STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT
For the Year Ended June 30, 2015

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, 2015

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STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2015

University Officials

President	Dr. Elaine Maimon
Interim Executive Vice President October 28, 2015 to present	Dr. Gebeyehu Ejigu
Executive Vice President, Treasurer April 1, 2015 to October 28, 2015	Mr. David Meadows
Executive Vice President, Chief of Staff, Treasurer Through June 30, 2015	Dr. Gebeyehu Ejigu
Interim Vice President, Administration and Finance November 1, 2015 to present	Dr. Jeffrey Slovak
Vice President, Administration and Finance Through August 15, 2015	Ms. Karen Kissel
General Counsel and Vice President	Ms. Alexis Kennedy
Internal Auditor November 1, 2015 to present Through October 31, 2015	 Vacant Mr. David Dixon
Associate Vice President for Finance September 1, 2015 to present	Ms. Melinda Gieseke, CPA
Controller Through August 31, 2015	Ms. Melinda Gieseke, CPA

University offices are located at:

1 University Parkway
University Park, Illinois 60484

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2015

Financial Statement Report

Summary

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

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

Exit Conference

The University waived having an exit conference in a letter dated December 16, 2015 from the University's Associate Vice President for Finance, Ms. Melinda Gieseke.

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

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of the Governors State University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University and its aggregate discretely presented component unit, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective for the year ended June 30, 2015, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions are also addressed. Implementation of this Statement required a change in the notes to the University's basic financial statements and an addition of required supplementary information. Information regarding the University's participation in the State Universities Retirement System of Illinois is disclosed in Note 5 to the financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, effective for the year ended June 30, 2015, the University adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflows of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68, which required a change in the notes to the University's basic financial statements as disclosed in Note 5, and a restatement of beginning net position as disclosed in Note 15. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2014 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and aggregate discretely presented component unit of the University in our report dated December 12, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 14, the Required Supplementary Information - Pension on page 48 and the Notes to the Required Supplementary Information - Pension on page 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 University's basic financial statements. The University Facilities System Revenue Bonds Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, Student Enrollment by Term, University Fees, and Schedule of Insurance in Force, listed as supplementary information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 21, 2015

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015. The GSU Foundation is considered a component unit of the University. Separate financial statements for the Foundation may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

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

This discussion and analysis is focused on the University. A discussion and analysis of the GSU Foundation can be found in the separately issued financial statements of the GSU Foundation.

FINANCIAL AND ENROLLMENT HIGHLIGHTS

<u>Accreditations</u>
During Fiscal Year 2010, the Higher Learning Commission (HLC) completed its review and reaccredited GSU for the maximum number of ten years. In accordance with normal HLC procedures, a mid-cycle review will be conducted during the spring of 2016. A full reaffirmation visit will be conducted in Academic Year 2019-2020.

<u>Student Housing</u>
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 of 2014.

<u>Appropriations</u>
For Fiscal Year 2015, the University received State appropriations for general operations.

The original Fiscal Year 15 State appropriation for the University was $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 request which further reduced the State appropriation for the University to $23,858,200. The total reduction to State appropriation for the University in Fiscal Year 2015 amounted to $757,700, which represents 3% of the original Fiscal Year 2015 State appropriation for the University.

The Fiscal Year 2015 total appropriation (after reductions) used to fund ongoing core programs constituted a decrease of 3.3% over the Fiscal Year 2014 appropriation.

Net Revenue Available from Operational Appropriations

Fiscal Year	Appropriations (After Reductions)	Payments to Health Reserve Fund	Available Appropriations
2015	$ 23,858,200	$ (559,579)	$ 23,298,621
2014	24,675,000	(656,200)	24,018,800

<u>Enrollment</u>
Student credit hours billed during Fiscal Year 2015 increased by 8.4% from the levels of Fiscal Year 2014; from 111,142 to 120,515.

<u>Mandated Tuition Waivers</u>
Certain tuition waivers are mandated by the State and have been funded or partially funded in the past. For the Fiscal Year 2015, about $0.9 million in mandated tuition waivers were awarded by the University but not reimbursed from the State.

<u>Prior Year Information</u>
The information below includes certain prior year partial comparative information, which have been derived from the University's 2014 financial statements. This information should be read in conjunction with Notes 15 and 16 in the University's notes to the basic financial statements which further explains comparability of financial statements and certain prior period adjustments resulting from the University's adoption of new accounting pronouncements.

Statement of Net Position

The Statement of Net Position includes all assets, deferred outflows of resources 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)			
	2015	2014	Change	Percent Change
Current assets	$ 46,218	$ 58,171	$ (11,953)	-21%
Noncurrent assets	126,721	124,046	2,675	2%
Total assets	172,939	182,217	(9,278)	-5%
Deferred outflows of resources	95	-	95	100%
Current liabilities	11,125	17,353	(6,228)	-36%
Noncurrent liabilities	47,052	49,127	(2,075)	-4%
Total liabilities	58,177	66,480	(8,303)	-12%
Net position	$ 114,857	$ 115,737	$ (880)	-1%

The 1% 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 $12.0 million decrease in current assets was mostly attributable to the $6.3 million decrease in restricted cash primarily due to expending the proceeds from debt financing on the on-campus student housing construction project, the $1.7 million decrease in accounts receivable primarily due to more timely payments of reimbursements from the University's contract with the Department of Children and Family Services, the $2.3 million decrease in grants receivable primarily due to the timing of drawdowns, and the $1.7 million decrease in State appropriation receivable primarily due to decrease in total State appropriation and timely payments of State reimbursements.

Noncurrent Assets

Noncurrent assets consist primarily of long-term portion of student loans receivable, and capital assets net of accumulated depreciation. The $2.7 million increase in noncurrent assets was mostly attributable to the $2.6 million increase in net capital assets due to the costs incurred in connection with the renovation of the University's E and F buildings and roadways/sidewalks as funded by the Capital Development Board, construction of an on-campus student housing complex as funded by the University's Revenue Bonds, Series 2012, and renovation of the academic computing services laboratory and library as funded by University income fund.

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 $6.2 million decrease in current liabilities was mostly attributable to the $6.7 million decrease in accounts payable caused by the decrease in spending related to construction and renovation projects and retainage on those projects at fiscal yearend as the projects are completed. This decrease was partially offset by the $0.4 million increase in unearned revenue primarily due to higher level of collections during the fiscal year that are attributable to tuition and fees for the following fiscal year (summer and fall semesters of 2015).

Noncurrent Liabilities

Noncurrent liabilities are liabilities with due dates beyond one year, which include accrued compensated absences, refundable grants, revenue bonds payable, notes payable, capital lease payable, and certificates of participation. The $2.1 million decrease in noncurrent liabilities was mostly attributable to the $2.4 million in principal payments made on revenue bonds payable, notes payable, and certificates of participation. This decrease was partially offset by the $0.2 million liability from capital lease entered into by the University during the fiscal year.

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)			
	2015	2014	Change	Percent Change
OPERATING REVENUES				
Net student tuition and fees	$ 34,886	$ 32,013	$ 2,873	9%
Grants and contracts	6,501	5,780	721	12%
Sales and services of educational departments	5,464	5,600	(136)	-2%
Auxiliary enterprises	2,726	1,233	1,493	121%
Other operating revenues	2,587	2,240	347	15%
Total operating revenues	52,164	46,866	5,298	11%
OPERATING EXPENSES	121,254	111,786	9,468	8%
Net operating loss	(69,090)	(64,920)	(4,170)	6%
NONOPERATING REVENUES (EXPENSES)				
State appropriation	23,858	24,675	(817)	-3%
Payments made on behalf of the University	32,314	28,461	3,853	14%
Federal and State nonoperating grants	10,711	9,287	1,424	15%
Investment income	7	11	(4)	-36%
Interest expense	(1,731)	(1,053)	(678)	64%
Capital additions provided by the State of Illinois	2,969	6,860	(3,891)	-57%
Capital asset contributions	-	28	(28)	-100%
Other nonoperating expense	(5)	(6)	1	-17%
Net nonoperating revenues	68,123	68,263	(140)	0%
Increase (decrease) in net position	(967)	3,343	(4,310)	-129%
Net position - beginning of year, as restated	115,824	112,394	3,430	3%
Net position - end of year	$ 114,857	$ 115,737	$ (880)	-1%

This year, net position decreased by $1.0 million, which was 129% or $4.3 million lower than Fiscal Year 2014 due to the following:

Operating Revenues

The $5.3 million increase in operating revenues was mostly attributable to the $2.9 million increase in net student tuition and fees caused by the 1.9% increase in enrollment and 8.4% increase in credit hours, the $0.7 million increase in grants and contracts which was mostly due to the timing of revenue recognition related to the Kresge Grant and increase in the Teacher Quality Partnership Grants revenue due to additional initiatives during Fiscal Year 2015 in order to fully utilize available funding as the grant is already on its last year, the $1.5 million increase in auxiliary enterprises due to the operations of the on-campus student housing complex which began in late summer of 2014, and the $0.3 million increase in other operating revenues caused by the increase in revenue from the Family Development Center due to higher enrollment in full-time child care.

Operating Expenses (by functional classification)

	(in thousands)			
	2015	2014	Change	Percent Change
Instruction	$ 55,583	$ 53,645	$ 1,938	4%
Research	546	595	(49)	-8%
Public service	13,050	12,314	736	6%
Academic support	2,940	2,676	264	10%
Student services	11,557	9,975	1,582	16%
Institutional support	19,831	18,982	849	4%
Operation and maintenance of plant	11,132	8,254	2,878	35%
Auxiliary enterprises	1,892	1,486	406	27%
Depreciation	4,723	3,859	864	22%
	$ 121,254	$ 111,786	$ 9,468	8%

Operating Expenses (by natural classification)

	(in thousands)			
	2015	2014	Change	Percent Change
Salaries and benefits	$ 89,643	$ 82,848	$ 6,795	8%
Scholarships and awards	6,826	5,836	990	17%
Capital expenditures	3,688	2,974	714	24%
Services, supplies and others	16,374	16,269	105	1%
Depreciation	4,723	3,859	864	22%
	$ 121,254	$ 111,786	$ 9,468	8%

The overall increase of $9.5 million in operating expenses was primarily attributable to the overall increase in operations resulting from the University's transition to a four-year undergraduate institution, the operations of the on-campus student housing complex which began in late summer of 2014, the negotiated salary increase of 2.8% for most full-time employees, and the 14% increase in on behalf payments made by the State for employee retirement and health benefits. In addition, depreciation expense increased as assets under construction in the prior fiscal year are completed and depreciated during the current fiscal year.

Nonoperating Revenues (Expenses)

State appropriation revenue decreased by $0.8 million primarily due to the reduction in State funding for the University. 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 2015, the State's funding of retirement and health care benefits on behalf of the University increased by $0.7 million and $3.1 million, respectively. Federal and State nonoperating grants increased by $1.4 million primarily due to increased enrollment and need for the federal Pell and State Monetary Award Program (MAP) grants. Interest expense increased by $0.7 million due to the fact that interest capitalization in the prior fiscal year is now being expensed as the related construction projects are completed. Capital additions provided by the State of Illinois decreased by $3.9 million as Capital Development Board projects are substantially completed during the fiscal year.

Statement of Cash Flows

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

	(in thousands)			
	2015	2014	Change	Percent Change
Cash provided by (used in):				
Operating activities	$ (29,826)	$ (32,258)	$ 2,432	-8%
Noncapital financing activities	36,283	35,454	829	2%
Capital financing activities	(12,593)	(18,127)	5,534	-31%
Investing activities	7	11	(4)	-36%
Net decrease in cash and cash equivalents	(6,129)	(14,920)	8,791	-59%
Cash and cash equivalents - beginning of year	42,330	57,250	(14,920)	-26%
Cash and cash equivalents - end of year	$ 36,201	$ 42,330	$ (6,129)	-14%

The primary cash receipts from operating activities consist of student tuition and fees and grants and contracts revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash used in operating activities decreased by $2.4 million mostly due to the increases in student tuition and fees, grants and contacts, and auxiliary enterprises revenues, partially offset by the overall increase in operating expenses. Cash provided by noncapital financing activities increased by $0.8 million primarily due to the increase in Federal and State nonoperating grants. Net cash used in capital financing activities decreased by $5.5 million primarily due to decreased spending on University's renovation and construction as projects are completed.

UNIVERSITY'S DEBT RATINGS

On October 26, 2015, Moody's Investors Service downgraded the University's ratings to "Baa3" from "Baa1" on its University Facilities System Revenue Bonds, Series 2007, and Certificates of Participation, Series 2008 and 2009.

FACTORS AFFECTING FUTURE OPERATIONS

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

- The University's ability to market itself to new and continuing students to continue to increase registered student credit hours.
- The University's ability to continue to innovate with new quality program offerings to the community.
- The University's continuous success with the dual degree programs, which 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 2015 and beyond, and in retaining those classes of first-year students who began in the fall semester of 2014.
- 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 State of Illinois has not adopted a complete Fiscal Year 2016 operating budget as of the date of this report, December 21, 2015.
- After fiscal yearend, it has come to the University's attention that Congress did not take action to extend the Federal Perkins Loan Program and that loans may not be made to new borrowers after September 30, 2015. However, on December 18, 2015, Congress passed H.R. 3594, the Higher Education Extension Act of 2015, which allows current and new undergraduate borrowers to receive new Perkins Loans through September 2017 and additional disbursements of loans through the 2017-2018 school year.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET POSITION

	JUNE 30,			
	2015		(Comparative totals only) 2014	
	University	Component Unit	University	Component Unit
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2 and 3)	$ 35,799,158	$ 336,395	$ 35,586,427	$ 408,390
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	401,814	-	6,743,365	-
Accounts receivable, net of allowance for uncollectible accounts of $6,500,000 (Note 2)	4,536,489	10,315	6,236,575	39,924
Grants receivable (Note 2)	1,110,536	-	3,404,783	-
State appropriation receivable	3,680,628	-	5,355,254	-
Student loans - current (Note 2)	376,564	-	408,454	-
Due from component unit	-	-	42,396	-
Due from University (Note 10)	-	4,144	-	-
Prepaid debt service insurance - current (Notes 2 and 8)	18,941	-	18,941	-
Inventories (Note 2)	53,432	-	65,137	-
Other assets	240,404	7,489	309,917	7,032
Total current assets	46,217,966	358,343	58,171,249	455,346
Noncurrent assets				
Investments (Notes 2 and 3)	-	2,944,120	-	2,449,843
Student loans, net of allowance for uncollectible loans of $700,000 (Note 2)	3,198,361	-	3,064,646	-
Prepaid debt service insurance (Notes 2 and 8)	122,323	-	141,264	-
Other noncurrent assets (Note 2)	174,284	-	168,691	-
Capital assets (Note 7)	189,196,836	2,233,156	182,768,199	2,233,156
Accumulated depreciation (Note 7)	(65,970,804)	-	(62,096,896)	-
Total noncurrent assets	126,721,000	5,177,276	124,045,904	4,682,999
Total assets	172,938,966	5,535,619	182,217,153	5,138,345
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - SURS pension (Notes 2, 5 and 15)	95,432	-	-	-
Total deferred outflows of resources	95,432	-	-	-
LIABILITIES				
Current liabilities				
Accounts payable	3,671,890	4,834	10,405,093	10,519
Agency funds payable	190,744	-	156,216	-
Accrued compensated absences (Notes 2 and 9)	550,000	-	600,000	-
Due to component unit (Note 10)	4,144	-	-	-
Due to University	-	-	-	42,396
Unearned revenue (Note 2)	4,161,997	-	3,811,768	-
Revenue bonds payable (Note 8)	820,853	-	795,853	-
Notes payable (Note 8)	505,608	-	487,027	-
Capital lease payable (Note 8)	71,986	-	-	-
Certificates of participation (Note 8)	1,147,672	-	1,097,672	-
Total current liabilities	11,124,894	4,834	17,353,629	52,915
Noncurrent liabilities				
Accrued compensated absences (Notes 2 and 9)	3,527,424	-	3,475,194	-
Refundable grants	3,654,484	-	3,476,481	-
Revenue bonds payable (Note 8)	25,747,215	-	26,568,068	-
Notes payable (Note 8)	1,683,638	-	2,189,246	-
Capital lease payable (Note 8)	169,408	-	-	-
Certificates of participation (Note 8)	12,270,227	-	13,417,899	-
Total noncurrent liabilities	47,052,396	-	49,126,888	-
Total liabilities	58,177,290	4,834	66,480,517	52,915
NET POSITION (Notes 2 and 15)				
Net investment in capital assets	80,820,934	2,233,156	78,039,582	2,233,156
Restricted:				
Nonexpendable	-	1,874,539	-	1,683,098
Expendable				
Loans	673,777	-	617,213	-
Debt service	3	-	4	-
Other	-	1,089,675	-	1,094,849
Unrestricted	33,362,394	333,415	37,079,837	74,327
Total net position	$ 114,857,108	$ 5,530,785	$ 115,736,636	$ 5,085,430

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,			
	2015		(Comparative totals only) 2014	
	University	Component Unit	University	Component Unit
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowances of $7,146,331 (Note 2)	$ 34,886,099	$ -	$ 32,012,827	$ -
Federal grants and contracts	5,551,282	-	5,113,272	-
State grants and contracts	680,222	-	563,309	-
Other grants and contracts	269,568	65,050	103,916	90,890
Sales and services of educational departments	5,464,197	-	5,600,244	-
Auxiliary enterprises	2,725,837	-	1,233,039	-
Other operating revenues	2,586,827	406,370	2,240,079	351,520
Total operating revenues	52,164,032	471,420	46,866,686	442,410
OPERATING EXPENSES				
Instruction	55,582,788	-	53,644,834	-
Research	545,994	-	595,213	-
Public service	13,050,266	-	12,314,530	-
Academic support	2,940,413	-	2,676,252	-
Student services	11,557,096	-	9,974,678	-
Institutional support	19,830,783	-	18,982,371	-
Operation and maintenance of plant	11,131,670	-	8,253,658	-
Auxiliary enterprises	1,892,209	-	1,485,930	-
Depreciation	4,723,021	-	3,858,722	-
University support	-	305,214	-	418,688
Other expense	-	451,420	-	347,656
Total operating expenses	121,254,240	756,634	111,786,188	766,344
Net operating loss	(69,090,208)	(285,214)	(64,919,502)	(323,934)
NONOPERATING REVENUES (EXPENSES)				
State appropriation	23,858,200	-	24,675,000	-
Payments made on behalf of the University	32,313,639	-	28,461,000	-
Federal and State nonoperating grants	10,710,436	-	9,286,795	-
Gifts	-	575,053	-	342,042
Investment income	6,928	22,739	8,215	250,923
Investment income on debt proceeds	211	-	2,386	-
Interest expense	(1,730,542)	-	(1,052,668)	-
Other nonoperating expense	(4,845)	-	(5,938)	-
Net nonoperating revenues	65,154,027	597,792	61,374,790	592,965
Income (loss) before other revenues, expenses, gains and losses	(3,936,181)	312,578	(3,544,712)	269,031
Capital additions provided by State of Illinois	2,968,818	-	6,859,646	-
Additions to permanent endowments	-	132,777	-	127,368
Capital asset contributions	-	-	28,000	60,567
Increase (decrease) in net position	(967,363)	445,355	3,342,934	456,966
NET POSITION (Notes 2 and 15)				
Net position - beginning of year, as previously reported	115,736,636	5,085,430	113,148,962	4,628,464
Prior period adjustment	87,835	-	(755,260)	-
Net position - beginning of year, as restated	115,824,471	5,085,430	112,393,702	4,628,464
Net position - end of year	$ 114,857,108	$ 5,530,785	$ 115,736,636	$ 5,085,430

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,			
			(Comparative totals only)	
	2015		2014	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 36,599,111	$ -	$ 29,503,713	$ -
Grants and contracts	8,811,108	65,050	7,383,970	90,890
Payments to suppliers	(20,518,067)	(316,751)	(18,554,633)	(276,142)
Payments for scholarships	(6,825,718)	(107,695)	(5,835,827)	(104,020)
Payments to employees and fringe benefits	(58,487,295)	-	(53,101,735)	-
Auxiliary enterprises	2,725,837	-	1,233,039	-
Sales and services of educational departments	5,464,197	-	5,600,244	-
Student loans issued	(516,100)	-	(1,147,098)	-
Student loans collected	333,832	-	420,256	-
Other operating revenues	2,586,827	26,101	2,240,079	54,355
Net cash used in operating activities	(29,826,268)	(333,295)	(32,257,992)	(234,917)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	25,532,826	-	26,038,561	-
Federal and State nonoperating grants	10,750,189	-	9,415,341	-
Contributions	-	600,518	-	512,718
Contributions for permanent endowments	-	132,777	-	127,368
Cash provided by noncapital financing activities	36,283,015	733,295	35,453,902	640,086
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(8,401,764)	-	(14,340,346)	-
Principal payments on capital debt	(2,387,027)	-	(1,899,128)	-
Interest payments on capital debt	(1,803,915)	-	(1,887,538)	-
Cash used in capital financing activities	(12,592,706)	-	(18,127,012)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	524,122	-	1,122,327
Investment income	7,139	55,391	10,601	46,066
Investment management fees	-	(27,092)	-	(21,441)
Purchase of investment securities	-	(1,024,416)	-	(1,632,229)
Net cash provided by (used in) investing activities	7,139	(471,995)	10,601	(485,277)
Net decrease in cash and cash equivalents	(6,128,820)	(71,995)	(14,920,501)	(80,108)
Cash and cash equivalents - beginning of year	42,329,792	408,390	57,250,293	488,498
Cash and cash equivalents - end of year	$ 36,200,972	$ 336,395	$ 42,329,792	$ 408,390
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Net operating loss	$ (69,090,208)	$ (285,214)	$ (64,919,502)	$ (323,934)
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Noncash expenses included in net operating loss:				
Depreciation	4,723,021	-	3,858,722	-
University support	-	-	-	36,567
Payments made on behalf of the University	32,313,639	-	28,461,000	-
Changes in assets, deferred outflows of resources and liabilities:				
Accounts receivable, grants receivable and due from account	3,996,976	-	(58,428)	-
Inventories	11,705	-	6,273	-
Other assets	69,513	-	(215,704)	-
Other noncurrent assets	(5,593)	-	8,229	-
Student loans	(101,825)	-	(510,785)	-
Deferred outflows of resources	(7,597)	-	-	-
Accounts payable and due to account	(2,300,889)	(48,081)	1,310,892	52,450
Agency funds payable	34,528	-	6,402	-
Unearned revenue	350,229	-	74,356	-
Accrued compensated absences	2,230	-	(111,821)	-
Refundable grants	178,003	-	(167,626)	-
Net cash used in operating activities	$ (29,826,268)	$ (333,295)	$ (32,257,992)	$ (234,917)
NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES				
Equipment acquired under capital lease	$ 236,662	$ -	$ -	$ -
Capitalized interest payments	$ 68,676	$ -	$ 833,297	$ -
Unrealized gain (loss) on investments	$ -	$ (41,167)	$ -	$ 190,920
Donations of capital assets	$ -	$ -	$ -	$ 60,567
Other noncash contributions	$ -	$ -	$ 28,000	$ 8,485

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015 was conducted by an independent certified public accountant. Complete financial statements for this component unit may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Management's Discussion and Analysis

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

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

- The Statement of Net Position details current assets/liabilities, 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.

Notes to the Basic Financial Statements

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

Cash and Cash Equivalents

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

Accounts, Grants, and Student Loans Receivable

An aging of accounts, grants, and student loans receivable as of June 30, 2015 is as follows:

Not in repayment	$	2,488,633
Current		5,154,851
Up to 120 days past due		1,233,314
From 121 to 365 days past due		1,060,294
More than 365 days past due		6,484,858
Allowance for doubtful accounts		(7,200,000)
Net accounts, grants, and student loans receivable	$	9,221,950

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

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

Allowance for Uncollectible Accounts

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

Prepaid Debt Service Insurance

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

Inventories

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

Investments

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

Accrued Compensated Absences

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

Unearned Revenue

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

Classification of Revenues

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

> *Operating revenues* - include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of educational departments, (3) auxiliary enterprises, and (4) federal, State and local grants and contracts, excluding federal Pell and State Monetary Award Program (MAP) grants.
>
> *Nonoperating revenues* - include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statements No. 9 and No. 35, such as State appropriation, payments made on behalf of the University for healthcare and retirement costs, federal Pell and State MAP grants, and investment income.

Scholarship Discounts and Allowances

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

Net Position

The University's net position are classified as follows:

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

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

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

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

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.

Risk Management

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

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

Estimates

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

Prior Year Information

The basic financial statements include certain prior year partial comparative information. Such information does not include full comparative footnote disclosures required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2014, from which the partial information was derived. Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

Income Taxes

As a State institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue

Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

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, 2015, the University adopted the following accounting pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions are also addressed. Implementation of this Statement required a change in the notes to the University's basic financial statements and an addition of required supplementary information. Information regarding the University's participation in the SURS is disclosed in Note 5.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The implementation of this Statement had no significant impact on the University's financial statements.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflows of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68, which required a change in the notes to the University's basic financial statements as disclosed in Note 5, and a restatement of beginning net position as disclosed in Note 15.

Future Adoption of GASB Statements

Effective for the year ending June 30, 2016, the University will adopt the following GASB statements:

- 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 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. It also establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of GASB Statement No. 68. In addition, this Statement amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans,* and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

- 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.

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 Muliple-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.

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.

3. Deposits and Investments

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

Deposits

Deposits with financial institutions consist of the following at June 30, 2015:

	Carrying Amount	Bank Balance
University:		
Cash in bank	$ 7,009,298	$ 7,932,391
Illinois Funds (Standard & Poor's AAAm)	28,797,744	28,797,764
Total	$ 35,807,042	$ 36,730,155
Foundation:		
Cash in bank	$ 67,899	$ 67,899
Illinois Funds (Standard & Poor's AAAm)	74,080	74,080
Total	$ 141,979	$ 141,979

The University also had cash on hand of $20,613 as of June 30, 2015.

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, 2015. The remaining bank balances as of June 30, 2015 were fully collateralized. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract. Depositories and brokers are chosen based on stability and longevity, and due to insurance and collateralization, bank balances were not subject to custodial credit risk.

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

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

University Investments

The carrying value of the investment portfolio of the University at June 30, 2015 is as follows:

	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	Not rated	< 1 year	$ 373,317	$ 373,317

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

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2015, investments consisted solely of money market funds held in corporate trust accounts at Amalgamated Bank of Chicago.

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

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

Foundation Investments

The fair value of the investment portfolio of the Foundation at June 30, 2015 is as follows:

	Fair Value
Money Market Funds	$ 194,416
Stocks/Mutual Funds investing in stocks	2,107,473
Mutual Funds investing in bonds	584,968
Corporate Bonds	201,530
U.S. Treasury Obligations	50,149
	$ 3,138,536

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2015, investments consisted of money market funds, mutual funds, corporate bonds and U.S. Treasury Obligations. All investments are being held by the First Midwest Bank Trust Division.

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

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

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2015 are as follows:

		Investment Maturity (in Years)		
Investment Type	Fair Value	Less Than 1	1-5	5-10
Corporate Bonds	$ 201,530	$ 100,438	$ 49,827	$ 51,265
U.S. Treasury Obligations	50,149	50,149	-	-
Mutual Funds investing in Bonds	584,968	584,968	-	-
Total	$ 836,647	$ 735,555	$ 49,827	$ 51,265

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2015 are as follows:

Credit Rating	Total Debt Securities
U.S. Treasury Obligations	$ 50,150
No Rating	316,637
AA	51,937
A	49,827
A-	50,280
BBB+	49,485
AAf	132,393
BBB+f	67,118
B-f	68,820
Total	$ 836,647

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

4. Cash and Cash Equivalents, Restricted

The net proceeds from issuing the University revenue bonds and certificates of participation were separately deposited in Trust Escrow accounts with Amalgamated Bank of Chicago (Bank). As trustee, the Bank has invested the funds in Illinois Funds and Goldman Sachs "Financial Square Money Market" funds pending expenditure for the University's deferred maintenance and housing projects. As of June 30, 2015, net proceeds from these debts were already fully expended. In addition, certain accounts created by the University revenue bonds and the certificates of participation are held by the Bank pending expenditure for debt service. The balance of these accounts as of June 30, 2015 amounted to $401,814.

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 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.

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, 2014 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 2014 and 2015 respectively, was 11.91% and 11.71% 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 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, 2014, SURS reported a net pension liability (NPL) of $21,790,983,139. The net pension liability was measured as of June 30, 2013.

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 $221,808,386 or 1.0179%. This amount should not be recognized in the financial statements. The net pension liability was measured as of June 30, 2014, and the total pension used to calculate the net pension liability was determined based on the June 30, 2013 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 2014.

Pension Expense

At June 30, 2014, SURS reported a collective net pension expense of $1,650,338,263.

Employer Proportionate Share of Pension Expense

The employer proportionate share of collective pension expense should be 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 2014. As a result, the University recognized on-behalf revenue and pension expense of $16,798,639.35 for the fiscal year ended June 30, 2015.

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	$ -	$ -
Changes in assumptions	88,940,815	-
Net difference between projected and actual earnings on pension plan investments	-	1,271,105,952
Total	$ 88,940,815	$ 1,271,105,952

Employer Deferral of Fiscal Year 2015 Pension Expense

The University paid $95,432 in federal, trust or grant contributions for the fiscal year ended June 30, 2015. These contributions were made subsequent to the pension liability measurement date of June 30, 2014 and are recognized as deferred outflows of resources as of June 30, 2015.

Assumptions and Other Inputs

Actuarial assumptions

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period June 30, 2006 - 2010 and an economic study completed June 2014. The total pension liability in the June 30, 2014 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, 2014, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	31%	7.65%
Private Equity	6%	8.65%
Non-U.S. Equity	21%	7.85%
Global Equity	8%	7.90%
Fixed Income	19%	2.50%
Treasury-Inflation Protected Securities	4%	2.30%
Real Estate	6%	6.20%
REITS	4%	6.20%
Opportunity Fund	1%	2.50%
Total	100%	5.00%
Inflation		2.75%
Expected Geometrical Normal Return		7.75%

Discount Rate

A single discount rate of 7.090% 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 4.290% (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 2065. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2065, and the municipal bond rate was applied to all benefit payments after that date.

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 7.090%, 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 6.090%	Current Single Discount Rate Assumption 7.090%	1% Increase 8.090%
$ 26,583,701,134	$ 21,790,983,139	$ 17,796,570,836

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.

6. Postemployment Benefits

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

Public Act 97-0695, effective July 1, 2012, altered the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. The costs were to be assessed beginning July 1, 2013. However, four putative class actions were filed challenging the validity of this legislation under, among other things, the pension protection clause of the Illinois Constitution of 1970. The four class actions were consolidated in the circuit court of Sangamon County. The circuit court dismissed each of them for failure to state a cause of action, without certifying any classes. The

Illinois Supreme Court allowed direct appeal. On July 3, 2014, the Illinois Supreme Court issued an opinion in the retiree health insurance premium case. The Illinois Supreme Court disagreed with the circuit court and determined the circuit court should not have dismissed the case. The Supreme Court sent the case back to the circuit court for reconsideration. As a result, the Sangamon County Circuit Court has directed all retirement systems to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that have been in effect since July 2013. The refunding of these premiums was repaid from an escrow account by June 15, 2015.

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.

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 $68,676 was capitalized during the year ended June 30, 2015.

Capital assets activities for the University and Foundation for the year ended June 30, 2015 are summarized as follows:

	Balance June 30, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Capital assets not being depreciated:					
Land	$ 1,389,086	$ -	$ -	$ -	$ 1,389,086
Construction in progress	20,919,090	5,429,252	-	(26,348,342)	-
Artwork/Artifacts-University	431,323	-	-	-	431,323
Artwork/Artifacts-Foundation	2,233,156	-	-	-	2,233,156
Total capital assets not being depreciated	$ 24,972,655	$ 5,429,252	$ -	$ (26,348,342)	$ 4,053,565
Other capital assets:					
Site improvements	$ 7,576,773	$ -	$ -	$ 1,732,968	$ 9,309,741
Buildings	127,351,579	-	(20,000)	24,615,374	151,946,953
Intangible assets	1,077,097	-	-	-	1,077,097
Equipment under capital lease	-	236,662	-	-	236,662
Equipment	10,704,324	1,525,659	(273,174)	-	11,956,809
Library collection	13,318,927	91,022	(560,784)	-	12,849,165
Total other capital assets	160,028,700	1,853,343	(853,958)	26,348,342	187,376,427
Accumulated depreciation:					
Site improvements	(2,341,361)	(371,200)	-	-	(2,712,561)
Buildings	(38,607,881)	(2,865,799)	19,000	-	(41,454,680)
Intangible assets	(615,484)	(153,871)	-	-	(769,355)
Equipment under capital lease	-	(25,336)	-	-	(25,336)
Equipment	(8,485,604)	(885,123)	269,329	-	(9,101,398)
Library collection	(12,046,566)	(421,692)	560,784	-	(11,907,474)
Total accumulated depreciation	(62,096,896)	(4,723,021)	849,113	-	(65,970,804)
Other capital assets, net	$ 97,931,804	$ (2,869,678)	$ (4,845)	$ 26,348,342	$ 121,405,623
Capital assets summary:					
Capital assets not being depreciated	$ 24,972,655	$ 5,429,252	$ -	$ (26,348,342)	$ 4,053,565
Other capital assets	160,028,700	1,853,343	(853,958)	26,348,342	187,376,427
Accumulated depreciation	(62,096,896)	(4,723,021)	849,113	-	(65,970,804)
Total capital assets, net	$ 122,904,459	$ 2,559,574	$ (4,845)	$ -	$ 125,459,188

8. Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2015 were as follows:

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015	Amounts Due Within One Year
Notes payable	$ 2,676,273	$ -	$ 487,027	$ 2,189,246	$ 505,608
Capital lease payable	-	241,394	-	241,394	71,986
Revenue bonds 2007	6,950,000	-	380,000	6,570,000	395,000
Revenue bonds 2012	20,415,000	-	415,000	20,000,000	425,000
Certificates of participation 2008	9,295,000	-	125,000	9,170,000	130,000
Certificates of participation 2009	5,335,000	-	980,000	4,355,000	1,025,000
	44,671,273	241,394	2,387,027	42,525,640	2,552,594
Unamortized discounts	(145,605)	-	(9,584)	(136,021)	(9,584)
Unamortized premiums	30,097	-	3,109	26,988	3,109
	$ 44,555,765	$ 241,394	$ 2,380,552	$ 42,416,607	$ 2,546,119

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, 2015 are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 505,608	$ 73,465	$ 579,073
2017	524,897	54,176	579,073
2018	544,923	34,150	579,073
2019	565,712	13,361	579,073
2020	48,106	150	48,256
	$ 2,189,246	$ 175,302	$ 2,364,548

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, 2015 are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 395,000	$ 256,456	$ 651,456
2017	410,000	240,356	650,356
2018	425,000	223,656	648,656
2019	445,000	206,256	651,256
2020	460,000	188,157	648,157
2021 - 2025	2,605,000	642,682	3,247,682
2026 - 2028	1,830,000	114,928	1,944,928
	$ 6,570,000	$ 1,872,491	$ 8,442,491

Revenue Bonds, Series 2012

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

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

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

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

Future debt service requirements at June 30, 2015 are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 425,000	$ 819,862	$ 1,244,862
2017	430,000	811,313	1,241,313
2018	440,000	802,337	1,242,337
2019	450,000	792,038	1,242,038
2020	465,000	780,019	1,245,019
2021 - 2025	2,550,000	3,661,831	6,211,831
2026 - 2030	3,100,000	3,113,174	6,213,174
2031 - 2035	3,835,000	2,374,481	6,209,481
2036 - 2040	4,825,000	1,388,357	6,213,357
2041 - 2043	3,480,000	247,845	3,727,845
	$ 20,000,000	$ 14,791,257	$ 34,791,257

Certificates of Participation, Series 2008

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

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

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

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

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

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

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

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

Future debt service requirements at June 30, 2015 are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 130,000	$ 380,375	$ 510,375
2017	140,000	375,500	515,500
2018	140,000	369,900	509,900
2019	150,000	364,300	514,300
2020	920,000	358,300	1,278,300
2021 - 2025	4,650,000	1,221,800	5,871,800
2026 - 2028	3,040,000	271,250	3,311,250
	$ 9,170,000	$ 3,341,425	$ 12,511,425

Certificates of Participation, Series 2009

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

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

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

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.

Future debt service requirements at June 30, 2015 are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 1,025,000	$ 182,800	$ 1,207,800
2017	1,065,000	143,081	1,208,081
2018	1,110,000	99,150	1,209,150
2019	1,155,000	51,975	1,206,975
	$ 4,355,000	$ 477,006	$ 4,832,006

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, 2015 are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 71,986	$ 22,574	$ 94,560
2017	80,155	14,405	94,560
2018	89,253	5,307	94,560
	$ 241,394	$ 42,286	$ 283,680

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.

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, 2015 was as follows:

Balance, beginning of year	$ 4,075,194
Movement	2,230
Balance, end of year	4,077,424
Less: current portion	550,000
Balance, noncurrent portion	$ 3,527,424

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, 2015 at $380,269, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of $305,214 for the year ended June 30, 2015. As of June 30, 2015, $4,144 is due from the University to the Foundation.

11. Commitments and Contingencies

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

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.

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 $186,150 for the year ended June 30, 2015.

Future minimum lease payments are as follows:

Year Ending June 30	Base Rent
2016	$ 54,603
2017	5,985
	$ 60,588

14. Pledged Revenues and Debt Service Requirements

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

PLEDGED REVENUES

BOND ISSUE	PURPOSE	SOURCE OF REVENUES PLEDGED	FUTURE REVENUES PLEDGED[1]	TERM OF COMMITMENT	(CURRENT YEAR) PLEDGED REVENUES TO DEBT SERVICE[2]
Auxiliary Facilities System Revenue Bonds (Series 2007 and 2012)	Various improvements and additions to the University, and construction of student housing complex	Net revenues of the Student Center, University Bookstore, University Parking Facilities, University Food Service and Vending Facilities, and University Housing	$ 43,233,748	2043	1.00%

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

15. Prior Period Adjustment

As discussed in Note 2, the University reported an effect of a change in accounting principle which adjusted the beginning net position as of July 1, 2014 to reflect pension contribution payments by the University to SURS as deferred outflows of resources in accordance with the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The cumulative effect of adopting these Statements is as follows:

	June 30, 2015
Net position - beginning of year, as previously reported	$ 115,736,636
Cumulative effect of change in accounting principle (prior period adjustment)	87,835
Net position - beginning of year, as restated	$ 115,824,471

16. Comparability of Financial Statements

The Fiscal Year 2014 balances in the accompanying financial statements have not been restated for the adoption of GASB Statements No. 68 and No. 71. As such, the Fiscal Year 2014 information are not fully comparable to Fiscal Year 2015. Differences include:

- In Fiscal Year 2015, employer contributions to SURS have been reported as deferred outflows of resources. In Fiscal Year 2014 and previous years, such payments were expensed.

- In Fiscal Year 2015, the University recognized on-behalf retirement payments (revenue and expense) related to the University's proportionate share of the Fiscal Year 2014 pension expense recognized by the State of Illinois in accordance with GASB Statement No. 68. In Fiscal Year 2014 and previous years, the University recognized on-behalf retirement payments (revenue and expense) to the extent of contributions the State of Illinois made to SURS on behalf of the University's employees in those fiscal years.

17. Subsequent Events

On October 26, 2015, Moody's Investors Service downgraded the University's ratings to "Baa3" from "Baa1" on its University Facilities System Revenue Bonds, Series 2007, and Certificates of Participation, Series 2008 and 2009.

The State of Illinois has not adopted a complete Fiscal Year 2016 operating budget as of the date of this report, December 21, 2015. 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.

Subsequent to June 30, 2015, financial markets as a whole have incurred significant declines in values. The Foundation's investment portfolio has also incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Foundation will recognize in its future financial statements, if any, cannot be determined.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION - PENSION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2015

		2015*
(a) Proportion percentage of the collective net pension liability		0%
(b) Proportion amount of the collective net pension liability	$	-
(c) Proportion of nonemployer contributing entities' total proportion of collective net pension liability associated with employer	$	221,808,386
Total (b) + (c)	$	221,808,386
Employer covered-employee payroll	$	52,418,387
Proportion of collective net pension liability associated with employer as a percentage of covered-employee payroll		423.15%
SURS plan net position as a percentage of total pension liability		44.39%
Federal, trust, grant and other contribution	$	95,432
Contribution in relation to the required contribution	$	95,432
Contribution deficiency (excess)	$	-
Employer covered-employee payroll	$	52,418,387
Contributions as a percentage of covered-employee payroll		0.18%

***** *SURS implemented GASB Statement No. 68 in Fiscal Year 2015. The information above is presented for as many years as available. This schedule is intended to show information for 10 years.*

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - PENSION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2015

1. Changes of Benefit Terms

There were no benefit changes recognized in the total pension liability as of June 30, 2014.

2. Changes of Assumptions

In accordance with Illinois Compiled Statutes, an actuarial review is to be performed at least once every five 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. There are no changes of assumptions that affect measurement of the total collective pension liability since the prior measurement date.

3. Covered Payroll

The definition of covered payroll in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans*, was changed in GASB Statement No. 67, *Financial Reporting for Pensions*. Below are the definitions from the glossaries of both Statements:

> GASB Statement No. 25 covered payroll - all elements included in compensation paid to active employees on which contributions to a pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.
>
> GASB Statement No. 67 covered-employee payroll - the payroll of employees that are provided with pensions through the pension plan.

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

	JUNE 30, 2015	JUNE 30, (Comparative totals only) 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ (534,343)	$ 936,453
Cash and cash equivalents, restricted	120,222	6,102,586
Accounts receivable, net of allowance	603,751	-
Prepaid debt service insurance - current	940	940
Total current assets	190,570	7,039,979
Noncurrent assets		
Prepaid debt service insurance	10,810	11,750
Capital assets	32,107,533	31,028,375
Accumulated depreciation	(3,003,975)	(2,425,325)
Total noncurrent assets	29,114,368	28,614,800
Total assets	29,304,938	35,654,779
LIABILITIES		
Current liabilities		
Accounts payable	513,527	4,968,485
Unearned revenue	199,916	-
Revenue bonds payable	820,853	795,853
Total current liabilities	1,534,296	5,764,338
Noncurrent liabilities		
Revenue bonds payable	25,747,215	26,568,068
Total noncurrent liabilities	25,747,215	26,568,068
Total liabilities	27,281,511	32,332,406
NET POSITION		
Net investment in capital assets	2,535,489	2,836,201
Unrestricted	(512,062)	486,172
Total net position	$ 2,023,427	$ 3,322,373

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, 2015	(Comparative totals only) 2014
OPERATING REVENUES		
Bookstore commissions	$ 146,444	$ 114,772
Food and vending commissions	12,118	8,834
Parking fees	454,576	453,830
Student center fees	1,304,150	1,288,907
University housing fees	1,506,820	-
University facilities fee	693,977	875,000
Total operating revenues	4,118,085	2,741,343
OPERATING EXPENSES		
Salaries and benefits	1,478,453	1,017,623
Scholarships and awards	108,859	64,983
Capital expenditures	969,647	168,369
Services, supplies and others	1,230,802	952,726
Depreciation	603,674	352,061
Total operating expenses	4,391,435	2,555,762
Net operating income (loss)	(273,350)	185,581
NONOPERATING REVENUES (EXPENSES)		
Investment income	158	2,326
Interest expense	(1,025,754)	(282,408)
Net nonoperating expenses	(1,025,596)	(280,082)
Decrease in net position	(1,298,946)	(94,501)
NET POSITION		
Net position - beginning of year, as previously reported	3,322,373	3,981,858
Prior period adjustment	-	(564,984)
Net position - beginning of year, as restated	3,322,373	3,416,874
Net position - end of year	$ 2,023,427	$ 3,322,373

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

	FOR THE YEAR ENDED JUNE 30, 2015	(Comparative totals only) 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	$ 146,444	$ 114,772
Food and vending commissions	12,118	8,834
Parking fees	490,485	453,830
Student center fees	1,404,818	1,288,907
University housing fees	966,408	-
University facilities fee	693,977	875,000
Payments to suppliers for goods and services	(2,336,788)	(1,122,621)
Payments to employees for services	(1,496,413)	(973,618)
Net cash provided by (used in) operating activities	(118,951)	645,104
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(5,439,148)	(13,083,545)
Principal payments on capital debt	(795,000)	(365,000)
Interest payments on capital debt	(1,100,219)	(1,119,269)
Cash used in capital financing activities	(7,334,367)	(14,567,814)
CASH FLOWS FROM INVESTING ACTIVITY		
Investment income	158	2,326
Cash provided by investing activity	158	2,326
Net decrease in cash and cash equivalents	(7,453,160)	(13,920,384)
Cash and cash equivalents - beginning of year	7,039,039	20,959,423
Cash and cash equivalents - end of year	$ (414,121)	$ 7,039,039
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net operating income (loss)	$ (273,350)	$ 185,581
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:		
Noncash expense included in net operating income (loss):		
Depreciation	603,674	352,061
Changes in assets and liabilities:		
Accounts receivable	(603,751)	-
Accounts payable	(45,440)	107,462
Unearned revenue	199,916	-
Net cash provided by (used in) operating activities	$ (118,951)	$ 645,104

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.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2015

Student Enrollment by Term (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2014	5,776	3,719
Spring Term, 2015	5,667	3,662
Summer Term, 2015	3,032	1,369

University Fees (Unaudited)

The following fees were in effect during the 2014-2015 academic year:

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

Schedule of Insurance In Force (Unaudited)

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

Fire and extended coverage ($25,000 deductible) of:	
Buildings	$ 205,781,987
EDP and contents	33,763,899
Business interruption	23,811,857
Boiler and machinery (included in blanket coverage limit)	100,000,000
Earthquake	100,000,000
Flood	100,000,000
General liability	19,650,000

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

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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Governors State University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 21, 2015. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

E.C. Ortiz & Co., LLP

Chicago, Illinois
December 21, 2015