646,862	-	25,718,704	-
Contributions	-	188,117	-	173,652
Contributions for permanent endowments	-	35,564	-	27,175
Net cash provided by noncapital financing activities	<u>27,646,862</u>	<u>223,681</u>	<u>25,718,704</u>	<u>200,827</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Purchase of capital assets	(545,878)	-	(1,338,206)	-
Principal payments on capital debt	(559,369)	-	(546,749)	-
Interest payments on capital debt	(150,208)	-	(164,223)	-
Net cash used by capital financing activities	<u>(1,255,455)</u>	<u>-</u>	<u>(2,049,178)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investment securities	-	93,328	-	820,000
Interest and dividend income	823,763	66,297	478,434	48,399
Purchase of investment securities	-	(808,189)	-	-
Net cash provided (used) by investing activities	<u>823,763</u>	<u>(648,564)</u>	<u>478,434</u>	<u>868,399</u>
Net increase (decrease) in cash and cash equivalents	2,286,418	(657,466)	5,050,035	696,792
Cash and cash equivalents - beginning of year	13,870,399	1,128,754	8,820,364	431,962
Cash and cash equivalents - end of year	<u>\$ 16,156,817</u>	<u>\$ 471,288</u>	<u>\$ 13,870,399</u>	<u>\$ 1,128,754</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>				
Operating loss	\$ (34,189,587)	\$ (234,156)	\$ (33,841,056)	\$ (238,610)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Non-cash expenses included in operating loss:				
Depreciation expense	2,580,018	-	2,578,296	-
Payments made on behalf of the University	9,817,536	-	9,056,892	-
Changes in assets and liabilities -				
Accounts and grants receivable	(3,348,675)	43,520	1,866,550	(43,520)
Inventories	10,415	-	(5,352)	-
Accounts payable	323,908	(41,947)	1,105,465	(90,304)
Refundable grants	103,974	-	153,210	-
Accrued compensated absences	(537,729)	-	(389,759)	-
Deferred revenue	498,717	-	504,421	-
Student loans	(187,329)	-	(126,592)	-
Net cash used by operating activities	<u>\$ (24,928,752)</u>	<u>\$ (232,583)</u>	<u>\$ (19,097,925)</u>	<u>\$ (372,434)</u>

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

These financial statements should be only read in connection with  
the accompanying notes to the financial statements.



**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 1 - FINANCIAL REPORTING ENTITY AND COMPONENT UNIT DISCLOSURE**

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

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

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

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents

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

- 1) Readily convertible to known amounts of cash
- 2) So near to their maturity that they present insignificant risk of changes in value because of changes in interest

Inventories

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

Accrued Compensated Absences

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

Allowance for Uncollectible Accounts

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

Student Loans

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

Deferred Revenue

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

Estimates

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

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.

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounts and Grants Receivable

An aging of accounts and grants receivable is as follows:

Current	\$ 6,705,379
Up to 120 days past due	95,357
From 121 to 240 days past due	87,320
From 241 to 365 days past due	59,356
More than 365 days past due	3,703,424
Allowance for doubtful accounts	<u>(3,614,000)</u>
Net accounts and grants receivable	<u>\$ 7,036,836</u>

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

Net Assets

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

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

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

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

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

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Classification of Revenues

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

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

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

Self Insurance

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

Scholarship Discounts and Allowances

Student tuition and fee revenues are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charges and the amounts paid directly by students and/or third parties. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Reclassifications

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

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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

Deposits consist of the following at June 30, 2007:

<b>University:</b>	Carrying Amount	Bank Balance
Cash in bank	\$ 1,383,275	\$ 2,562,546
Cash on hand	28,720	-
Illinois Funds	14,744,822	14,744,822
<b>Total</b>	<u>\$ 16,156,817</u>	<u>\$ 17,307,368</u>
<b>Foundation:</b>	Carrying Amount	Bank Balance
Cash in bank	\$ 243,755	\$ 243,755
<b>Total</b>	<u>\$ 243,755</u>	<u>\$ 243,755</u>
<b>Alumni Association:</b>	Carrying Amount	Bank Balance
Cash in bank	\$ 20,366	\$ 20,366
Illinois Funds	99,851	99,851
<b>Total</b>	<u>\$ 120,217</u>	<u>\$ 120,217</u>

*Custodial Credit Risk – Deposits:* Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation insured bank balances totaling \$220,366 (all three entities) at June 30, 2007. The remaining bank balances as of June 30, 2007 were fully collateralized and the University, including the Foundation and Alumni Association, had no deposits that were subject to the Custodial Credit Risk. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract. Depositories and brokers are chosen based on stability and longevity, and due to insurance and collateralization, bank balances were not subject to custodial risk.

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

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

Investments:	Carrying Amount	Fair Value
Money Market Funds	\$ 32,660	\$ 32,660
Mutual Funds invested in stocks	388,456	388,456
Mutual Funds invested in bonds	377,839	377,839
<b>Total</b>	<b>\$ 798,955</b>	<b>\$ 798,955</b>

*Custodial Credit Risk* – Investments: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2007, investments consisted of money market funds and mutual funds. The money market account was fully insured and \$500,000 of the mutual funds were fully insured by the Securities Investor Protection Corporation (SIPC). The remaining mutual fund balance was insured through brokers “excess coverage” insurance with Customer Asset Protection Company.

*Interest Rate Risk:* Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s value. The Foundation’s investment policy addresses the overall diversification of the portfolio with consideration for liquidity. It does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average duration of the mutual fund investing in bonds was 4.6 years.

*Credit Risk:* Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation’s investment policy permits investments in securities rated within the four highest grades assigned by Moody’s Investor Service, Inc. or Standard & Poor’s Corporation or, if unrated, deemed by the investment manager to be of comparable quality. The money market fund is invested in Centennial Money Market Trust and the fund only invests in investments that are rated in one of the two highest short-term rating categories of the two national rating organizations. The mutual fund investing in bonds had a credit rating of AAA.

The carrying value of the investment portfolio of the Alumni Association at June 30, 2007 is as follows:

Investments:	Carrying Amount	Fair Value
Money Market Funds	\$ 74,656	\$ 74,656

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**Custodial Credit Risk – Investments:** Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2007, investments consisted solely of money market funds. The money market account was fully insured by the Securities Investor Protection Corporation (SIPC). The Alumni Association currently has no custodial credit risk.

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

**Credit Risk:** Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The money market funds were invested in the Morgan Stanley Liquid Asset Fund and are not rated. The Morgan Stanley Liquid Asset Fund invests in debt obligations of high quality and short term maturities.

**NOTE 4 - STATE UNIVERSITIES RETIREMENT SYSTEM**

Plan Description

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

Funding Policy

Plan members are required to contribute 8% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% (7.6% for Self-Managed Plan) of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ending June 30, 2007, 2006, and 2005 were \$2,790,142, \$1,747,612, and \$2,787,378, respectively, equal to the required contributions for each year.

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 5 - POSTEMPLOYMENT BENEFITS**

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

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

**NOTE 6 - CAPITAL ASSETS**

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

Capital asset activity for the University and Foundation for the year ended June 30, 2007 is summarized as follows:



**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 6 - CAPITAL ASSETS (Continued)**

	Balance June 30, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
<b>Capital assets not being depreciated</b>					
Land	\$ 1,389,086	\$ -	\$ -	\$ -	\$ 1,389,086
Artwork/Sculptures-University	268,323	-	-	-	268,323
Artwork/Sculptures-GSU					
Foundation	<u>1,167,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,167,851</u>
Total capital assets not being depreciated	<u>\$ 2,825,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,825,260</u>
<b>Other capital assets</b>					
Site improvements	\$ 1,011,175	\$ -	\$ -	\$ -	\$ 1,011,175
Buildings	73,787,013	454,253	-	-	74,241,266
Equipment	9,565,220	197,318	(1,686,910)	-	8,075,628
Equipment under capital lease	137,596	31,949	-	-	169,545
Library collection	<u>11,289,624</u>	<u>461,702</u>	<u>(75,493)</u>	<u>-</u>	<u>11,675,833</u>
Total other capital assets	<u>95,790,628</u>	<u>1,145,222</u>	<u>(1,762,403)</u>	<u>-</u>	<u>95,173,447</u>
<b>Less accumulated depreciation for</b>					
Site improvements	(666,026)	(16,010)	-	-	(682,036)
Buildings	(25,943,896)	(1,164,850)	-	-	(27,108,746)
Equipment	(5,895,686)	(855,243)	1,679,318	-	(5,071,611)
Equipment under capital lease	(27,319)	(33,609)	-	-	(60,928)
Library collection	<u>(9,631,639)</u>	<u>(510,306)</u>	<u>75,493</u>	<u>-</u>	<u>(10,066,452)</u>
Total accumulated depreciation	<u>(42,164,566)</u>	<u>(2,580,018)</u>	<u>1,754,811</u>	<u>-</u>	<u>(42,989,773)</u>
Other capital assets, net	<u>\$53,626,062</u>	<u>\$(1,434,796)</u>	<u>\$ (7,592)</u>	<u>\$ -</u>	<u>\$52,183,674</u>
<b>Capital asset summary:</b>					
Capital assets not being depreciated	\$ 2,825,260	\$ -	\$ -	\$ -	\$ 2,825,260
Other capital assets	95,790,628	1,145,222	(1,762,403)	-	95,173,447
Less accumulated depreciation	<u>(42,164,566)</u>	<u>(2,580,018)</u>	<u>1,754,811</u>	<u>-</u>	<u>(42,989,773)</u>
Total capital assets, net	<u>\$56,451,322</u>	<u>\$(1,434,796)</u>	<u>\$ (7,592)</u>	<u>\$ -</u>	<u>\$55,008,934</u>

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 7 - LONG-TERM OBLIGATIONS**

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2007 were as follows:

	Balance			Amounts Due Within	
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2007</u>	<u>One Year</u>
Notes Payable	\$ 1,632,454	\$ -	\$ 447,133	\$ 1,185,321	\$ 462,301
Capital Leases	107,784	31,949	32,236	107,497	32,255
Certificates of Participation	1,925,000	-	80,000	1,845,000	85,000
	<u>\$ 3,665,238</u>	<u>\$ 31,949</u>	<u>\$ 559,369</u>	<u>\$ 3,137,818</u>	<u>\$ 579,556</u>

Note Payable and Capital Leases

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

Year Ending	Principal	Interest	Total
<u>June 30</u>			
2008	\$ 494,556	\$ 38,417	\$ 532,973
2009	511,582	21,391	532,973
2010	280,037	4,816	284,853
2011	6,643	276	6,919
	<u>\$ 1,292,818</u>	<u>\$ 64,900</u>	<u>\$ 1,357,718</u>

Certificates of Participation

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

Year Ending	Principal	Interest	Total
<u>June 30</u>			
2008	\$ 85,000	\$ 92,764	\$ 177,764
2009	90,000	88,684	178,684
2010	95,000	84,274	179,274
2011	100,000	79,619	179,619
2012	100,000	74,719	174,719
2013 - 2017	600,000	292,094	892,094
2018 - 2022	775,000	123,511	898,511
	<u>\$ 1,845,000</u>	<u>\$ 835,665</u>	<u>\$ 2,680,665</u>

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 8 - ACCRUED COMPENSATED ABSENCES**

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

Change in Compensated Absences <u>(in thousands)</u>	
Balance, beginning of year	\$ 6,168
Additions / (Deductions), Net	<u>(538)</u>
Balance, end of year	5,630
Less: current portion	<u>1,000</u>
Balance, long-term portion	<u>\$ 4,630</u>

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

The outcome of any current litigation/arbitration related to lawsuits against the University and/or its management is unknown at this time. In the opinion of University management, the payment of any losses would be covered by insurance companies after payment of the first \$350,000 by the State Universities Risk Management Association, a self-insurance pool.

**NOTE 10 - COMPONENT UNITS**

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

	<u>Foundation</u>	Alumni <u>Association</u>	<u>Total</u>
<b>Condensed Statement of Net Assets</b>			
<b>ASSETS:</b>			
Current assets	\$ 298,136	\$ 194,873	\$ 493,009
Non-current assets	1,934,146	-	1,934,146
<b>TOTAL ASSETS</b>	<u>2,232,282</u>	<u>194,873</u>	<u>2,427,155</u>
<b>LIABILITIES:</b>			
Current liabilities	7,241	8,522	15,763
<b>TOTAL LIABILITIES</b>	<u>7,241</u>	<u>8,522</u>	<u>15,763</u>
<b>NET ASSETS:</b>			
Invested in capital assets	1,167,851	-	1,167,851
Restricted:			
Nonexpendable	730,498	77,152	807,650
Expendable	327,075	7,975	335,050
Unrestricted	<u>(383)</u>	<u>101,224</u>	<u>100,841</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 2,225,041</u>	<u>\$ 186,351</u>	<u>\$ 2,411,392</u>

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 10 - COMPONENT UNITS (Continued)**

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

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
Operating revenues	\$ 24,030	\$ 50,876	\$ 74,906
Operating expenses	<u>(263,258)</u>	<u>(45,804)</u>	<u>(309,062)</u>
Operating income (loss)	(239,228)	5,072	(234,156)
Non-operating revenue	318,588	8,981	327,569
Net change to endowments	<u>35,564</u>	<u>-</u>	<u>35,564</u>
Increase to net assets	114,924	14,053	128,977
Net assets, beginning of year	<u>2,110,117</u>	<u>172,298</u>	<u>2,282,415</u>
Net assets, end of year	<u>\$ 2,225,041</u>	<u>\$ 186,351</u>	<u>\$ 2,411,392</u>

**Condensed Statement of Cash Flows**

Net cash provided (used) by operating activities	\$ (242,625)	\$ 10,042	\$ (232,583)
Net cash provided by noncapital financing activities	223,156	525	223,681
Net cash provided (used) by investing activities	<u>(657,020)</u>	<u>8,456</u>	<u>(648,564)</u>
Cash increase (decrease)	(676,489)	19,023	(657,466)
Cash, beginning of year	<u>952,904</u>	<u>175,850</u>	<u>1,128,754</u>
Cash, end of year	<u>\$ 276,415</u>	<u>\$ 194,873</u>	<u>\$ 471,288</u>

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

Operating income (loss)	\$ (239,228)	\$ 5,072	\$ (234,156)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Changes in assets and liabilities -			
Accounts receivable	39,743	3,777	43,520
Accounts payable	<u>(43,140)</u>	<u>1,193</u>	<u>(41,947)</u>
Net cash used by operating activities	<u>\$ (242,625)</u>	<u>\$ 10,042</u>	<u>\$ (232,583)</u>

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 11 - RESTRICTED ENDOWMENTS**

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

If a donor has not provided specific instructions, state law permits the Foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of the endowment funds. The Foundation has adopted a spending policy of 6.0% of a trailing twelve month average of the market value of the assets.

**NOTE 12 - NON-CASH TRANSACTIONS**

The Capital Development Board (CDB) performs various capital improvements on behalf on the University. CDB turns over these improvements to the University throughout the year. During the year ended June 30, 2007, the University recognized capital contributions from CDB of \$454,253.

Certain tuition and fee waivers are considered compensation and are not eliminated on the Statement of Revenue, Expenses, and Changes in Net Assets. These waivers do not involve cash. During the year ended June 30, 2007, \$773,907 of such waivers were awarded.

The University entered a capital lease for a copier in the amount of \$31,949.

**NOTE 13 - SUBSEQUENT EVENT - REVENUE BOND**

The Board of Trustees of Governors State University authorized the issuance of \$8.9 million of University Facilities System Revenue Bonds on September 7, 2007. The sale of bonds was completed on November 20, 2007, and provides for interest at 4% to 4.125% and scheduled payments through 2027. The bonds are secured by pledged net revenue from the system facilities (student center, recreation center, bookstore, parking facilities, food service, and vending facilities) and pledged fees and tuition (to the extent necessary).

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

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 Governors State University as of and for the year ended June 30, 2007, and have issued our report thereon dated January 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

### **Compliance and Other Matters**

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

We are currently conducting a State compliance examination of Governors State University as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

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

*Clifton Gunderson LLP*

CLIFTON GUNDERSON LLP  
Kankakee, Illinois

January 29, 2008

STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY  
FINDINGS AND RECOMMENDATIONS - PRIOR FINDINGS NOT REPEATED  
For The Year Ended June 30, 2007

**PRIOR FINDINGS NOT REPEATED – GOVERNMENT AUDITING STANDARDS**

**07-7 FINDING: FAILURE TO RECONCILE CERTAIN ACCOUNTS WHEN PREPARING FINANCIAL STATEMENTS**

The University prepared its initial financial statements without reconciling certain accounts to its detailed records. (Finding Code No. 06-1)

Status – Not repeated

Our testing did not identify any significant accounts that had not been reconciled to detailed records.