STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT
For the Year Ended June 30, 2014

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, 2014

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Compliance Examination (In Accordance with the Single Audit Act and OMB Circular A-133) for the Year Ended June 30, 2014

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2014

University Officials

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

University offices are located at:

1 University Parkway
University Park, Illinois 60484

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2014

Financial Statement Report

Summary

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

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

Exit Conference

The University waived having an exit conference in a letter dated December 11, 2014 from the University's Controller, Ms. Melinda Gieseke.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of the Governors State University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University and its aggregate discretely presented component unit, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 15 to the financial statements, during the year ended June 30, 2014, the University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component unit of the University in our report dated December 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived, with the exception of the effects of the reclassification related to its Monetary Award Program (MAP) grant as discussed in Note 16 to the financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

E. C. Ortiz & Co., LLP

Chicago, Illinois
December 12, 2014

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

PURPOSE

This section of the Governors State University's (GSU or University) annual financial report presents an analysis and overview of the financial activities of the University for the fiscal year ended June 30, 2014. The GSU Foundation is considered a component unit of the University. Separate financial statements for the Foundation may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

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

FINANCIAL AND ENROLLMENT HIGHLIGHTS

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

Student Housing
On April 5, 2012, the University issued $20,415,000 University Facilities System Revenue Bonds, Series 2012, for the purpose of financing the construction of an on-campus student housing complex scheduled for occupancy in late summer 2014. Construction commenced during Fiscal Year 2013 and was nearing completion at the end of Fiscal Year 2014.

Appropriations
For Fiscal Year 2014, the University received State appropriations for general operations.

The Fiscal Year 2014 total appropriation used to fund ongoing core programs constituted an increase of 0.1% over the Fiscal Year 2013 appropriation.

Net Revenue Available from Operational Appropriations

Fiscal Year	Appropriations	Payments to Health Reserve Fund	Available Appropriations
2014	$ 24,675,000	$ (656,200)	$ 24,018,800
2013	24,650,500	(656,200)	23,994,300

Enrollment

Student credit hours billed during Fiscal Year 2014 decreased by 3.5% from the levels of Fiscal Year 2013; from 115,162 to 111,142.

Mandated Tuition Waivers

Certain tuition waivers are mandated by the State and have been funded or partially funded in the past. For the Fiscal Year 2014, about $1.0 million in mandated tuition waivers were awarded by the University but not reimbursed from the State.

Statement of Net Position

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

	(in thousands)			
	2014	2013	Change	Percent Change
Current assets	$ 58,171	$ 74,328	$ (16,157)	-22%
Noncurrent assets	124,046	102,302	21,744	21%
Total assets	182,217	176,630	5,587	3%
Current liabilities	17,353	11,594	5,759	50%
Noncurrent liabilities	49,127	51,887	(2,760)	-5%
Total liabilities	66,480	63,481	2,999	5%
Net position	$ 115,737	$ 113,149	$ 2,588	2%

The 2% increase in the University's net position is due to the following:

Current Assets

Current assets consist primarily of cash and cash equivalents, and receivables. The $16.2 million decrease in current assets was mostly attributable to the $14.6 million decrease in restricted cash primarily due to expending the proceeds from debt financing on construction and deferred maintenance projects, the $1.3 million decrease in grants receivable primarily due to the timing of drawdowns and an overall decline in grant funding, and the $1.4 million decrease in State appropriation receivable primarily due to timely payments of State reimbursements. These decreases were partially offset by the $1.2 million increase in accounts receivable mostly due to an increase in the outstanding reimbursements from the University's contract with the Department of Children and Family Services.

Noncurrent Assets

Noncurrent assets consist primarily of long-term portion of student loans receivable, and capital assets net of accumulated depreciation. The $21.7 million increase in noncurrent assets was mostly attributable to the $0.5 million increase in student loans receivable primarily due to the timing of collection of loans from students, and the $22.0 million increase in net capital assets, which was due to the costs incurred in connection with the renovation of the University's E and F buildings and Engbretson Hall as funded by the Capital Development Board, construction of an on-campus student housing complex as funded by the University's Revenue Bonds, Series 2012, and renovation of the biology research laboratory, academic computing services laboratory and library as funded by University income fund. These increases were partially offset by the elimination of unamortized debt issuance costs amounting to $0.7 million resulting from the University's adoption of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Current Liabilities

Current liabilities include accounts payable, agency funds payable, accrued compensated absences, unearned revenue, and the current portion of long-term liabilities, which are payable in less than one year. The $5.8 million increase in current liabilities was mostly attributable to the $5.3 million increase in accounts payable caused by an increase in spending related to construction and renovation projects and retainage on those projects at fiscal yearend, and recognition of $0.4 million current portion of Revenue Bonds, Series 2012 representing first principal payment due in Fiscal Year 2015.

Noncurrent Liabilities

Noncurrent liabilities are liabilities with due dates beyond one year, which include accrued compensated absences, refundable grants, revenue bonds payable, notes payable, and certificates of participation. The $2.8 million decrease in noncurrent liabilities was mostly attributable to the $1.9 million principal payments in revenue bonds payable, notes payable, and certificates of participation, and the transfer of $0.4 million to current portion of long-term liabilities representing first principal payment for the Revenue Bonds, Series 2012 due in Fiscal Year 2015.

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

Statement of Revenues, Expenses and Changes in Net Position

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

	(in thousands)			
	2014	2013	Change	Percent Change
OPERATING REVENUES				
Net student tuition and fees	$ 32,013	$ 31,420	$ 593	2%
Grants and contracts	5,780	9,115	(3,335)	-37%
Sales and services of educational departments	5,600	5,666	(66)	-1%
Auxiliary enterprises	1,233	1,274	(41)	-3%
Other operating revenues	2,240	1,631	609	37%
Total operating revenues	46,866	49,106	(2,240)	-5%
OPERATING EXPENSES	111,786	107,461	4,325	4%
Net operating loss	(64,920)	(58,355)	(6,565)	11%
NONOPERATING REVENUES (EXPENSES)				
State appropriation	24,675	24,651	24	0%
Payments made on behalf of the University	28,461	29,165	(704)	-2%
Federal and State nonoperating grants	9,287	8,446	841	10%
Investment income	11	38	(27)	-71%
Interest expense	(1,053)	(1,120)	67	-6%
Capital additions provided by the State of Illinois	6,860	13,649	(6,789)	-50%
Capital asset contributions	28	135	(107)	-79%
Other nonoperating expense	(6)	(2)	(4)	200%
Net nonoperating revenues	68,263	74,962	(6,699)	-9%
Increase in net position	3,343	16,607	(13,264)	-80%
Net position - beginning of year, as restated	112,394	96,542	15,852	16%
Net Position - end of year	$ 115,737	$ 113,149	$ 2,588	2%

This year, the increase in net position was 80% or $13.3 million lower than Fiscal Year 2013 due to the following:

Operating Revenues

The $2.2 million decrease in operating revenues was mostly attributable to the $3.3 million decrease in grants and contracts primarily due to the overall decline in grant funding as a number of grants have ended and not been renewed. This decrease was partially offset by the $0.6 million increase in net student tuition and fees, and $0.6 million increase in other operating revenues. The $0.6 million increase in net student tuition and fees was primarily due to the 2% and 1% increases in tuition and fee rates, respectively, which was partially offset by the decline in enrollment and credit hours, and an increase in the aid and scholarships used to offset tuition. The $0.6 million increase in other operating revenues was mostly due to the increase in revenue from the University's Family Development Center and increase in video production revenue from the University's media services.

Operating Expenses (by functional classification)

	(in thousands)			
	2014	2013	Change	Percent Change
Instruction	$ 53,645	$ 50,912	$ 2,733	5%
Research	595	678	(83)	-12%
Public service	12,314	14,460	(2,146)	-15%
Academic support	2,676	2,681	(5)	0%
Student services	9,975	9,537	438	5%
Institutional support	18,982	16,127	2,855	18%
Operation and maintenance of plant	8,254	8,280	(26)	0%
Auxiliary enterprises	1,486	1,170	316	27%
Depreciation	3,859	3,616	243	7%
	$ 111,786	$ 107,461	$ 4,325	4%

The overall increase of $4.3 million in operating expenses was mostly attributable to the increase in salaries as the University negotiated a salary increase of 3.9% for most full-time employees. This is most notable in the $2.7 million increase in instruction where the majority of salaries expense is expended. Institutional support and auxiliary enterprises increased by $2.9 million and $0.3 million, respectively, mainly due to the overall increase in operations as the University prepares for its transition to a four-year institution. These increases were partially offset by the $2.1 million decrease in public service primarily due to the overall decline in grant funding that supported this expenditure.

Operating Expenses (by natural classification)

	(in thousands)			
	2014	2013	Change	Percent Change
Salaries and benefits	$ 82,848	$ 81,351	$ 1,497	2%
Scholarships and awards	5,836	6,419	(583)	-9%
Capital expenditures	2,974	1,391	1,583	114%
Services, supplies and others	16,269	14,684	1,585	11%
Depreciation	3,859	3,616	243	7%
	$ 111,786	$ 107,461	$ 4,325	4%

Salaries and benefits, representing the University's largest operating expense, increased by $1.5 million as the University negotiated a salary increase of 3.9% for most full-time employees. This increase was partially offset by the 2% decrease in on behalf payments made by the State. Capital expenditures and services, supplies and others increased each by $1.6 million primarily due to the overall increase in operations as the University prepares for its transition to a four-year institution.

Nonoperating Revenues (Expenses)
Payments made by the State on behalf of the University to fund retirement, health, life, and dental insurance benefits for University employees and retirees are paid directly by other State agencies on behalf of the University. In Fiscal Year 2014, the State's funding of retirement benefits increased by $0.8 million, while its funding of health care decreased by $1.5 million. Federal and State nonoperating grants increased by $0.8 million primarily due to increased need of the federal Pell and State Monetary Award Program (MAP) grants, and more timely processing of the related awards. Capital additions provided by the State of Illinois decreased by $6.8 million as the renovations of E and F buildings were substantially completed during the fiscal year.

Statement of Cash Flows

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

	(in thousands)			
	2014	2013	Change	Percent Change
Cash provided by (used in):				
Operating activities	$ (32,258)	$ (28,436)	$ (3,822)	13%
Noncapital financing activities	35,454	34,313	1,141	3%
Capital financing activities	(18,127)	(8,685)	(9,442)	109%
Investing activities	11	38	(27)	-71%
Net decrease in cash and cash equivalents	(14,920)	(2,770)	(12,150)	439%
Cash and cash equivalents - beginning of year	57,250	60,020	(2,770)	-5%
Cash and cash equivalents - end of year	$ 42,330	$ 57,250	$ (14,920)	-26%

The primary cash receipts from operating activities consist of student tuition and fees and grants and contracts revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash used in operating activities increased by $3.8 million primarily due to the increase in overall operating expenses. Cash provided by noncapital financing activities increased by $1.1 million primarily due to the increase in Federal and State nonoperating grants. Cash used in capital financing activities increased by $9.4 million primarily due to the spending on University's renovation and construction projects.

UNIVERSITY'S DEBT RATINGS

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

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in Fiscal Year 2015 and beyond will lie in:

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET POSITION

	JUNE 30,			
	2014		(Comparative totals only) 2013	
	University	Component Unit	University	Component Unit
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2 and 3)	$ 35,586,427	$ 408,390	$ 35,924,997	$ 488,498
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	6,743,365	-	21,325,296	-
Accounts receivable, net of allowance for uncollectible accounts of $5,870,000 (Note 2)	6,236,575	39,924	5,078,113	7,168
Grants receivable (Note 2)	3,404,783	-	4,675,759	-
State appropriation receivable	5,355,254	-	6,718,815	-
Student loans - current (Note 2)	408,454	-	373,448	-
Due from component unit (Note 10)	42,396	-	-	-
Due from University	-	-	-	211,917
Unamortized debt issuance costs - current (Notes 2 and 15)	-	-	65,789	-
Prepaid debt service insurance - current (Notes 2 and 8)	18,941	-	-	-
Inventories (Note 2)	65,137	-	71,410	-
Other assets	309,917	-	94,213	-
Total current assets	58,171,249	448,314	74,327,840	707,583
Noncurrent assets				
Investments (Notes 2 and 3)	-	2,456,875	-	1,718,190
Student loans, net of allowance for uncollectible loans of $766,000 (Note 2)	3,064,646	-	2,588,867	-
Unamortized debt issuance costs (Notes 2 and 15)	-	-	868,617	-
Prepaid debt service insurance (Notes 2 and 8)	141,264	-	-	-
Other noncurrent assets (Note 2)	168,691	-	176,920	-
Capital assets (Note 7)	182,768,199	2,233,156	157,561,317	2,203,156
Accumulated depreciation (Note 7)	(62,096,896)	-	(58,893,927)	-
Total noncurrent assets	124,045,904	4,690,031	102,301,794	3,921,346
Total assets	182,217,153	5,138,345	176,629,634	4,628,929
LIABILITIES				
Current liabilities				
Accounts payable	10,405,093	10,519	5,101,988	465
Agency funds payable	156,216	-	149,814	-
Accrued compensated absences (Notes 2 and 9)	600,000	-	500,000	-
Due to component unit	-	-	211,917	-
Due to University (Note 10)	-	42,396	-	-
Unearned revenue (Note 2)	3,811,768	-	3,737,412	-
Revenue bonds payable (Note 8)	795,853	-	365,853	-
Notes payable (Note 8)	487,027	-	469,129	-
Certificates of participation (Note 8)	1,097,672	-	1,057,672	-
Total current liabilities	17,353,629	52,915	11,593,785	465
Noncurrent liabilities				
Accrued compensated absences (Notes 2 and 9)	3,475,194	-	3,687,015	-
Refundable grants	3,476,481	-	3,644,107	-
Revenue bonds payable (Note 8)	26,568,068	-	27,363,922	-
Notes payable (Note 8)	2,189,246	-	2,676,272	-
Certificates of participation (Note 8)	13,417,899	-	14,515,571	-
Total noncurrent liabilities	49,126,888	-	51,886,887	-
Total liabilities	66,480,517	52,915	63,480,672	465
NET POSITION (Notes 2 and 15)				
Net investment in capital assets	78,039,582	2,233,156	71,031,349	2,203,156
Restricted:				
Nonexpendable	-	1,683,098	-	1,554,037
Expendable				
Loans	617,213	-	671,181	-
Debt service	4	-	1,202,627	-
Other	-	1,094,849	-	838,621
Unrestricted	37,079,837	74,327	40,243,805	32,650
Total net position	$ 115,736,636	$ 5,085,430	$ 113,148,962	$ 4,628,464

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

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

	FOR THE YEAR ENDED JUNE 30,			
			(Comparative totals only)	
	2014		2013	
	University	Component Unit	University	Component Unit
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowances of $6,719,583 (Note 2)	$ 32,012,827	$ -	$ 31,420,401	$ -
Federal grants and contracts	5,113,272	-	8,072,663	3,400
State grants and contracts	563,309	-	769,682	-
Other grants and contracts	103,916	90,890	272,228	-
Sales and services of educational departments	5,600,244	-	5,666,456	-
Auxiliary enterprises	1,233,039	-	1,273,713	-
Other operating revenues	2,240,079	351,520	1,630,708	345,179
Total operating revenues	46,866,686	442,410	49,105,851	348,579
OPERATING EXPENSES				
Instruction	53,644,834	-	50,912,283	-
Research	595,213	-	677,588	-
Public service	12,314,530	-	14,459,403	-
Academic support	2,676,252	-	2,681,093	-
Student services (Note 16)	9,974,678	-	9,537,653	-
Institutional support	18,982,371	-	16,127,074	-
Operation and maintenance of plant	8,253,658	-	8,280,331	-
Auxiliary enterprises	1,485,930	-	1,169,541	-
Depreciation	3,858,722	-	3,616,325	-
University support	-	418,688	-	475,969
Other expense	-	347,656	-	354,188
Total operating expenses	111,786,188	766,344	107,461,291	830,157
Net operating loss	(64,919,502)	(323,934)	(58,355,440)	(481,578)
NONOPERATING REVENUES (EXPENSES)				
State appropriation	24,675,000	-	24,650,500	-
Payments made on behalf of the University	28,461,000	-	29,165,000	-
Federal and State nonoperating grants (Notes 2 and 16)	9,286,795	-	8,446,368	-
Gifts	-	342,042	-	533,028
Investment income	8,215	250,923	23,227	108,443
Investment income on debt proceeds	2,386	-	14,871	-
Interest expense	(1,052,668)	-	(1,120,064)	-
Other nonoperating expense	(5,938)	-	(1,500)	-
Net nonoperating revenues	61,374,790	592,965	61,178,402	641,471
Income (loss) before other revenues, expenses, gains and losses	(3,544,712)	269,031	2,822,962	159,893
Capital additions provided by State of Illinois	6,859,646	-	13,648,789	-
Additions to permanent endowments	-	127,368	-	215,633
Capital asset contributions	28,000	60,567	135,000	485,800
Increase in net position	3,342,934	456,966	16,606,751	861,326
NET POSITION (Notes 2 and 15)				
Net position - beginning of year, as previously reported	113,148,962	4,628,464	96,542,211	3,767,138
Prior period adjustment	(755,260)	-	-	-
Net position - beginning of year, as restated	112,393,702	4,628,464	96,542,211	3,767,138
Net position - end of year	$ 115,736,636	$ 5,085,430	$ 113,148,962	$ 4,628,464

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED JUNE 30,			
	2014		(Comparative totals only) 2013	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 29,503,713	$ -	$ 30,293,369	$ -
Grants and contracts	7,383,970	90,890	6,469,465	3,400
Payments to suppliers	(18,554,633)	(276,142)	(14,791,419)	(339,848)
Payments for scholarships	(5,835,827)	(104,020)	(6,419,487)	(91,597)
Payments to employees and fringe benefits	(53,101,735)	-	(52,716,558)	-
Auxiliary enterprises	1,233,039	-	1,273,713	-
Sales and services of educational departments	5,600,244	-	5,666,456	-
Student loans issued	(1,147,098)	-	(235,096)	-
Student loans collected	420,256	-	392,759	-
Other operating revenues	2,240,079	54,355	1,630,708	29,566
Net cash used in operating activities	(32,257,992)	(234,917)	(28,436,090)	(398,479)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	26,038,561	-	26,088,845	-
Federal and State nonoperating grants	9,415,341	-	8,223,924	-
Contributions	-	512,718	-	189,549
Contributions for permanent endowments	-	127,368	-	215,633
Cash provided by noncapital financing activities	35,453,902	640,086	34,312,769	405,182
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(14,340,346)	-	(5,013,584)	-
Principal payments on capital debt	(1,899,128)	-	(1,826,889)	-
Interest payments on capital debt	(1,887,538)	-	(1,844,039)	-
Cash used in capital financing activities	(18,127,012)	-	(8,684,512)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	1,122,327	-	935,485
Investment income	10,601	46,539	38,098	31,969
Investment management fees	-	(21,441)	-	(17,614)
Purchase of investment securities	-	(1,632,702)	-	(1,057,200)
Net cash provided by (used in) investing activities	10,601	(485,277)	38,098	(107,360)
Net decrease in cash and cash equivalents	(14,920,501)	(80,108)	(2,769,735)	(100,657)
Cash and cash equivalents - beginning of year	57,250,293	488,498	60,020,028	589,155
Cash and cash equivalents - end of year	$ 42,329,792	$ 408,390	$ 57,250,293	$ 488,498
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Net operating loss	$ (64,919,502)	$ (323,934)	$ (58,355,440)	$ (481,578)
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Noncash expenses included in net operating loss:				
Depreciation	3,858,722	-	3,616,325	-
University support	-	36,567	-	135,000
Payments made on behalf of the University	28,461,000	-	29,165,000	-
Changes in assets and liabilities:				
Accounts receivable, grants receivable and due from account	(58,428)	-	(3,559,077)	-
Inventories	6,273	-	5,302	-
Other assets	(215,704)	-	(55,093)	-
Other noncurrent assets	8,229	-	(8,217)	-
Student loans	(510,785)	-	282,376	-
Accounts payable and due to account	1,310,892	52,450	491,431	(51,901)
Agency funds payable	6,402	-	(54,139)	-
Unearned revenue	74,356	-	437,346	-
Accrued compensated absences	(111,821)	-	(434,182)	-
Refundable grants	(167,626)	-	32,278	-
Net cash used in operating activities	$ (32,257,992)	$ (234,917)	$ (28,436,090)	$ (398,479)
NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES				
Capitalized interest payments	$ 833,297	$ -	$ 907,719	$ -
Unrealized gain on investments	$ -	$ 190,920	$ -	$ 46,569
Donations of capital assets	$ -	$ 60,567	$ -	$ 485,800
Other noncash contributions	$ 28,000	$ 8,485	$ 135,000	$ 135,000

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

1. Financial Reporting Entity and Component Unit Disclosure

Governors State University (GSU or University) was chartered in 1969 to provide affordable and accessible undergraduate and graduate education to its culturally and economically diverse life-long learners in the Chicago metropolitan area. It is governed by the Board of Trustees of Governors State University created in January 1996 as a result of legislation to reorganize governance of State higher education institutions. In December 2011, the Illinois Board of Higher Education authorized GSU to move beyond its traditional role as an "upper division" institution and to admit first-year undergraduate students beginning in the fall semester of 2014. As a comprehensive public university, GSU provides liberal arts, science, and professional preparation at the undergraduate, master and doctoral levels.

The financial reporting entity as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of Governors State University as the primary government, and the Governors State University Foundation (Foundation) as a discretely presented component unit of the University.

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

The audit of the Foundation's financial statements for the fiscal year ended June 30, 2014 was conducted by an independent certified public accountant. Complete financial statements for this component unit may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Management's Discussion and Analysis

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

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

- The Statement of Net Position details current assets/liabilities and noncurrent assets/liabilities. In general, current assets are those that are available to satisfy current liabilities. Current liabilities are those that will be paid within one year of the date of the Statement of Net Position. Other assets and liabilities due beyond one year are noncurrent. Net position is divided into three major categories: (1) Net investment in capital assets, (2) Restricted net position, and (3) Unrestricted net position.

- The Statement of Revenues, Expenses and Changes in Net Position reports operating and nonoperating revenues and expenses, and displays the net income or loss from operations and total changes in net position.

- The Statement of Cash Flows details the change in the cash and cash equivalents balance for the fiscal year and is prepared using the direct method. This statement provides information related to cash receipts and cash payments during the year. The statement also helps users evaluate the University's ability to meet financial obligations as they mature.

Notes to the Basic Financial Statements

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

Cash and Cash Equivalents

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

Accounts, Grants, and Student Loans Receivable

An aging of accounts, grants, and student loans receivable as of June 30, 2014 is as follows:

Not in repayment	$ 2,499,989
Current	9,324,465
Up to 120 days past due	942,413
From 121 to 365 days past due	835,360
More than 365 days past due	6,148,231
Allowance for doubtful accounts	(6,636,000)
Net accounts, grants, and student loans receivable	$ 13,114,458

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

Student loans include loans made to students under the Federal Perkins Loan Program and the Nurse Faculty Loan Program. Loans that are in repayment have been aged above. Loan repayments expected during the next fiscal year have been reported as a current asset. Loans that are not expected to be repaid during the next fiscal year, less an allowance for uncollectible loans, have been presented as a noncurrent asset.

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.

Prepaid Debt Service Insurance

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

Inventories

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

Investments

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

Accrued Compensated Absences

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

Unearned Revenue

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

Classification of Revenues

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

Operating revenues - include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of educational departments, (3) auxiliary enterprises, and (4) federal, State and local grants and contracts, excluding federal Pell and State Monetary Award Program (MAP) grants.

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

Scholarship Discounts and Allowances

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

Net Position

The University's net position are classified as follows:

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

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

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

Unrestricted - consists of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the governing board to meet current expenses for any purpose.

Risk Management

The University participates in the Illinois Public Higher Education Cooperative (IPHEC) and Midwestern Higher Education Compact (MHEC), which leverages all Illinois public universities' assets to reduce the total and individual cost of property and liability insurances to Illinois public universities. Additionally, the University is a member of the State University Risk Management Association (SURMA), which is an inter-governmental risk sharing pool. The University's general liability coverage has a

$350,000 self insured retention level per occurrence, which is covered by SURMA. Participant contributions to SURMA are based upon actuarial valuations.

According to the Bylaws of SURMA, members may withdraw at any time and (subject to the approval by remaining members) be eligible to receive its proportionate share of capital contributions, or upon termination of SURMA, be entitled to receive its proportionate share of capital contributions. The capital contributions are to be allocated based on the proportional premium contributions made by each member over the past five years. In accordance with GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools*, the University has recorded as other assets the estimated amount that could be recoverable in the event of withdrawal or termination.

Estimates

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

Prior Year Information

The basic financial statements include certain prior year partial comparative information. Such information does not include full comparative footnote disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2013, from which the partial information was derived. Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Income Taxes

As a State institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

New Accounting Pronouncements

During the year ended June 30, 2014, the University adopted the following accounting pronouncements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As discussed in Note 15, the University has restated its financial statements to eliminate the unamortized debt issuance costs previously reported under current and noncurrent assets.

- GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. This Statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this Statement had no significant impact on the University's financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. This Statement improves financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The implementation of this Statement had no significant impact on the University's financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The implementation of this Statement had no significant impact on the University's financial statements.

Future Adoption of GASB Statements

Effective for the year ending June 30, 2015, the University will adopt the following GASB statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, which is to improve accounting and financial reporting by state and local governments for pensions.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* which is to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The new standard provides guidance for:

    - Determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations;
    - Using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations;
    - Measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and
    - Reporting the disposal of government operations that have been transferred or sold.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB statement No. 68,* which is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68.

The University has not yet determined the impact of adopting these statements on its financial statements.

3. Deposits and Investments

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

Deposits

Deposits with financial institutions consist of the following at June 30, 2014:

	Carrying Amount	Bank Balance
University:		
Cash in bank	$ 3,689,809	$ 4,861,620
Illinois Funds (Standard & Poor's AAAm)	38,310,628	38,310,628
Total	$ 42,000,437	$ 43,172,248
Foundation:		
Cash in bank	$ 217,899	$ 217,899
Illinois Funds (Standard & Poor's AAAm)	74,068	74,068
Total	$ 291,967	$ 291,967

The University also had cash on hand of $20,175 as of June 30, 2014.

Custodial Credit Risk - is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation insured bank balances totaling $500,000 (University and Foundation) at June 30, 2014. The remaining bank balances as of June 30, 2014 were fully collateralized. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract. Depositories and brokers are chosen based on stability and longevity, and due to insurance and collateralization, bank balances were not subject to custodial credit risk.

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

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

University Investments

The carrying value of the investment portfolio of the University at June 30, 2014 is as follows:

	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	Not rated	< 1 year	$ 309,180	$ 309,180

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

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2014, investments consisted solely of money market funds held in corporate trust accounts at Amalgamated Bank of Chicago.

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

Credit Risk - exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The University does not have a formal policy limiting credit risk.

Foundation Investments

The fair value of the investment portfolio of the Foundation at June 30, 2014 is as follows:

	Fair Value
Money Market Funds	$ 116,423
Stocks/Mutual Funds investing in stocks	1,719,331
Mutual Funds investing in bonds	374,879
Corporate Bonds	261,522
U.S. Treasury Obligations	101,143
	$ 2,573,298

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2014, investments consisted of money market funds, mutual funds, corporate bonds and U.S. Treasury Obligations. All investments are being held by the First Midwest Bank Trust Division.

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

Credit Risk - exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy encourages the investment manager to focus on high quality bonds, maintaining an average credit quality of AA, to achieve an attractive risk-adjusted total return over the long run. The money market fund was invested in Northern Trust Institutional U.S. Government Select Portfolio which has a maturity of < 1 year and a credit rating of AAAm.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2014 are as follows:

		Investment Maturity (in Years)		
Investment Type	Fair Value	Less Than 1	1-5	5-10
Corporate Bonds	$ 261,522	$ 57,501	$ 152,362	$ 51,659
U.S. Treasury Obligations	101,143	50,465	50,678	-
Mutual Funds investing in Bonds	374,879	374,879	-	-
Total	$ 737,544	$ 482,845	$ 203,040	$ 51,659

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2014 are as follows:

Credit Rating	Total Debt Securities
U.S. Treasury Obligations	$ 101,143
No Rating	164,965
AA	52,145
AA-	25,026
A	82,370
A-	76,541
BBB+	25,440
AAf	140,743
BBB+f	69,171
Total	$ 737,544

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

4. Cash and Cash Equivalents, Restricted

The net proceeds from issuing the University revenue bonds and certificates of participation were separately deposited in Trust Escrow accounts with Amalgamated Bank of Chicago (Bank). As trustee, the Bank has invested the funds in Illinois Funds and Goldman Sachs "Financial Square Money Market" funds pending expenditure for the University's deferred maintenance and housing projects. In addition, certain accounts created by the University revenue bonds and the certificates of participation are held by the Bank pending expenditure for debt service. The balance of these accounts as of June 30, 2014 amounted to $6,743,365.

5. State Universities Retirement System

Plan Description

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

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate (for Fiscal Year 2015) is 35.8% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2014, 2013, and 2012 were $16,231,760, $15,281,351, and $10,809,277, respectively, equal to the required contributions for each year.

6. Postemployment Benefits

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

Public Act 97-0695, effective July 1, 2012, altered the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. The costs were to be assessed beginning July 1, 2013. However, four putative class actions were filed challenging the validity of this legislation under, among other things, the pension protection clause of the Illinois Constitution of 1970. The four class actions were consolidated in the circuit court of Sangamon County. The circuit court dismissed each of them for failure to state a cause of action, without certifying any classes. The Illinois Supreme Court allowed direct appeal. On July 3, 2014, the Illinois Supreme Court issued an opinion in the retiree health insurance premium case. The Illinois Supreme Court disagreed with the circuit court and determined the circuit court should not have dismissed the case. The Supreme Court sent the case back to the circuit court for reconsideration. As a result, the Sangamon County Circuit Court has directed all retirement systems to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that have been in effect since July 2013. The refunding of premiums paid since July 2013 is unresolved and will be decided by the courts.

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

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

7. Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more. For intangible assets, the University's capitalization policy includes all items with a unit cost of $25,000 or more. Renovations to buildings and site improvements that significantly increase the value or extend the useful life of the structure are also capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 to 60 years for buildings, 20 to 60 years for site improvements, seven years for intangible assets, and three to 40 years for equipment and library collection.

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest of $833,297 was capitalized during the year ended June 30, 2014.

Capital assets activities for the University and Foundation for the year ended June 30, 2014 are summarized as follows:

	Balance June 30, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Capital assets not being depreciated:					
Land	$ 1,389,086	$ -	$ -	$ -	$ 1,389,086
Construction in progress	21,256,506	24,650,840	-	(24,988,256)	20,919,090
Artwork/Artifacts-University	403,323	28,000	-	-	431,323
Artwork/Artifacts-Foundation	2,203,156	30,000	-	-	2,233,156
Total capital assets not being depreciated	$ 25,252,071	$ 24,708,840	$ -	$ (24,988,256)	$ 24,972,655
Other capital assets:					
Site improvements	$ 7,576,773	$ -	$ -	$ -	$ 7,576,773
Buildings	102,503,138	-	-	24,848,441	127,351,579
Intangible assets	1,077,097	-	-	-	1,077,097
Equipment	9,674,619	1,103,952	(214,062)	139,815	10,704,324
Library collection	13,680,775	85,781	(447,629)	-	13,318,927
Total other capital assets	134,512,402	1,189,733	(661,691)	24,988,256	160,028,700
Accumulated depreciation:					
Site improvements	(2,013,485)	(327,876)	-	-	(2,341,361)
Buildings	(36,443,568)	(2,164,313)	-	-	(38,607,881)
Intangible assets	(461,613)	(153,871)	-	-	(615,484)
Equipment	(7,967,340)	(726,388)	208,124	-	(8,485,604)
Library collection	(12,007,921)	(486,274)	447,629	-	(12,046,566)
Total accumulated depreciation	(58,893,927)	(3,858,722)	655,753	-	(62,096,896)
Other capital assets, net	$ 75,618,475	$ (2,668,989)	$ (5,938)	$ 24,988,256	$ 97,931,804
Capital assets summary:					
Capital assets not being depreciated	$ 25,252,071	$ 24,708,840	$ -	$ (24,988,256)	$ 24,972,655
Other capital assets	134,512,402	1,189,733	(661,691)	24,988,256	160,028,700
Accumulated depreciation	(58,893,927)	(3,858,722)	655,753	-	(62,096,896)
Total capital assets, net	$ 100,870,546	$ 22,039,851	$ (5,938)	$ -	$ 122,904,459

8. Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014	Amounts Due Within One Year
Notes payable	$ 3,145,401	$ -	$ 469,128	$ 2,676,273	$ 487,027
Revenue bonds 2007	7,315,000	-	365,000	6,950,000	380,000
Revenue bonds 2012	20,415,000	-	-	20,415,000	415,000
Certificates of participation 2008	9,420,000	-	125,000	9,295,000	125,000
Certificates of participation 2009	6,275,000	-	940,000	5,335,000	980,000
	46,570,401	-	1,899,128	44,671,273	2,387,027
Unamortized discounts	(155,188)	-	(9,583)	(145,605)	(9,584)
Unamortized premiums	33,206	-	3,109	30,097	3,109
	$ 46,448,419	$ -	$ 1,892,654	$ 44,555,765	$ 2,380,552

Notes Payable

On June 25, 2009, the University entered into an installment payment contract amounting to $4,750,000 to fund a portion of its expenditures related to the guaranteed energy savings contract. The original interest rate was 5.19%; however, the interest rate was renegotiated during Fiscal Year 2012 to 3.75%. Future maturities at June 30, 2014 are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 487,027	$ 92,046	$ 579,073
2016	505,608	73,465	579,073
2017	524,897	54,176	579,073
2018	544,923	34,150	579,073
2019	565,712	13,361	579,073
2020	48,106	150	48,256
	$ 2,676,273	$ 267,348	$ 2,943,621

Revenue Bonds, Series 2007

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

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

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

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 at June 30, 2014 are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 380,000	$ 271,956	$ 651,956
2016	395,000	256,456	651,456
2017	410,000	240,356	650,356
2018	425,000	223,656	648,656
2019	445,000	206,256	651,256
2020 - 2024	2,500,000	744,782	3,244,782
2025 - 2028	2,395,000	200,985	2,595,985
	$ 6,950,000	$ 2,144,447	$ 9,094,447

Revenue Bonds, Series 2012

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

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

Mandatory Redemption of Term Bonds - The Series 2012 Term Bonds, maturing on October 1, 2026, October 1, 2037 and October 1, 2042, are subject to mandatory redemption prior to maturity through the application of sinking fund payments, at a redemption price equal to the principal amount plus accrued interest to the date fixed for redemption, in the following principal amounts on October 1 in each of the years set forth below:

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

Future debt service requirements at June 30, 2014 are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 415,000	$ 828,262	$ 1,243,262
2016	425,000	819,862	1,244,862
2017	430,000	811,313	1,241,313
2018	440,000	802,337	1,242,337
2019	450,000	792,038	1,242,038
2020 - 2024	2,465,000	3,747,448	6,212,448
2025 - 2029	2,980,000	3,237,199	6,217,199
2030 - 2034	3,665,000	2,540,736	6,205,736
2035 - 2039	4,610,000	1,606,130	6,216,130
2040 - 2043	4,535,000	434,194	4,969,194
	$ 20,415,000	$ 15,619,519	$ 36,034,519

Certificates of Participation, Series 2008

On June 12, 2008, the University issued $9,995,000 of University Capital Improvement Project Certificates of Participation, Series 2008, with interest rates ranging from 3.50% to 4.50% to pay a portion of the costs of improvements, to refund in advance of maturity and advance refund all of the $1,760,000 outstanding principal on the Certificates of Participation, Series 1998, and to pay the costs ($256,328) of issuing the Series 2008 Certificates. The original issue discount is being accreted to interest expense over the term of the Certificates.

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

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

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

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

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

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

The University defeased its outstanding Certificates of Participation, Series 1998 through advance refunding and, accordingly, those Certificates are not reflected in the accompanying financial statements. Those Certificates of Participation which were advance refunded were paid in full on July 25, 2008.

Future debt service requirements at June 30, 2014 are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 125,000	$ 384,750	$ 509,750
2016	130,000	380,375	510,375
2017	140,000	375,500	515,500
2018	140,000	369,900	509,900
2019	150,000	364,300	514,300
2020 - 2024	4,635,000	1,409,638	6,044,638
2025 - 2028	3,975,000	441,712	4,416,712
	$ 9,295,000	$ 3,726,175	$ 13,021,175

Certificates of Participation, Series 2009

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

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

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

Future debt service requirements at June 30, 2014 are as follows:

Year Ending June 30	Principal	Interest	Total
2015	$ 980,000	$ 226,900	$ 1,206,900
2016	1,025,000	182,800	1,207,800
2017	1,065,000	143,081	1,208,081
2018	1,110,000	99,150	1,209,150
2019	1,155,000	51,975	1,206,975
	$ 5,335,000	$ 703,906	$ 6,038,906

9. Accrued Compensated Absences

Accrued compensated absences include earned but unused vacation and sick leave days valued at the current rate of pay. The change in accrued compensated absences for the year ended June 30, 2014 was as follows:

Balance, beginning of year	$ 4,187,015
Movement	(111,821)
Balance, end of year	4,075,194
Less: current portion	600,000
Balance, noncurrent portion	$ 3,475,194

10. Component Unit

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

The Foundation has an ongoing contract with the University which includes provisions requiring the Foundation to comply with Section VI of the "University Guidelines 1982 (as amended 1997)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires that the University provide the Foundation with accounting and other clerical services at no cost. University officials estimate the value of these services for the year ended June 30, 2014 at $297,165, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of $418,688 for the year ended June 30, 2014. As of June 30, 2014, $42,396 is due to the University from the Foundation.

11. Commitments and Contingencies

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

The University has outstanding commitments totaling approximately $5.7 million mostly related to the construction of its student housing complex, and renovations of academic computing services laboratory and library.

12. Restricted Endowments

The Foundation's endowment funds are generally invested in marketable securities which are valued at market as of the statement of net position date. Investment income is initially assigned to the unallocated reserve in the restricted fund. Income is then allocated to various accounts based on the endowment agreements and the approved spending plans.

On June 30, 2009, the State of Illinois passed the Uniform Prudent Management of Institutional Funds Act. This State law allows the Foundation to appropriate for expenditure an amount that it determines to be prudent for the uses, benefits, purposes, and duration for which the endowment fund was established. In making these appropriations, the Foundation must act in good faith and with the care that an ordinary prudent person in a similar position would do.

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

13. Operating Leases

The University leases equipment and space in various buildings for off-campus office and classroom use. The rental expense for these lease agreements was $211,818 for the year ended June 30, 2014.

Future minimum lease payments are as follows:

Year Ending June 30	Base Rent
2015	$ 92,802
2016	5,330
	$ 98,132

14. Pledged Revenues and Debt Service Requirements

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

PLEDGED REVENUES

BOND ISSUE	PURPOSE	SOURCE OF REVENUES PLEDGED	FUTURE REVENUES PLEDGED[1]	TERM OF COMMITMENT	(CURRENT YEAR) PLEDGED REVENUES TO DEBT SERVICE[2]
Auxiliary Facilities System Revenue Bonds (Series 2007 and 2012)	Various improvements and additions to the University, and construction of student housing complex	Net revenues of the Student Center, University Bookstore, University Parking Facilities, University Food Service and Vending Facilities, and University Housing	$ 45,128,966	2043	1.19%

[1] Total future principal and interest payments on debt.
[2] Current year pledged net operating revenues (disregarding depreciation) versus total future debt service.

15. Prior Period Adjustment

The University reported an effect of a change in accounting principle which adjusted the beginning net position as of July 1, 2013 to eliminate the unamortized debt issuance costs in accordance with the adoption GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The cumulative effect of adopting this Statement is as follows:

	June 30, 2014
Net position - beginning of year, as previously reported	$ 113,148,962
Cumulative effect of change in accounting principle (prior period adjustment)	(755,260)
Net position - beginning of year, as restated	$ 112,393,702

16. Reclassification

The University receives Monetary Award Program (MAP) from the State of Illinois through Illinois Student Assistance Commission (ISAC). MAP provides grants, which do not need to be repaid, to Illinois residents who attend approved Illinois colleges and demonstrate financial need, based on the information provided on the Free Application for Federal Student Aid (FAFSA).

In prior years, the University recognizes expenditure when it awards MAP grant to students, and revenue when it receives MAP funds from ISAC; however, the amount recognized as revenue is being offset with the related expenditures at fiscal yearend. During Fiscal Year 2014, the University determined that it had sufficient administrative responsibility for the MAP grant to include it as revenue and expenditure. For the fiscal year ended June 30, 2013, the revenue and expenditure related to MAP grant of $2,154,575 have been included under Federal and State nonoperating grants revenue and student services expense to conform to the Fiscal Year 2014 financial statement presentation. This adjustment had no effect on the University's net position balance.

17. Subsequent Events

Subsequent to June 30, 2014, financial markets as a whole have incurred significant declines in values. The Foundation's investment portfolio has also incurred a significant decline in the values reported in its financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Foundation will recognize in its future financial statements, if any cannot be determined.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF NET POSITION

	JUNE 30, 2014	(Comparative totals only) 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 936,453	$ 302,059
Cash and cash equivalents, restricted	6,102,586	20,657,364
Unamortized debt issuance costs - current	-	24,481
Prepaid debt service insurance - current	940	-
Total current assets	7,039,979	20,983,904
Noncurrent assets		
Unamortized debt issuance costs	-	554,133
Prepaid debt service insurance	11,750	-
Capital assets	31,028,375	13,302,972
Accumulated depreciation	(2,425,325)	(2,073,264)
Total noncurrent assets	28,614,800	11,783,841
Total assets	35,654,779	32,767,745
LIABILITIES		
Current liabilities		
Accounts payable	4,968,485	1,056,112
Revenue bonds payable	795,853	365,853
Total current liabilities	5,764,338	1,421,965
Noncurrent liabilities		
Revenue bonds payable	26,568,068	27,363,922
Total noncurrent liabilities	26,568,068	27,363,922
Total liabilities	32,332,406	28,785,887
NET POSITION		
Net investment in capital assets	2,836,201	1,973,516
Restricted: expendable - debt service	-	1,202,652
Unrestricted	486,172	805,690
Total net position	$ 3,322,373	$ 3,981,858

* *As discussed in Notes 2 and 15 to the financial statements, the University reported an effect of a change in accounting principle which adjusted the beginning net position as of July 1, 2013 to eliminate the unamortized debt issuance costs previously reported under current and noncurrent assets in accordance with the adoption of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.*

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

	FOR THE YEAR ENDED JUNE 30,	
	2014	(Comparative totals only) 2013
OPERATING REVENUES		
Bookstore commissions	$ 114,772	$ 149,067
Food and vending commissions	8,834	26,481
Parking fees	453,830	494,304
Student center fees	1,288,907	1,312,782
University facilities fee	875,000	1,184,269
Total operating revenues	2,741,343	3,166,903
OPERATING EXPENSES		
Salaries and benefits	1,017,623	796,830
Scholarships and awards	64,983	25,127
Capital expenditures	168,369	72,987
Services, supplies and others	952,726	673,591
Depreciation	352,061	339,057
Total operating expenses	2,555,762	1,907,592
Net operating income	185,581	1,259,311
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,326	13,861
Interest expense	(282,408)	(304,705)
Net nonoperating expenses	(280,082)	(290,844)
Increase (decrease) in net position	(94,501)	968,467
NET POSITION		
Net position - beginning of year, as previously reported	3,981,858	3,013,391
Prior period adjustment	(564,984)	-
Net position - beginning of year, as restated	3,416,874	3,013,391
Net position - end of year	$ 3,322,373	$ 3,981,858

* *As discussed in Notes 2 and 15 to the financial statements, the University reported an effect of a change in accounting principle which adjusted the beginning net position as of July 1, 2013 to eliminate the unamortized debt issuance costs previously reported under current and noncurrent assets in accordance with the adoption of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.*

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

	FOR THE YEAR ENDED JUNE 30,	
	2014	(Comparative totals only) 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	$ 114,772	$ 149,067
Food and vending commissions	8,834	26,481
Parking fees	453,830	494,304
Student center fees	1,288,907	1,312,782
University facilities fee	875,000	1,184,269
Payments to suppliers for goods and services	(1,122,621)	(834,966)
Payments to employees for services	(973,618)	(796,614)
Net cash provided by operating activities	645,104	1,535,323
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(13,083,545)	(704,515)
Principal payments on capital debt	(365,000)	(350,000)
Interest payments on capital debt	(1,119,269)	(1,027,205)
Cash used in capital financing activities	(14,567,814)	(2,081,720)
CASH FLOWS FROM INVESTING ACTIVITY		
Investment income	2,326	13,861
Cash provided by investing activity	2,326	13,861
Net decrease in cash and cash equivalents	(13,920,384)	(532,536)
Cash and cash equivalents - beginning of year	20,959,423	21,491,959
Cash and cash equivalents - end of year	$ 7,039,039	$ 20,959,423
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 185,581	$ 1,259,311
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Noncash expense included in net operating income:		
Depreciation	352,061	339,057
Changes in accounts payable	107,462	(63,045)
Net cash provided by operating activities	$ 645,104	$ 1,535,323

Noncash Capital Financing Activities

During Fiscal Year 2014, interest expense of $833,297 was reclassified to capital assets as interest incurred during the period of construction.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2014

Student Enrollment by Term (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2013	5,568	3,345
Spring Term, 2014	5,480	3,311
Summer Term, 2014	3,164	1,522

University Fees (Unaudited)

The following fees were in effect during the 2013-2014 academic year:

	Amount
Student Center	$ 30
Student Activity	36
Counseling and Career Services	32
Parking	35
University Facilities	18

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	$ 190,580,379
EDP and contents	33,508,853
Business interruption	28,583,304
Boiler and machinery (included in blanket coverage limit)	100,000,000
Earthquake	100,000,000
Flood	100,000,000
General liability	19,650,000

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Governors State University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 12, 2014. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 12, 2014