STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2009

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, 2009

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AGENCY OFFICIALS

GOVERNORS STATE UNIVERSITY

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

Agency offices are located at:

1 University Parkway
University Park, IL 60484

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of Governors State University was performed by Borschnack, Pelletier & Co.

Based on their audit and the reports of other auditors, the auditors expressed unqualified opinions on the business-type activities and the aggregate discretely presented component units of Governors State University.

Borschnack Pelletier & Co.
Certified Public Accountants & Consultants
200 East Court Street • Suite 608 • Kankakee, IL 60901
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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities 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, 2009, which collectively comprise the basic financial statements 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 partial comparative information has been derived from the Governors State University's 2008 basic financial statements which were audited by other auditors who expressed unqualified opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component units in their report dated February 6, 2009. 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 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, 2009 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 January 21, 2010, 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.

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

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

Borschnack, Pelletier & Co.

January 21, 2010

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, 2009. 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 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 FY09, the Illinois Alcohol and Other Drug Abuse Professional Certification Association conducted an accreditation visit of our graduate programs in Addiction Studies. The maximum period for reaccreditation granted by IAODAPCA is two years. GSU received the full two –year reaccreditation.

Beyond this, much effort was devoted throughout FY09 to organizing and developing materials (including a full self-study document) for the Higher Learning Commission of the North Central Association of Colleges and Schools. These materials will support a visit by HLC during autumn of 2009, for the purpose of reaffirming GSU's ten-year accreditation.

Rescissions and Appropriations
For FY09 and FY08 the University received two types of State appropriations, "special" and "operational". The "special" appropriations amounted to $1,306,000 for each fiscal year and were used to pursue the development and expansion of the:

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

Financial and Enrollment Highlights (continued)

The FY09 total initial appropriation, used to fund ongoing core programs, increased 7.5% over FY08. However, in November of 2008, the Illinois Board of Higher Education (IBHE) received a request from the Office of the Governor that each public university rescind 2.5% of its initial appropriation.

Net Revenue Available From Operational Appropriations

Fiscal Years	Initial Appropriations	Less: Payments to Health Reserve Fund	Less: Appropriation Rescissions	Available Appropriations
2009	$ 28,324,400	$ (656,200)	$ (708,110)	$ 26,960,090
2008	26,353,400	(656,200)	-	25,697,200
2007	25,867,800	(656,200)	-	25,211,600
2006	24,680,100	(656,200)	-	24,023,900
2005	24,280,100	(656,200)	-	23,623,900
2004	24,180,100	(656,200)	(470,478)	23,053,422
2003	26,350,600	(656,200)	(722,000)	24,972,400
2002	28,045,900	(656,200)	(369,500)	27,020,200

Enrollment

Student credit hours produced during FY09 increased by 1.3% from the levels of FY08; from 112,471 to 113,909. Credit hours for FY10 are expected to increase, because of:

- Strengthening our partnerships and articulation agreements with Illinois community colleges;
- Increasing marketing efforts in the Chicagoland area;
- Growing enrollments in online courses;
- Expanding enrollments in the new doctoral programs in Advanced Occupational Therapy (DROT), and Advanced Nursing Practice (DNP);
- Expanding program offerings in the Kankakee and Naperville areas; and
- Adding new off campus cohort sites.

Sick and Vacation Payouts

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

Statement of Net Assets

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

(Certain 2008 amounts have been reclassified to agree to the 2009 presentation.)

(in thousands)

	2009	2008	Change
Current assets	$ 44,548	$ 37,376	19%
Non-current assets	68,359	59,692	15%
Total assets	112,907	97,068	16%
Current Liabilities	10,379	8,790	18%
Non-current liabilities	34,530	26,566	30%
Total liabilities	44,909	35,356	27%
Net assets	$ 67,998	$ 61,712	10%

Net Assets

The 10% increase in the University's nets assets are due to the following:

Current Assets

Current assets consist primarily of cash and cash equivalents, accounts receivable, and loans receivable (due in less than one year). Of the $7.2 million increase in current assets, $6.7 million was an increase in unrestricted cash, which was primarily due to increased tuition and fee rates, as well as an increase in student credit hours.

Non-Current Assets

Non-current assets include the long-term portion of student Federal Perkins Loan receivables, costs of issuance for the revenue bonds and certificates of participation, and capital assets net of accumulated depreciation. Of the $8.7 million increase in non-current assets, $8.5 million was an increase in net capital assets, which was due to the University deferred maintenance projects that have been underway for the past two years.

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 $1.6 million increase this year was attributable to a $1.0 million increase in deferred revenue due to increased summer student credit hours and tuition and fee rates, and a $0.9 million increase in the current portion of Certificates of Participation due to the Series 2009 issuance. This was offset by a $370,000 reduction in agency funds and notes payable.

Non-Current Liabilities

Non-current liabilities are liabilities with due dates greater than one year. They include compensated absences, refundable grants, revenue bonds payable, certificates of participation, and notes payable. The $8 million increase was due to the following:

- An $8.8 million increase due to the issuance of Certificates of Participation, Series 2009;
- A $280,000 decrease in refundable grants. 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; and
- A $695,000 decrease in revenue bonds, certificates of participation and notes payable that matured to current liabilities.

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

(Certain 2008 amounts have been reclassified to agree to the 2009 presentation.)

	(in thousands)		
	2009	2008	Change
Operations:			
Revenues			
Net tuition and fees	$ 27,264	$ 22,126	23%
Grants and contracts	9,878	9,305	6%
Sales of educational departments	6,845	7,406	-8%
Auxiliary enterprises	1,948	1,827	7%
Other operating revenues	1,463	1,670	-12%
Total operating revenues	47,398	42,334	12%
Expenses	82,596	81,232	2%
Net operating loss	(35,198)	(38,898)	-10%
Non-operating and Other Revenues and Expenses			
State appropriations	27,616	27,659	0%
Payments made on behalf of the university	13,094	11,357	15%
Federal grants and contracts - Pell	548	898	-39%
Investment income	299	802	-63%
Interest expense	(56)	(435)	-87%
Capital Development Board transfers	-	104	-100%
Other income and expense	(17)	(6)	183%
Total non-operating and other revenue and expenses	41,484	40,379	3%
Increase in net assets	6,286	1,481	324%
Net assets - Beginning of year	61,712	60,231	2%
Net assets - End of year	$ 67,998	$ 61,712	10%

Increase in Net Assets

This year, the Increase in net assets increased by 324% or $4.8 million due to the following:

Operating Revenue and Expenses

Tuition and fee revenues increased because of a 14% tuition rate increase for new resident and undergraduate students, a 17 - 21% tuition rate increase for most graduate students, and a general 1.3% increase in total student credit hours. In addition, a 100% (from $15 to $30) increase in the Parking and Walkway Fee was instituted for all students, faculty and staff. Perhaps most significant of all, however, a new University

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

Facility Fee was instituted beginning in the autumn of 2008 to provide a dedicated revenue stream for debt service issued for a series of deferred maintenance upgrades and projects. The University Facilities Fee was set at $16 per student credit hour.

Grant and contract revenue increased because of increased funding for the Research and Development cluster of programs and the TRIO cluster of programs.

Non-Operating Revenues and Expenses

Payments made by the State on behalf of the University, to fund retirement, health, life, and dental insurance benefits for University employees and retirees, are paid directly by other State agencies on-behalf of the University. In FY09, the State's funding of retirement benefits increased $1.3 million and health care increased $0.4 million.

Investment income includes $112,022 earned on unspent debt proceeds. Unrestricted investment income consists entirely of interest income, and decreased due to declining interest rates. In addition, reimbursements requested from appropriated funds (from the Illinois Office of the Comptroller) were not received timely, resulting in reduced balances of locally held funds which were not able to earn investment income.

The Illinois Capital Development Board (CDB) makes campus capital improvements on-behalf of the University and the University recognizes those improvements as a capital contribution and additions to its capital assets. In FY09, CDB did not have any projects for the University.

Operating Expenses (by functional classifications and in thousands)

	2009	2008	Change	Percent
Instruction	$ 38,597	$ 36,691	$ 1,906	5%
Research	1,664	1,374	290	21%
Public service	11,259	11,501	(242)	-2%
Academic support	2,077	2,110	(33)	-2%
Student services	5,641	5,843	(202)	-3%
Institutional support	12,793	12,654	139	1%
Operation and maintenance of Facilities	6,214	6,767	(553)	-8%
Auxiliary activities	1,662	1,690	(28)	-2%
Depreciation	2,689	2,602	87	3%
	$ 82,596	$ 81,232	$ 1,364	2%

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

In most categories of endeavor, University expenditures stayed fairly consistent between FY09 and FY08. Overall operating expenses increased 2%, funding to support these increases primarily came from tuition revenue increases and grants and contracts.

Operating Expenses (by natural classifications and in thousands)

	2009	2008	Change	Percent
Salaries and benefits	$ 63,070	$ 59,025	$ 4,045	7%
Scholarships and awards	1,809	2,246	(437)	-19%
Capital expenditures	1,117	2,462	(1,345)	-55%
Services, supplies and other	13,911	14,897	(986)	-7%
Depreciation	2,689	2,602	87	3%
	$ 82,596	$ 81,232	$ 1,364	2%

The 7% increase in salary and benefit expenses, representing the University's largest operating expense, was due to the following: (a) approximately a 6% increase in annual salaries for GSU employees, (b) approximately a 1% in the form of promotion increments and salary adjustments due to desk audits, reclassifications, and position adjustments, and (c) a 15% increase in on behalf payments made by the State.

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.

(Certain 2008 amounts have been reclassified to agree to the 2009 presentation.)

(in thousands)

	2009	2008	Change	Percent
Cash provided by (Used in):				
Operating activities	$ (18,717)	$ (25,288)	$ 6,571	-26%
Non-capital financing activities	28,165	28,573	(408)	-1%
Capital and related				
financing activities	(2,393)	11,583	(13,976)	-121%
Investing activities	299	802	(503)	-63%
Net increase in cash	7,354	15,670	(8,316)	-53%
Cash – Beginning of year	31,827	16,157	15,670	97%
Cash – End of year	$ 39,181	$ 31,827	$ 7,354	23%

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 used by operating activities improved primarily due to increased tuition and fee revenue. The net cash used by capital and related financing activities increased as the proceeds from the revenue bonds and certificates of participation that were issued in FY08 were expended in FY09.

Factors Affecting Future Operations

The strongest effects on the financial operations of Governors State University in FY10 (and probably well beyond that, as well) will lie in:

- The effects of the recession on appropriations assigned by the General Assembly and the Governor. Initial appropriations for GSU as signed by the Governor in FY10 were flat with initial appropriations for FY09.
- The outcome of the evaluation from the Higher Learning Commission (HLC) accreditation team regarding the reaccreditation of Governors State University. The reaccreditation visit was held in November 2009.
- Governors State University's ability to continue to build relationships at the community colleges as well as articulation agreements for those community college students transitioning into Governors State University.
- Governors State University's ability to continue to innovate new quality program offerings to the community.
- Governors State University's ability to market itself to new and continuing students to continue to grow student credit hours.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2009
With Comparative Totals as of June 30, 2008

	June 30, 2009		June 30, 2008	
	University	**Component Units**	University	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 2 & 3)	**$ 24,262,319**	**$ 555,083**	$ 17,591,591	$ 609,336
Cash and cash equivalents, restricted (Notes 2, 3 & 4)	**14,918,868**	-	14,234,977	-
Accounts receivable, net of allowance for uncollectible accounts of $3,107,400 (Note 2)	**2,863,351**	**22,647**	4,295,451	54,005
Grants receivable (Note 2)	**1,861,518**	-	576,544	-
Debt issuance costs - current portion (Note 2)	**50,095**		21,603	
Inventories (Note 2)	**23,027**	-	20,925	-
Student loans - current	**568,152**	-	635,000	-
Total Current Assets	**44,547,330**	**577,730**	37,376,091	663,341
Non-current Assets				
Investments (Notes 2 & 3)	-	**825,981**	-	741,448
Student loans, net of allowance for uncollectible loans of $736,000	**2,874,710**	-	2,929,528	-
Debt issuance costs (Note 2)	**633,483**	-	405,000	-
Capital assets (Note 7)	**112,194,907**	**1,167,851**	101,459,771	1,167,851
Less accumulated depreciation (Note 7)	**(47,343,708)**	-	(45,103,084)	-
Total Non-current Assets	**68,359,392**	**1,993,832**	59,691,215	1,909,299
Total Assets	**112,906,722**	**2,571,562**	97,067,306	2,572,640
LIABILITIES				
Current Liabilities				
Accounts payable	**3,432,701**	**4,953**	3,350,568	4,109
Agency funds payable	**170,074**	-	308,935	-
Accrued compensated absences (Notes 2 & 9)	**1,000,000**	-	1,000,000	-
Deferred revenue (Note 2)	**4,146,598**	-	3,190,582	-
Revenue bonds payable (Note 8)	**311,738**	-	301,738	-
Note payable and capital leases (Note 8)	**280,037**	-	511,582	-
Certificates of participation (Note 8)	**1,037,672**	-	126,301	-
Total Current Liabilities	**10,378,820**	**4,953**	8,789,706	4,109
Non-current Liabilities				
Accrued compensated absences (Notes 2 & 9)	**4,570,287**	-	4,582,342	-
Refundable grants	**3,061,115**	-	3,339,298	-
Revenue bonds payable (Note 8)	**8,350,421**	-	8,662,159	-
Note payable and capital leases (Note 8)	**6,644**	-	286,680	-
Certificates of participation (Note 8)	**18,541,259**	-	9,695,448	-
Total Non-current Liabilities	**34,529,726**	-	26,565,927	-
Total Liabilities	**44,908,546**	**4,953**	35,355,633	4,109
NET ASSETS (Note 2)				
Invested in capital assets, net of related debt	**49,586,755**	**1,167,851**	49,821,758	1,167,851
Restricted				
Nonexpendable	-	**1,121,440**	-	1,025,201
Expendable				
Loans	**605,550**	-	698,278	-
Debt service	**805,163**	-	469,394	-
Other	-	**216,283**	73,938	301,996
Unrestricted	**17,000,708**	**61,035**	10,648,305	73,483
Total Net Assets	**$ 67,998,176**	**$ 2,566,609**	$ 61,711,673	$ 2,568,531

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2009
With Comparative Totals for the Year Ended June 30, 2008

	June 30, 2009		June 30, 2008	
	University	Component Units	University	Component Units
OPERATIONS				
Revenue				
Student tuition and fees net of scholarship allowances of $3,657,165 (Note 2)	$ 27,263,876	$ -	$ 22,126,445	$ -
Federal grants and contracts	7,395,852	-	6,623,811	-
State grants and contracts	1,391,028	-	1,579,401	-
Other grants and contracts	1,090,751	-	1,101,993	10,030
Sales and services of educational departments	6,844,693	-	7,405,774	-
Auxiliary enterprises	1,947,705	-	1,826,822	-
Other operating revenues	1,464,086	169,996	1,669,450	174,258
Total operating revenues	47,397,991	169,996	42,333,696	184,288
Expense				
Instruction	38,597,331	-	36,691,013	-
Research	1,663,614	-	1,374,409	-
Public service	11,258,728	-	11,501,416	-
Academic support	2,077,361	-	2,110,258	-
Student services	5,641,293	-	5,842,809	-
Institutional support	12,793,162	-	12,653,488	-
Operation and maintenance of plant	6,213,820	-	6,767,113	-
Auxiliary enterprises	1,662,066	-	1,689,546	-
Depreciation	2,689,039	-	2,601,715	-
University support	-	211,673	-	170,767
Other expense	-	205,960	-	290,477
Total operating expenses	82,596,414	417,633	81,231,767	461,244
Operating loss	(35,198,423)	(247,637)	(38,898,071)	(276,956)
NON-OPERATING REVENUES (EXPENSES)				
State appropriation	27,616,290	-	27,659,400	-
Payments made on behalf of the University	13,094,122	-	11,356,654	-
Federal grants and contracts - Pell	548,097	-	898,129	-
Gifts	-	291,810	-	270,366
Investment income (loss)	187,075	(148,813)	636,360	(18,854)
Investment income on debt proceeds	112,022	-	165,659	-
Interest expense	(56,063)	-	(434,799)	-
Other non-operating expense	(16,617)	-	(6,408)	-
Net non-operating revenues	41,484,926	142,997	40,274,995	251,512
Income (loss) before other revenues, expenses, gains and losses	6,286,503	(104,640)	1,376,924	(25,444)
Transfers from the Capital Development Board	-	-	104,200	-
Additions to permanent endowments	-	102,718	-	182,583
Increase in net assets	6,286,503	(1,922)	1,481,124	157,139
NET ASSETS				
Net assets - beginning of year	61,711,673	2,568,531	60,230,549	2,411,392
Net assets - end of year	$ 67,998,176	$ 2,566,609	$ 61,711,673	$ 2,568,531

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009
With Comparative Totals for the Year Ended June 30, 2008

	June 30, 2009		June 30, 2008	
	University	Component Units	University	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 28,363,607	$ -	$ 23,285,708	$ -
Grants and contracts	8,592,657	-	11,507,244	10,030
Payments to suppliers	(13,194,206)	(176,920)	(20,708,890)	(318,044)
Payments for scholarships	(5,561,251)	(68,846)	(4,605,477)	(52,516)
Payments to employees and fringe benefits	(47,118,797)	-	(45,619,772)	-
Auxiliary enterprises	1,947,705	-	1,826,822	-
Sales and services of educational departments	6,844,693	-	7,405,774	-
Student loans issued	(341,400)	-	(731,662)	-
Student loans collected	285,679	-	680,159	-
Other operating revenue	1,464,086	30,331	1,672,458	40,507
Net cash used by operating activities	(18,717,227)	(215,435)	(25,287,636)	(320,023)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	27,617,184	-	27,674,593	-
Federal grants - Pell	548,097	-	898,129	-
Contributions	-	291,810	-	269,494
Contributions for permanent endowments	-	102,718	-	182,583
Net cash provided by noncapital financing activities	28,165,281	394,528	28,572,722	452,077
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(10,459,155)	-	(4,293,955)	-
Proceeds from issuance of debt	9,598,798	-	16,718,339	-
Principal payments on capital debt	(946,581)	-	(579,556)	-
Interest payments on capital debt	(585,594)	-	(262,182)	-
Net cash used by capital financing activities	(2,392,532)	-	11,582,646	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	12,875	-	34,539
Interest and dividend income	299,097	32,622	802,019	81,469
Investment management fees	-	(8,021)	-	(7,709)
Purchase of investment securities	-	(270,822)	-	(102,305)
Net cash provided (used) by investing activities	299,097	(233,346)	802,019	5,994
Net increase (decrease) in cash and cash equivalents	7,354,619	(54,253)	15,669,751	138,048
Cash and cash equivalents - beginning of year	31,826,568	609,336	16,156,817	471,288
Cash and cash equivalents - end of year	$ 39,181,187	$ 555,083	$ 31,826,568	$ 609,336
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	$ (35,198,423)	$ (247,637)	$ (38,898,071)	$ (276,956)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Non-cash expenses included in operating loss:				
Depreciation expense	2,689,039	-	2,601,715	-
Payments made on behalf of the University	13,094,122	-	11,356,654	-
Changes in assets and liabilities -				
Accounts and grants receivable	147,126	31,358	2,149,648	(31,412)
Agency fund payable	(138,861)	-	308,935	-
Inventories	(2,102)	-	3,008	-
Accounts payable	82,133	844	(3,083,714)	(11,655)
Refundable grants	(278,183)	-	21,753	-
Accrued compensated absences	(12,055)	-	(47,605)	-
Deferred revenue	956,016	-	351,544	-
Student loans	(56,039)	-	(51,503)	-
Net cash used by operating activities	$ (18,717,227)	$ (215,435)	$ (25,287,636)	$ (320,023)

NONCASH CAPITAL FINANCING ACTIVITIES

During fiscal year 2009, the University made interest payments of $564,202 to the bondholders and certificate holders. These payments were reclassified to capital assets as interest incurred during the period of construction.

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

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, master, and doctorial levels.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents
In accordance with GASB Statement No. 9, cash equivalents are defined as short-term, highly liquid investments that are both:
1) Readily convertible to known amounts of cash
2) So near to their maturity that they present insignificant risk of changes in value because of changes in interest.

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

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

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

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

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

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

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts and Grants Receivable
An aging of accounts and grants receivable is as follows:

Current	$ 4,392,940
Up to 120 days past due	162,674
From 121 to 240 days past due	193,106
From 241 to 365 days past due	146,472
More than 365 days past due	2,937,077
Allowance for doubtful accounts	(3,107,400)
Net accounts and grants receivable	$ 4,724,869

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

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

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

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

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

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.

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.

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 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. The most significant of those reclassifications included the recharacterization of the "Trust escrow, restricted" to "Cash and cash equivalents, restricted". These restricted assets are held in corporate trust accounts at a financial institution and are used to pay the project costs of the deferred maintenance initiative and the debt service of the revenue bonds and certificates of participation. On the Statement of Cash Flows, much of these activities had previously been reported on non-cash capital financing activities.

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, 2009:

University:	Carrying Amount	Bank Balance
Cash in bank	$ 1,281,412	$ 1,560,433
Cash on hand	21,166	-
Illinois Funds (Standard & Poor's AAAm)	37,045,879	37,045,879
Total	$ 38,348,457	$ 38,606,312

Foundation:	Carrying Amount	Bank Balance
Cash in bank	$ 479,686	$ 479,686
Total	$ 479,686	$ 479,686

Alumni Association:	Carrying Amount	Bank Balance
Cash in bank	$ 1,005	$ 1,005
Illinois Funds (Standard & Poor's AAAm)	74,392	74,392
Total	$ 75,397	$ 75,397

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 $501,005 (all three entities) at June 30, 2009. The remaining bank balances as of June 30, 2009 were insured under the FDIC's Temporary Account Guarantee program and were also fully collateralized. The University, including the Foundation and Alumni Association, had no deposits that were subject to 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.

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.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The carrying value of the investment portfolio of the University at June 30, 2009 is as follows:

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	Not Rated	< 1 year	$ 832,730	$ 832,730

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, 2009, 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.

The carrying value of the investment portfolio of the Foundation at June 30, 2009 is as follows:

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Mutual Funds investing in stocks			$ 358,779	$ 358,779
Mutual Funds investing in bonds	Not Rated	1 to 5 years	400,733	400,733
Total			$ 759,512	$ 759,512

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, 2009, investments consisted solely of mutual funds. The mutual funds were insured by the Securities Investor Protection Corporation (SIPC) up to $500,000. The remaining amounts were insured through brokers "excess coverage" insurance with Customer Asset Protection Company.

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

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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 mutual funds were not rated.

Foreign Currency Risk: Foreign currency risk exists when there is a possibility that the exchange rate of foreign currencies against the US dollar may vary. The Foundation does not have a policy limiting its exposure to foreign currency risk. The Foundation had the following exposure to foreign currency risk as of June 30, 2009:

Country	Amount
France	$ 6,332
Germany	4,688
Japan	9,814
Switzerland	4,074
United Kingdom	10,347
Other Countries (< 5%)	38,810
Total	$ 74,065

The carrying value of the investment portfolio of the Alumni Association at June 30, 2009 is as follows:

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Mutual Funds investing in stocks			36,346	36,346
Mutual Funds investing in bonds	Not Rated	1 to 5 years	30,123	30,123
Total			$ 66,469	$ 66,469

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, 2009, investments consisted solely of mutual funds. The mutual funds were 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 not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Alumni Association has not adopted a formal policy on the ratings of its investment in securities.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Foreign Currency Risk: Foreign currency risk exists when there is a possibility that the exchange rate of foreign currencies against US dollars may vary. The Alumni Association does not have a policy limiting its exposure to foreign currency risk. The Alumni Association had the following exposure to foreign currency risk as of June 30, 2009:

Country	GSUAA Amount
France	$ 859
Japan	1,331
United Kingdom	1,403
Other Countries (< 5%)	9,937
Total	$ 13,530

NOTE 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 others created for debt servicing the Certificates of Participation are held by the Bank pending expenditure for debt service.

NOTE 5 - STATE UNIVERSITIES RETIREMENT SYSTEM

Plan Description

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

NOTE 5 - STATE UNIVERSITIES RETIREMENT SYSTEM (Continued)

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 18.61% (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, 2009, 2008, and 2007 were $5,099,408, $3,797,714, and $2,790,142, respectively, equal to the required contributions for each year.

NOTE 6 - POSTEMPLOYMENT BENEFITS

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

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

NOTE 7 - CAPITAL ASSETS

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 $931,705 was capitalized during the year ended June 30, 2009.

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 for site improvements, and three to forty years for equipment and the library collection.

NOTE 7 - CAPITAL ASSETS (Continued)

Capital asset activity for the University and Foundation for the year ended June 30, 2009 is summarized as follows:

	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Capital assets not being depreciated					
Land	$ 1,389,086	$ -	$ -	$ -	$ 1,389,086
Construction in progress	3,668,523	-	-	(3,668,523)	-
Artwork/Sculptures-University	268,323	-	-	-	268,323
Artwork/Sculptures-GSU Foundation	1,167,851	-	-	-	1,167,851
Total capital assets not being depreciated	$ 6,493,783	$ -	$ -	$ (3,668,523)	$ 2,825,260
Other capital assets					
Site improvements	$ 1,129,765	$ 2,581,717	$ -	$ -	$ 3,711,482
Buildings	74,345,466	7,454,516	-	3,668,523	85,468,505
Equipment	8,375,679	549,249	(212,578)	-	8,712,350
Equipment under capital lease	169,545	-	-	-	169,545
Library collection	12,113,384	614,686	(252,454)	-	12,475,616
Total other capital assets	96,133,839	11,200,168	(465,032)	3,668,523	110,537,498
Less accumulated depreciation for					
Site improvements	(699,924)	(144,275)	-	-	(844,199)
Buildings	(28,280,789)	(1,349,894)	-	-	(29,630,683)
Equipment	(5,647,517)	(670,681)	195,961	-	(6,122,237)
Equipment under capital lease	(94,537)	(33,609)	-	-	(128,146)
Library collection	(10,380,317)	(490,580)	252,454	-	(10,618,443)
Total accumulated depreciation	(45,103,084)	(2,689,039)	448,415	-	(47,343,708)
Other capital assets, net	$ 51,030,755	$ 8,511,129	$ (16,617)	$ 3,668,523	$ $ 63,193,790
Capital asset summary:					
Capital assets not being depreciated	$ 6,493,783	$ -	$ -	$ (3,668,523)	$ 2,825,260
Other capital assets	96,133,839	11,200,168	(465,032)	3,668,523	110,537,498
Less accumulated depreciation	(45,103,084)	(2,689,039)	448,415	-	(47,343,708)
Total capital assets, net	$ 57,524,538	$ 8,511,129	$ (16,617)	$ -	$ $ 66,019,050

NOTE 8 - LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2009 were as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Notes Payable	$ 723,020	$ -	$ 477,982	$ 245,038	$ 245,038
Capital Leases	75,242	-	33,599	41,643	34,999
Revenue Bonds	8,930,000	-	300,000	8,630,000	310,000
Certificates of Participation	9,995,000	9,870,000	135,000	19,730,000	1,045,000
	19,723,262	9,870,000	946,581	28,646,681	1,635,037
Unamortized Discounts	(173,251)	-	(8,699)	(164,552)	(8,699)
Unamortized Premiums	33,897	13,712	1,967	45,642	3,109
	$19,583,908	$ 9,883,712	$ 939,849	$28,527,771	$1,629,447

Note Payable and Capital Leases

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

Year Ending June 30	Principal	Interest	Total
2010	$ 280,037	$ 4,816	$ 284,853
2011	6,644	275	6,919
	$ 286,681	$ 5,091	$ 291,772

Revenue Bonds, Series 2007

On November 20, 2007, the University issued $8,930,000 of University Facilities System Revenue Bonds, Series 2007, with an interest rate ranging from 4.00% to 4.125% to make various improvements and additions to the University included in its deferred maintenance initiative and pay the costs incurred ($175,736) in the connection with the issuance of the Series 2007 Bonds. The original issue premium is being accreted to interest expense over the term of the bonds.

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

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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

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

Future debt service requirements are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 310,000	$ 340,556	$ 650,556
2011	320,000	327,956	647,956
2012	335,000	314,856	649,856
2013	350,000	301,156	651,156
2014	365,000	286,856	651,856
2015 – 2019	2,055,000	1,198,681	3,253,681
2020 – 2024	2,500,000	744,782	3,244,782
2025 – 2028	2,395,000	200,985	2,595,985
	$ 8,630,000	$ 3,715,828	$ 12,345,828

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 an interest rate ranging from 3.50% to 4.50% to pay a portion of the costs of improvements, to refund in advance of maturity and advance refund all of the $1,760,000 outstanding principal on the Certificates of Participation, Series 1998, and to pay the costs ($256,328) of issuing the Series 2008 Certificates. The original issue discount is being accreted to interest expense over the term of the certificate.

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

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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

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

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

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

The University defeased its outstanding Certificates of Participation, Series 1998 through 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 are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 105,000	$ 404,525	$ 509,525
2011	110,000	400,850	510,850
2012	110,000	397,000	507,000
2013	115,000	393,150	508,150
2014	125,000	389,125	514,125
2015 – 2019	685,000	1,874,825	2,559,825
2020 – 2024	4,635,000	1,409,638	6,044,638
2025 – 2028	3,975,000	441,712	4,416,712
	$ 9,860,000	$ 5,710,825	$ 15,570,825

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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 an interest rate 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 certificate.

Extraordinary Redemption Upon Event of Nonappropriation 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 nonappropriated funds to pay the installment payments coming due, (iii) and 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 prices of 110% of the principal amount thereof, plus accrued interest to the date fixed for redemption, on March 1, 2014, if the University notifies the Trustee not less than 60 days prior thereto that it is exercising its option to terminate the Purchase Contract.

Future debt service requirements are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ 940,000	$ 267,077	$ 1,207,077
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 – 2019	5,335,000	703,906	6,038,906
	$ 9,870,000	$ 2,208,583	$ 12,078,583

NOTE 9 - ACCRUED COMPENSATED ABSENCES

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

	Change in Compensated Absences (in thousands)
Balance, beginning of year	$ 5,582
Additions / (Deductions), Net	(12)
Balance, end of year	5,570
Less: current portion	1,000
Balance, long-term portion	$ 4,570

NOTE 10 - COMPONENT UNITS

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

	Foundation	Alumni Association	Total
Condensed Statement of Net Assets			
ASSETS:			
Current assets	$ 502,333	$ 75,397	$ 577,730
Non-current assets	1,927,363	66,469	1,993,832
TOTAL ASSETS	2,429,696	141,866	2,571,562
LIABILITIES:			
Current liabilities	3,212	1,741	4,953
TOTAL LIABILITIES	3,212	1,741	4,953
NET ASSETS:			
Invested in capital assets	1,167,851	-	1,167,851
Restricted:			
Nonexpendable	1,044,288	77,152	1,121,440
Expendable	209,625	6,658	216,283
Unrestricted	4,720	56,315	61,035
TOTAL NET ASSETS	$ 2,426,484	$ 140,125	$ 2,566,609

NOTE 10 - COMPONENT UNITS (Continued)

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

	Foundation	Alumni Association	Total
Operating revenues	$ 135,638	$ 34,358	$ 169,996
Operating expenses	(357,632)	(60,001)	(417,633)
Operating income (loss)	(221,994)	(25,643)	(247,637)
Non-operating revenue	153,017	(10,020)	142,997
Net change to endowments	102,718	-	102,718
Increase to net assets	33,741	(35,663)	(1,922)
Net assets, beginning of year	2,392,743	175,788	2,568,531
Net assets, end of year	$ 2,426,484	$ 140,125	$ 2,566,609

Condensed Statement of Cash Flows

	Foundation	Alumni Association	Total
Net cash provided (used) by operating activities	$ (190,427)	$ (25,008)	$ (215,435)
Net cash provided by noncapital financing activities	394,330	198	394,528
Net cash provided (used) by investing activities	(156,659)	(76,687)	(233,346)
Cash increase (decrease)	47,244	(101,497)	(54,253)
Cash, beginning of year	432,442	176,894	609,336
Cash, end of year	$ 479,686	$ 75,397	$ 555,083

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

	Foundation	Alumni Association	Total
Operating loss	$ (221,994)	$ (25,643)	$ (247,637)
Adjustments to reconcile net loss to net cash used by operating activities:			
Changes in assets and liabilities -			
Accounts receivable	31,358	-	31,358
Accounts payable	209	635	844
Net cash used by operating activities	$ (190,427)	$ (25,008)	$ (215,435)

NOTE 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.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

The University has outstanding commitments related to its Deferred Maintenance Initiative totaling approximately $4.3 million and $8.3 million related to a guaranteed energy savings contract.

NOTE 12 - RESTRICTED ENDOWMENTS

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

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.

NOTE 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 $607,426 for the year ended June 30, 2009. Future minimum lease payments are as follows:

2010	$	82,252
2011		77,452
2012		31,315
	$	191,019

NOTE 14 – SUBSEQUENT EVENTS

On June 26, 2009, the Board of Trustees of Governors State University awarded a $8,269,000 guaranteed energy savings contract. In fiscal year 2010, the University signed a $4,750,000 capital lease agreement to fund a portion of this contract. The remaining balance will be paid from the Certificates of Participation, Series 2008 and Certificates of Participation, Series 2009.

During fiscal year 2010, the Alumni Association will be dissolved and the Alumni Association's operations will become part of Foundation operations.

NOTE 15 – PLEDGED REVENUES & DEBT SERVICE REQUIREMENTS

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

PLEDGED REVENUES

BOND ISSUE	PURPOSE	SOURCE OF REVENUE PLEDGED	FUTURE NET REVENUES PLEDGED[1]	TERM OF COMMITMENT	(CURRENT YEAR) PLEDGED NET REVENUE TO DEBT SERVICE[2]
University Facilities System	Various improvements and additions to the University included in its Deferred Maintenance Initiative	Net revenue of The Student Center, The University Bookstore, University Parking Facilities, and University Food Service and Vending Facilities.	$ 12,345,828	2028	7.10%

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

SUPPLEMENTAL INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BOND, SERIES 2007
STATEMENT OF NET ASSETS
As of June 30, 2009
With Comparative Totals as of June 30, 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 723,137	$ 723,137
Cash and cash equivalents, restricted	2,827,491	7,358,085
Cost of issuance - revenue bonds	8,787	8,787
Total Current Assets	3,559,415	8,090,009
Noncurrent Assets		
Cost of issuance - revenue bonds	153,768	162,555
Capital assets	8,641,881	3,656,632
Less accumulated depreciation	(969,181)	(743,725)
Total Noncurrent Assets	7,826,468	3,075,462
Total Assets	11,385,883	11,165,471
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	398,274	580,651
Revenue bonds payable	311,738	301,738
Total Current Liabilities	710,012	882,389
Noncurrent Liabilites		
Revenue bonds payable	8,350,421	8,662,159
Total Non-current Liabilities	8,350,421	8,662,159
Total Liabilities	9,060,433	9,544,548
NET ASSETS		
Invested in capital assets, net of related debt	598,160	335,200
Restricted: expendable - debt service	805,163	469,394
Restricted: other	198,990	93,192
Unrestricted	723,137	723,137
Total Net Assets	$ 2,325,450	$ 1,620,923

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BOND, SERIES 2007
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2009
With Comparative Totals for the Year Ended June 30, 2008

	2009	2008
OPERATING REVENUES		
Bookstore commissions	$ 183,693	$ 188,791
Food and vending commissions	12,488	12,733
Parking fees	442,593	220,363
University facility fees	250,000	-
Student center fees	1,334,869	1,257,532
Total Operating Revenues	2,223,643	1,679,419
OPERATING EXPENSES		
Salaries and benefits	699,507	474,465
Scholarships and awards	25,398	41,718
Capital expenditures	105,051	78,480
Services, supplies and other	513,634	541,236
Depreciation	225,456	22,064
Total Operating Expenses	1,569,046	1,157,963
Operating Income	654,597	521,456
NONOPERATING REVENUES (EXPENSES)		
Investment income	56,979	165,659
Interest expense	(7,049)	(143,903)
Other expenses	-	(1,714)
Net Nonoperating Revenues (Expenses)	49,930	20,042
Increase in net assets	704,527	541,498
NET ASSETS		
Net assets - beginning of the year	1,620,923	1,079,425
Net assets - end of the year	$ 2,325,450	$ 1,620,923

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BOND, SERIES 2007
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009
With Comparative Totals for the Year Ended June 30, 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	$ 183,693	$ 203,981
Food and vending commissions	12,488	12,733
Parking fees	442,593	231,249
Univeristy facility fees	250,000	-
Student center fees	1,334,869	1,257,532
Payments to suppliers for goods and services	(644,083)	(667,888)
Payments to employees for services	(699,507)	(474,465)
Net cash provided by operating activities	880,053	563,142
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of debt	-	8,889,956
Purchase of capital assets	(4,814,870)	(2,110,050)
Principal payments	(300,000)	-
Interest payments	(352,756)	(131,000)
Net cash provided (used) by capital financing activities	(5,467,626)	6,648,906
CASH FLOWS FROM CAPITAL INVESTING ACTIVITIES		
Interest income	56,979	165,659
Net cash provided (used) by capital investing activities	56,979	165,659
NET INCREASE IN CASH		
Cash increase (decrease)	(4,530,594)	7,377,707
Cash - beginning of year	8,081,222	703,515
Cash - end of year	$ 3,550,628	$ 8,081,222
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 654,597	$ 521,456
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Non-cash expenses included in operating income:		
Depreciation expense	225,456	22,064
Changes in assets and liabilities -		
Accounts receivable	-	26,076
Accounts payable	-	(6,454)
Net cash provided by operating activities	$ 880,053	$ 563,142

NONCASH CAPITAL FINANCING ACTIVITIES

During fiscal year 2009, the University made interest payments of $352,756 to the bondholders. These payments were reclassified to capital assets as interest incurred during the period of construction.

GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BOND, SERIES 2007
Year Ended June 30, 2009

STUDENT ENROLLMENT BY TERM (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2008	5,636	3,298
Winter Term, 2009	5,413	4,363
Spring/Summer Term, 2009	4,562	2,975

UNIVERSITY FEES (Unaudited)

The following fees were in effect during each of trimesters for the 08/09 academic year:

	Amount
Student Center Fee	$ 30
Student Activity Fee	$ 36
Counseling and Career Services Fee	$ 30
Parking Fee	$ 30
University Facilities Fee	$ 16

SCHEDULE OF INSURANCE IN FORCE (Unaudited)

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

Fire and extended coverage ($25,000 deductible) of:	
Buildings	$ 179,455,587
EDP & Contents	$ 6,098,186
Business interruption	$ 14,179,500
Boiler and Machinery (included in blanket coverage limit)	$ 100,000,000
Earthquake	$ 100,000,000
Flood	$ 100,000,000
General Liability	$ 19,650,000

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

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities 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, 2009, which collectively comprise the Governors State University's basic financial statements and have issued our report thereon dated January 21, 2010. 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. The financial statements of the University's discretely presented component units were not audited in accordance with *Government Auditing Standards*.

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

We noted certain matters which have been reported to management of Governors State University in a separate letter dated January 21, 2010.

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, 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.

Borschnack, Pelletier & Co.

January 21, 2010