STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT

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STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

AGENCY OFFICIALS

President	Dr. Elaine P. Maimon
Interim Executive Vice President, Treasurer October 28, 2015 to June 30, 2016	Dr. Gebeyehu Ejigu
Executive Vice President, Treasurer Through October 28, 2015	Mr. David Meadows
Interim Vice President, Administration and Finance November 1, 2015 to June 30, 2016	Dr. Jeffrey Slovak
Interim Vice President, Administration and Finance July 1, 2016 to present	Ms. Kimberly Lambert-Thomas
General Counsel and Vice President	Ms. Alexis Kennedy
Internal Auditor May 1, 2016 to present November 1, 2015 to April 30, 2016 Through October 31, 2015	 Ms. Villalyn Baluga, CPA Vacant Mr. David Dixon
Associate Vice President for Finance	Ms. Melinda Gieseke, CPA

University offices are located at:
1 University Parkway
University Park, Illinois 60484

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

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

Based on their audit and the report of the other auditor, the auditors expressed unmodified opinions on the business-type activities and the discretely presented component unit of Governors State University.

SUMMARY OF FINDINGS

The auditors identified matters involving the University's internal control over financial reporting that they considered to be a material weakness and a significant deficiency. The material weakness is described in the accompanying Schedule of Findings on pages 56-57 of this report as item 2016-001, *Inadequate Controls Over Identifying and Recording Accrued Liabilities*. The significant deficiency is described in the accompanying Schedule of Findings on pages 58-59 as item 2016-002, *Inadequate Controls Over Student Accounts Receivable*.

EXIT CONFERENCE

The University waived holding an exit conference to discuss the financial audit and the findings and recommendations appearing in this report in a communication dated December 5, 2016.

The responses to the recommendations were provided by Ms. Melinda Gieseke, Associate Vice President for Finance, in a correspondence dated December 6, 2016.

Borschnack Pelletier & Co.
Certified Public Accountants & Consultants
200 East Court Street • Suite 608 • Kankakee, IL 60901
815.933.1771 • fax: 815.933.1163

INDEPENDENT AUDITORS' REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

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 discretely presented component unit of Governors State University, a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Governors State 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditor. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Governors State University and its discretely presented component unit, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The June 30, 2015 financial statements of the University were audited by other auditors whose report dated December 21, 2015 expressed unmodified opinions on the business-type activities and the discretely presented component unit of the University. Based on the report from other auditors, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the University restated the beginning net position as of July 1, 2015 to reflect accrued compensation earned in the previous fiscal year that was not previously reported. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Employer's Proportionate Share of Net Pension Liability, Schedule of Employer Contributions, and Notes to Required Supplementary Information on pages 7 through 13 and 48 through 49 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 Governors State University's 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, and the University Facilities System Revenue Bonds Student Enrollment by Term, University Fees, and Schedule of Insurance in Force, listed as other 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 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. 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 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 other information in the table of contents, has 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 8, 2016 on our consideration of the Governors State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Governors State University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

December 8, 2016

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, 2016. 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 to present a fiscal snapshot of the University's assets, liabilities, and deferred outflows/inflows of resources as of a specific point in time. 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

Appropriations

For Fiscal Year 2016, the University received State appropriations for general operations. Due to a budget impasse at the State level, the Fiscal Year 2016 State appropriation for the University was $6,974,400 which was only 28% of the original Fiscal Year 2015 appropriation of $24,615,900. In March 2015, the State appropriation for the University was reduced to $24,062,100 under Public Act 99-0001. Further, the University was requested to provide a voluntary reduction in reimbursement requests which further reduced the State appropriation for the University to $23,858,200.

Net Revenue Available from Operational Appropriations

Fiscal Year	Appropriations	Payments to Health Reserve Fund*	Available Appropriations
2016	$ 6,974,400	$ (656,200)	$ 6,318,200
2015	23,858,200	(656,200)	23,202,000

*In the past, payments to the Health Reserve Fund were paid from Appropriated Funds. During Fiscal Year 2016, they were fully supported by the Income Fund. Either source effectively reduces the available funding for University operations.

Note: Of the $656,200 required payments to the Health Reserve Fund, $601,513 is in accounts payable at June 30, 2016.

Mandated Tuition Waivers

Certain tuition waivers are mandated by the State and have been funded or partially funded in the past. For Fiscal Year 2016, about $0.7 million in mandated tuition waivers were awarded by the University but not reimbursed by the State.

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. The facility began operations in late summer 2014. Residency is now close to capacity.

Accreditations

During spring of 2016, the Higher Learning Commission (HLC) conducted a mid-cycle assurance review. The mid-cycle assurance review takes place during year 4 of the normal 10-year accreditation cycle. HLC determined that the University continues to meet all criteria. A full reaffirmation visit will be conducted in Academic Year 2019-20.

Enrollment

Registered student credit hours increased 2.9% during Fiscal Year 2016. Registered student credit hour totals were 120,765 in Fiscal Year 2015 and 124,262 in Fiscal Year 2016.

Statement of Net Position

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

	(in thousands)			Percent
	2016	2015	Change	Change
Current assets	$ 37,382	$ 46,218	$ (8,836)	-19%
Noncurrent assets-capital assets	118,493	123,226	(4,733)	-4%
Noncurrent assets-other	3,037	3,495	(458)	-13%
Total assets	158,912	172,939	(14,027)	-8%
Deferred outflows of resources	88	95	(7)	-7%
Current liabilities	12,267	11,125	1,142	10%
Noncurrent liabilities	44,032	47,052	(3,020)	-6%
Total liabilities	56,299	58,177	(1,878)	-3%
Net investment in capital assets	78,622	80,821	(2,199)	-3%
Restricted	776	674	102	15%
Unrestricted	23,303	33,362	(10,059)	-30%
Net position	$ 102,701	$ 114,857	$ (12,156)	-11%

The 11% decrease 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 $8.8 million decrease in current assets was mostly attributable to the $7.0 million decrease in cash due to reduced State appropriation funding for the fiscal year. Additional decreases contributing to the overall decrease in current assets include; $3.7 million in state appropriation receivable due to reduced State appropriation funding for the fiscal year and $0.7 million in grants receivable due to the timing of drawdowns and an overall decline in grant funding. These decreases are offset by an increase of $2.8 million in accounts receivable which is mainly due to the State budget issues for a receivable from the Illinois Department of Children and Family Services (DCFS) and the timing of State Monetary Award Program (MAP) funding.

Noncurrent Assets – Capital Assets
The decrease in noncurrent capital assets is mostly due to the $4.5 million increase in accumulated depreciation. There were no construction projects during the year and for budget reasons, expenditures on other assets were severely limited.

Noncurrent Assets – Other
Other noncurrent assets consist primarily of long-term portion of student loans receivable which decreased slightly by $0.3 million due to collecting more loans than were awarded.

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 $1.1 million increase in current liabilities was mostly attributable to the $1.0 million increase in accounts payable to vendors and employees. This increase is mostly due to the accrual of faculty salaries earned during the 10-month contract period and paid over twelve months. It is offset by the decrease of invoices payable due to reduced spending during the year.

Noncurrent Liabilities
Noncurrent liabilities are liabilities with due dates beyond one year, which include accrued compensated absences, refundable grants, revenue bonds payable, notes payable, capital lease payable and certificates of participation. The $3.0 million decrease in noncurrent liabilities was mostly attributable to the $2.6 million in principal payments made on revenue bonds payable, notes payable, and certificates of participation.

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)			Percent
	2016	2015*	Change	Change
OPERATING REVENUES				
Net student tuition and fees	$ 39,533	$ 34,232	$ 5,301	15%
Grants and contracts	3,794	5,753	(1,959)	-34%
Sales and services of educational departments	5,818	5,464	354	6%
Auxiliary enterprises	3,364	2,726	638	23%
Other operating revenues	2,885	2,587	298	12%
Total operating revenues	55,394	50,762	4,632	9%
OPERATING EXPENSES	118,437	120,600	(2,163)	-2%
Net operating loss	(63,043)	(69,838)	6,795	-10%
NONOPERATING REVENUES (EXPENSES)				
State appropriation	6,974	23,858	(16,884)	-71%
Payments made on behalf of the University	37,277	32,314	4,963	15%
Federal and state nonoperating grants	10,013	11,458	(1,445)	-13%
Investment income	28	7	21	300%
Interest expense	(1,714)	(1,730)	16	-1%
Other nonoperating revenues (expenses)	448	(5)	453	-9,060%
Net nonoperating revenues	53,026	65,902	(12,876)	-20%
Capital additions provided by the State of Illinois and others	27	2,969	(2,942)	-99%
Increase (decrease) in net position	(9,990)	(967)	(9,023)	933%
Net position - beginning of year, as restated	112,691	115,824	(3,133)	-3%
Net position - end of year	$ 102,701	$ 114,857	$ (12,156)	-11%

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

This year, net position decreased due to the following:

Operating Revenues

Net student tuition and fees increased $5.3 million due to increased tuition rates and an increase in registered student credit hours. The decrease in grants and contracts of $2.0 million is primarily due to the Teacher Quality Partnership (TQP) grant that ended at the beginning of Fiscal Year 2016. The increase of $0.4 million in sales and services is due to the increase in the University's contract with DCFS. The $0.6 million increase in auxiliary enterprises reflects the increased occupancy of student housing on campus. The $0.3 million increase in other operating revenue is mostly attributed to the TQP awards forfeited by students.

Operating Expenses (by functional classification)

	(in thousands)			Percent
	2016	2015*	Change	Change
Instruction	$ 55,060	$ 55,557	$ (497)	-1%
Research	662	546	116	21%
Public service	13,760	13,050	710	5%
Academic support	2,783	2,940	(157)	-5%
Student services	10,951	11,538	(587)	-5%
Institutional support	18,751	19,429	(678)	-3%
Operation and maintenance of plant	9,498	11,132	(1,634)	-15%
Auxiliary enterprises	2,040	1,685	355	21%
Depreciation	4,932	4,723	209	4%
Total operating expenses	$ 118,437	$ 120,600	$ (2,163)	-2%

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

Instruction decreased $0.5 million mainly due to a decrease in spending related to a grant that ended early in the fiscal year and other cost savings related to budget constraints. This is offset by increased benefit costs of $1.7 million. Research expenses increased due to the addition of new research grants and increases in benefit costs. Public service expenses increased $0.7 million mostly due to increased spending from the DCFS contract and increases in benefit costs. Academic support expenditures decreased mainly due to reduced spending for library resource acquisitions and equipment. Student services expenses decreased by $0.6 million mainly due to the cut in State MAP funding for awards. It is offset by increases in other awards and benefits. A reduction of $0.7 million in institutional support relates to overall decreases in contractual and equipment expenditures offset by an increase in benefit costs. The $1.6 million decrease in operation and maintenance of plant is mostly due to the decrease in improvement projects and equipment purchases because of budgetary constraints. Increased benefits cost are the main reason auxiliary enterprises expense increased by $0.4 million. The increase in depreciation relates mostly to the fact that a full year of depreciation expense was charged for the housing facility that was placed into service during the prior fiscal year.

Operating Expenses (by natural classification)

	(in thousands)			Percent
	2016	2015*	Change	Change
Salaries and benefits	$ 94,695	$ 89,643	$ 5,052	6%
Scholarships and awards	4,758	6,826	(2,068)	-30%
Capital expenditures	1,460	3,688	(2,228)	-60%
Services, supplies and other	12,592	15,720	(3,128)	-20%
Depreciation	4,932	4,723	209	4%
Total operating expenses	$ 118,437	$ 120,600	$ (2,163)	-2%

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

Salaries and benefits, representing the University's largest operating expense, increased by $5.1 million mostly related to increases in benefits cost. This was offset by decreases in other areas. Scholarships and awards decreased by $2.1 million due to reduced funding, primarily for State MAP funding. Capital expenditures decreased by $2.2 million due to limited improvement projects and equipment purchases. Finally, supplies, services and other decreased by $3.1 million due to a large grant ending early in the year and overall budget constraints.

Nonoperating Revenues (Expenses)
State appropriation funding was severely reduced in 2016 by $16.9 million due to a budget impasse at the State level. 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. In Fiscal Year 2016, the Universities proportionate share of State funded retirement benefits increased by $5.5 million, and its funding of health care decreased by $0.5 million. Federal and State non-operating grants decreased by $1.4 million primarily due to a decrease in State MAP funding. Other non-operating revenue increased due to the University receiving insurance proceeds from the barn and equipment that were destroyed by fire during Fiscal Year 2016. Capital additions provided by the State of Illinois decreased by $2.9 million as Capital Development Board projects have been completed and no further funding has been provided.

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)			Percent
	2016	2015*	Change	Change
Cash provided by (used in):				
Operating activities	$ (23,625)	$ (30,555)	$ 6,930	-23%
Noncapital financing activities	20,566	37,031	(16,465)	-44%
Capital financing activities	(4,380)	(12,612)	8,232	-65%
Investing activities	28	7	21	300%
Net decrease in cash and cash equivalents	(7,411)	(6,129)	(1,282)	21%
Cash and cash equivalents - beginning of year	36,201	42,330	(6,129)	-14%
Cash and cash equivalents - end of year	$ 28,790	$ 36,201	$ (7,411)	-20%

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

The primary cash receipts from operating activities consist of student tuition and fees, grants and contracts revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash used in operating activities decreased by $6.9 million primarily due to the reduced spending for goods and services and scholarships. This was offset by a decrease in grants and contracts revenue. Cash provided by noncapital financing activities decreased by $16.5 million primarily due to the decrease in State appropriation revenue. Cash used in capital financing activities decreased by $8.2 million primarily due to the fact that the University has no renovation and construction projects in progress.

UNIVERSITY'S DEBT RATINGS

On June 30, 2016, Moody's Investors Service downgraded the University's ratings to "Ba1" on its University Facilities System Revenue Bonds, Series 2007, and to "Ba2" on its Certificates of Participation, Series 2008 and 2009. On August 5, 2016, S&P Global ratings downgrade all bond series to "BB+". Action by both agencies were due to uncertainties related to the State budget situation.

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in Fiscal Year 2016 and beyond will lie in:

- The levels of appropriation for the University (and for higher education as a whole) upon which the General Assembly and the Governor ultimately agree.
- 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 Program, which builds pathways from the Illinois community colleges to Governors State University.
- The University's success in recruiting and admitting new classes of first-year students for the fall semester of 2017 (and beyond), and in retaining those classes of first-year students who began in the fall semesters of 2014, 2015 and 2016.
- As of the date of the financial statements, the State of Illinois has not adopted a budget and therefore has not provided a full year appropriation to the University. The amount and timing of final appropriations may necessitate spending reductions in the future.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2016
(With Comparative Totals as of June 30, 2015)

	2016		2015	
	University	Component Unit	University	Component Unit
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2 and 3)	$ 28,789,554	$ 452,533	$ 35,799,158	$ 336,395
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	7	-	401,814	-
Accounts receivable, net of allowance for uncollectible accounts of $4,375,000 (Note 2)	7,422,573	38,467	4,536,489	10,315
Grants receivable (Note 2)	412,387	-	1,110,536	-
State appropriation receivable	2,711	-	3,680,628	-
Student loans - current (Note 2)	425,486	-	376,564	-
Due from component unit (Note 10)	25,211	-	-	-
Due from University	-	-	-	4,144
Prepaid debt service insurance - current (Notes 2 and 8)	18,941	-	18,941	-
Inventories (Note 2)	60,045	-	53,432	-
Other assets	224,964	3,370	240,404	7,489
Total current assets	37,381,879	494,370	46,217,966	358,343
Noncurrent assets				
Investments (Notes 2 and 3)	-	3,256,298	-	2,944,120
Student loans, net of allowance for uncollectible loans of $700,000 (Note 2)	2,933,323	-	3,198,361	-
Prepaid debt service insurance (Notes 2 and 8)	103,382	-	122,323	-
Other noncurrent assets (Note 2)	-	-	174,284	-
Capital assets (Note 7)	189,024,135	2,233,156	189,196,836	2,233,156
Accumulated depreciation (Note 7)	(70,531,426)	-	(65,970,804)	-
Total noncurrent assets	121,529,414	5,489,454	126,721,000	5,177,276
Total assets	158,911,293	5,983,824	172,938,966	5,535,619
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions after measurement date (Notes 2 and 5)	88,657	-	95,432	-
Total deferred outflows of resources	88,657	-	95,432	-
LIABILITIES				
Current liabilities				
Accounts payable	4,663,002	62,954	3,671,890	4,834
Agency funds payable	161,925	-	190,744	-
Accrued compensated absences (Notes 2 and 9)	500,000	-	550,000	-
Due to component unit	-	-	4,144	-
Due to University (Note 10)	-	25,211	-	-
Unearned revenue (Note 2)	4,298,000	-	4,161,997	-
Revenue bonds payable (Note 8)	840,853	-	820,853	-
Notes payable (Note 8)	524,897	-	505,608	-
Capital lease payable (Note 8)	80,156	-	71,986	-
Certificates of participation (Note 8)	1,197,672	-	1,147,672	-
Total current liabilities	12,266,505	88,165	11,124,894	4,834
Noncurrent liabilities				
Accrued compensated absences (Notes 2 and 9)	3,171,974	-	3,527,424	-
Refundable grants	3,633,293	-	3,654,484	-
Revenue bonds payable (Note 8)	24,906,361	-	25,747,215	-
Notes payable (Note 8)	1,158,741	-	1,683,638	-
Capital lease payable (Note 8)	89,252	-	169,408	-
Certificates of participation (Note 8)	11,072,555	-	12,270,227	-
Total noncurrent liabilities	44,032,176	-	47,052,396	-
Total liabilities	56,298,681	88,165	58,177,290	4,834
NET POSITION (Notes 2 and 15)				
Net investment in capital assets	78,622,222	2,233,156	80,820,934	2,233,156
Restricted:				
Nonexpendable	-	1,972,742	-	1,874,539
Expendable				
Loans	775,940	-	673,777	-
Debt service	7	-	3	-
Other	-	1,289,955	-	1,089,675
Unrestricted	23,303,100	399,806	33,362,394	333,415
Total net position	$ 102,701,269	$ 5,895,659	$ 114,857,108	$ 5,530,785

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, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	2016		2015	
	University	Component Unit	University	Component Unit
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowances of $6,866,986 (Note 2)	$ 39,533,255	$ -	$ 34,231,954	$ -
Federal grants and contracts	2,816,805	-	4,803,502	-
State grants and contracts	661,854	-	680,222	-
Other grants and contracts	315,289	25,000	269,568	65,050
Sales and services of educational departments	5,817,902	-	5,464,197	-
Auxiliary enterprises	3,364,201	-	2,725,837	-
Other operating revenues	2,885,189	345,344	2,586,827	406,370
Total operating revenues	55,394,495	370,344	50,762,107	471,420
OPERATING EXPENSES				
Instruction	55,060,167	-	55,556,888	-
Research	662,087	-	545,994	-
Public service	13,760,379	-	13,050,266	-
Academic support	2,782,931	-	2,940,413	-
Student services	10,951,119	-	11,537,812	-
Institutional support	18,751,058	-	19,428,743	-
Operation and maintenance of plant	9,497,904	-	11,131,670	-
Auxiliary enterprises	2,040,403	-	1,685,288	-
Depreciation	4,931,843	-	4,723,021	-
University support	-	275,330	-	305,214
Other expense	-	376,450	-	451,420
Total operating expenses	118,437,891	651,780	120,600,095	756,634
Net operating loss	(63,043,396)	(281,436)	(69,837,988)	(285,214)
NONOPERATING REVENUES (EXPENSES)				
State appropriation	6,974,400	-	23,858,200	-
Payments made on behalf of the University	37,276,678	-	32,313,639	-
Federal and State nonoperating grants	10,013,418	-	11,458,216	-
Gifts	-	373,975	-	575,053
Investment income	28,080	162,132	7,139	22,739
Interest expense	(1,713,636)	-	(1,730,542)	-
Other nonoperating income (expense)	447,610	12,000	(4,845)	-
Net nonoperating revenues	53,026,550	548,107	65,901,807	597,792
Income (loss) before other revenues, expenses, gains and losses	(10,016,846)	266,671	(3,936,181)	312,578
Capital additions provided by State of Illinois	26,550	-	2,968,818	-
Additions to permanent endowments	-	98,203	-	132,777
Increase (decrease) in net position	(9,990,296)	364,874	(967,363)	445,355
NET POSITION (Notes 2 and 15)				
Net position - beginning of year, as previously reported	114,857,108	5,530,785	115,736,636	5,085,430
Prior period adjustment	(2,165,543)	-	87,835	-
Net position - beginning of year, as restated	112,691,565	5,530,785	115,824,471	5,085,430
Net position - end of year	$ 102,701,269	$ 5,895,659	$ 114,857,108	$ 5,530,785

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, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	2016		2015	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 37,064,820	$ -	$ 36,599,111	$ -
Grants and contracts	4,399,006	25,000	8,063,328	65,050
Payments to suppliers	(14,435,658)	(188,285)	(20,499,126)	(316,751)
Payments for scholarships	(4,974,888)	(103,748)	(6,825,718)	(107,695)
Payments to employees and fringe benefits	(57,813,558)	-	(58,487,295)	-
Auxiliary enterprises	3,364,201	-	2,725,837	-
Sales and services of educational departments	5,817,902	-	5,464,197	-
Student loans issued	(367,723)	-	(516,100)	-
Student loans collected	435,902	-	333,832	-
Other operating revenues	2,885,189	43,717	2,586,827	26,101
Net cash used in operating activities	(23,624,807)	(223,316)	(30,555,107)	(333,295)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	10,652,317	-	25,532,826	-
Other nonoperating revenue	-	12,000	-	-
Federal and State nonoperating grants	9,913,490	-	11,497,969	-
Contributions	-	373,113	-	600,518
Contributions for permanent endowments	-	98,203	-	132,777
Net cash provided by noncapital financing activities	20,565,807	483,316	37,030,795	733,295
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(299,775)	-	(8,420,705)	-
Proceeds from disposal of capital assets	466,701	-	-	-
Principal payments on capital debt	(2,552,593)	-	(2,387,027)	-
Interest payments on capital debt	(1,994,824)	-	(1,803,915)	-
Net cash used in capital financing activities	(4,380,491)	-	(12,611,647)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	777,116	-	524,122
Investment income	28,080	69,910	7,139	55,391
Investment management fees	-	(32,450)	-	(27,092)
Purchase of investment securities	-	(958,438)	-	(1,024,416)
Net cash provided by (used in) investing activities	28,080	(143,862)	7,139	(471,995)
Net decrease in cash and cash equivalents	(7,411,411)	116,138	(6,128,820)	(71,995)
Cash and cash equivalents - beginning of year	36,200,972	336,395	42,329,792	408,390
Cash and cash equivalents - end of year	$ 28,789,561	$ 452,533	$ 36,200,972	$ 336,395
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Net operating loss	$ (63,043,396)	$ (281,436)	$ (69,837,988)	$ (285,214)
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Noncash expenses included in net operating loss:				
Depreciation	4,931,843	-	4,723,021	-
Payments made on behalf of the University	37,276,678	-	32,313,639	-
Changes in assets, deferred outflows of resources and liabilities:				
Accounts receivable, grants receivable and due from related party	(2,113,220)	-	3,996,976	-
Inventories	(6,613)	-	11,705	-
Other assets	15,440	-	69,513	-
Other noncurrent assets	216,116	-	(5,593)	-
Student loans	174,284	-	(101,825)	-
Prepaid debt service insurance	18,941		18,941	
Deferred outflows of resources	6,775	-	(7,597)	-
Accounts payable and due to related party	(782,198)	58,120	(2,300,889)	(48,081)
Agency funds payable	(28,819)	-	34,528	-
Unearned revenue	136,003	-	350,229	-
Accrued compensated absences	(405,450)	-	2,230	-
Refundable grants	(21,191)	-	178,003	-
Net cash used in operating activities	$ (23,624,807)	$ (223,316)	$ (30,555,107)	$ (333,295)
NONCASH INVESTING, NONCAPITAL AND CAPITAL FINANCING ACTIVITIES				
Equipment acquired under capital lease	$ -	$ -	$ 236,662	$ -
Capitalized interest payments	$ -	$ -	$ 68,676	$ -
Capital appropriations	$ 26,550	$ -	$ 2,968,818	$ -
Unrealized gain (loss) on investments	$ -	$ 73,915	$ -	$ (41,167)
Other noncash contributions	$ -	$ 2,065	$ -	$ -

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

NOTE 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, 2016 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the University are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB using the economic resources measurement focus and the accrual basis of accounting. 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, noncurrent assets/liabilities and deferred outflows of resources. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Receivables

An aging of accounts, grants and student loans receivable as of June 30, 2016 is as follows:

Not in repayment	$ 2,076,317
Current	7,836,631
Up to 120 days past due	900,644
From 121 to 365 days past due	1,471,452
More than 365 days past due	3,983,725
Allowance for doubtful accounts	(5,075,000)
Net accounts, grants, and student loans receivable	$11,193,769

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Capital Assets

Capital assets are carried at cost (if purchased) or at estimated fair market value at the time of the donation if donated prior to July 1, 2015. After June 30, 2015, with the adoption of GASB Statement No. 72, *Fair Value Measurement and Application,* donated capital assets are carried at acquisition value. Foundation capital assets consist of artworks, a collection of environmental and other sculptures and a painting. The artworks are held for public exhibition rather than for financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from the sale of artworks to be used to acquire new artworks. No depreciation is recorded for the artworks.

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 Assets

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, Supplemental Educational Opportunity Grant, Veteran's Assistance Chapter 33 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, Supplemental Educational Opportunity Grant, Veteran's Assistance Chapter 33, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Deferred Outflows/Inflows of Resources

A deferred outflow/inflow of resources is a consumption/acquisition of net position that is applicable to a future reporting period. The University has recorded deferred outflows of resources related to pensions as explained in Note 5. There were no deferred inflows of resources reported in the Statement of Net Position during the current and prior fiscal years.

On-Behalf Payments for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments for its proportional share of the State's pension expense relative to the State Universities Retirement System (SURS) for University employees of $22,277,678 for the year ended June 30, 2016. Substantially all employees participate in group health insurance plans administered by the State. The employer contributions to these plans for the University employees are paid by State appropriations by Central Management Services (CMS) on behalf of the University and include postemployment benefits. The employer contributions to these plans on behalf of employees paid from other University held funds are paid by the University. The on-behalf payments were $14,999,000 for the year ended June 30, 2016. The on-behalf payments amount that relates to State group health insurance is an allocation of estimated costs incurred by CMS on-behalf of the University.

On-behalf payments for fringe benefits are reflected as nonoperating revenues. The corresponding on-behalf expense is reflected as an operating expense and is allocated by function.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 participated as a member of the State University Risk Management Association (SURMA), which was an inter-governmental risk sharing pool. The University's general liability coverage has a $350,000 self-insured retention level per occurrence, which was covered by SURMA until it was dissolved during the fiscal year. Participant contributions to SURMA were 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 had recorded as other assets the estimated amount that could be recoverable in the event of withdrawal or termination. During the fiscal year SURMA was dissolved and the University recovered its share of capital contributions.

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, 2015, from which the partial information was derived. Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan net position of the State Universities Retirement System (SURS or the System) and additions to/deductions from SURS' plan net position has been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of financial reporting, the State of Illinois and participating employers are considered to be under a special funding situation. A special funding situation is defined as a circumstance in which a non-employer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either (1) the amount of the contributions for which the non-employer entity is legally responsible is not dependent upon one or more events unrelated to pensions or (2) the non-employer is the only entity with a legal obligation to make contributions directly to a pension plan. The State of Illinois is considered a non-employer contributing entity. Participating employers are considered employer contributing entities.

New Accounting Pronouncements

During the year ended June 30, 2016, the University adopted the following accounting pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. It further provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement amends certain provisions of Statement 68. It also establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of Statement 68. The amendments of

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement 68 are effective for the year ending June 30, 2016 and the provisions that address accounting and reporting by employers for pensions that are not within the scope of Statement 68 are effective for fiscal year ending June 30, 2017.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Future Adoption of GASB Statements

Effective for the year ending June 30, 2017, the University will adopt the following GASB statements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, GASB Statement No. 43, and GASB Statement No. 50, *Pension Disclosures*.

- GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement also requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.* This Statement addresses the accounting and reporting for certain external investment pools and pool participants.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.* This Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* This Statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The selection of assumptions requirements are not effective until the year ending June 30, 2018.

Effective for the year ending June 30, 2018, the University will adopt the following GASB statement:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. It replaces GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, as amended, and No. 57.

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

NOTE 3 – DEPOSITS AND INVESTMENTS

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

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Deposits

A reconciliation of cash and investments on the Statement of Net Position to deposits and investments of the University and the Foundation is as follows:

	University	Foundation
Statement of Net Position		
Cash and cash equivalents	$ 28,789,554	$ 452,533
Restricted cash	7	-
Investments	-	3,256,298
Total	$ 28,789,561	$ 3,708,831
Deposits and Investments		
Cash in bank	$ 14,113,073	$ 197,900
Cash on hand	19,940	-
Investments	14,656,548	3,510,931
Total	$ 28,789,561	$ 3,708,831

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, 2016. The remaining bank balances as of June 30, 2016 were fully collateralized. The University's and Foundation's respective bank balances were $15,195,174 and $197,900 as of June 30, 2016. 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.

University Investments

The carrying value of the investment portfolio of the University at June 30, 2016 is as follows:

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	Not Rated	< 1 year	$ 7	$ 7
Illinois Funds	AAAm	< 1 year	14,656,541	14,656,541
Total			$ 14,656,548	$ 14,656,548

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The fair value of the investments is further categorized by levels depending on the type of inputs used for their valuation.

- *Level 1* – Unadjusted quoted prices for identical assets in active markets that are accessible at the date of measurement.
- *Level 2* – Quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the assets.
- *Level 3* – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, the inputs are supported by little or no market activity).

The University's money market fund and Illinois Funds are both categorized as Level 1.

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2016, investments consisted of money market funds held in corporate trust accounts at Amalgamated Bank of Chicago and Illinois Funds. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract.

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, 2016 is as follows:

	Fair Value
Money Market Funds	$ 180,431
Illinois Funds	74,202
Stocks/Mutual Funds investing in stocks	2,458,828
Mutual Funds investing in bonds	642,572
Corporate Bonds	154,898
Total	$ 3,510,931

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The valuation by levels at June 30, 2016 is as follows:

	Fair Value	Level 1	Level 2	Level 3
Money Market Funds	$ 180,431	$ 180,431	$ -	$ -
Illinois Funds	74,202	74,202	-	-
Stocks/Mutual Funds investing in stocks	2,458,828	2,458,828	-	-
Mutual Funds investing in bonds	642,572	642,572	-	-
Corporate Bonds	154,898	-	154,898	-
Total	$ 3,510,931	$ 3,356,033	$ 154,898	$ -

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2016, investments consisted of money market funds, mutual funds, corporate bonds and U.S. Treasury Obligations. All investments other than Illinois Funds 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 Illinois Funds has a maturity of < 1 year and a credit rating of AAAm.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2016 are as follows:

		Investment Maturity (in Years)			
	Fair Value	Less Than 1	1 – 5	5 – 10	10 or More
Mutual Funds investing in bonds	$ 642,572	$ 38,445	$ 374,094	$ 125,355	$ 104,678
Corporate Bonds	154,898	-	50,182	104,716	-
Total	$ 797,470	$ 38,445	$ 424,276	$ 230,071	$ 104,678

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2016 are as follows:

Credit Rating	Total Debt Securities
No Rating	$ 455,991
AA	27,585
A	101,818
A-	25,495
AAf	117,367
BBB+f	42,957
B-f	26,257
Total	$ 797,470

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%.

NOTE 4 - CASH AND CASH EQUIVALENTS, RESTRICTED

Certain accounts created by the University revenue bonds and certificates of participation are held in Trust Escrow accounts with Amalgamated Bank of Chicago (Bank) pending expenditure for debt service. As trustee, the Bank has invested the funds in Goldman Sachs "Financial Square Money Market" funds. The balance of these accounts as of June 30, 2016 amounted to $7.

NOTE 5 - DEFINED BENEFIT PENSION PLANS

General Information about the Pension Plan

Plan Description

The University contributes to the State Universities Retirement System of Illinois (SURS or System), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State of Illinois (the State) 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 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 Chapter 40, Act 5, Article 15 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.

Benefits Provided

A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2015 can be found in the System's Comprehensive Annual Financial Report (CAFR) Notes to the Financial Statements.

Contributions

The State of Illinois is primarily responsible for funding the System on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a Statutory Funding Plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members of the System to reach 90% of the total Actuarial Accrued Liability by the end of Fiscal Year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for Fiscal Year 2015 and 2016 respectively, was 11.71% and 12.69% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15.139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15.155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Net Pension Liability

At June 30, 2015, SURS reported a net pension liability (NPL) of $23,756,361,087. The net pension liability was measured as of June 30, 2014, and has been rolled forward to June 30, 2015 using generally accepted actuarial procedures.

Employer Proportionate Share of Net Pension Liability

The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $265,336,393 or 1.1169%. This amount is not in the University's financial statements. The net pension liability and total pension liability as of June 30, 2015 was determined based on the June 30, 2014 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to SURS during Fiscal Year 2015.

Pension Expense

At June 30, 2015, SURS reported a collective net pension expense of $1,994,587,170.

Employer Proportionate Share of Pension Expense

The employer proportionate share of collective pension expense is recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during fiscal year 2015. As a result, the University recognized on-behalf revenue and pension expense of $22,277,678 for the fiscal year ended June 30, 2016.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Deferred outflows of resources are the consumption of net position by the System that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 27,312,043	$ -
Changes in assumptions	609,393,909	-
Net difference between projected and actual earnings on pension plan investments	593,840,642	953,329,464
Total	$1,230,546,594	$ 953,329,464

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future Pension Expenses

Year Ending June 30,	Net Deferred Outflows of Resources
2016	$ 154,951,326
2017	118,957,720
2018	(145,152,075)
2019	148,460,159
2020	-
Thereafter	-
Total	$ 277,217,130

Employer Deferral of Fiscal Year 2016 Pension Expense

The University paid $88,657 in federal, trust or grant contributions for the fiscal year ended June 30, 2016. These contributions were made subsequent to the pension liability measurement date of June 30, 2015 and are recognized as deferred outflows of resources as of June 30, 2016.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

<u>Assumptions and Other Inputs</u>

Actuarial assumptions

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 to 12.00 percent, including inflation
Investment rate of return	7.25 percent beginning with the actuarial valuation as of June 30, 2014

Mortality rates were based on the RP2000 Combined Mortality Table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s). For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.77%
Private Equity	6%	9.23%
Non-U.S. Equity	19%	6.69%
Global Equity	8%	6.51%
Fixed Income	19%	1.12%
Treasury-Inflation Protected Securities	4%	1.22%
Emerging Market Debt	3%	4.61%
Real Estate REITS	4%	5.85%
Direct Real Estate	6%	4.37%
Commodities	2%	4.06%
Hedged Strategies	5%	3.99%
Opportunity Fund	1%	6.80%
Total	100%	5.02%
Inflation		3.00%
Expected Arithmetic Return		8.02%

Discount Rate

A single discount rate of 7.120% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.250% and a municipal bond rate of 3.80% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under the System's funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, and the municipal bond rate was applied to all benefit payments after that date.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the System's Net Pension Liability to Changes in the Discount Rate

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.120%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1- percentage-point higher:

1% Decrease 6.12%	Rate Assumption 7.12%	1% Increase 8.12%
$ 28,929,333,917	$ 23,756,361,087	$ 19,470,982,362

Additional information regarding the SURS basic financial statements including the Plan Net Position can be found in the SURS CAFR by accessing the website at www.SURS.org.

NOTE 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.

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' CAFR. 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 postemployment 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.

NOTE 7 - CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at estimated fair market value at the date of donation until June 30, 2015 and estimated acquisition value after that date. 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. There was no interest capitalized for the year ended June 30, 2016.

NOTE 7 - CAPITAL ASSETS (Continued)

Capital assets activity for the University and Foundation for the year ended June 30, 2016 are summarized as follows:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 1,389,086	$ -	$ -	$ 1,389,086
Artwork/Artifacts-University	431,323	-	-	431,323
Artwork/Artifacts-Foundation	2,233,156	-	-	2,233,156
Total capital assets not being depreciated	$ 4,053,565	$ -	$ -	$ 4,053,565
Other capital assets:				
Site improvements	$ 9,309,741	$ -	$ -	$ 9,309,741
Buildings	151,946,953	26,550	-	151,973,503
Intangible assets	1,077,097	-	-	1,077,097
Equipment under capital lease	236,662	-	-	236,662
Equipment	11,956,809	171,764	(176,336)	11,952,237
Library collection	12,849,165	19,296	(213,975)	12,654,486
Total other capital assets	187,376,427	217,610	(390,311)	187,203,726
Accumulated depreciation:				
Site improvements	(2,712,561)	(414,524)	-	(3,127,085)
Buildings	(41,454,680)	(3,246,791)	-	(44,701,471)
Intangible assets	(769,355)	(153,871)	-	(923,226)
Equipment under capital lease	(25,336)	(50,671)	-	(76,007)
Equipment	(9,101,398)	(724,553)	157,245	(9,668,706)
Library collection	(11,907,474)	(341,433)	213,976	(12,034,931)
Total accumulated depreciation	(65,970,804)	(4,931,843)	371,221	(70,531,426)
Other capital assets, net	$ 121,405,623	$ (4,714,232)	$ (19,090)	$ 116,672,300
Capital assets summary:				
Capital assets not being depreciated	$ 4,053,565	$ -	$ -	$ 4,053,565
Other capital assets	187,376,427	217,610	(390,311)	187,203,726
Accumulated depreciation	(65,970,804)	(4,931,843)	371,221	(70,531,426)
Total capital assets, net	$ 125,459,188	$ (4,714,233)	$ (19,090)	$ 120,725,865

NOTE 8 - LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016	Amounts Due Within One Year
Notes payable	$ 2,189,246	$ -	$ 505,608	$ 1,683,638	$ 524,897
Capital lease payable	241,394	-	71,986	169,408	80,156
Revenue bonds 2007	6,570,000	-	395,000	6,175,000	410,000
Revenue bonds 2012	20,000,000	-	425,000	19,575,000	430,000
Certificates of participation 2008	9,170,000	-	130,000	9,040,000	140,000
Certificates of participation 2009	4,355,000	-	1,025,000	3,330,000	1,065,000
	42,525,640	-	2,552,594	39,973,046	2,650,053
Unamortized discounts	(136,021)	-	(9,583)	(126,438)	(9,584)
Unamortized premiums	26,988	-	3,109	23,879	3,109
	$ 42,416,607	-	$ 2,546,120	$ 39,870,487	$ 2,643,578

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, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
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
	$ 1,683,638	$ 101,837	$ 1,785,475

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 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.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 410,000	$ 240,356	$ 650,356
2018	425,000	223,656	648,656
2019	445,000	206,256	651,256
2020	460,000	188,157	648,157
2021	480,000	169,356	649,356
2022 – 2026	2,710,000	536,381	3,246,381
2027 – 2028	1,245,000	51,872	1,296,872
	$ 6,175,000	$ 1,616,034	$ 7,791,034

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 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.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
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	465,000	780,019	1,245,019
2021	475,000	766,500	1,241,500
2022 – 2026	2,645,000	3,567,334	6,212,334
2027 – 2031	3,230,000	2,982,261	6,212,261
2032 – 2036	4,015,000	2,197,954	6,212,954
2037 – 2041	5,050,000	1,159,922	6,209,922
2042 – 2043	2,375,000	111,716	2,486,716
	$19,575,000	$13,971,394	$33,546,394

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 of issuing the Series 2008 Certificates. The original issue discount is being accreted to interest expense over the term of the Certificates.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Future debt service requirements at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 140,000	$ 187,750*	$ 327,750
2018	140,000	369,900	509,900
2019	150,000	364,300	514,300
2020	920,000	358,300	1,278,300
2021	950,000	321,500	1,271,500
2022 – 2026	4,670,000	1,032,194	5,702,194
2027 – 2028	2,070,000	139,356	2,209,356
	$ 9,040,000	$ 2,773,300	$11,813,300

* The July 1, 2016 interest payment was made before June 30.

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 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.

The University did not exercise the right to redeem the Certificates on March 1, 2014 at a redemption price of 110% as permitted by the purchase contract.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Future debt service requirements at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 1,065,000	$ 71,541*	$ 1,136,541
2018	1,110,000	99,150	1,209,150
2019	1,155,000	51,975	1,206,975
	$ 3,330,000	$ 222,666	$ 3,552,666

* The July 1, 2016 interest payment was made before June 30.

Capital Lease Payable

The University leases equipment under a capital lease purchase contract with an imputed interest rate of 10.799%. The capital lease payable is secured by the equipment being financed. Future maturities at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 80,156	$ 14,404	$ 94,560
2018	89,252	5,308	94,560
	$ 169,408	$ 19,712	$ 189,120

The present value of the capital lease was more than the list price of the equipment being financed. The lessor issued the University a rebate check for the $4,732 difference. The amount recorded as asset under capital lease was $236,662.

NOTE 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, 2016 was as follows:

Balance, beginning of year	$ 4,077,424
Movement	(405,450)
Balance, end of year	3,671,974
Less: current portion	500,000
Balance, noncurrent portion	$ 3,171,974

NOTE 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 personnel and operational services at no cost. University officials estimate the value of these services for the year ended June 30, 2016 at $301,627, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of $275,330 for the year ended June 30, 2016. As of June 30, 2016, $25,211 is due from the Foundation to the University.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

NOTE 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 based on the previous calendar year appreciation rate less 1% and the rate of inflation. The resulting rate will be applied to the endowment balance to determine amounts that will be available for expenditure in the subsequent fiscal year. The Foundation transfers available investment earnings to the related expendable accounts on an annual basis.

NOTE 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 $54,528 for the year ended June 30, 2016.

Future minimum lease payments are as follows:

Year Ending June 30	Base Rent
2017	$ 13,461
2018	7,476
2019	7,476
2020	7,476
2021	3,738
	$ 39,627

The University renewed a lease in September 2016. The future minimum lease payments will total $23,940.

NOTE 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 REVENUE PLEDGED	FUTURE NET REVENUES PLEDGED[1]	TERM OF COMMITMENT	(CURRENT YEAR) PLEDGED NET REVENUE 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, The University Bookstore, University Parking Facilities, University Food Service and Vending Facilities, and University Housing	$ 41,337,428	2043	4.41%

1 Total future principal and interest payments on debt.

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

NOTE 15 - PRIOR PERIOD ADJUSTMENT

The University reported the effect of an accounting correction which adjusted the beginning net position as of July 1, 2015 to accrue contracts payable for faculty who had completed their obligation for the current academic year, but were being paid over 12 months which extended into fiscal year 2016. The adjustment is reflected as follows:

Net position - beginning of year, as previously reported	$ 114,857,108
Accrue contracts payable (prior period adjustment)	(2,165,543)
Net position – beginning of year, as restated	$ 112,691,565

NOTE 16 - SUBSEQUENT EVENTS

On August 5, 2016, S&P Global Ratings lowered its underlying rating three notches to 'BB+' from 'BBB+' on the Board of Trustees of Governors State University, series 2007 and 2012 University Facilities System Revenue Bonds and series 2008 and 2009 Certificates of Participation, issued on behalf of Governors State University.

The State of Illinois has not adopted a complete Fiscal Year 2017 operating budget as of the date of this report. The University is part of the executive branch of the government and operates under a budget approved by the State of Illinois, in which resources are appropriated for the use of the University. The amount and timing of final appropriations may necessitate spending reductions in the future.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

Schedule of Employer's Proportionate Share of Net Pension Liability

	FY 2015	FY 2014
(a) Proportional percentage of the collective net pension liability	0%	0%
(b) Proportional amount of the collective net pension liability	$ -	$ -
(c) Portion of nonemployer contributing entities' total proportion of collective net pension liability associated with employer	$ 265,336,393	$ 221,808,386
Total (b) + (c)	$ 265,336,393	$ 221,808,386
Employer DB Covered Payroll	$ 40,629,305	$ 37,066,314
Proportion of collective net pension liability associated with employer as a percetage of DB covered payroll	653.07%	598.41%
SURS Plan net position as a percentage of total pension liability	42.37%	44.39%

Schedule of Employer Contributions

	FY 2016	FY 2015	FY 2014
Federal, trust, grant and other contribution	$ 88,657	$ 95,432	$ 171,808
Contribution in relation to the required contribution	$ 88,657	$ 95,432	$ 171,808
Contribution deficiency (excess)	$ -	$ -	$ -
Employer DB covered payroll	$ 39,299,120	$ 40,629,305	$ 37,066,314
Contributions as a percentage of covered-employee payroll	0.23%	0.23%	0.46%

*Note: The University implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The schedules are intended to show information for 10 years.

Notes to Required Supplementary Information

Note 1 - Changes of benefit terms.

There were no benefit changes recognized in the Total Pension Liability as of June 30, 2015.

Note 2 - Changes of assumptions.

In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2010 to June 30, 2014 was performed in February 2015, resulting in the adoption of new assumptions as of June 30, 2015.

- Mortality rates. Change from RP 2000 Mortality table projected to 2017, sex distinct, to the RP-2014 mortality tables with projected generational mortality improvement. Change to a separate mortality assumption for disabled participants.
- Salary increase. Change assumption to service-based rates, ranging from 3.75 percent to 15.00 percent passed on years of service, with underlying wage inflation of 3.75 percent.
- Normal retirement rates. Change to retirement rates at ages younger than 60, age 66, and ages 70-79 to reflect observed experiences.
- Early retirement rates. Change to a slight increase to the rates at ages 55 and 56.
- Turnover rates. Change to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service than the currently assumed rates.
- Disability rates. Decrease rates and have separate rates for males and females to reflect observed experience.
- Dependent assumption. Mainly the current assumption on marital status that varies by age and sex and the assumption that males are three years older than their spouses.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF NET POSITION
JUNE 30, 2016
(With Comparative Totals for June 30, 2015)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivilents, restricted	$ 2	$ 120,222
Accounts receivable, net of allowance	164,750	603,751
Prepaid debt service insurance - current	940	940
Total Current Assets	165,692	724,913
Noncurrent Assets		
Prepaid debt service insurance	9,870	10,810
Capital assets	32,107,533	32,107,533
Less accumulated depreciation	(3,901,218)	(3,003,975)
Total Noncurrent Assets	28,216,185	29,114,368
Total Assets	28,381,877	29,839,281
LIABILITIES		
Current Liabilities		
Bank overdraft	107,282	534,343
Accounts payable & accrued expenses	327,635	513,527
Unearned revenue	319,409	199,916
Revenue bonds payable	840,853	820,853
Total Current Liabilities	1,595,179	2,068,639
Noncurrent Liabilities		
Revenue bonds payable	24,906,362	25,747,215
Total Noncurrent Liabilities	24,906,362	25,747,215
Total Liabilities	26,501,541	27,815,854
NET POSITION		
Invested in capital assets, net of related debt	2,459,100	2,535,489
Unrestricted	(578,764)	(512,062)
Total Net Position	$ 1,880,336	$ 2,023,427

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, 2016
(With Comparative Totals for June 30, 2015)

	2016	2015
OPERATING REVENUES		
Bookstore commissions	$ 132,210	$ 146,444
Food and vending commissions	13,230	12,118
Parking fees	497,580	452,405
University facility fee	-	693,977
University housing fees	1,955,762	1,302,070
Student center fees	1,734,202	1,284,866
Total Operating Revenues	4,332,984	3,891,880
OPERATING EXPENSES		
Salaries and benefits	1,329,616	1,478,453
Scholarships and awards	178,828	108,859
Capital expenditures	45,419	969,647
Services, supplies and other	955,581	1,004,597
Depreciation	897,243	603,674
Total Operating Expenses	3,406,687	4,165,230
Operating Income (Loss)	926,297	(273,350)
NONOPERATING REVENUES (EXPENSES)		
Investment income	2	158
Interest expense	(1,069,390)	(1,025,754)
Net Nonoperating Revenues (Expenses)	(1,069,388)	(1,025,596)
Increase (decrease) in net position	(143,091)	(1,298,946)
NET POSITION		
Net position - beginning of the year	2,023,427	3,322,373
Net position - end of the year	$ 1,880,336	$ 2,023,427

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Totals for June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	$ 132,210	$ 146,444
Food and vending commissions	13,230	12,118
Parking fees	492,737	490,485
Student center fees	1,718,518	1,404,818
University housing fees	2,534,784	966,408
University facility fee	-	693,977
Payments to suppliers for goods and services	(1,794,211)	(1,801,505)
Payments to employees for services	(1,321,171)	(1,496,413)
Net cash provided by (used in) operating activities	1,776,097	416,332
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	-	(5,440,088)
Principal payments on revenue bonds	(820,000)	(795,000)
Interest payments on revenue bonds	(1,076,319)	(1,100,219)
Net cash provided by (used in) capital financing activities	(1,896,319)	(7,335,307)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	2	158
Net cash provided by (used in) investing activities	2	158
NET DECREASE IN CASH	(120,220)	(6,918,817)
Cash - beginning of year	120,222	7,039,039
Cash - end of year	$ 2	$ 120,222
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	$ 926,297	$ (273,350)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Noncash expense included in net operating income (loss):		
Depreciation expense	897,243	603,674
Changes in assets and liabilities:		
Accounts receivable, net of allowance	439,001	(603,751)
Prepaid debt service insurance	940	940
Bank overdraft	(427,061)	534,343
Accounts payable & accrued expenses	(179,816)	(45,440)
Unearned revenue	119,493	199,916
Net cash provided by operating activities	$ 1,776,097	$ 416,332

NONCASH CAPITAL FINANCING ACTIVITIES

During fiscal year 2015, interest expense of $68,676 was reclassified to capital assets as interest incurred during the period of construction.

OTHER INFORMATION

Student Enrollment by Term (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2015	5,938	3,920
Spring Term, 2016	5,683	3,720
Summer Term, 2016	2,990	1,396

University Fees (Unaudited)

The following mandatory fees were in effect during the 2015-2016 academic year:

	Per Credit Hour
Counseling and Career Services	$ 4
Strategic Initiative	$ 14
Student Activity	$ 5
Student Center	$ 9
Technology	$ 17
University Facilities	$ 18

	Per Term
Parking	$ 38

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	$ 210,514,973
EDP and contents	$ 34,476,363
Business interruption	$ 29,661,433
Boiler and machinery (included in blanket coverage limit)	$ 100,000,000
Earthquake	$ 100,000,000
Flood	$ 100,000,000
General liability	$ 19,650,000

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

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 Governors State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Governors State University's basic financial statements, and have issued our report thereon dated December 8, 2016. Our report includes a reference to another auditor who audited the financial statements of the Governors State University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Governors State University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Governors State 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 Governors State University's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governors State University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings as item 2016-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as item 2016-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Governors State 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*.

Governors State University's Response to Findings

Governors State University's responses to the findings identified in our audit are described in the accompanying schedule of findings. Governors State University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 Governors State 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 Governors State University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

December 8, 2016

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2016-001 FINDING: INADEQUATE CONTROLS OVER IDENTIFYING AND RECORDING ACCRUED LIABILITIES

Governors State University (University) has not established adequate internal controls over identifying and recording accrued liabilities for financial reporting purposes.

During our audit, we inquired whether the University had any employees who worked a ten month year but chose to be paid over twelve months. That inquiry resulted in the discovery that the University has numerous employees with such a work arrangement. University management determined the appropriate expense and the related liability for those employees who had completed their contracted services as of June 30, 2015, but had not received final payment for these services until fiscal year 2016. Consequently, University management recorded a prior period adjustment to correct this error. The adjustment reduced unrestricted net position as of June 30, 2015 by $2,165,543 for the unrecorded liability as of that date.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 35 Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities, requires the use of accrual basis of accounting for business-type entities. Under the accrual basis, expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system or systems of internal financial and administrative controls which shall provide assurance that revenues, expenditures, and transfers of assets, resources of funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports.

University officials stated that this accrual had not historically been made and therefore was overlooked in the prior year.

Failure to maintain accounting records and present financial reports in accordance with accounting principles generally accepted in the United States of America distorts the net position of the University and the State. (Finding Code No. 2016-001)

RECOMMENDATION

We recommend that the University review and improve its procedures to ensure that all properly accruable items are identified and recorded in the University's accounting records to facilitate accurate financial reporting.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2016-001 FINDING: INADEQUATE CONTROLS OVER IDENTIFYING AND RECORDING ACCRUED LIABILITIES (Continued)

UNIVERSITY RESPONSE

The University has recorded the accrual for the current fiscal year and will be diligent to review accounting records in order to identify unrecorded liabilities in the future.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2016-002 FINDING: INADEQUATE CONTROLS OVER STUDENT ACCOUNTS RECEIVABLE

Governors State University's (University) procedures for the substantiation and collection of student accounts receivable were inadequate.

For the 2016 financial audit, the auditors requested the University send a statement of account (statement) to all students who had a balance due to the University. Printed on these statements was a negative confirmation notice requesting students who felt that their balances were incorrect to contact the University's Student Accounts Office. If balance discrepancies could not be resolved with the Student Accounts Office, the students were requested to contact the auditors. The University stated that they received hundreds of calls from students. The auditors also received approximately 45 calls from students stating that their balances were incorrect. We further noted that all of the calls received by the auditors were from students whose account charges occurred before the summer 2011 academic term (prior to a computer system conversion).

When questioned about the University's collection activity on these older accounts, the University stated that they had not sent any statements to these students or actively pursued collection in recent years, but intended to look into them in the future when time permitted. Due to the age of these accounts and the computer system conversion, the University's ability to substantiate these receivables was time consuming and questionable. The University decided to summarily write-off these older balances. A total of 4,386 account balances were written off totaling $3,316,471. (The University had recorded allowances for doubtful accounts for 91.4% of this amount in prior years.) The University is still collecting data in order to formally obtain approval from the Attorney General to write off the approximately 750 accounts that exceeded $1,000.

The Illinois State Collection Act of 1986 (30 ILCS 210/3) states that it is "the public policy of this State to aggressively pursue the collection of accounts or claims due and payable to the State of Illinois through all reasonable means." It further states that "each State agency shall have the principal responsibility for the timely collection of accounts or claims owed to the State agency." The Uncollected State Claims Act (30 ILCS 205/2) requires the University to submit prescribed information related to the debt and the University's collection efforts, and request the Attorney General to certify the uncollectability of accounts receivable of $1,000 or more. The State Records Act (5 ILCS 160/8) requires the University to preserve records containing adequate and proper documentation of the essential transactions of the University in order to protect the legal and financial rights of the State and of persons directly affected by the University's activities.

University officials stated that the condition is a result of prior practices which did not adequately and consistently apply collection efforts on past due accounts. The change to a new computer processing platform in 2011 also made it difficult to review previous balances.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2016-002 FINDING: INADEQUATE CONTROLS OVER STUDENT ACCOUNTS RECEIVABLE (Continued)

Failure of the University to preserve records and actively pursue the collection of accounts receivable may result in:

- students not being aware of amounts due to the University;
- disputes regarding amounts owed;
- the inability of either party to substantiate their position because credible records are no longer available; and
- the loss of State revenue. (Finding Code No. 2016-002)

RECOMMENDATION

We recommend the University improve its procedures in order to collect its student accounts receivable in a timely manner.

UNIVERSITY RESPONSE

The University agrees and accepts this finding. Current collection practices are in place to perform a series of collection efforts on an established time-line. This includes internal efforts, placing accounts with an outside collection agency and turning accounts over to the State of Illinois off-set system.

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

There were no *Government Auditing Standards* findings reported in the prior year.