STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

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, 2017

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STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

AGENCY OFFICIALS

President	Dr. Elaine P. Maimon
Vice President for Administration and Finance	
September 11, 2017 to present (Interim)	Dr. W. Paul Bylaska
January 16, 2017 to September 10, 2017	Ms. Kimberly Lambert-Thomas
Through January 15, 2017 (Interim)	Ms. Kimberly Lambert-Thomas
General Counsel and Vice President	
December 1, 2017 to present	Vacant
Through November 30, 2017	Ms. Alexis Kennedy
Chief Internal Auditor	
June 16, 2017 to present	Mr. Kristoffer Evangelista, CPA
March 1, 2017 to June 15, 2017	Vacant
Through February 28, 2017	Ms. Villalyn Baluga, CPA
Associate Vice President for Finance	
July 1, 2017 to present	Ms. Villalyn Baluga, CPA
March 1, 2017 to June 30, 2017 (Interim)	Ms. Villalyn Baluga, CPA
Through February 28, 2017	Ms. Melinda Gieseke, CPA

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

EXIT CONFERENCE

The University waived holding an exit conference to discuss the financial audit in a communication dated December 11, 2017.

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

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Governors State University, a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Governors State University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Governors State University and its discretely presented component unit, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Governors State University's 2016 financial statement, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and discretely presented component unit of the University in our report dated December 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the University restated the beginning net position as of July 1, 2016 to recognize the expenses of the Monetary Award Program grants awarded by the University to students during Fiscal Year 2016, but were previously deferred by the University to Fiscal Year 2017 when the revenue related to such awards was recognized. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Employer's Proportionate Share of Net Pension Liability, Schedule of Employer Contributions, and Notes to Required Supplementary

Information on pages 7 through 14 and 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017 on our consideration of the Governors State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Governors State University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Kankakee, IL

December 15, 2017

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, 2017. The GSU Foundation is considered a component unit of the University. Separate financial statements for the Foundation may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

The financial statement presentation focuses on the University as a whole. The financial statements are designed to emulate corporate presentation models whereby all University activities are consolidated into one total. The focus of the Statement of Net Position is to present a fiscal snapshot of the University's assets, liabilities, and deferred outflows/inflows of resources as of a specific point in time. The Statement of Revenues, Expenses and Changes in Net Position focuses on both the gross and net costs of University activities, which are supported mainly by State appropriations and tuition revenues. The Statement of Cash Flows presents the receipt and use of cash resources by the University. This approach is intended to summarize and simplify the user's analysis of the cost of services provided.

FINANCIAL AND ENROLLMENT HIGHLIGHTS

Appropriations

During Fiscal Years 2017 and 2016, the State of Illinois had not adopted a complete fiscal year operating budget. Due to this budget impasse at the State level, the University only received Stop Gap funding from the State for general operations during Fiscal Years 2017 and 2016.

Net Revenue Available from Operational Appropriations

Fiscal Year	Appropriations	Payments to Health Reserve Fund	Available Appropriations
2017	$ 12,757,000	$ (656,200)	$ 12,100,800
2016	6,974,400	(656,200)	6,318,200

In the past, payments to the Health Reserve Fund were paid from State Appropriated Funds. During Fiscal Years 2017 and 2016, payments to Health Reserve Fund were fully supported by the University's Income Fund. Either source effectively reduces the available funding for University operations. Note that $656,200 and $601,513 of the required payments to the Health Reserve Fund were in accounts payable as of June 30, 2017 and 2016, respectively.

On July 6, 2017, the State of Illinois adopted the remainder of a complete operating budget for Fiscal Year 2017, which will provide additional funding to the University amounting to $11,305,100 for general operations. However, due to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the related State appropriation revenue could not be recognized until Fiscal Year 2018.

Mandated Tuition Waivers
Certain tuition waivers are mandated by the State and have been funded or partially funded in the past. For Fiscal Year 2017, about $0.8 million in mandated tuition waivers were awarded by the University but not reimbursed by the State.

Student Housing
On April 5, 2012, the University issued $20,415,000 University Facilities System Revenue Bonds, Series 2012, for the purpose of financing the construction of an on-campus student housing complex. The facility began operations in late summer 2014. During Fiscal Year 2017, residency is close to capacity.

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

Enrollment
Registered student credit hours decreased by 4% during Academic Year 2017. Registered student credit hour totals were 124,262 in Academic Year 2016 and 119,332 in Academic Year 2017.

Statement of Net Position

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

	(in thousands)			Percent
	2017	2016	Change	Change
Current assets	$ 35,554	$ 37,382	$ (1,828)	-5%
Noncurrent assets-capital assets	114,948	118,493	(3,545)	-3%
Noncurrent assets-other	2,710	3,037	(327)	-11%
Total assets	153,212	158,912	(5,700)	-4%
Deferred outflows of resources	101	88	13	15%
Current liabilities	11,438	12,267	(829)	-7%
Noncurrent liabilities	41,096	44,032	(2,936)	-7%
Total liabilities	52,534	56,299	(3,765)	-7%
Net investment in capital assets	77,491	78,622	(1,131)	-1%
Restricted	842	776	66	9%
Unrestricted	22,446	23,303	(857)	-4%
Net position	$ 100,779	$ 102,701	$ (1,922)	-2%

The 2% 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 $1.8 million decrease in current assets was mostly attributable to the $2.1 million decrease in cash due to higher cash outlays used in operations, acquisition of computer software, and debt principal payments, partially offset by the increase in State appropriation funding and grant revenues. This decrease was further offset by the $0.3 million increase in receivables mostly attributable to the grant receivable from the Illinois Department of Children and Family Services (DCFS).

Noncurrent Assets - Capital Assets
The $3.5 million decrease in noncurrent capital assets was mostly due to the $4.6 million increase in accumulated depreciation, partially offset by the $1.1 million net capitalized assets related to the acquisition of computer software, and building improvements funded by a State grant.

Noncurrent Assets - Other
Other noncurrent assets consist primarily of long-term portion of student loans receivable which decreased slightly by $0.3 million due to an increase in the allowance for doubtful accounts and collecting more loans than were awarded.

Current Liabilities
Current liabilities include accounts payable, agency funds payable, accrued compensated absences, unearned revenue, and the current portion of long-term liabilities, which are payable in less than one year. The $0.8 million decrease in current liabilities was mostly attributable to the $1.6 million decrease in unearned revenue caused by overall decrease in enrollment (credit hours) and lower level of collections during the fiscal year that are attributable to the tuition and fees for the following fiscal year (summer and fall semesters of 2017). This decrease was partially offset by the $0.6 million increase in accounts payable primarily due to timing of vendor payments.

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, certificates of participation and intangible asset payable. The $2.9 million decrease in noncurrent liabilities was mostly attributable to the $2.7 million in principal payments made on revenue bonds payable, notes payable, capital lease payable, certificates of participation and intangible asset payable, and the $0.2 million decrease in refundable grants attributable to the return of funds to the grantee.

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

Statement of Revenues, Expenses and Changes in Net Position

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

	(in thousands)			Percent
	2017	2016	Change	Change
OPERATING REVENUES				
Net student tuition and fees	$ 39,823	$ 39,533	$ 290	1%
Grants and contracts	10,838	3,794	7,044	186%
Sales and services of educational departments	71	5,818	(5,747)	-99%
Auxiliary enterprises	3,344	3,364	(20)	-1%
Other operating revenues	2,030	2,885	(855)	-30%
Total operating revenues	56,106	55,394	712	1%
OPERATING EXPENSES	119,761	118,437	1,324	1%
Net operating loss	(63,655)	(63,043)	(612)	1%
NONOPERATING REVENUES (EXPENSES)				
State appropriation	12,757	6,974	5,783	83%
Payments made on behalf of the University	42,550	37,277	5,273	14%
Federal and state nonoperating grants	9,268	10,013	(745)	-7%
Investment income	129	28	101	361%
Interest expense	(1,614)	(1,714)	100	-6%
Other nonoperating revenues (expenses)	(29)	448	(477)	-106%
Net nonoperating revenues	63,061	53,026	10,035	19%
Capital additions provided by the State of Illinois and others	8	27	(19)	-70%
Increase (decrease) in net position	(586)	(9,990)	9,404	-94%
Net position - beginning of year, as restated	101,365	112,691	(11,326)	-10%
Net position - end of year	$ 100,779	$ 102,701	$ (1,922)	-2%

This year, the decrease in net position improved due to the following:

Operating Revenues

Despite the decrease in student credit hours, net student tuition and fees slightly increased $0.3 million mostly due to the new health fee charged to students starting in Academic Year 2016-2017. The $7.0 million increase in grants and contracts was mostly due to a $0.6 million net increase in Federal and State grants received and $6.3 million revenue from the DCFS contract that was classified as a State grant during Fiscal Year 2017 but had been reported as sales and services of educational departments in previous fiscal years. The $0.9 million decrease in other operating revenues was attributable to decreased revenues from psychology and counseling, foster pride program, international programs, English as second language program, consortium fees, and forfeited awards from the Teacher Quality Partnership Grant Program.

Operating Expenses (by functional classification)

	(in thousands)			Percent
	2017	2016	Change	Change
Instruction	$ 56,382	$ 55,060	$ 1,322	2%
Research	792	662	130	20%
Public service	15,654	13,760	1,894	14%
Academic support	2,823	2,783	40	1%
Student services	10,324	10,951	(627)	-6%
Institutional support	17,230	18,751	(1,521)	-8%
Operation and maintenance of plant	9,398	9,498	(100)	-1%
Auxiliary enterprises	2,252	2,040	212	10%
Depreciation	4,906	4,932	(26)	-1%
Total operating expenses	$ 119,761	$ 118,437	$ 1,324	1%

Total operating expenses slightly increased by $1.3 million (1%) primarily due to the increases in benefit costs, and increased spending from Federal and State grants as new and increased funding were received. The cost savings instituted by the University due to budget constraints offset these increases.

Operating Expenses (by natural classification)

	(in thousands)			Percent
	2017	2016	Change	Change
Salaries and benefits	$ 96,870	$ 94,695	$ 2,175	2%
Scholarships and awards	5,154	4,758	396	8%
Capital expenditures	460	1,460	(1,000)	-68%
Services, supplies and other	12,371	12,592	(221)	-2%
Depreciation	4,906	4,932	(26)	-1%
Total operating expenses	$ 119,761	$ 118,437	$ 1,324	1%

Salaries and benefits, representing the University's largest operating expense, increased by $2.2 million mostly related to increases in benefits cost. Scholarships and awards are expected to decrease due to lack of State funding. However, scholarships and awards increased by $0.4 million primarily due to the MAP awards for Fiscal Year 2016 which were previously deferred by the University to Fiscal Year 2017 (when the revenue related to such awards was recognized). As discussed in Note 15 to the financial statements, a prior period adjustment was reported by the University to recognize MAP award expenses in the previous accounting period. The Fiscal Year 2016 amounts have not been restated to reflect this adjustment. These increases were offset by the $1.0 million decrease in capital expenditures and $0.2 million decrease in supplies, services and other primarily due to cost savings related to State budget constraints.

Nonoperating Revenues (Expenses)
State appropriation revenue increased by $5.8 million due to increased funding provided by the State of Illinois during Fiscal Year 2017. Payments made by the State on behalf of the University to fund retirement, health, life, and dental insurance benefits for University employees and retirees are paid directly by other State agencies. In Fiscal Year 2017, the University's proportionate share of State funded retirement benefits increased by $5.8 million, and its funding of health care benefits decreased by $0.5 million. Investment income increased by $0.1 million due to improved management of cash and cash equivalents. Other nonoperating revenues decreased by $0.5 million due to the recognition of gains from insured losses that occurred during Fiscal Year 2016; not reoccurring during Fiscal Year 2017.

Statement of Cash Flows

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

	(in thousands)			Percent
	2017	2016	Change	Change
Cash provided by (used in):				
Operating activities	$ (18,923)	$ (23,625)	$ 4,702	-20%
Noncapital financing activities	22,073	20,566	1,507	7%
Capital financing activities	(5,418)	(4,380)	(1,038)	24%
Investing activities	129	28	101	361%
Net decrease in cash and cash equivalents	(2,139)	(7,411)	5,272	-71%
Cash and cash equivalents - beginning of year	28,790	36,201	(7,411)	-20%
Cash and cash equivalents - end of year	$ 26,651	$ 28,790	$ (2,139)	-7%

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 $4.7 million primarily due to the reduced spending for goods and services and payments to employees. This was offset by increases in tuition and fee collections and grants and contract receipts. There was a decrease in cash received from the sales and services of educational departments as the DCFS contract was structured as a grant in Fiscal Year 2017. Net cash provided by noncapital financing activities increased by $1.5 million primarily due to the increase in State appropriation revenue, partially offset by the decrease in Federal and State nonoperating grant receipts. Net cash used in capital financing activities increased by $1.0 million primarily due to the increase in purchase of capital assets related to computer software and increase in principal payments on capital debt, partially offset by the decrease in proceeds from disposal of capital assets and decrease in interest payments on capital debt. Cash provided by investing activities increased by $0.1 million primarily due to the increase in interest income.

UNIVERSITY'S DEBT RATINGS

On August 5, 2016, S&P Global Ratings lowered its underlying rating three notches to "BB+" from "BBB+" on the University's Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 and 2009 Certificates of Participation.

On April 20, 2017, S&P Global Ratings lowered its underlying rating one notch to "BB" from "BB+" on the University's Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 and 2009 Certificates of Participation and placed the rating on CreditWatch with negative implications due to continued lack of State funding.

On June 8, 2017, Moody's Investors Service downgraded the University's rating on the Series 2007 University Facilities System Revenue Bonds to "Ba3" from "Ba1" and on the Series 2008 and 2009 Certificates of Participation to "B1" from "Ba2", with a negative outlook. The downgrades reflect the University's materially weakening liquidity as it attempts to cope with the failure of the State of Illinois to enact a full year budget since Fiscal Year 2015.

On July 24, 2017, S&P Global Ratings raised its underlying rating one notch to "BB+" from "BB" on the University's Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 and 2009 Certificates of Participation and removed the rating from CreditWatch with a stable outlook.

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in Fiscal Year 2018 and beyond will lie in:

- The levels of appropriation for the University (and for higher education as a whole) upon which the General Assembly and the Governor ultimately agree. On July 6, 2017, the State of Illinois has adopted a complete operating budget for Fiscal Years 2017 and 2018 under Public Act 100-0021. This Public Act also included funding for the Fiscal Years 2017 and 2018 State MAP grants.
- The University's ability to market itself to new and continuing students to continue to increase registered student credit hours.
- The University's ability to continue to innovate with new quality program offerings to the community.
- The University's continuous success with the Dual Degree Program, which builds pathways from the Illinois community colleges to Governors State University.
- The University's success in recruiting and admitting new classes of first-year students for the fall semester of 2017 (and beyond), and in retaining those classes of first-year students who began in the fall semesters of 2014, 2015 and 2016.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2017
(With Comparative Totals as of June 30, 2016)

	2017		2016	
	University	**Component Unit**	**University**	**Component Unit**
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2 and 3)	$ 26,650,989	$ 224,926	$ 28,789,554	$ 452,533
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	28	-	7	-
Accounts receivable, net of allowance for uncollectible accounts of $5,350,000 (Note 2)	3,928,747	10,134	7,422,573	38,467
Grants receivable (Note 2)	4,209,609	15,684	412,387	-
State appropriation receivable	-	-	2,711	-
Student loans - current (Note 2)	455,112	-	425,486	-
Due from component unit	-	-	25,211	-
Due from University (Note 10)	-	84,275	-	-
Prepaid debt service insurance - current (Notes 2 and 8)	18,941	-	18,941	-
Inventories (Note 2)	45,008	-	60,045	-
Other assets	245,242	5,250	224,964	3,370
Total current assets	35,553,676	340,269	37,381,879	494,370
Noncurrent assets				
Investments (Notes 2 and 3)	-	3,939,574	-	3,256,298
Student loans, net of allowance for uncollectible loans of $750,000 (Note 2)	2,625,478	-	2,933,323	-
Prepaid debt service insurance (Notes 2 and 8)	84,442	-	103,382	-
Capital assets (Note 7)	190,072,334	2,233,156	189,024,135	2,233,156
Accumulated depreciation (Note 7)	(75,123,705)	-	(70,531,426)	-
Total noncurrent assets	117,658,549	6,172,730	121,529,414	5,489,454
Total assets	153,212,225	6,512,999	158,911,293	5,983,824
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions after measurement date (Notes 2 and 5)	100,914	-	88,657	-
Total deferred outflows of resources	100,914	-	88,657	-
LIABILITIES				
Current liabilities				
Accounts payable	5,291,573	6,419	4,663,002	62,954
Agency funds payable	222,997	-	161,925	-
Accrued compensated absences (Notes 2 and 9)	350,000	-	500,000	-
Due to component unit (Note 10)	84,275	-	-	-
Due to University	-	-	-	25,211
Unearned revenue (Note 2)	2,656,452	-	4,298,000	-
Revenue bonds payable (Note 8)	865,853	-	840,853	-
Notes payable (Note 8)	544,923	-	524,897	-
Capital lease payable (Note 8)	89,252	-	80,156	-
Certificates of participation (Notes 8 and 16)	1,242,672	-	1,197,672	
Intangible asset payable (Note 8)	89,889	-	-	-
Total current liabilities	11,437,886	6,419	12,266,505	88,165
Noncurrent liabilities				
Accrued compensated absences (Notes 2 and 9)	3,089,750	-	3,171,974	-
Refundable grants	3,381,820	-	3,633,293	-
Revenue bonds payable (Note 8)	24,040,508	-	24,906,361	-
Notes payable (Note 8)	613,818	-	1,158,741	-
Capital lease payable (Note 8)	-	-	89,252	-
Certificates of participation (Notes 8 and 16)	9,829,883	-	11,072,555	
Intangible asset payable (Note 8)	140,377	-	-	-
Total noncurrent liabilities	41,096,156	-	44,032,176	-
Total liabilities	52,534,042	6,419	56,298,681	88,165
NET POSITION (Notes 2 and 15)				
Net investment in capital assets	77,491,454	2,233,156	78,622,222	2,233,156
Restricted:				
Nonexpendable	-	2,102,345	-	1,972,742
Expendable				
Loans	681,651	-	775,940	-
Debt service	28	-	7	-
Other	159,997	1,727,511	-	1,289,955
Unrestricted	22,445,967	443,568	23,303,100	399,806
Total net position	$ 100,779,097	$ 6,506,580	$ 102,701,269	$ 5,895,659

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, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017		2016	
	University	Component Unit	University	Component Unit
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowances of $8,064,726 (Note 2)	$ 39,823,090	$ -	$ 39,533,255	$ -
Federal grants and contracts	3,235,089	-	2,816,805	-
State grants and contracts	7,318,716	-	661,854	-
Other grants and contracts	284,026	170,500	315,289	25,000
Sales and services of educational departments	71,376	-	5,817,902	-
Auxiliary enterprises	3,343,714	-	3,364,201	-
Other operating revenues	2,030,290	333,890	2,885,189	345,344
Total operating revenues	56,106,301	504,390	55,394,495	370,344
OPERATING EXPENSES				
Instruction	56,381,735	-	55,060,167	-
Research	791,635	-	662,087	-
Public service	15,654,038	-	13,760,379	-
Academic support	2,823,046	-	2,782,931	-
Student services	10,324,292	-	10,951,119	-
Institutional support	17,230,397	-	18,751,058	-
Operation and maintenance of plant	9,397,855	-	9,497,904	-
Auxiliary enterprises	2,251,887	-	2,040,403	-
Depreciation	4,906,310	-	4,931,843	-
University support	-	339,852	-	275,330
Other expense	-	373,366	-	376,450
Total operating expenses	119,761,195	713,218	118,437,891	651,780
Net operating loss	(63,654,894)	(208,828)	(63,043,396)	(281,436)
NONOPERATING REVENUES (EXPENSES)				
State appropriation	12,757,000	-	6,974,400	-
Payments made on behalf of the University	42,550,485	-	37,276,678	-
Federal and State nonoperating grants	9,268,085	-	10,013,418	-
Gifts	-	368,056	-	373,975
Investment income	129,062	322,090	28,080	162,132
Interest expense	(1,614,290)	-	(1,713,636)	-
Other nonoperating income (expense)	(29,566)	-	447,610	12,000
Net nonoperating revenues	63,060,776	690,146	53,026,550	548,107
Income (loss) before other revenues, expenses, gains and losses	(594,118)	481,318	(10,016,846)	266,671
Capital additions provided by State of Illinois	7,678	-	26,550	-
Additions to permanent endowments	-	129,603	-	98,203
Increase (decrease) in net position	(586,440)	610,921	(9,990,296)	364,874
NET POSITION (Notes 2 and 15)				
Net position - beginning of year, as previously reported	102,701,269	5,895,659	114,857,108	5,530,785
Prior period adjustment	(1,335,732)	-	(2,165,543)	-
Net position - beginning of year, as restated	101,365,537	5,895,659	112,691,565	5,530,785
Net position - end of year	$ 100,779,097	$ 6,506,580	$ 102,701,269	$ 5,895,659

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, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017		2016	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 40,343,770	$ -	$ 37,064,820	$ -
Grants and contracts	6,879,078	154,816	4,399,006	25,000
Payments to suppliers	(11,826,690)	(359,941)	(14,435,658)	(188,285)
Payments for scholarships	(5,154,132)	(109,697)	(4,974,888)	(103,748)
Payments to employees and fringe benefits	(54,695,598)	-	(57,813,558)	-
Auxiliary enterprises	3,343,714	-	3,364,201	-
Sales and services of educational departments	71,376	-	5,817,902	-
Student loans issued	(294,863)	-	(367,723)	-
Student loans collected	380,173	-	435,902	-
Other operating revenues	2,030,290	33,775	2,885,189	43,717
Net cash used in operating activities	(18,922,882)	(281,047)	(23,624,807)	(223,316)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	12,759,711	-	10,652,317	-
Other nonoperating revenue	-	-	-	12,000
Federal and State nonoperating grants	9,313,534	-	9,913,490	-
Contributions	-	213,739	-	373,113
Contributions for permanent endowments	-	129,603	-	98,203
Net cash provided by noncapital financing activities	22,073,245	343,342	20,565,807	483,316
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(1,059,602)	-	(299,775)	-
Proceeds from disposal of capital assets	-	-	466,701	-
Principal payments on capital debt	(2,744,303)	-	(2,552,593)	-
Interest payments on capital debt	(1,614,064)	-	(1,994,824)	-
Net cash used in capital financing activities	(5,417,969)	-	(4,380,491)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	709,643	-	777,116
Investment income	129,062	75,281	28,080	69,910
Investment management fees	-	(37,551)	-	(32,450)
Purchase of investment securities	-	(1,037,275)	-	(958,438)
Net cash provided by (used in) investing activities	129,062	(289,902)	28,080	(143,862)
Net increase (decrease) in cash and cash equivalents	(2,138,544)	(227,607)	(7,411,411)	116,138
Cash and cash equivalents - beginning of year	28,789,561	452,533	36,200,972	336,395
Cash and cash equivalents - end of year	$ 26,651,017	$ 224,926	$ 28,789,561	$ 452,533
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Net operating loss	$ (63,654,894)	$ (208,828)	$ (63,043,396)	$ (281,436)
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Noncash expenses included in net operating loss:				
Depreciation	4,906,310	-	4,931,843	-
Payments made on behalf of the University	42,550,485	-	37,276,678	-
Changes in assets, deferred outflows of resources and liabilities:				
Accounts receivable, grants receivable and due from related party	(1,659,366)	(15,684)	(2,113,220)	-
Inventories	15,037	-	(6,613)	-
Other assets	(20,278)	-	15,440	-
Other noncurrent assets	-	-	216,116	-
Student loans	278,219	-	174,284	-
Prepaid debt service insurance	18,940		18,941	
Deferred outflows of resources	(12,257)	-	6,775	-
Accounts payable and due to related party	719,095	(56,535)	(782,198)	58,120
Agency funds payable	61,072	-	(28,819)	-
Unearned revenue	(1,641,548)	-	136,003	-
Accrued compensated absences	(232,224)	-	(405,450)	-
Refundable grants	(251,473)	-	(21,191)	-
Net cash used in operating activities	$ (18,922,882)	$ (281,047)	$ (23,624,807)	$ (223,316)
NONCASH INVESTING, NONCAPITAL AND CAPITAL FINANCING ACTIVITIES				
Capital assets acquired with debt	$ 324,516	$ -	$ -	$ -
Capital appropriations	$ 7,678	$ -	$ 26,550	$ -
Unrealized gain on investments	$ -	$ 213,950	$ -	$ 73,915
Other noncash contributions	$ -	$ 73,164	$ -	$ 2,065

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

NOTE 1 - FINANCIAL REPORTING ENTITY AND COMPONENT UNIT DISCLOSURE

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

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

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

The audit of the Foundation's financial statements for the fiscal year ended June 30, 2017 was conducted by an independent certified public accountant. Complete financial statements for this component unit may be obtained by writing the: Vice President for University Advancement, Governors State University, 1 University Parkway, University Park, Illinois 60484.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

Management's Discussion and Analysis

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

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

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

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

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

Notes to the Basic Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 rates.

Accounts, Grants and Student Loans Receivables

An aging of accounts, grants and student loans receivable as of June 30, 2017 is as follows:

Not in repayment	$ 1,693,469
Current	7,476,844
Up to 120 days past due	1,495,115
From 121 to 365 days past due	2,357,122
More than 365 days past due	4,296,396
Allowance for doubtful accounts	(6,100,000)
Net accounts, grants, and student loans receivable	$11,218,946

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, the Nurse Faculty Loan Program, and institutional loans. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Capital Assets

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

Investments

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

Accrued Compensated Assets

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

Unearned Revenue

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Revenues

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

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

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

Scholarship Discounts and Allowances

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

Net Position

The University's net position are classified as follows:

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Deferred Outflows/Inflows of Resources

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

On-Behalf Payments for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University reported on-behalf payments for its proportional share of the State's pension expense relative to the State Universities Retirement System (SURS) for University employees of $28,048,485 for the year ended June 30, 2017. Substantially all employees participate in group health insurance plans administered by the State. The employer contributions to these plans for the University employees are paid from State appropriations by Central Management Services (CMS) on behalf of the University and include postemployment benefits. The employer contributions to these plans on behalf of employees paid from other University held funds are paid by the University. The on-behalf payments were $14,502,000 for the year ended June 30, 2017. The on-behalf payments amount that relates to State group health insurance is an allocation of estimated costs incurred by CMS on-behalf of the University.

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

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. As a participant, the University purchases commercial insurance to guard against insurable losses. There have been no significant reductions in coverage and no losses exceeding insurance coverages in the past three years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, from which the partial information was derived.

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 the 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

During the year ended June 30, 2017, the University adopted the following accounting pronouncements:

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

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

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

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

- GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73.* This Statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The selection of assumptions requirements are not effective until the year ending June 30, 2018.

Future Adoption of GASB Statements

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

- 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.

- GASB Statement No. 85, *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this statement addresses the following topics:

    - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
    - Reporting amounts previously reported as goodwill and “negative” goodwill
    - Classifying real estate held by insurance entities
    - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
    - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
    - Recognizing on-behalf payments for pensions or OPEB in employer financial statements
    - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
    - Classifying employer-paid member contributions for OPEB
    - Simplifying certain aspects of the alternative measurement method for OPEB
    - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Effective for the year ending June 30, 2019, the University will adopt the following GASB statement:

- GASB Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

Effective for the year ending June 30, 2020, the University will adopt the following GASB statement:

- GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

Effective for the year ending June 30, 2021, the University will adopt the following GASB statement:

- GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Deposits

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

	University	Foundation
Statement of Net Position		
Cash and cash equivalents	$ 26,650,989	$ 224,926
Restricted cash	28	-
Investments	-	3,939,574
Total	$ 26,651,017	$ 4,164,500
Deposits and Investments		
Cash in bank	$ 8,855,553	$ 35,194
Cash on hand	20,530	-
Investments	17,774,934	4,129,306
Total	$ 26,651,017	$ 4,164,500

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 $285,194 (University and Foundation) at June 30, 2017. The remaining bank balances as of June 30, 2017 were fully collateralized. The University’s and Foundation’s respective bank balances were $9,655,829 and $35,194 as of June 30, 2017. Depositories and brokers are chosen based on stability and longevity, and due to insurance and collateralization, bank balances were not subject to custodial credit risk.

Interest Rate Risk - exists when there is a possibility that changes in interest rates could adversely affect an investment’s value.

University Investments

The carrying value of the investment portfolio of the University at June 30, 2017 is as follows:

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	AAAm	< 1 year	$ 28	$ 28
Illinois Funds	AAAm	< 1 year	17,774,906	17,774,906
Total			$ 17,774,934	$ 17,774,934

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2017, investments consisted of money market funds held in corporate trust accounts at Amalgamated Bank of Chicago and Illinois Funds. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract.

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

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

Foundation Investments

The fair value of the investment portfolio of the Foundation at June 30, 2017 is as follows:

	Fair Value
Money Market Funds	$ 115,105
Illinois Funds	74,627
Stocks/Mutual Funds investing in stocks	2,898,195
Mutual Funds investing in bonds	889,135
Corporate Bonds	152,244
Total	$ 4,129,306

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The valuation by levels at June 30, 2017 is as follows:

	Fair Value	Level 1	Level 2	Level 3
Money Market Funds	$ 115,105	$ 115,105	$ -	$ -
Illinois Funds	74,627	74,627	-	-
Stocks/Mutual Funds investing in stocks	2,898,195	2,898,195	-	-
Mutual Funds investing in bonds	889,135	889,135	-	-
Corporate Bonds	152,244	-	152,244	-
Total	$ 4,129,306	$ 3,977,062	$ 152,244	$ -

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2017, investments consisted of money market funds, mutual funds, and corporate bonds. All investments other than Illinois Funds are being held by the First Midwest Bank Trust Division.

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

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

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2017 are as follows:

		Investment Maturity (in Years)			
	Fair Value	Less Than 1	1 – 5	5 – 10	10 or More
Mutual Funds investing in bonds	$ 889,135	$ -	$ 732,132	$ 114,462	$ 42,541
Corporate Bonds	152,244	-	49,947	102,297	-
Total	$1,041,379	$ -	$ 782,079	$ 216,759	$ 42,541

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2017 are as follows:

Credit Rating	Total Debt Securities
No Rating	$ 889,135
AA	26,615
A	100,518
BBB+	25,111
Total	$ 1,041,379

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

NOTE 4 - CASH AND CASH EQUIVALENTS, RESTRICTED

Certain accounts created by the University revenue bonds and certificates of participation are held in Trust Escrow accounts with Amalgamated Bank of Chicago (Bank) pending expenditure for debt service. As trustee, the Bank has invested the funds in Goldman Sachs "Financial Square Money Market" funds. The balance of these accounts as of June 30, 2017 amounted to $28.

NOTE 5 - DEFINED BENEFIT PENSION PLANS

General Information about the Pension Plan

Plan Description

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

Benefits Provided

A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible Illinois reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed 6 months after their date of hire to make an irrevocable election. A summary of the benefit provisions as of June 30, 2016 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 2016 and 2017 respectively, was 12.69% and 12.53% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

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

Participating employers make contributions toward separately financed specific liabilities under Section 15.139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants) and Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period).

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

Net Pension Liability

At June 30, 2016, SURS reported a net pension liability (NPL) of $25,965,271,744. The net pension liability was measured as of June 30, 2015 and has been rolled forward to June 30, 2016 using generally accepted actuarial procedures.

Employer Proportionate Share of Net Pension Liability

The amount of the proportionate share of the net pension liability to be recognized for the University is $0. The proportionate share of the State's net pension liability associated with the University is $283,803,489 or 1.093%. This amount is not in the University's financial statements. The net pension liability and total pension liability as of June 30, 2016 was determined based on the June 30, 2015 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 2016.

Pension Expense

At June 30, 2016, SURS reported a collective net pension expense of $2,566,164,865.

Employer Proportionate Share of Pension Expense

The employer proportionate share of collective pension expense is recognized similarly to on-behalf payments as both revenue and matching expenditure in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to SURS during Fiscal Year 2016. As a result, the University recognized on-behalf revenue and pension expense of $28,048,485 for the fiscal year ended June 30, 2017.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 14,215,882	$ 2,298,574
Changes in assumptions	655,463,758	-
Net difference between projected and actual earnings on pension plan investments	795,528,330	-
Total	$1,465,207,970	$ 2,298,574

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

Year Ending June 30,	Net Deferred Outflows of Resources
2017	$ 539,536,680
2018	275,426,885
2019	401,520,624
2020	246,425,207
2021	-
Thereafter	-
	$1,462,909,396

Employer Deferral of Fiscal Year 2017 Pension Expense

The University paid $100,914 in federal, trust or grant contributions for the fiscal year ended June 30, 2017. These contributions were made subsequent to the pension liability measurement date of June 30, 2016 and are recognized as deferred outflows of resources as of June 30, 2017.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

Assumptions and Other Inputs

Actuarial assumptions

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period June 30, 2010 – 2014. The total pension liability in the June 30, 2016 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 15.00 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 RP2014 Combined Mortality Table, with projected generational mortality and a separate mortality assumption for disabled participants.

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, 2016, these best estimates are summarized in the following table:

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
U.S. Equity	23%	6.08%
Private Equity	6%	8.73%
Non-U.S. Equity	19%	6.95%
Global Equity	8%	6.78%
Fixed Income	19%	1.17%
Treasury-Inflation Protected Securities	4%	1.41%
Emerging Market Debt	3%	4.44%
Real Estate REITS	4%	5.75%
Direct Real Estate	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	4.00%
Opportunity Fund	1%	6.54%
Total	100%	5.09%
Inflation		2.75%
Expected Arithmetic Return		7.84%

Discount Rate

A single discount rate of 7.010% 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 2.85% (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 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

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

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.01%, 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 6.01%	Rate Assumption 7.01%	1% Increase 8.01%
$ 31,348,831,631	$ 25,965,271,744	$ 21,502,421,700

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

NOTE 6 - POSTEMPLOYMENT BENEFITS

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

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

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

NOTE 7 - CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at estimated fair market value at the date of donation until June 30, 2015 and estimated acquisition value after that date. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more. For intangible assets, the University's capitalization policy includes all items with a unit cost of $25,000 or more. Renovations to buildings and site improvements that significantly increase the value or extend the useful life of the structure are also capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 to 60 years for buildings, 20 to 60 years for site improvements, three to seven years for intangible assets, and three to 40 years for equipment and library collection.

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized for the year ended June 30, 2017.

NOTE 7 - CAPITAL ASSETS (Continued)

Capital assets activity for the University and Foundation for the year ended June 30, 2017 are summarized as follows:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$ 1,389,086	$ -	$ -	$ 1,389,086
Construction in progress	-	3,000	-	3,000
Artwork/Artifacts-University	431,323	-	-	431,323
Artwork/Artifacts-Foundation	2,233,156	-	-	2,233,156
Total capital assets not being depreciated	$ 4,053,565	$ 3,000	$ -	$ 4,056,565
Other capital assets:				
Site improvements	$ 9,309,741	$ -	$ -	$ 9,309,741
Buildings	151,973,503	452,280	(7,293)	152,418,490
Intangible assets	1,077,097	827,822	-	1,904,919
Equipment under capital lease	236,662	-	-	236,662
Equipment	11,952,237	91,028	(244,257)	11,799,008
Library collection	12,654,486	17,666	(92,047)	12,580,105
Total other capital assets	187,203,726	1,388,796	(343,597)	188,248,925
Accumulated depreciation:				
Site improvements	(3,127,085)	(414,524)	-	(3,541,609)
Buildings	(44,701,471)	(3,262,457)	-	(47,963,928)
Intangible assets	(923,226)	(231,559)	-	(1,154,785)
Equipment under capital lease	(76,007)	(50,671)	-	(126,678)
Equipment	(9,668,706)	(685,326)	221,984	(10,132,048)
Library collection	(12,034,931)	(261,773)	92,047	(12,204,657)
Total accumulated depreciation	(70,531,426)	(4,906,310)	314,031	(75,123,705)
Other capital assets, net	$ 116,672,300	$ (3,517,514)	$ (29,566)	$ 113,125,220
Capital assets summary:				
Capital assets not being depreciated	$ 4,053,565	$ 3,000	$ -	$ 4,056,565
Other capital assets	187,203,726	1,388,796	(343,597)	188,248,925
Accumulated depreciation	(70,531,426)	(4,906,310)	314,031	(75,123,705)
Total capital assets, net	$ 120,725,865	$ (3,514,514)	$ (29,566)	$ 117,181,785

NOTE 8 - LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2017 were as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017	Amounts Due Within One Year
Notes payable	$ 1,683,638	$ -	$ 524,897	$ 1,158,741	$ 544,923
Intangible asset payable	-	324,516	94,250	230,266	89,889
Capital lease payable	169,408	-	80,156	89,252	89,252
Revenue bonds 2007	6,175,000	-	410,000	5,765,000	425,000
Revenue bonds 2012	19,575,000	-	430,000	19,145,000	440,000
Certificates of participation 2008	9,040,000	-	140,000	8,900,000	140,000
Certificates of participation 2009	3,330,000	-	1,065,000	2,265,000	1,110,000
	39,973,046	324,516	2,744,303	37,553,259	2,839,064
Unamortized discounts	(126,438)	-	(9,584)	(116,854)	(9,584)
Unamortized premiums	23,879	-	3,109	20,770	3,109
	$ 39,870,487	324,516	$ 2,737,828	$ 37,457,175	$ 2,832,589

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, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 544,923	$ 34,150	$ 579,073
2019	565,712	13,361	579,073
2020	48,106	150	48,256
	$ 1,158,741	$ 47,661	$ 1,206,402

Revenue Bonds, Series 2007

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

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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

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

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

Future debt service requirements at June 30, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 425,000	$ 223,656	$ 648,656
2019	445,000	206,256	651,256
2020	460,000	188,157	648,157
2021	480,000	169,356	649,356
2022	500,000	149,756	649,756
2023 - 2027	2,820,000	425,400	3,245,400
2028	635,000	13,097	648,097
	$ 5,765,000	$ 1,375,678	$ 7,140,678

Revenue Bonds, Series 2012

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

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

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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

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

Future debt service requirements at June 30, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 440,000	$ 802,337	$ 1,242,337
2019	450,000	792,038	1,242,038
2020	465,000	780,019	1,245,019
2021	475,000	766,500	1,241,500
2022	490,000	751,412	1,241,412
2023 - 2027	2,750,000	3,464,623	6,214,623
2028 - 2032	3,365,000	2,843,721	6,208,721
2033 - 2037	4,205,000	2,010,954	6,215,954
2038 - 2042	5,290,000	920,228	6,210,228
2043	1,215,000	28,249	1,243,249
	$19,145,000	$13,160,081	$32,305,081

Certificates of Participation, Series 2008

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

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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

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

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

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

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

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

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

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Future debt service requirements at June 30, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 140,000	$ 184,950*	$ 324,950
2019	150,000	364,300	514,300
2020	920,000	358,300	1,278,300
2021	950,000	321,500	1,271,500
2022	1,000,000	282,312	1,282,312
2023 - 2027	4,685,000	841,763	5,526,763
2028	1,055,000	47,475	1,102,475
	$ 8,900,000	$ 2,400,600	$11,300,600

* The July 1, 2017 interest payment was made before June 30.

Certificates of Participation, Series 2009

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

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

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

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

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Future debt service requirements at June 30, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 1,110,000	$ 49,575*	$ 1,159,575
2019	1,155,000	51,975	1,206,975
	$ 2,265,000	$ 101,550	$ 2,366,550

* The July 1, 2017 interest payment was made before June 30.

Capital Lease Payable

The University leases equipment under a capital lease purchase contract with an imputed interest rate of 10.799%. The capital lease payable is secured by the equipment being financed. Future maturities at June 30, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 89,252	$ 5,308	$ 94,560

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.

Intangible Asset Payable

During Fiscal Year 2017, the University acquired computer software through a multi-year licensing agreement. In accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, the University has recorded a liability representing its obligation to make annual payments over the life of the agreement. The license agreement is for three to five years and requires various payments over the term of the agreement. Implicit interest is considered immaterial. Future maturities at June 30, 2017 are as follows:

Year Ending June 30	Amount
2018	$ 89,889
2019	79,522
2020	24,211
2021	25,179
2022	11,465
	$ 230,266

NOTE 9 - ACCRUED COMPENSATED ABSENCES

Accrued compensated absences include earned but unused vacation and sick leave days valued at the current rate of pay. The change in accrued compensated absences for the year ended June 30, 2017 was as follows:

Balance, beginning of year	$ 3,671,974
Movement	(232,224)
Balance, end of year	3,439,750
Less: current portion	350,000
Balance, noncurrent portion	$ 3,089,750

NOTE 10 - COMPONENT UNIT

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

The Foundation has an ongoing contract with the University which includes provisions requiring the Foundation to comply with Section VI of the "University Guidelines 1982 (as amended 1997)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires that the University provide the Foundation with personnel and operational services at no cost. University officials estimate the value of these services for the year ended June 30, 2017 at $300,115, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of $339,852 for the year ended June 30, 2017. Most of the Foundation's cash receipts are initially deposited in the University's bank account and are settled up on a periodic basis. As of June 30, 2017, $84,275 is due to the Foundation from the University.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

NOTE 12 - RESTRICTED ENDOWMENTS

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

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

The Foundation has adopted a spending policy based on the previous calendar year appreciation rate less 1.5% 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. As of June 30, 2017, net appreciation of endowments of $251,474 has been reported as Restricted Net Position - Expendable, Other.

NOTE 13 - OPERATING LEASES

During the fiscal year, the University leased equipment and classroom space. The rental expense for these lease agreements was $29,421 for the year ended June 30, 2017. The classroom space lease ended in Fiscal Year 2017.

Future minimum lease payments on the equipment lease are as follows:

Year Ending June 30	Base Rent
2018	$ 7,476
2019	7,476
2020	7,476
2021	3,738
	$ 26,166

NOTE 14 - PLEDGED REVENUES AND DEBT SERVICE REQUIREMENTS

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

PLEDGED REVENUES

BOND ISSUE	PURPOSE	SOURCE OF REVENUE PLEDGED	FUTURE NET REVENUES PLEDGED[1]	TERM OF COMMITMENT	(CURRENT YEAR) PLEDGED NET REVENUE TO DEBT SERVICE[2]
Auxiliary Facilities System Revenue Bonds (Series 2007 and 2012)	Various improvements and additions to the University, and construction of student housing complex	Net revenues of The Student Center, The University Bookstore, University Parking Facilities, University Food Service and Vending Facilities, and University Housing	$ 39,445,759	2043	5.07%

1 Total future principal and interest payments on debt.

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

NOTE 15 - PRIOR PERIOD ADJUSTMENT

The University reported the effect of an accounting correction which adjusted the beginning net position as of July 1, 2016. The adjustment was to recognize the expenses on the Monetary Award Program (MAP) grants that were awarded by the University to students during Fiscal Year 2016, but were previously deferred by the University to Fiscal Year 2017 when the revenue related to such awards was recognized. Due to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the revenue related to these awards could not be recognized until Fiscal Year 2017. The adjustment is reflected as follows:

Net position - beginning of year, as previously reported	$ 102,701,269
Prior period adjustment	(1,335,732)
Net position - beginning of year, as restated	$ 101,365,537

NOTE 16 - SUBSEQUENT EVENTS

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. On July 6, 2017, the State of Illinois adopted the remainder of a complete operating budget for Fiscal Year 2017, which will provide additional funding to the University amounting to $11,305,100 for general operations. However, due to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the related State appropriation revenue could not be recognized until Fiscal Year 2018. This Public Act also included funding to the Illinois Student Assistance Commission for Fiscal Years 2017 and 2018 State MAP grants.

On July 24, 2017, S&P Global Ratings raised its underlying rating one notch to “BB+” from “BB” on the University’s Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 and 2009 Certificates of Participation and removed the rating from CreditWatch to a stable outlook.

On October 13, 2017, upon approval by the University’s Board of Trustees, the University notified the Trustee that the Series 2008 Certificates of Participation Purchase Contract has been renewed and the expiration date has been extended to January 1, 2028 in accordance with the terms of the purchase contract.

On September 30, 2017, the University’s authority to award any additional Federal Perkins Loans to undergraduate students lapsed in accordance with the Perkins Loan Program Extension Act of 2015. Authority to award Federal Perkins Loans to graduate students ceased September 30, 2016. As the loans are collected from the borrowers, the University will be required to distribute the federal share to the Department of Education. The University is not contemplating assigning all of the loans and liquidating its revolving loan fund in the near term.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer's Proportionate Share of Net Pension Liability

	FY 2016	FY 2015	FY 2014
(a) Proportional percentage of the collective net pension liability	0%	0%	0%
(b) Proportional amount of the collective net pension liability	$ -	$ -	$ -
(c) Portion of nonemployer contributing entities' total proportion of collective net pension liability associated with employer	$ 283,803,489	$ 265,336,393	$ 221,808,386
Total (b) + (c)	$ 283,803,489	$ 265,336,393	$ 221,808,386
Employer DB Covered Payroll	$ 39,494,594	$ 40,629,305	$ 37,066,314
Proportion of collective net pension liability associated with employer as a percetage of DB covered payroll	718.59%	653.07%	598.41%
SURS Plan net position as a percentage of total pension liability	39.57%	42.37%	44.39%

Schedule of Employer Contributions

	FY 2017	FY 2016	FY 2015	FY 2014
Federal, trust, grant and other contribution	$ 100,914	$ 88,657	$ 95,432	$ 171,808
Contribution in relation to the required contribution	$ 100,914	$ 88,657	$ 95,432	$ 171,808
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Employer DB covered payroll	$ 38,404,603	$ 39,494,594	$ 40,629,305	$ 37,066,314
Contributions as a percentage of covered-employee payroll	0.26%	0.22%	0.23%	0.46%

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

Notes to Required Supplementary Information

Note 1 - Changes of benefit terms.

There were no benefit changes recognized in the Total Pension Liability as of June 30, 2016.

Note 2 - Changes of assumptions.

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

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

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF NET POSITION
JUNE 30, 2017
(With Comparative Totals for June 30, 2016)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivilents, restricted	$ 23	$ 2
Accounts receivable, net of allowance	106,416	164,750
Prepaid debt service insurance - current	940	940
Total Current Assets	107,379	165,692
Noncurrent Assets		
Prepaid debt service insurance	8,930	9,870
Capital assets	32,107,533	32,107,533
Less accumulated depreciation	(4,780,761)	(3,901,218)
Total Noncurrent Assets	27,335,702	28,216,185
Total Assets	27,443,081	28,381,877
LIABILITIES		
Current Liabilities		
Bank overdraft	46,329	107,282
Accounts payable & accrued expenses	351,199	327,635
Unearned revenue	183,388	319,409
Revenue bonds payable	865,853	840,853
Total Current Liabilities	1,446,769	1,595,179
Noncurrent Liabilities		
Revenue bonds payable	24,040,508	24,906,362
Total Noncurrent Liabilities	24,040,508	24,906,362
Total Liabilities	25,487,277	26,501,541
NET POSITION		
Invested in capital assets, net of related debt	2,420,411	2,459,100
Unrestricted	(464,607)	(578,764)
Total Net Position	$ 1,955,804	$ 1,880,336

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, 2017
(With Comparative Totals for June 30, 2016)

	2017	2016
OPERATING REVENUES		
Bookstore commissions	$ 113,204	$ 132,210
Food and vending commissions	16,032	13,230
Parking fees	557,857	497,580
University housing fees	2,161,775	1,955,762
Student center fees	2,117,833	1,734,202
Total Operating Revenues	4,966,701	4,332,984
OPERATING EXPENSES		
Salaries and benefits	1,746,920	1,329,616
Scholarships and awards	204,580	178,828
Capital expenditures	73,735	45,419
Services, supplies and other	941,911	955,581
Depreciation	879,543	897,243
Total Operating Expenses	3,846,689	3,406,687
Operating Income	1,120,012	926,297
NONOPERATING REVENUES (EXPENSES)		
Investment income	23	2
Interest expense	(1,044,567)	(1,069,390)
Net Nonoperating Revenues (Expenses)	(1,044,544)	(1,069,388)
Increase (decrease) in net position	75,468	(143,091)
NET POSITION		
Net position - beginning of the year	1,880,336	2,023,427
Net position - end of the year	$ 1,955,804	$ 1,880,336

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	$ 113,204	$ 132,210
Food and vending commissions	16,032	13,230
Parking fees	555,540	492,737
Student center fees	2,017,431	1,718,518
University housing fees	2,186,807	2,534,784
Payments to suppliers for goods and services	(1,262,787)	(1,794,211)
Payments to employees for services	(1,734,560)	(1,321,171)
Net cash provided by operating activities	1,891,667	1,776,097
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal payments on revenue bonds	(840,000)	(820,000)
Interest payments on revenue bonds	(1,051,669)	(1,076,319)
Net cash used in capital financing activities	(1,891,669)	(1,896,319)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	23	2
Net cash provided by investing activities	23	2
NET INCREASE (DECREASE) IN CASH	21	(120,220)
Cash - beginning of year	2	120,222
Cash - end of year	$ 23	$ 2
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	$ 1,120,012	$ 926,297
Adjustments to reconcile operating income to net cash provided by operating activities:		
Noncash expense included in net operating income:		
Depreciation expense	879,543	897,243
Changes in assets and liabilities:		
Accounts receivable, net of allowance	58,334	439,001
Prepaid debt service insurance	940	940
Bank overdraft	(60,953)	(427,061)
Accounts payable & accrued expenses	29,812	(179,816)
Unearned revenue	(136,021)	119,493
Net cash provided by operating activities	$ 1,891,667	$ 1,776,097

OTHER INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2017

Student Enrollment by Term (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2016	5,819	3,887
Spring Term, 2017	5,432	3,555
Summer Term, 2017	2,667	1,187

University Fees (Unaudited)

The following mandatory fees were in effect during the 2016-2017 academic year:

	Per Credit Hour
Counseling and Career Services	$ 4
Health Services	$ 5
Strategic Initiative	$ 14
Student Activity	$ 5
Student Center	$ 9
Technology	$ 17
University Facilities	$ 22

	Per Term
Parking	$ 38

Schedule of Insurance In Force (Unaudited)

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

Fire and extended coverage ($25,000 deductible) of:	
Building and improvements	$ 225,492,303
EDP and contents	$ 34,722,172
Business interruption	$ 29,661,433
Boiler and machinery (included in blanket coverage limit)	$ 100,000,000
Earthquake	$ 100,000,000
Flood	$ 100,000,000
General liability	$ 19,650,000

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INDEPENDENT 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 Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Governors State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Governors State University's basic financial statements, and have issued our report thereon dated December 15, 2017. Our report includes a reference to another auditor who audited the financial statements of the Governors State University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Governors State University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Kankakee, IL

December 15, 2017

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

A. FINDING: Inadequate Controls Over Identifying and Recording Accrued Liabilities

During the prior audit period, Governors State University (University) had not established adequate internal controls over identifying and recording accrued liabilities for financial reporting purposes.

During the current audit period, we did not identify any instances where the University failed to identify and record accrued liabilities. (Finding Code No. 2016-001)

B. FINDING: Inadequate Controls over Student Accounts Receivable

During the prior audit period, the University's procedures for the substantiation and collection of student accounts receivable were inadequate.

During the current audit period, we did not identify any substantiation issues with balances incurred since 2011 and noted the University has increased its collection efforts. (Finding Code No. 2016-002)