STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT
For the Year Ended June 30, 2011

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2011

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Related Report Issued under a Separate Cover

Governors State University
Compliance Examination (In Accordance with the Single Audit Act and OMB Circular A-133) for the Year Ended June 30, 2011

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2011

Agency Officials

President	Dr. Elaine Maimon
Executive Vice President, Chief of Staff, Treasurer	Dr. Gebeyehu Ejigu
Vice President, Administration and Finance	Ms. Karen Kissel
Internal Auditor	Mr. David Dixon
Interim Comptroller	Ms. Cathy Casson, CPA

Agency offices are located at:

1 University Parkway
University Park, Illinois 60484

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2011

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as finding 11-1, *Inaccurate Accounting for Intangible Assets*, and finding 11-2, *Inaccurate Accounting for Participation in Public Entity Risk Pool*.

Exit Conference

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on January 26, 2012. Attending were:

Representing Governors State University	
Executive Vice President, Chief of Staff, Treasurer	Dr. Gebeyehu Ejigu
Vice President, Administration and Finance	Ms. Karen Kissel
Internal Auditor	Mr. David Dixon
Interim Comptroller	Ms. Cathy Casson, CPA
Representing E.C. Ortiz and Co., LLP	
Partner	Mr. Edilberto C. Ortiz, CPA
Partner	Ms. Gilda Belmonte Priebe, CPA, CIA, CFE
Manager	Ms. Villalyn S. Baluga, CPA
Representing the Office of the Auditor General	
Audit Manager	Mr. Thomas L. Kizziah, CPA

The responses to the recommendations were provided by Ms. Karen Kissel in a letter dated February 7, 2012.

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

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the business-type activities of Governors State University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2010 financial statements and, in our report dated February 25, 2011, we expressed an unqualified opinion on the respective financial statements of the business-type activities and the aggregate discretely presented component units. We did not audit the financial statements of the aggregate discretely presented component unit, as described in Note 1 of the financial statements. Those financial statements were audited by other auditors whose report thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the aggregate discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Governors State University, as of June 30, 2011, and the respective changes in its financial

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position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Governors State University's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The University Facilities System Revenue Bonds, Series 2007 financial statements on pages 37 through 39 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The "Unaudited" supplementary information on page 40 has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on it.

E.C. Ortiz & Co., LLP

February 8, 2012

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. 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 Assets is designed to be similar to bottom line results for the University; it combines and consolidates current financial resources with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and net costs of University activities, which are supported mainly by State appropriations and tuition revenues. The Statement of Cash Flows presents the receipt and use of cash resources by the University. This approach is intended to summarize and simplify the user's analysis of the cost of services provided.

FINANCIAL AND ENROLLMENT HIGHLIGHTS

Accreditations
During fiscal year 2010, the Higher Learning Commission (HLC) team completed its review and reaccredited GSU for the maximum number of years (ten years, with the next accreditation visit in academic year 2019-2020).

Appropriations
For fiscal year 2011, the University received State appropriations for general operational expenses.

The fiscal year 2011 total appropriation used to fund ongoing core programs constituted a decrease of 6% over the fiscal year 2010 appropriation.

Net Revenue Available from Operational Appropriations

Fiscal Years	Appropriations	Payments to Health Reserve Fund	Available Appropriations
2011	$ 26,558,000	$ (656,200)	$ 25,901,800
2010	28,324,400	(656,200)	27,668,200

Enrollment

Student credit hours produced during fiscal year 2011 decreased by 4% from the levels of fiscal year 2010; from 120,139 to 114,853.

Sick and Vacation Payouts

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

Statement of Net Assets

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

	(in thousands)			
	2011	2010	Increase (Decrease)	Percent Change
Current assets	$ 50,544	$ 48,982	$ 1,562	3%
Noncurrent assets	82,053	78,085	3,968	5%
Total assets	132,597	127,067	5,530	4%
Current liabilities	9,415	11,629	(2,214)	-19%
Noncurrent liabilities	35,315	37,249	(1,934)	-5%
Total liabilities	44,730	48,878	(4,148)	-8%
Net assets	$ 87,867	$ 78,189	$ 9,678	12%

The 12% increase in the University's net assets is due to the following:

Current Assets
Current assets consist primarily of cash and cash equivalents, and receivables. Unrestricted cash increased by $0.9 million, which was primarily due to increased tuition and fee revenues. Restricted cash decreased by $4.5 million, which was primarily due to expending the proceeds from debt financing on deferred maintenance projects. Receivables from the State appropriation increased by $5.1 million, which was due to delayed payments from the State of Illinois. The $11.5 million in delayed reimbursement was subsequently received in fiscal year 2012.

Noncurrent Assets
Noncurrent assets consist primarily of long-term portion of student Federal Perkins Loan receivables, unamortized costs of issuance for the revenue bonds and certificates of participation, and capital assets net of accumulated depreciation. The $4.0 million increase in noncurrent assets mostly came from the increase in net capital assets, which was due to the substantial completion of deferred maintenance projects that have been underway for the past four years and implementation of a new Enterprise Resource Planning (ERP) system.

Current Liabilities
Current liabilities include accounts payable, agency funds payable, accrued compensated absences, deferred revenue, and the current portion of long-term liabilities, which are payable in less than one year. The $2.2 million decrease was mostly attributable to the $1.2 million decrease in accounts payable due to timing differences on vendor payments, $0.2 million decrease in agency funds payable, and $0.8 million decrease in deferred revenue primarily due to the decrease in credit hours for the summer 2011 term.

Noncurrent Liabilities
Noncurrent liabilities are liabilities with due dates beyond one year, which include accrued compensated absences, refundable grants, revenue bonds payable, notes payable and capital leases, and certificates of participation. The $1.9 million decrease was mostly due to the $1.7 million principal payments in notes payable and capital leases, revenue bonds payable, and certificates of participation, and $0.2 million decrease in accrued compensated absences due to payouts made to employees who separated from service or who used vested sick time. Sick leave is paid out at 50% of the value of compensable leave earned through December 31, 1997. Since January 1, 1998, sick leave is no longer compensable.

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 Assets

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

	(in thousands)			
	2011	2010	Increase (Decrease)	Percent Change
OPERATING REVENUES				
Net student tuition and fees	$ 30,499	$ 29,882	$ 617	2%
Grants and contracts	9,546	6,976	2,570	37%
Sales and services of educational Departments	6,264	6,278	(14)	0%
Auxiliary enterprises	1,671	2,080	(409)	-20%
Other operating revenues	1,686	1,151	535	46%
Total operating revenues	49,666	46,367	3,299	7%
OPERATING EXPENSES	91,911	87,178	4,733	5%
Net operating loss	(42,245)	(40,811)	(1,434)	4%
NONOPERATING REVENUES (EXPENSES)				
State appropriation	26,558	25,986	572	2%
State appropriation - Federal ARRA	-	2,338	(2,338)	-100%
Payments made on behalf of the University	18,832	17,363	1,469	8%
Federal Pell grant	6,519	5,593	926	17%
Investment income	38	55	(17)	-31%
Interest expense	(296)	(300)	4	-1%
Capital additions provided by the State of Illinois	283	-	283	100%
Other nonoperating expense	(11)	(33)	22	-67%
Net nonoperating revenues	51,923	51,002	921	2%
Increase in net assets	9,678	10,191	(513)	-5%
Net assets - beginning of year	78,189	67,998	10,191	15%
Net assets - end of year	$ 87,867	$ 78,189	$ 9,678	12%

Increase in Net Assets

This year, the increase in net assets was 5% or $0.5 million lower than fiscal year 2010 due to the following:

Operating Revenues

Operating revenues increased mostly due to the increase in net student tuition and fees, and grants and contracts. The increase in net student tuition and fees was primarily due to the 9% average increase in tuition and fee rates for resident students. The increase in grants and contracts revenues was primarily due to the increased Recovery Act funding received by the University from the Federal government.

Operating Expenses (by functional classification)

	(in thousands)			
	2011	2010	Increase (Decrease)	Percent Change
Instruction	$ 41,840	$ 39,975	$ 1,865	5%
Research	1,092	1,344	(252)	-19%
Public service	13,868	11,656	2,212	19%
Academic support	2,231	2,175	56	3%
Student services	6,225	6,412	(187)	-3%
Institutional support	14,979	14,137	842	6%
Operation and maintenance of plant	6,992	6,969	23	0%
Auxiliary enterprises	1,519	1,589	(70)	-4%
Depreciation	3,165	2,921	244	8%
	$ 91,911	$ 87,178	$ 4,733	5%

In most categories of endeavor, University expenditures stayed fairly consistent between fiscal year 2011 and fiscal year 2010. Overall operating expenses increased by 5%; funding to support these increases primarily came from student tuition and fees, and grants and contracts revenues.

Operating Expenses (by natural classification)

	(in thousands)			
	2011	2010	Increase (Decrease)	Percent Change
Salaries and benefits	$ 69,410	$ 66,641	$ 2,769	4%
Scholarships and awards	2,108	1,922	186	10%
Capital expenditures	1,122	1,160	(38)	-3%
Services, supplies and others	16,106	14,534	1,572	11%
Depreciation	3,165	2,921	244	8%
	$ 91,911	$ 87,178	$ 4,733	5%

The 4% increase in salary and benefits expense, representing the University's largest operating expense, was mostly due to the 8% increase in on behalf payments made by the State.

Nonoperating Revenues (Expenses)

Payments made by the State on behalf of the University to fund retirement, health, life, and dental insurance benefits for University employees and retirees are paid directly by other State agencies on behalf of the University. In fiscal year 2011, the State's funding of retirement benefits increased by $0.9 million and its funding of health care increased by $0.6 million. Federal Pell grant revenue increased due to increased funding received from the Federal government. In addition, capital additions representing transfers from the Capital Development Board were made during the current fiscal year. The University did not receive any State appropriation - Federal ARRA during fiscal year 2011, thus partially offsetting the increases noted above.

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)			
	2011	2010	Increase (Decrease)	Percent Change
Cash provided by (used in):				
Operating activities	$ (21,266)	$ (19,314)	$ (1,952)	10%
Noncapital financing activities	27,460	27,482	(22)	0%
Capital financing activities	(9,832)	(10,510)	678	-6%
Investing activities	38	55	(17)	-31%
Net decrease in cash and cash Equivalents	(3,600)	(2,287)	(1,313)	57%
Cash and cash equivalents - beginning of year	36,894	39,181	(2,287)	-6%
Cash and cash equivalents - end of year	$ 33,294	$ 36,894	$ (3,600)	-10%

The primary cash receipts from operating activities consist of student tuition and fees revenue. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash used in operating activities increased primarily due to the increase in overall operating expenses. Cash provided by noncapital financing activities slightly decreased mostly due to the delayed payments of appropriation from the State, which was offset by the increase in Federal Pell grant revenue. Net cash used in capital financing activities improved due to the substantial completion of deferred maintenance projects that have been underway for the past four years.

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in fiscal year 2012 and beyond will lie in:

- The University's success on creating the lower-division program and admitting lower-division students starting fall 2014. On December 6, 2011, the Illinois Board of Higher Education (IBHE) authorized the University to admit freshman and sophomore students in 2014.
- The 1% reduction in the fiscal year 2012 State appropriation from fiscal year 2011.
- The University's continuous success with the dual degree programs, which built pathways from the Illinois community colleges to Governors State University.
- The University's ability to continue to innovate with new quality program offerings to the community.
- The University's ability to market itself to new and continuing students to continue to increase registered student credit hours.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET ASSETS

	JUNE 30,			
	2011		(Comparative totals only) 2010	
	University	Component Unit	University	Component Units
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2 and 3)	$ 28,587,392	$ 716,116	$ 27,675,080	$ 1,161,677
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	4,706,536	-	9,218,496	-
Accounts receivable, net of allowance for uncollectible accounts of $3,594,700 (Note 2)	2,998,668	67,796	3,114,174	63,596
Grants receivable (Note 2)	2,152,285	-	1,444,466	-
State appropriation receivable	11,534,898	-	6,440,425	-
Unamortized debt issuance costs - current (Note 2)	50,095	-	50,095	-
Inventories (Note 2)	65,883	-	33,601	-
Student loans - current (Note 2)	397,000	-	530,000	-
Other assets	50,905	-	476,110	-
Total current assets	50,543,662	783,912	48,982,447	1,225,273
Noncurrent assets				
Investments (Notes 2 and 3)	-	1,202,868	-	427,140
Student loans, net of allowance for uncollectible loans of $718,000 (Note 2)	2,386,027	-	2,506,450	-
Unamortized debt issuance costs (Note 2)	533,293	-	583,388	-
Other noncurrent assets (Note 2)	149,497	-	-	-
Capital assets (Note 7)	131,347,826	1,614,351	124,474,118	1,538,351
Accumulated depreciation (Note 7)	(52,363,347)	-	(49,479,437)	-
Total noncurrent assets	82,053,296	2,817,219	78,084,519	1,965,491
Total assets	132,596,958	3,601,131	127,066,966	3,190,764
LIABILITIES				
Current liabilities				
Accounts payable	3,224,012	11,348	4,462,786	9,713
Agency funds payable	149,101	-	373,379	-
Accrued compensated absences (Notes 2 and 9)	500,000	-	500,000	-
Deferred revenue (Note 2)	3,806,802	-	4,611,732	-
Revenue bonds payable (Note 8)	336,738	-	321,738	-
Notes payable and capital leases (Note 8)	410,958	-	396,861	-
Certificates of participation (Note 8)	987,672	-	962,672	-
Total current liabilities	9,415,283	11,348	11,629,168	9,713
Noncurrent liabilities				
Accrued compensated absences (Notes 2 and 9)	4,355,661	-	4,547,765	-
Refundable grants	3,067,701	-	3,074,355	-
Revenue bonds payable (Note 8)	7,691,945	-	8,028,683	-
Notes payable and capital leases (Note 8)	3,608,452	-	4,019,410	-
Certificates of participation (Note 8)	16,590,915	-	17,578,587	-
Total noncurrent liabilities	35,314,674	-	37,248,800	-
Total liabilities	44,729,957	11,348	48,877,968	9,713
NET ASSETS (Note 2)				
Invested in capital assets, net of related debt	52,287,488	1,614,351	50,094,043	1,538,351
Restricted				
Nonexpendable	-	1,236,831	-	1,133,562
Expendable				
Loans	607,744	-	609,963	-
Debt Service	649,856	-	647,956	-
Other	-	712,140	-	500,105
Unrestricted	34,321,913	26,461	26,837,036	9,033
Total net assets	$ 87,867,001	$ 3,589,783	$ 78,188,998	$ 3,181,051

See accompanying notes to basic financial statements

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

	FOR THE YEAR ENDED JUNE 30,			
			(Comparative totals only)	
	2011		2010	
	University	Component Unit	University	Component Units
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowances of $6,966,200 (Note 2)	$ 30,499,092	$ -	$ 29,882,217	$ -
Federal grants and contracts	7,687,585	-	5,483,935	-
State grants and contracts	982,355	-	492,229	-
Other grants and contracts	876,290	-	999,798	-
Sales and services of educational departments	6,263,669	-	6,278,087	-
Auxiliary enterprises	1,671,660	-	2,080,224	-
Other operating revenues	1,685,746	192,706	1,150,338	171,351
Total operating revenues	49,666,397	192,706	46,366,828	171,351
OPERATING EXPENSES				
Instruction	41,840,108	-	39,975,168	-
Research	1,092,589	-	1,344,335	-
Public service	13,867,709	-	11,656,065	-
Academic support	2,230,926	-	2,175,037	-
Student services	6,224,729	-	6,411,820	-
Institutional support	14,978,608	-	14,136,343	-
Operation and maintenance of plant	6,991,748	-	6,969,225	-
Auxiliary enterprises	1,519,539	-	1,589,064	-
Depreciation	3,165,298	-	2,921,072	-
University support	-	242,521	-	188,124
Other expense	-	216,809	-	199,755
Total operating expenses	91,911,254	459,330	87,178,129	387,879
Net operating loss	(42,244,857)	(266,624)	(40,811,301)	(216,528)
NONOPERATING REVENUES (EXPENSES)				
State appropriation	26,558,000	-	25,986,000	-
State appropriation - Federal ARRA	-	-	2,338,400	-
Payments made on behalf of the University	18,832,000	-	17,363,000	-
Federal Pell grant	6,519,196	-	5,593,162	-
Gifts	-	396,818	-	245,597
Investment income	30,660	99,269	42,099	133,571
Investment income on debt proceeds	7,005	-	12,565	-
Interest expense	(295,619)	-	(299,857)	-
Other nonoperating expense	(10,982)	-	(33,246)	-
Net nonoperating revenues	51,640,260	496,087	51,002,123	379,168
Income before other revenues, expenses, gains and losses	9,395,403	229,463	10,190,822	162,640
Capital additions provided by State of Illinois	282,600	-	-	-
Additions to permanent endowments	-	103,269	-	81,302
Capital asset contributions	-	76,000	-	370,500
Increase in net assets	9,678,003	408,732	10,190,822	614,442
NET ASSETS				
Net assets - beginning of year	78,188,998	3,181,051	67,998,176	2,566,609
Net assets - end of year	$ 87,867,001	$ 3,589,783	$ 78,188,998	$ 3,181,051

See accompanying notes to basic financial statements

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED JUNE 30, 2011 University	2011 Component Unit	2010 (Comparative totals only) University	2010 (Comparative totals only) Component Units
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 29,512,767	$ -	$ 29,490,210	$ -
Grants and contracts	9,361,034	-	7,398,407	-
Payments to suppliers	(16,837,915)	(185,236)	(14,275,569)	(187,938)
Payments for scholarships	(2,108,074)	(92,773)	(1,921,637)	(50,669)
Payments to employees and fringe benefits	(50,963,705)	-	(49,790,469)	-
Auxiliary enterprises	1,671,660	-	2,080,224	-
Sales and services of educational departments	6,263,669	-	6,278,087	-
Student loans issued	(167,600)	-	(181,705)	-
Student loans collected	316,559	-	457,729	-
Other operating revenues	1,685,746	13,020	1,150,338	26,839
Net cash used in operating activities	(21,265,859)	(264,989)	(19,314,385)	(211,768)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	21,463,527	-	19,556,426	-
State appropriations - Federal ARRA	-	-	2,338,400	-
Federal Pell grant	5,996,573	-	5,587,769	-
Contributions	-	392,618	-	199,617
Contributions for permanent endowments	-	103,269	-	81,302
Cash provided by noncapital financing activities	27,460,100	495,887	27,482,595	280,919
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(6,847,097)	-	(12,049,417)	-
Proceeds from issuance of debt	-	-	4,750,000	-
Principal payments on capital debt	(1,686,861)	-	(1,975,410)	-
Interest payments on capital debt	(1,297,596)	-	(1,235,658)	-
Net cash used in capital financing activities	(9,831,554)	-	(10,510,485)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	652,190	-	1,134,218
Investment income	37,665	15,986	54,664	27,647
Investment management fees	-	(11,068)	-	(10,086)
Purchase of investment securities	-	(1,333,567)	-	(614,336)
Net cash provided by (used in) investing activities	37,665	(676,459)	54,664	537,443
Net increase (decrease) in cash and cash equivalents	(3,599,648)	(445,561)	(2,287,611)	606,594
Cash and cash equivalents - beginning of year	36,893,576	1,161,677	39,181,187	555,083
Cash and cash equivalents - end of year	$ 33,293,928	$ 716,116	$ 36,893,576	$ 1,161,677
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Net operating loss	$ (42,244,857)	$ (266,624)	$ (40,811,301)	$ (216,528)
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Noncash expenses included in net operating loss:				
Depreciation expense	3,165,298	-	2,921,072	-
Payments made on behalf of the University	18,832,000	-	17,363,000	-
Changes in assets and liabilities:				
Accounts and grants receivable	(69,690)	-	(244,297)	-
Inventories	(32,282)	-	(10,574)	-
Other assets	425,205	-	(476,110)	-
Other noncurrent assets	(149,497)	-	-	-
Student loans	253,423	-	406,412	-
Accounts payable	(217,493)	1,635	1,378,256	4,760
Agency funds payable	(224,278)	-	203,305	-
Deferred revenue	(804,930)	-	465,134	-
Accrued compensated absences	(192,104)	-	(522,522)	-
Refundable grants	(6,654)	-	13,240	-
Net cash used in operating activities	$ (21,265,859)	$ (264,989)	$ (19,314,385)	$ (211,768)

NONCASH CAPITAL FINANCING ACTIVITIES

Interest payments of $1,039,637 during fiscal year 2011 were reclassified to capital assets as interest incurred during the period of construction.

See accompanying notes to basic financial statements

1. Financial Reporting Entity and Component Unit Disclosure

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

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

Audit of the Foundation's financial statements for the fiscal year ended June 30, 2011 was conducted by an independent certified public accountant. Complete financial statements for this component unit may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

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

2. Summary of Significant Accounting Policies

<u>Basis of Accounting</u>

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

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

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

Management's Discussion and Analysis

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

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

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

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

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

Notes to Basic Financial Statements

This provides additional analysis of the University's Basic Financial Statements.

Cash and Cash Equivalents

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

Accounts and Grants Receivable

An aging of accounts and grants receivable as of June 30, 2011 is as follows:

Current	$ 4,551,955
Up to 120 days past due	388,181
From 121 to 240 days past due	237,280
From 241 to 365 days past due	140,517
More than 365 days past due	3,427,720
Allowance for doubtful accounts	(3,594,700)
Net accounts and grants receivable	$ 5,150,953

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

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.

Unamortized Debt Issuance Costs

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

Inventories

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

Investments

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

Student Loans

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

Accrued Compensated Absences

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

Deferred Revenue

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

Classification of Revenues

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

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

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

Scholarship Discounts and Allowances

Student tuition and fees are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charges and the amounts paid directly by students and/or third parties. Certain governmental grants, such as Federal Pell grant, and other Federal, State or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that 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 Assets

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

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

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

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

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

Risk Management

The University participates in the Illinois Public Higher Education Cooperative (IPHEC) and Midwestern Higher Education Compact (MHEC), which leverages all Illinois public universities' assets to reduce the total and individual cost of property and liability insurances to Illinois public universities. Additionally, the University is a member of the State University Risk Management Association (SURMA), which is an inter-governmental risk sharing pool. The University's general liability coverage has a $350,000 self insured retention level per occurrence, which is covered by SURMA. Participant contributions to SURMA are based upon actuarial valuations.

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

Estimates

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

3. Deposits and Investments

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

Deposits

Deposits consist of the following at June 30, 2011:

	Carrying Amount	Bank Balance
University:		
Cash in bank	$ 4,846,066	$ 7,214,263
Cash on hand	19,813	-
Illinois Funds (Standard & Poor's AAAm)	27,805,521	27,805,521
Total	$ 32,671,400	$ 35,019,784
Foundation:		
Cash in bank	$ 358,394	$ 358,394
Illinois Funds (Standard & Poor's AAAm)	73,948	73,948
Total	$ 432,342	$ 432,342

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation insured bank balances totaling $500,000 (University and Foundation) at June 30, 2011. The remaining bank balances as of June 30, 2011 were fully collateralized. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract. Depositories and brokers are chosen based on stability and longevity, and due to insurance and collateralization, bank balances were not subject to custodial credit risk.

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

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

University Investments

The carrying value of the investment portfolio of the University at June 30, 2011 is as follows:

	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	Not rated	< 1 year	$ 622,528	$ 622,528

Custodial Credit Risk: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2011, investments consisted solely of money market funds held in corporate trust accounts at Amalgamated Bank of Chicago.

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

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

Foundation Investments

The fair value of the investment portfolio of the Foundation at June 30, 2011 is as follows:

	Fair Value
Money Market Funds	$ 283,774
Mutual Funds investing in stocks	612,287
Mutual Funds investing in bonds	137,268
Corporate Bonds	227,140
U.S. Treasury Obligations	200,959
U.S. Agency Obligations	25,214
	$ 1,486,642

Custodial Credit Risk: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2011, investments consisted of money market funds, mutual funds, corporate bonds, U.S. Treasury Obligations and U.S. Agency Obligations. All investments are being held by the First Midwest Bank Trust Division.

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

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

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2011 are as follows:

		Investment Maturity (in Years)	
Investment Type	Fair Value	Less Than 1	1-5
Corporate Bonds	$ 227,140	$ -	$ 227,140
U.S. Treasury Obligations	200,959	25,157	175,802
U.S. Agency Obligations	25,214	-	25,214
Mutual Funds investing in Bonds	137,268	137,268	-
Total	$ 590,581	$ 162,425	$ 428,156

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2011 are as follows:

Credit Rating	Total Debt Securities
U.S. Treasury Obligations	$ 200,959
No rating	137,268
AA+	50,848
A+	76,177
A	100,343
A-	24,986
Total	$ 590,581

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

4. Cash and Cash Equivalents, Restricted

The net proceeds from issuing the University Revenue Bonds and Certificates of Participation were separately deposited in Trust Escrow accounts with Amalgamated Bank of Chicago (Bank). As trustee, the Bank has invested the funds in Illinois Funds and Goldman Sachs "Financial Square Money Market" funds pending expenditure for the University's deferred maintenance projects. In addition, certain accounts created by the University Revenue Bonds and for debt servicing the Certificates of Participation are held by the Bank pending expenditure for debt service. Balance of these accounts as of June 30, 2011 amounted to $4,701,843.

The net proceeds from issuing the promissory note in relation to the University's guaranteed energy savings contract was separately deposited in the Escrow account with Old National Leasing Bank pending expenditure for the University's energy savings projects. Balance of this account as of June 30, 2011 amounted to $4,693.

5. State Universities Retirement System

Plan Description

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

Funding Policy

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate (for fiscal year 2012) is 24.21% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The University's contributions to SURS for the years ended June 30, 2011, 2010, and 2009 were $8,713,583, $7,761,750, and $5,099,408, respectively, equal to the required contributions for each year.

6. Postemployment Benefits

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

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

7. Capital Assets

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

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest of $1,039,637 was capitalized during the year ended June 30, 2011.

Capital assets activities for the University and Foundation for the year ended June 30, 2011 are summarized as follows:

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets not being depreciated				
Land	$ 1,389,086	$ -	$ -	$ 1,389,086
Artwork/Sculptures-University	268,323	-	-	268,323
Artwork/Sculptures-Foundation	1,538,351	76,000	-	1,614,351
Total capital assets not being depreciated	$ 3,195,760	$ 76,000	$ -	$ 3,271,760
Other capital assets				
Site improvements	$ 5,650,832	$ 335,894	$ -	$ 5,986,726
Buildings	95,757,408	4,705,920	-	100,463,328
Intangible assets	-	1,077,097	-	1,077,097
Equipment	8,283,931	513,643	(35,841)	8,761,733
Equipment under capital leases	169,545	-	-	169,545
Library collection	12,954,993	533,524	(256,529)	13,231,988
Total other capital assets	122,816,709	7,166,078	(292,370)	129,690,417
Accumulated depreciation				
Site improvements	(1,080,593)	(252,348)	-	(1,332,941)
Buildings	(31,143,484)	(1,587,311)	-	(32,730,795)
Intangible assets	-	(153,871)	-	(153,871)
Equipment	(6,036,984)	(654,326)	24,859	(6,666,451)
Equipment under capital leases	(161,755)	(6,290)	-	(168,045)
Library collection	(11,056,621)	(511,152)	256,529	(11,311,244)
Total accumulated depreciation	(49,479,437)	(3,165,298)	281,388	(52,363,347)
Other capital assets, net	$ 73,337,272	$ 4,000,780	$ (10,982)	$ 77,327,070
Capital assets summary:				
Capital assets not being depreciated	$ 3,195,760	$ 76,000	$ -	$ 3,271,760
Other capital assets	122,816,709	7,166,078	(292,370)	129,690,417
Accumulated depreciation	(49,479,437)	(3,165,298)	281,388	(52,363,347)
Total capital assets, net	$ 76,533,032	$ 4,076,780	$ (10,982)	$ 80,598,830

8. Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2011 were as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Amounts Due Within One Year
Notes payable	$ 4,409,627	$ -	$ 390,217	$ 4,019,410	$ 410,958
Capital leases	6,644	-	6,644	-	-
Revenue bonds	8,320,000	-	320,000	8,000,000	335,000
Certificates of participation 2008	9,755,000	-	110,000	9,645,000	110,000
Certificates of participation 2009	8,930,000	-	860,000	8,070,000	885,000
	31,421,271	-	1,686,861	29,734,410	1,740,958
Unamortized discounts	(155,853)	-	(8,699)	(147,154)	(8,699)
Unamortized premiums	42,533	-	3,109	39,424	3,109
	$ 31,307,951	$ -	$ 1,681,271	$ 29,626,680	$ 1,735,368

Notes Payable

The interest rate for the notes payable related to the energy savings system is 5.19%. Future maturities at June 30, 2011 are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 410,958	$ 198,923	$ 609,881
2013	432,801	177,080	609,881
2014	455,806	154,075	609,881
2015	480,033	129,848	609,881
2016	505,548	104,333	609,881
2017 - 2020	1,734,264	146,202	1,880,466
	$ 4,019,410	$ 910,461	$ 4,929,871

Revenue Bonds, Series 2007

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

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

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

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

Future debt service requirements at June 30, 2011 are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 335,000	$ 314,856	$ 649,856
2013	350,000	301,156	651,156
2014	365,000	286,856	651,856
2015	380,000	271,956	651,956
2016	395,000	256,456	651,456
2017 - 2021	2,220,000	1,027,782	3,247,782
2022 - 2026	2,710,000	536,382	3,246,382
2027 - 2028	1,245,000	51,872	1,296,872
	$ 8,000,000	$ 3,047,316	$ 11,047,316

Certificates of Participation, Series 2008

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

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

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

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

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

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

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

Future debt service requirements at June 30, 2011 are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 110,000	$ 397,000	$ 507,000
2013	115,000	393,150	508,150
2014	125,000	389,125	514,125
2015	125,000	384,750	509,750
2016	130,000	380,375	510,375
2017 - 2021	2,300,000	1,789,500	4,089,500
2022 - 2026	4,670,000	1,032,194	5,702,194
2027 - 2028	2,070,000	139,356	2,209,356
	$ 9,645,000	$ 4,905,450	$ 14,550,450

Certificates of Participation, Series 2009

On March 31, 2009, the University issued $9,870,000 of University Capital Improvement Project Certificates of Participation, Series 2010, with interest rates ranging from 3.00% to 4.50% to pay a portion of the costs of the improvements and to pay the costs ($284,914) of issuing the Series 2009 Certificates. The original issue premium is being accreted to interest expense over the term of the Certificates.

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

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

Future debt service requirements at June 30, 2011 are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 885,000	$ 323,050	$ 1,208,050
2013	910,000	296,500	1,206,500
2014	940,000	269,200	1,209,200
2015	980,000	226,900	1,206,900
2016	1,025,000	182,800	1,207,800
2017 - 2019	3,330,000	294,206	3,624,206
	$ 8,070,000	$ 1,592,656	$ 9,662,656

9. Accrued Compensated Absences

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

Change in
Accrued Compensated Absences
Year Ended June 30, 2011
(in thousands)

Balance, beginning of year	$ 5,048
Movement	(192)
Balance, end of year	4,856
Less: current portion	500
Balance, noncurrent portion	$ 4,356

10. Component Units

The University's financial statements include the activities of the University's component units, which represent discretely presented University related organization. In fiscal year 2011, the University's component unit includes the Foundation. In fiscal year 2010, the University component units include the Foundation and Governors State University Alumni Association (Alumni Association). The Alumni Association was dissolved during fiscal year 2010.

The Foundation has an ongoing contract with the University which includes provisions requiring the Foundation to comply with Section VI of the "University Guidelines 1982 (as amended 1997)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires that the University provide the Foundation with accounting and other clerical services at no cost. University officials estimate the value of these services for the year ended June 30, 2011 at $179,686, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of $242,521 for the year ended June 30, 2011. As of June 30, 2011, $9,952 is due to the University from the Foundation.

Below are the condensed financial statements of the Foundation.

Condensed Statement of Net Assets

ASSETS	
Current assets	$ 783,912
Noncurrent assets	2,817,219
Total assets	3,601,131
LIABILITIES	
Current liabilities	11,348
Total liabilities	11,348
NET ASSETS	
Invested in capital assets	1,614,351
Restricted	
Nonexpendable	1,236,831
Expendable	712,140
Unrestricted	26,461
Total net assets	$ 3,589,783

Condensed Statement of Revenues, Expenditures and Changes in Net Assets

Operating revenues	$ 192,706
Operating expenses	459,330
Net operating loss	(266,624)
Nonoperating revenues	496,087
Net change to endowments	103,269
Capital asset contributions	76,000
Increase in net assets	408,732
Net assets - beginning of year	3,181,051
Net assets - end of year	$ 3,589,783

Condensed Statement of Cash Flows

Net cash used in operating activities	$ (264,989)
Net cash provided by noncapital financing activities	495,887
Net cash used in investing activities	(676,459)
Net decrease in cash and cash equivalents	(445,561)
Cash and cash equivalents - beginning of year	1,161,677
Cash and cash equivalents - end of year	$ 716,116

Reconciliation of net operating loss to net cash used in operating activities:

Net operating loss	$ (266,624)
Adjustment to reconcile net operating loss to net cash used in operating activities:	
Accounts payable	1,635
Net cash used in operating activities	$ (264,989)

11. Commitments and Contingencies

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

The University has outstanding commitments totaling approximately $1.4 million related to its deferred maintenance initiative projects.

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 assets date. Investment income is initially assigned to the unallocated reserve in the restricted fund. Income is then allocated to various accounts based on the endowment agreements and the approved spending plans.

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

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

13. Operating Leases

The University leases space in various buildings for off-campus classroom use. The rental expense for these lease agreements was $113,609 for the year ended June 30, 2011.

Future minimum lease payment is $31,315 for fiscal year 2012.

14. Pledged Revenues and Debt Service Requirements

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

PLEDGED REVENUES

BOND ISSUE	PURPOSE	SOURCE OF REVENUES PLEDGED	FUTURE REVENUES PLEDGED[1]	TERM OF COMMITMENT	(CURRENT YEAR) PLEDGED REVENUES TO DEBT SERVICE[2]
University Facilities System Revenue Bonds, Series 2007	Various improvements and additions to the University included in its deferred maintenance initiative	Net revenues of the Student Center, University Bookstore, University Parking Facilities, and University Food Service and Vending Facilities	$ 11,047,316	2028	5.43%

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

SUPPLEMENTARY INFORMATION

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

	JUNE 30, 2011	JUNE 30, (Comparative totals only) 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 727,218	$ 777,460
Cash and cash equivalents, restricted	1,032,704	1,248,343
Unamortized debt issuance costs - current	8,787	8,787
Total current assets	1,768,709	2,034,590
Noncurrent assets		
Unamortized debt issuance costs	136,194	144,981
Capital assets	10,587,910	10,181,596
Accumulated depreciation	(1,456,260)	(1,190,622)
Total noncurrent assets	9,267,844	9,135,955
Total assets	11,036,553	11,170,545
LIABILITIES		
Current liabilities		
Accounts payable	80,389	227,621
Revenue bonds payable	336,738	321,738
Total current liabilities	417,127	549,359
Noncurrent Liabilities		
Revenue bonds payable	7,691,945	8,028,683
Total noncurrent liabilities	7,691,945	8,028,683
Total liabilities	8,109,072	8,578,042
NET ASSETS		
Invested in capital assets, net of related debt	1,405,389	1,012,827
Restricted: expendable - debt service	649,856	647,956
Unrestricted	872,236	931,720
Total net assets	$ 2,927,481	$ 2,592,503

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

	FOR THE YEAR ENDED JUNE 30,	
	2011	(Comparative totals only) 2010
OPERATING REVENUES		
Bookstore commissions	$ 144,501	$ 173,623
Food and vending commissions	31,394	23,370
Parking fees	447,250	472,401
Student center fees	1,374,949	1,412,811
Total operating revenues	1,998,094	2,082,205
OPERATING EXPENSES		
Salaries and benefits	718,986	712,574
Scholarships and awards	450	8,278
Capital expenditures	31,769	88,461
Services, supplies and other	646,718	766,200
Depreciation	265,638	239,936
Total operating expenses	1,663,561	1,815,449
Net operating income	334,533	266,756
NONOPERATING REVENUES (EXPENSES)		
Investment income	445	1,271
Other nonoperating expense	-	(974)
Net nonoperating revenues	445	297
Increase in net assets	334,978	267,053
NET ASSETS		
Net assets - beginning of year	2,592,503	2,325,450
Net assets - end of year	$ 2,927,481	$ 2,592,503

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

	FOR THE YEAR ENDED JUNE 30, 2011	(Comparative totals only) 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	$ 144,501	$ 173,623
Food and vending commissions	31,394	23,370
Parking fees	447,250	472,401
Student center fees	1,374,949	1,412,811
Payments to suppliers for goods and services	(678,937)	(862,939)
Payments to employees for services	(718,986)	(712,574)
Net cash provided by operating activities	600,171	506,692
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(218,541)	(1,382,232)
Principal payments	(320,000)	(310,000)
Interest payments	(327,956)	(340,556)
Cash used in capital financing activities	(866,497)	(2,032,788)
CASH FLOWS FROM INVESTING ACTIVITY		
Interest and dividend income	445	1,271
Cash provided by investing activity	445	1,271
Net decrease in cash and cash equivalents	(265,881)	(1,524,825)
Cash and cash equivalents - beginning of year	2,025,803	3,550,628
Cash and cash equivalents - end of year	$ 1,759,922	$ 2,025,803
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 334,533	$ 266,756
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	265,638	239,936
Net cash provided by operating activities	$ 600,171	$ 506,692

Noncash Capital Financing Activities

During fiscal year 2011, the University made interest payments of $327,956 to the bondholders. These payments were reclassified to capital assets as interest incurred during the period of construction.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS, SERIES 2007
YEAR ENDED JUNE 30, 2011

Student Enrollment by Term (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2010	5,660	3,351
Spring Term, 2011	5,529	3,261
Summer Term, 2011	3,807	1,820

University Fees (Unaudited)

The following fees were in effect during the 2010-2011 academic year:

	Amount
Student Center Fee	$ 30
Student Activity Fee	36
Counseling and Career Services Fee	32
Parking Fee	30

Schedule of Insurance In Force (Unaudited)

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

Fire and extended coverage ($25,000 deductible) of:	
Buildings	$ 180,270,343
EDP and contents	32,617,873
Business interruption	16,525,694
Boiler and Machinery (included in blanket coverage limit)	100,000,000
Earthquake	100,000,000
Flood	100,000,000
General Liability	19,650,000

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

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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the business-type activities of the Governors State University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated February 8, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in findings 11-1 and 11-2 in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

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

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the University's responses and, accordingly, we express no opinion on them.

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

E.C. Ortiz & Co., LLP

February 8, 2012

CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*

11-1 *Inaccurate Accounting for Intangible Assets*

Governors State University (University) did not properly account for the costs capitalized to intangible assets in accordance with accounting principles generally accepted in the United States of America (GAAP).

On June 11, 2010, the University executed a contract with a vendor for the implementation of its new Enterprise Resource Planning (ERP) system. In accordance with the contract, the vendor provided the University with the ERP software and hardware, and will provide services for implementation, training, consulting, and software maintenance.

During our detailed testing of the related costs capitalized to intangible assets for the fiscal year 2011, we noted that training and other post-implementation costs totaling $369,825 were capitalized instead of being recorded as an expense resulting in an overstatement of assets. This also resulted in an overstatement of $52,832 in the related depreciation expense. The University subsequently made the necessary adjustments in the financial statements.

Paragraph 13 of the Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, states that outlays associated with activities in the post-implementation/operation stage should be expensed as incurred. In addition, paragraph 10(c) states that activities in the post-implementation/operation stage include application training and software maintenance.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system of fiscal and administrative controls to ensure resources are properly recorded and accounted for to permit the preparation of accounts, reliable financial and statistical reports, and to maintain accountability over the State's resources.

University officials stated that the condition noted above was due to oversight.

Failure to properly account for intangible assets resulted in an overstatement of assets and related depreciation expense on the University's financial statements. (Finding Code No. 11-1)

CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*, Continued

Recommendation

We recommend the University review its current process for the preparation and review of the annual financial statements to ensure that financial information is accurate and in accordance with GAAP.

University Response

The University agrees and accepts this finding.

CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*, Continued

11-2 *Inaccurate Accounting for Participation in Public Entity Risk Pool*

Governors State University (University) did not properly account for its participation in the State Universities Risk Management Association (SURMA) in accordance with accounting principles generally accepted in the United States of America (GAAP).

The University has been a member of SURMA since its inception on February 1, 1996. SURMA was created as a successor to the Board of Governors' Self-Insurance Liability Program. SURMA was initially funded by the surplus of the Board of Governors' Self-Insurance Liability Program upon its termination (treated as capital contributions of the original participants), as well as additional contributions which were assessed to the members. The SURMA members are Chicago State University, Eastern Illinois University, Governors State University, Northeastern Illinois University, and Western Illinois University. Each university has an employee appointed as a member to the SURMA Board, which meets on a quarterly basis.

While all past payments made by the University to SURMA have been recorded to prepaid insurance and amortized over the term of the current insurance policies, the capital contributions to SURMA have not been recorded as an asset on the books of the University. The University's share of the excess capital contributions to SURMA was $149,497 and $135,102 as of June 30, 2011 and June 30, 2010, respectively. SURMA's bylaws state that in the event of termination, if there are surplus funds available, such surplus shall be distributed to the then-existing members in the same proportion that each existing member's contributions over the immediately previous five years were in proportion to the contributions of all members. Similar provisions also apply to members who elect to withdraw (if approved by the remaining participants) prior to the termination of SURMA. The University subsequently made the necessary adjustment in the financial statements to correct this error. During our review of the adjustment, the University recorded the entire effect of the University's share of the excess capital contributions to SURMA in the current year. A proposed entry to correct the University's adjustment was not recorded by the University.

Further, we noted that the University did not adequately monitor SURMA to ensure SURMA underwent an annual audit to provide assurance as to the accuracy of financial information required to be reported by the University as is required by Article 8, Item J of the SURMA Contract and By-Laws. An audit for fiscal year 2010 was not performed.

CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*, Continued

Governmental Accounting Standards Board (GASB) Interpretation No. 4 - *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools* was issued in February 1996 with an effective date of periods beginning after June 15, 1996. It states, "A capitalization contribution to a public entity risk pool with transfer or pooling of risk should be reported as a deposit if it is probable that the contribution will be returned to the entity upon either the dissolution of or approved withdrawal from the pool. An entity's determination that a return of the contribution is probable should be based on the provisions of the pooling agreement and an evaluation of the pool's financial capacity to return the contribution."

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system of fiscal and administrative controls to ensure resources are properly recorded and accounted for to permit the preparation of accounts, reliable financial and statistical reports, and to maintain accountability over the State's resources.

The SURMA By-Laws were adopted cooperatively by the five universities formerly under the Board of Governors and SURMA. The member universities have been operating under those By-Laws since 1995, prior to the issuance of GASB Interpretation No. 4. The condition found is the result of SURMA's failure to review and revise the By-Laws and the member institutions' interpretation that the return of the funds is not probable and hence the failure to record the related accounting entries, as pointed out in the new audit finding this year.

Failure to adequately monitor SURMA's activities and properly account for the University's participation in SURMA may result in a material misstatement on the University's financial statements. (Finding Code No. 11-2)

Recommendation

We recommend the University implement controls to monitor the activities of SURMA and properly account for its participation in SURMA in accordance with GAAP.

University Response

The University accepts this finding and concurs with the recommendation.