STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

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

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GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
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AGENCY OFFICIALS

President	Dr. Elaine P. Maimon
Vice President for Administration and Finance	
August 24, 2018 to present	Dr. W. Paul Bylaska
September 11, 2017 to August 23, 2018 (Interim)	Dr. W. Paul Bylaska
Through September 10, 2017	Ms. Kimberly Lambert-Thomas
General Counsel and Vice President	
January 2, 2018 to present	Ms. Sarah Luke
December 1, 2017 to January 1, 2018	Vacant
Through November 30, 2017	Ms. Alexis Kennedy
Chief Internal Auditor	Mr. Kristoffer Evangelista, CPA
Associate Vice President for Finance	Ms. Villalyn Baluga, CPA

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 64-65 as item 2018-001, *Inadequate Controls Over Undergraduate Student Type Classifications*.

EXIT CONFERENCE

The University waived holding an exit conference to discuss the financial audit and the finding and recommendation appearing in this report in a communication dated December 12, 2018.

The response to the recommendation was provided by Ms. Villalyn Baluga, Associate Vice President for Finance, in a correspondence dated December 12, 2018.

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, 2018, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of 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, 2018, 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 2017 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 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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, 2017 to recognize the University's proportionate share of the State of Illinois' Other Postemployment Benefits liability and deferred outflow of resources in accordance with the adoption of GASB Statement No. 75. 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, Notes to Required Supplementary Information, Schedule of University's Proportionate Share of the Total Other Postemployment

Benefit Liability, and Notes to Required Supplementary Information on pages 7 through 14 and 54 through 57 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 January 10, 2019 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

January 10, 2019

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, 2018. 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

Net Revenue Available from Operational Appropriations

Fiscal Year	Appropriations	Payments to Health Reserve Fund	Available Appropriations
2018	$ 21,656,000	$ (656,200)	$ 20,999,800
2017	24,062,100 *	(656,200)	23,405,900

* *Composed of $12,757,000 Stop Gap funding recognized by the University in Fiscal Year 2017 and $11,305,100 additional funding recognized by the University in Fiscal Year 2018 as further explained below.*

During Fiscal Year 2017, 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 amounting to $12,757,000. On July 6, 2017, the State of Illinois adopted the remainder of a complete operating budget for Fiscal Year 2017 under Public Act 100-0021, which provided 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 was not recognized until Fiscal Year 2018.

A complete operating budget for Fiscal Year 2018 was also adopted under Public Act 100-0021, which provided the University $21,656,000 of State appropriations for general operations.

In the past, payments to the Health Reserve Fund were paid from State Appropriated Funds. Payments to Health Reserve Fund were fully supported by the University's Income Fund during Fiscal Year 2017, and partially supported by the University's Income Fund during Fiscal Year 2018. Either source effectively reduces the available funding for University operations.

Mandated Tuition Waivers

Certain tuition waivers are mandated by the State and have been funded or partially funded in the past. For Fiscal Year 2018, about $0.9 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 the Fall of 2017, 277 (97%) of the 285 beds were occupied. During the Fall of 2018, 96% of the beds were occupied.

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 6.7% during Academic Year 2018. Registered student credit hour totals were 119,332 in Academic Year 2017 and 111,351 in Academic Year 2018.

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.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	(in thousands)			Percent
	2018	2017	Change	Change
Current assets	$ 58,262	$ 35,554	$ 22,708	64%
Noncurrent assets-capital assets	111,314	114,948	(3,634)	-3%
Noncurrent assets-other	2,342	2,710	(368)	-14%
Total assets	171,918	153,212	18,706	12%
Deferred outflows of resources	427	101	326	323%
Current liabilities	12,866	11,438	1,428	12%
Noncurrent liabilities	70,387	41,096	29,291	71%
Total liabilities	83,253	52,534	30,719	58%
Deferred inflows of resources	7,910	-	7,910	100%
Net investment in capital assets	76,695	77,491	(796)	-1%
Restricted	844	842	2	0%
Unrestricted	3,643	22,446	(18,803)	-84%
Net position	$ 81,182	$ 100,779	$ (19,597)	-19%

The 19% 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 $22.7 million increase in current assets was mostly attributable to the $24.4 million and $0.2 million increases in cash and State appropriation receivable, respectively, primarily due to the increase in recognized nonoperating revenues for State appropriation and State Monetary Award Program (MAP) grant funding. This increase was partially offset by the $1.9 million decrease in grants receivable from the Illinois Department of Children and Family Services (DCFS) as a significant portion of the DCFS grant ended at the end of Fiscal Year 2017.

Noncurrent Assets - Capital Assets

The $3.6 million decrease in noncurrent capital assets was due to recognition of $4.8 million of depreciation expense in Fiscal Year 2018, partially offset by the $1.2 million of acquisitions of vehicles, equipment, intangible assets and building improvements.

Noncurrent Assets - Other

Other noncurrent assets consist primarily of the long-term portion of student loans receivable which decreased slightly by $0.4 million due to collecting more loans than were awarded. The U.S. Department of Education curtailed the awarding of any Federal Perkins Loans after September 30, 2017. The University student loan balances are expected to decline in coming years as existing Federal Perkins Loans are repaid by students without replacement of new loans to students.

Deferred outflows of resources

The University has recorded deferred outflows of resources related to pensions and other postemployment benefits (OPEB). The $0.3 million increase was mostly attributable to the recognition of deferred outflows of resources related to OPEB resulting from the University's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during Fiscal Year 2018.

Current Liabilities

Current liabilities include accounts payable, agency funds payable, accrued compensated absences, unearned revenue, and the current portion of long-term liabilities, which are payable in less than one year. The $1.4 million increase in current liabilities was mostly attributable to the increase in wages payable caused by the conversion of University employees paid under an anticipated payroll schedule in prior years to a delayed payroll schedule during Fiscal Year 2018. All University employees are now on a delayed payroll schedule.

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, intangible asset payable and the OPEB liability. The $29.3 million increase in noncurrent liabilities was mostly attributable to the University's recognition of its allocated share of the State's OPEB liability of $32.4 million as of June 30, 2018 resulting from the adoption of GASB Statement No. 75. This increase was partially offset by the $2.8 million in principal payments made on revenue bonds payable, notes payable, capital lease payable, certificates of participation and intangible asset payable, and the $0.3 million decrease in accrued compensated absences attributable to employee retirements and resignations during Fiscal Year 2018.

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

Deferred inflows of resources

During Fiscal Year 2018, the University has recorded deferred inflows of resources related to OPEB resulting from the University's adoption of GASB Statement No. 75. These deferred inflows of resources resulted from changes in actuarial assumptions and changes in the proportion of contributions used as the basis for allocating the State's OPEB liability and related amounts, which are then amortized to smooth the effect of these changes over several years.

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
	2018	2017	Change	Change
OPERATING REVENUES				
Net student tuition and fees	$ 35,743	$ 39,823	$ (4,080)	-10%
Grants and contracts	6,160	10,838	(4,678)	-43%
Sales and services of educational departments	65	71	(6)	-8%
Auxiliary enterprises	3,206	3,344	(138)	-4%
Other operating revenues	1,678	2,030	(352)	-17%
Total operating revenues	46,852	56,106	(9,254)	-16%
OPERATING EXPENSES	114,891	119,761	(4,870)	-4%
Net operating loss	(68,039)	(63,655)	(4,384)	7%
NONOPERATING REVENUES (EXPENSES)				
State appropriation	32,961	12,757	20,204	158%
Payments made on behalf of the University	38,812	42,550	(3,738)	-9%
Federal and State nonoperating grants	16,967	9,268	7,699	83%
Investment income	453	129	324	251%
Interest expense	(1,802)	(1,614)	(188)	12%
Other nonoperating revenues (expenses)	4	(29)	33	-114%
Net nonoperating revenues	87,395	63,061	24,334	39%
Capital appropriations provided by State of Illinois	302	8	294	3675%
Increase (decrease) in net position	19,658	(586)	20,244	-3455%
Net position - beginning of year, as restated	61,524	101,365	(39,841)	-39%
Net position - end of year	$ 81,182	$ 100,779	$ (19,597)	-19%

For Fiscal Year 2018, the change in net position was due to the following:

Operating Revenues
Net student tuition and fees decreased $4.1 million mostly due to a 6.7% decrease in credit hours and increase in scholarship allowances (due to increased Federal and MAP grants), partially offset by the 15% increase in tuition rates during the Academic Year 2017-2018. The $4.7 million decrease in grants and contracts was mostly due to the $5.2 million decrease in State grant and contract revenue (primarily a DCFS grant which ended at the end of Fiscal Year 2017), partially offset by a small net increase in Federal and other grant revenue. The $0.4 million decrease in other operating revenues was primarily due to a decrease in revenues from the family development center operations.

Operating Expenses (by functional classification)

	(in thousands)			Percent
	2018	2017	Change	Change
Instruction	$ 55,692	$ 56,382	$ (690)	-1%
Research	721	792	(71)	-9%
Public service	7,706	15,654	(7,948)	-51%
Academic support	3,626	2,823	803	28%
Student services	11,508	10,324	1,184	11%
Institutional support	19,432	17,230	2,202	13%
Operation and maintenance of plant	9,264	9,398	(134)	-1%
Auxiliary enterprises	2,140	2,252	(112)	-5%
Depreciation	4,802	4,906	(104)	-2%
Total operating expenses	$ 114,891	$ 119,761	$ (4,870)	-4%

Total operating expenses decreased by $4.9 million (4%) primarily due to cessation of the DCFS grant previously discussed and a reduction of expenses recognized for on behalf payments made by the State , partially offset by the increased spending from Federal and MAP grants as increased funding was made available in Fiscal Year 2018.

Operating Expenses (by natural classification)

	(in thousands)			Percent
	2018	2017	Change	Change
Salaries and benefits	$ 89,723	$ 96,870	$ (7,147)	-7%
Scholarships and awards	6,097	5,154	943	18%
Capital expenditures	764	460	304	66%
Services, supplies and other	13,505	12,371	1,134	9%
Depreciation	4,802	4,906	(104)	-2%
Total operating expenses	$ 114,891	$ 119,761	$ (4,870)	-4%

Salaries and benefits, representing the University's largest operating expense, decreased by $7.1 million primarily due to a reduction of expenses recognized for on behalf payments made by the State. This decrease was partially offset by the $0.9 million increase in scholarships and awards, $0.3 million increase in capital expenditures, and $1.1 million increase in services, supplies and other primarily due to the increases in State appropriations, Federal and State MAP grant funding that are available for use.

Nonoperating Revenues (Expenses)
State appropriation revenue recognized in Fiscal Year 2018 increased by $20.2 million due to $11.3 million of additional appropriations for Fiscal Year 2017, authorized by Public Act 100-0021, which could not be recognized as revenue until Fiscal Year 2018 in accordance with generally accepted accounting principles (GAAP). 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 2018, the University's allocated share of State's pension expense decreased by $2.1 million, and its share of health care benefits decreased by $1.6 million. Federal and State nonoperating grant revenues increased by $7.7 million primarily due to $3.1 million of Fiscal Year 2017 MAP award revenue that could not be recognized as revenue until Fiscal Year 2018 in accordance with GAAP, and an overall increase in Federal and MAP awards for Fiscal Year 2018. Investment income increased by $0.3 million due to higher cash balances on hand from receipt of State appropriations, which were transferred to a short-term investment account where higher interest was earned. Capital appropriations provided by the State of Illinois increased by $0.3 million. This was almost entirely prompt payment interest paid by the Capital Development Board (CDB) during Fiscal Year 2018 related to projects that were already completed in prior years.

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
	2018	2017	Change	Change
Net cash provided by (used in):				
Operating activities	$ (20,016)	$ (18,923)	$ (1,093)	6%
Noncapital financing activities	49,489	22,073	27,416	124%
Capital financing activities	(5,508)	(5,418)	(90)	2%
Investing activities	453	129	324	251%
Net increase (decrease) in cash and cash equivalents	24,418	(2,139)	26,557	-1,242%
Cash and cash equivalents - beginning of year	26,651	28,790	(2,139)	-7%
Cash and cash equivalents - end of year	$ 51,069	$ 26,651	$ 24,418	92%

The primary cash receipts from operating activities consist of student tuition and fees and grants and contracts revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash used in operating activities increased by $1.1 million primarily due to the decrease in receipts from tuition and fees, and increases in payments to suppliers and payments for scholarships. This was offset by the increase in grants and contract receipts, and decrease in payments to employees and fringe benefits. Net cash provided by noncapital financing activities increased by $27.4 million due to increases in State appropriation receipts and Federal and State MAP awards. Net cash used in capital financing activities consists of purchases of capital assets and payments of interest and principal on capital debt; no significant changes occurred during Fiscal Year 2018 as compared to Fiscal Year 2017. Net cash provided by investing activities increased by $0.3 million due to the increase in interest income.

UNIVERSITY'S DEBT RATINGS

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.

On November 14, 2018, S&P Global Ratings affirmed its "BB+" underlying rating on the University's Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 and 2009 Certificates of Participation. The outlook is stable.

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in Fiscal Year 2019 and beyond will lie in:

- The levels of appropriation for the University (and for higher education as a whole) upon which the General Assembly and the Governor ultimately agree.
- The University's ability to market itself to new and continuing students to 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 2018 (and beyond), and in retaining those classes of first-year students who began in the fall semesters of 2015, 2016 and 2017.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2018
(With Comparative Totals as of June 30, 2017)

	2018		2017	
	University	**Component Unit**	**University**	**Component Unit**
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2 and 3)	$ 51,068,915	$ 406,827	$ 26,650,989	$ 224,926
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	28	-	28	-
Accounts receivable, net of allowance for uncollectible accounts of $6,060,000 (Note 2)	3,952,134	57,222	3,928,747	10,134
Grants receivable (Note 2)	2,341,217	-	4,209,609	15,684
State appropriation receivable	179,841	-	-	-
Student loans - current (Note 2)	400,283	-	455,112	-
Due from component unit (Note 10)	38,764	-	-	-
Due from University	-	-	-	84,275
Prepaid debt service insurance - current (Notes 2 and 8)	16,132	-	18,941	-
Inventories (Note 2)	44,981	-	45,008	-
Other assets	219,747	6,480	245,242	5,250
Total current assets	58,262,042	470,529	35,553,676	340,269
Noncurrent assets				
Investments (Notes 2 and 3)	-	4,094,170	-	3,939,574
Student loans, net of allowance for uncollectible loans of $700,000 (Note 2)	2,274,051	-	2,625,478	-
Prepaid debt service insurance (Notes 2 and 8)	68,310	-	84,442	-
Capital assets (Note 7)	190,968,472	2,297,156	190,072,334	2,233,156
Accumulated depreciation (Note 7)	(79,654,399)	-	(75,123,705)	-
Total noncurrent assets	113,656,434	6,391,326	117,658,549	6,172,730
Total assets	171,918,476	6,861,855	153,212,225	6,512,999
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions after measurement date (Notes 2 and 5)	114,935	-	100,914	-
Deferred outflows from other postemployment benefits (Notes 2 and 6)	311,942	-	-	-
Total deferred outflows of resources	426,877	-	100,914	-
LIABILITIES				
Current liabilities				
Accounts payable	6,646,356	29,051	5,291,573	6,419
Agency funds payable	270,055	-	222,997	-
Accrued compensated absences (Notes 2 and 9)	350,000	-	350,000	-
Due to component unit	-	-	84,275	-
Due to University (Note 10)	-	38,764	-	-
Unearned revenue (Note 2)	2,769,982	-	2,656,452	-
Revenue bonds payable (Note 8)	895,853	-	865,853	-
Notes payable (Note 8)	565,712	-	544,923	-
Capital lease payable (Note 8)	-	-	89,252	-
Certificates of participation (Notes 8 and 16)	1,297,445	-	1,242,672	
Intangible asset payable (Note 8)	70,890	-	89,889	-
Total current liabilities	12,866,293	67,815	11,437,886	6,419
Noncurrent liabilities				
Accrued compensated absences (Notes 2 and 9)	2,765,672	-	3,089,750	-
Refundable grants	3,392,582	-	3,381,820	-
Revenue bonds payable (Note 8)	23,144,654	-	24,040,508	-
Notes payable (Note 8)	48,106	-	613,818	-
Certificates of participation (Notes 8 and 16)	8,532,438	-	9,829,883	
Intangible asset payable (Note 8)	64,164	-	140,377	-
Other postemployement benefits (Note 6)	32,439,229	-	-	-
Total noncurrent liabilities	70,386,845	-	41,096,156	-
Total liabilities	83,253,138	67,815	52,534,042	6,419
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from other postemployment benefits (Notes 2 and 6)	7,910,219	-	-	-
Total deferred inflows of resources	7,910,219	-	-	-
NET POSITION (Notes 2 and 15)				
Net investment in capital assets	76,694,811	2,297,156	77,491,454	2,233,156
Restricted:				
Nonexpendable	-	2,159,792	-	2,102,345
Expendable				
Loans	665,723	-	681,651	-
Debt service	28	-	28	-
Other	177,925	1,714,430	159,997	1,727,511
Unrestricted	3,643,509	622,662	22,445,967	443,568
Total net position	$ 81,181,996	$ 6,794,040	$ 100,779,097	$ 6,506,580

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, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018		2017	
	University	Component Unit	University	Component Unit
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowances of $10,287,149 (Note 2)	$ 35,743,173	$ -	$ 39,823,090	$ -
Federal grants and contracts	3,818,130	-	3,235,089	-
State grants and contracts	2,074,356	-	7,318,716	-
Other grants and contracts	267,299	48,183	284,026	170,500
Sales and services of educational departments	64,952	-	71,376	-
Auxiliary enterprises	3,205,589	-	3,343,714	-
Other operating revenues	1,677,979	369,795	2,030,290	333,890
Total operating revenues	46,851,478	417,978	56,106,301	504,390
OPERATING EXPENSES				
Instruction	55,691,815	-	56,381,735	-
Research	721,030	-	791,635	-
Public service	7,705,767	-	15,654,038	-
Academic support	3,626,213	-	2,823,046	-
Student services	11,507,602	-	10,324,292	-
Institutional support	19,431,689	-	17,230,397	-
Operation and maintenance of plant	9,263,944	-	9,397,855	-
Auxiliary enterprises	2,140,477	-	2,251,887	-
Depreciation	4,802,242	-	4,906,310	-
University support	-	522,903	-	339,852
Other expense	-	461,072	-	373,366
Total operating expenses	114,890,779	983,975	119,761,195	713,218
Net operating loss	(68,039,301)	(565,997)	(63,654,894)	(208,828)
NONOPERATING REVENUES (EXPENSES)				
State appropriation	32,961,100	-	12,757,000	-
Payments made on behalf of the University	38,812,302	-	42,550,485	-
Federal and State nonoperating grants	16,967,034	-	9,268,085	-
Gifts	-	431,588	-	368,056
Investment income	452,910	300,422	129,062	322,090
Interest expense	(1,802,211)	-	(1,614,290)	-
Other nonoperating income (expense)	4,381	-	(29,566)	-
Net nonoperating revenues	87,395,516	732,010	63,060,776	690,146
Income (loss) before other revenues, expenses, gains and losses	19,356,215	166,013	(594,118)	481,318
Capital appropriations provided by State of Illinois	301,698	-	7,678	-
Capital gifts	-	64,000	-	-
Additions to permanent endowments	-	57,447	-	129,603
Increase (decrease) in net position	19,657,913	287,460	(586,440)	610,921
NET POSITION (Notes 2 and 15)				
Net position - beginning of year, as previously reported	100,779,097	6,506,580	102,701,269	5,895,659
Prior period adjustment	(39,255,014)	-	(1,335,732)	-
Net position - beginning of year, as restated	61,524,083	6,506,580	101,365,537	5,895,659
Net position - end of year	$ 81,181,996	$ 6,794,040	$ 100,779,097	$ 6,506,580

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, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018		2017	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 35,824,960	$ -	$ 40,343,770	$ -
Grants and contracts	8,441,715	63,867	6,879,078	154,816
Payments to suppliers	(14,550,631)	(328,104)	(11,826,690)	(359,941)
Payments for scholarships	(6,096,702)	(296,239)	(5,154,132)	(109,697)
Payments to employees and fringe benefits	(48,894,532)	-	(54,695,598)	-
Auxiliary enterprises	3,205,589	-	3,343,714	-
Sales and services of educational departments	64,952	-	71,376	-
Student loans issued	(9,052)	-	(294,863)	-
Student loans collected	320,061	-	380,173	-
Other operating revenues	1,677,979	32,795	2,030,290	33,775
Net cash used in operating activities	(20,015,661)	(527,681)	(18,922,882)	(281,047)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	32,781,259	-	12,759,711	-
Federal and State nonoperating grants	16,707,736	-	9,313,534	-
Contributions	-	505,536	-	213,739
Contributions for permanent endowments	-	57,447	-	129,603
Net cash provided by noncapital financing activities	49,488,995	562,983	22,073,245	343,342
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(1,146,572)	-	(1,059,602)	-
Principal payments on capital debt	(2,853,632)	-	(2,744,303)	-
Interest payments on capital debt	(1,508,114)	-	(1,614,064)	-
Net cash used in capital financing activities	(5,508,318)	-	(5,417,969)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	-	1,313,996	-	709,643
Investment income	452,910	83,858	129,062	75,281
Investment management fees	-	(42,798)	-	(37,551)
Purchase of investment securities	-	(1,208,457)	-	(1,037,275)
Net cash provided by (used in) investing activities	452,910	146,599	129,062	(289,902)
Net increase (decrease) in cash and cash equivalents	24,417,926	181,901	(2,138,544)	(227,607)
Cash and cash equivalents - beginning of year	26,651,017	224,926	28,789,561	452,533
Cash and cash equivalents - end of year	$ 51,068,943	$ 406,827	$ 26,651,017	$ 224,926
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Net operating loss	$ (68,039,301)	$ (565,997)	$ (63,654,894)	$ (208,828)
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Noncash expenses included in net operating loss:				
Depreciation	4,802,242	-	4,906,310	-
Payments made on behalf of the University	38,812,302	-	42,550,485	-
Changes in assets, deferred outflows of resources, deferred inflows of resouces and liabilities:				
Accounts receivable, grants receivable and due from component unit	2,065,539	15,684	(1,659,366)	(15,684)
Inventories	27	-	15,037	-
Other assets	25,495	-	(20,278)	-
Student loans	406,256	-	278,219	-
Prepaid debt service insurance	18,941		18,940	
Deferred outflows of resources	481,928	-	(12,257)	-
Accounts payable and due to component unit	1,277,095	22,632	719,095	(56,535)
Agency funds payable	47,058	-	61,072	-
Unearned revenue	113,530	-	(1,641,548)	-
Accrued compensated absences	(324,078)	-	(232,224)	-
Refundable grants	10,762	-	(251,473)	-
Other postemployment benefits	(7,623,676)	-	-	-
Deferred inflows of resources	7,910,219	-	-	-
Net cash used in operating activities	$ (20,015,661)	$ (527,681)	$ (18,922,882)	$ (281,047)
NONCASH INVESTING, NONCAPITAL AND CAPITAL FINANCING ACTIVITIES				
Capital assets acquired with debt	$ 9,245	$ -	$ 324,516	$ -
Capital appropriations	$ 301,698	$ -	$ 7,678	$ -
Unrealized gain on investments	$ -	$ 104,718	$ -	$ 213,950
Donations of capital assets	$ -	$ 64,000	$ -	$ -
Other noncash contributions	$ -	$ 2,003	$ -	$ 73,164

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, 2018 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 inflows/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, Student Loans, and State Appropriation Receivables

An aging of accounts, grants, student loans, and State appropriation receivable as of June 30, 2018 is as follows:

Not in repayment	$ 1,237,471
Current	6,185,416
Up to 120 days past due	2,039,464
From 121 to 365 days past due	1,487,998
More than 365 days past due	4,957,177
Allowance for doubtful accounts	(6,760,000)
Net accounts, grants, student loans, and State appropriation receivable	$ 9,147,526

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 Absences

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

Unearned Revenue

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

Classification of Revenues

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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/inflows of resources related to pensions and postemployment benefits as explained in Notes 5 and 6, respectively.

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 $25,982,302 for the year ended June 30, 2018. 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 University reported on-behalf payments totaling $12,830,000 for the year ended June 30, 2018. This includes $4,849,000 for current group insurance benefits for active employees and $7,981,000 for post-employment benefits for current and future retirees. The on-behalf payment amount that relates to the current group insurance benefits is an allocation of estimated costs incurred by CMS on-behalf of the University. The on-behalf payment amount for postemployment benefits for current and future retirees is an allocation of the State's actuarially determined postemployment benefit expense.

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. The University's significant accounting estimates include the allowance for student accounts receivable and loans receivable, depreciation of capital assets, unearned tuition and fees, and compensated absences. Accordingly, 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, 2017, 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, 2018, the University adopted the following accounting pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. It replaces GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, as amended, and No. 57. The implementation of this Statement significantly impacted the University's financial statements and disclosures with the recognition of its proportionate share of the State of Illinois' OPEB liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position, and OPEB expense on the Statement of Revenues, Expenses and Changes in Net Position. Additionally, the requirements of this Statement resulted in the restatement of beginning net position as discussed in Note 15. Information regarding OPEB is disclosed in Note 6.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement did not impact the University's financial statements.

- 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 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

- **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

    - 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.

  This Statement did not impact the University’s financial statements.

- 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. This Statement did not impact the University’s financial statements.

Future Adoption of GASB Statements

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

- 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

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

- 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.

- GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61.* The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a specific-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

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

- 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest costs incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

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	$ 51,068,915	$ 406,827
Restricted cash	28	-
Investments	-	4,094,170
Total	$ 51,068,943	$ 4,500,997
Deposits and Investments		
Cash in bank	$ 7,308,762	$ 70,495
Cash on hand	8,025	-
Investments	43,752,156	4,430,502
Total	$ 51,068,943	$ 4,500,997

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 $320,495 (University and Foundation) at June 30, 2018. The remaining bank balances as of June 30, 2018 were fully collateralized. The University’s and Foundation’s respective bank balances were $7,978,815 and $70,495 as of June 30, 2018. 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.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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, 2018 is as follows:

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	AAAm	< 1 year	$ 28	$ 28
Illinois Funds	AAAm	< 1 year	43,752,128	43,752,128
Total			$ 43,752,156	$ 43,752,156

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, 2018, 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.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Foundation Investments

The fair value of the investment portfolio of the Foundation at June 30, 2018 is as follows:

	Fair Value
Money Market Funds	$ 260,720
Illinois Funds	75,612
Stocks/Mutual Funds investing in stocks	3,145,385
Mutual Funds investing in bonds	752,693
Corporate Bonds	196,092
Total	$ 4,430,502

The valuation by levels at June 30, 2018 is as follows:

	Fair Value	Level 1	Level 2	Level 3
Money Market Funds	$ 260,720	$ 260,720	$ -	$ -
Illinois Funds	75,612	75,612	-	-
Stocks/Mutual Funds investing in stocks	3,145,385	3,145,385	-	-
Mutual Funds investing in bonds	752,693	752,693	-	-
Corporate Bonds	196,092	-	196,092	-
Total	$ 4,430,502	$ 4,234,410	$ 196,092	$ -

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2018, 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, 2018 are as follows:

		Investment Maturity (in Years)			
	Fair Value	Less Than 1	1 – 5	5 – 10	10 or More
Mutual Funds investing in bonds	$ 752,693	$ -	$ 704,005	$ -	$ 48,688
Corporate Bonds	196,092	-	196,092	-	-
Total	$ 948,785	$ -	$ 900,097	$ -	$ 48,688

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2018 are as follows:

Credit Rating	Total Debt Securities
No Rating	$ 365,059
AA	25,689
AA-	48,261
A+	48,511
A	106,264
BBB+	49,222
BBB	272,347
B	33,432
Total	$ 948,785

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, 2018 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, 2017 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 2017 and 2018 respectively, was 12.53% and 12.46% 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

The net pension liability (NPL) was measured as of June 30, 2017. At June 30, 2017, SURS reported a net pension liability of $25,481,105,995.

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 $274,380,549 or 1.0768%. This amount is not in the University's financial statements. The net pension liability and total pension liability as of June 30, 2017 was determined based on the June 30, 2016 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 2017.

Pension Expense

At June 30, 2017, SURS reported a collective net pension expense of $2,412,918,129.

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 2017. As a result, the University recognized on-behalf revenue and pension expense of $25,982,302 for the fiscal year ended June 30, 2018.

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	$ 139,193,227	$ 1,170,771
Changes in assumptions	205,004,315	259,657,577
Net difference between projected and actual earnings on pension plan investments	94,620,827	-
Total	$ 438,818,369	$ 260,828,348

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
2018	$ 55,589,850
2019	187,874,276
2020	90,475,551
2021	(155,949,656)
2022	-
Thereafter	-
	$ 177,990,021

Employer Deferral of Fiscal Year 2018 Pension Expense

The University paid $114,935 in federal, trust or grant contributions for the fiscal year ended June 30, 2018. These contributions were made subsequent to the pension liability date of June 30, 2017 and are recognized as deferred outflows of resources as of June 30, 2018.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

<u>Assumptions and Other Inputs</u>

Actuarial assumptions

The actuarial assumptions used in the June 30, 2017 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, 2017 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, 2017, 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%	7.34%
Global Equity	8%	6.85%
Fixed Income	19%	1.38%
Treasury-Inflation Protected Securities	4%	1.17%
Emerging Market Debt	3%	4.14%
Real Estate REITS	4%	5.75%
Direct Real Estate	6%	4.62%
Commodities	2%	4.23%
Hedged Strategies	5%	3.95%
Opportunity Fund	1%	6.71%
Total	100%	5.20%
Inflation		2.75%
Expected Arithmetic Return		7.95%

Discount Rate

A single discount rate of 7.09% 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 7.25% and a municipal bond rate of 3.56% (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 7.09%, 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 6.09%	Rate Assumption 7.09%	1% Increase 8.09%
$ 30,885,146,279	$ 25,481,105,995	$ 20,997,457,586

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

Plan description

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the Illinois State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System of Illinois (SURS) are eligible for these other postemployment benefits (OPEB).

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits provided

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding policy and annual other postemployment benefit cost

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For Fiscal Year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB

The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the University recorded a liability of $32,439,229 for its proportionate share of the State's total OPEB liability. The University's portion of the OPEB liability was based on the University's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the University's proportion was 0.0785%, which was a decrease of 0.0136% from its proportion measured as of the prior year measurement date of June 30, 2016.

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

The University recognized OPEB expense for the year ended June 30, 2018, of $8,763,492. At June 30, 2018, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources:

Deferred outflows of resources		
Differences between expected and actual experience	$	10,399
University contributions subsequent to the measurement date		301,543
Total deferred outflows of resources	$	311,942
Deferred inflows of resources		
Changes of assumptions	$	3,080,094
Changes in proportion and differences between employer contributions and proportionate share of contributions		4,830,125
Total deferred inflows of resources	$	7,910,219

The amounts reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,		
2019	$	(1,775,846)
2020		(1,775,846)
2021		(1,775,846)
2022		(1,775,846)
2023		(796,436)
Total	$	(7,899,820)

Actuarial methods and assumptions

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.56%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

*Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2016 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study[1]	Mortality[2]
GARS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales.
JRS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales.
SERS	July 2009 - June 2013	105% of the RP-2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.
TRS	July 2011 - June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014.
SURS	July 2010 - June 2014	RP-2014 White Collar, gender distinct, projected using MP-2014 two-dimensional mortality improvement scale, set forward one year for male and female annuitants.

[1]The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

[2]Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

Discount rate

Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate

The following presents the plan's total OPEB liability, calculated using a single discount rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a single discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate:

	1 % Decrease (2.56%)	Current Single Discount Rate Assumption (3.56%)	1% Increase (4.56%)
University's proportionate share of total OPEB liability	$ 36,802,038	$ 32,439,229	$ 28,100,984

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate

The following presents the plan's total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates. The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

	1 % Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
University's proportionate share of total OPEB liability	$ 27,719,053	$ 32,439,229	$ 36,336,073

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

Requests for information

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 Office Building, 401 South Spring Street, Springfield, Illinois 62706.

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, 2018.

NOTE 7 - CAPITAL ASSETS (Continued)

Capital assets activity for the University and Foundation for the year ended June 30, 2018 are summarized as follows:

	Balance June 30, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
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	64,000	-	-	2,297,156
Total capital assets not being depreciated	$ 4,056,565	$ 64,000	$ -	$ (3,000)	$ 4,117,565
Other capital assets:					
Site improvements	$ 9,309,741	$ -	$ -	$ -	$ 9,309,741
Buildings	152,418,490	716,935	-	3,000	153,138,425
Intangible assets	1,904,919	38,039	-	25,045	1,968,003
Equipment under capital lease	236,662	-	-	(236,662)	-
Equipment	11,799,008	408,142	(111,431)	211,617	12,307,336
Library collection	12,580,105	14,189	(169,736)	-	12,424,558
Total other capital assets	188,248,925	1,177,305	(281,167)	3,000	189,148,063
Accumulated depreciation:					
Site improvements	(3,541,609)	(414,524)	-	-	(3,956,133)
Buildings	(47,963,928)	(3,302,237)	-	-	(51,266,165)
Intangible assets	(1,154,785)	(161,110)	-	(25,045)	(1,340,940)
Equipment under capital lease	(126,678)	(46,498)	-	173,176	-
Equipment	(10,132,048)	(690,331)	101,812	(148,131)	(10,868,698)
Library collection	(12,204,657)	(187,542)	169,736	-	(12,222,463)
Total accumulated depreciation	(75,123,705)	(4,802,242)	271,548	-	(79,654,399)
Other capital assets, net	$113,125,220	$ (3,624,937)	$ (9,619)	$ 3,000	$109,493,664
Capital assets summary:					
Capital assets not being depreciated	$ 4,056,565	$ 64,000	$ -	(3,000)	$ 4,117,565
Other capital assets	188,248,925	1,177,305	(281,167)	3,000	189,148,063
Accumulated depreciation	(75,123,705)	(4,802,242)	271,548	-	(79,654,399)
Total capital assets, net	$117,181,785	$ (3,560,937)	$ (9,619)	$ -	$113,611,229

NOTE 8 - LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2018 were as follows:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Amounts Due Within One Year
Notes payable	$ 1,158,741	$ -	$ 544,923	$ 613,818	$ 565,712
Intangible asset payable	230,266	9,245	104,457	135,054	70,890
Capital lease payable	89,252	-	89,252	-	-
Revenue bonds 2007	5,765,000	-	425,000	5,340,000	445,000
Revenue bonds 2012	19,145,000	-	440,000	18,705,000	450,000
Certificates of participation 2008	8,900,000	-	140,000	8,760,000	150,000
Certificates of participation 2009	2,265,000	-	1,110,000	1,155,000	1,155,000
	37,553,259	9,245	2,853,632	34,708,872	2,836,602
Unamortized discounts	(116,854)	-	(9,583)	(107,271)	(9,584)
Unamortized premiums	20,770	-	3,109	17,661	2,882
	$ 37,457,175	$ 9,245	$ 2,847,158	$ 34,619,262	$ 2,829,900

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, 2018 are as follows:

Year Ending June 30	Principal	Interest	Total
2019	$ 565,712	$ 13,361	$ 579,073
2020	48,106	150	48,256
	$ 613,818	$ 13,511	$ 627,329

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. As of June 30, 2018, the University has not exercised this option to redeem the bonds maturing on or after October 1, 2018.

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, 2018 are as follows:

Year Ending June 30	Principal	Interest	Total
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	520,000	129,356	649,356
2024 - 2028	2,935,000	309,141	3,244,141
	$ 5,340,000	$ 1,152,022	$ 6,492,022

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, 2018 are as follows:

Year Ending June 30	Principal	Interest	Total
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	510,000	734,270	1,244,270
2024 – 2028	2,860,000	3,354,446	6,214,446
2029 – 2033	3,510,000	2,696,892	6,206,892
2034 – 2038	4,400,000	1,813,613	6,212,613
2039 - 2043	5,545,000	668,554	6,213,554
	$18,705,000	$12,357,744	$31,062,744

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. As of June 30, 2018, the University had not exercised the right to redeem the Certificates that are callable on or after January 1, 2018.

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. As of June 30, 2018, the University did not exercise the right to redeem the Certificates on or after January 1, 2018 at a redemption price of 100% 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.

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.

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, 2018 are as follows:

Year Ending June 30	Principal	Interest	Total
2019	$ 150,000	$ 182,150*	$ 332,150
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	865,000	241,063	1,106,063
2024 - 2028	4,875,000	648,175	5,523,175
	$ 8,760,000	$ 2,033,500	$10,793,500

* The July 1, 2018 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, 2018 are as follows:

Year Ending June 30	Principal	Interest	Total
2019	1,155,000	25,988*	1,180,988
	$ 1,155,000	$ 25,988	$ 1,180,988

* The July 1, 2018 interest payment was made before June 30.

Capital Lease Payable

The University leased equipment under a capital lease purchase contract with an imputed interest rate of 10.799%. The capital lease payable was secured by the equipment being financed. 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 capital lease payable was fully paid during Fiscal Year 2018.

Intangible Asset Payable

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, 2018 are as follows:

Year Ending June 30	Amount
2019	$ 70,890
2020	25,833
2021	26,866
2022	11,465
	$ 135,054

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, 2018 was as follows:

Balance, beginning of year	$ 3,439,750
Movement	(324,078)
Balance, end of year	3,115,672
Less: current portion	350,000
Balance, noncurrent portion	$ 2,765,672

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 the University to 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, 2018 at $337,000, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of $522,903 for the year ended June 30, 2018. 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, 2018, $38,764 is due to the University from the Foundation.

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, 2018, net appreciation of endowments of $540,672 has been reported as Restricted Net Position - Expendable, Other.

NOTE 13 - OPERATING LEASES

During the fiscal year, the University leased equipment. The rental expense for this lease agreement was $7,476 for the year ended June 30, 2018.

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

Year Ending June 30	Base Rent
2019	$ 7,476
2020	7,476
2021	3,738
	$ 18,690

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	$ 37,554,766	2043	5.44%

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

In Fiscal Year 2018, as discussed in Note 2, the University reported an effect of a change in accounting principle which adjusted the beginning net position as of July 1, 2017 to reflect the University' proportionate share of the State of Illinois' OPEB liability and deferred outflows of resources in accordance with the adoption of GASB Statement No. 75. The prior period adjustment is reflected as follows:

Net position - beginning of year, as previously reported	$ 100,779,097
Prior period adjustment	(39,255,014)
Net position - beginning of year, as restated	$ 61,524,083

NOTE 16 - SUBSEQUENT EVENTS

On August 30, 2018, the University issued $13,550,000 of University Capital Improvement Project Certificates of Participation, Series 2018, with an interest rate of 5.00% to fund deferred maintenance projects at the University and pay the costs of issuing the Series 2018 Certificates.

On November 14, 2018, S&P Global Ratings affirmed its "BB+" underlying rating on the University's Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 and 2009 Certificates of Participation. The outlook is stable.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer's Proportionate Share of Net Pension Liability

	FY 2017	FY 2016	FY 2015	FY 2014
(a) Proportional percentage of the collective net pension liability	0%	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	$ 274,380,549	$ 283,803,489	$ 265,336,393	$ 221,808,386
Total (b) + (c)	$ 274,380,549	$ 283,803,489	$ 265,336,393	$ 221,808,386
Employer Defined Benefit (DB) Covered Payroll	$ 38,040,603	$ 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	721.28%	718.59%	653.07%	598.41%
SURS Plan net position as a percentage of total pension liability	42.04%	39.57%	42.37%	44.39%

Schedule of Employer Contributions

	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Federal, trust, grant and other contribution	$ 114,935	$ 100,914	$ 88,657	$ 95,432	$ 171,808
Contribution in relation to the required contribution	$ 114,935	$ 100,914	$ 88,657	$ 95,432	$ 171,808
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Employer DB covered payroll	$ 35,924,051	$ 38,404,603	$ 39,494,594	$ 40,629,305	$ 37,066,314
Contributions as a percentage of covered-employee payroll	0.32%	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, 2017.

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 based 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.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

Schedule of University's Proportionate Share of the Total Other Postemployment Benefit Liability

	FY 2017	FY 2016
University's proportion of the collective total OPEB liability	0.0785%	0.0921%
University's proportionate share of the collective total OPEB liability	$ 32,439,229	$ 40,062,905
University's covered-employee payroll	$ 48,307,385	$ 50,947,450
University's proportionate share of the collective total OPEB liability as a percentage of the University's covered-employee payroll	67.15%	78.64%

Note: The University implemented GASB Statement No. 75 in fiscal year 2018. The information above is presented for as many years as available. The schedule is intended to show information for 10 years.

Notes to Required Supplementary Information

Note 1 -Payment of benefits.

No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of other postemployment benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis.

Note 2 - Factors that affect trends in the amounts reported.

An actuarial valuation was performed as of June 30, 2016, for the years July 1, 2010 to June 30, 2014 with a measurement date as of June 30, 2017. The following assumptions were used:

- Mortality rates. RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants.
- Salary increase. Dependent upon service and participation in the respective retirement systems. Includes inflation rate of 2.75%, salary increase 3.0% - 15.0%.
- Healthcare Cost Trend Rate:
  - Medical (Pre-Medicare) - 8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7;
  - Medical (Post-Medicare) - 9.0% grading down 0.5% per year over 9 years to 4.5%;
  - Dental - 7.5% grading down 0.5% per year over 6 years to 4.5%;
  - Vision - 3%
- Retiree's share of benefit-related costs: Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF NET POSITION
JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 202,089	$ -
Cash and cash equivilents, restricted	23	23
Accounts receivable, net of allowance	142,432	106,416
Prepaid debt service insurance - current	940	940
Total Current Assets	345,484	107,379
Noncurrent Assets		
Prepaid debt service insurance	7,990	8,930
Capital assets	32,107,533	32,107,533
Less accumulated depreciation	(5,660,305)	(4,780,761)
Total Noncurrent Assets	26,455,218	27,335,702
Total Assets	26,800,702	27,443,081
LIABILITIES		
Current Liabilities		
Bank overdraft	-	46,329
Accounts payable & accrued expenses	444,349	351,199
Unearned revenue	214,793	183,388
Revenue bonds payable	895,853	865,853
Total Current Liabilities	1,554,995	1,446,769
Noncurrent Liabilities		
Revenue bonds payable	23,144,654	24,040,508
Total Noncurrent Liabilities	23,144,654	24,040,508
Total Liabilities	24,699,649	25,487,277
NET POSITION		
Invested in capital assets, net of related debt	2,406,721	2,420,411
Unrestricted	(305,668)	(464,607)
Total Net Position	$ 2,101,053	$ 1,955,804

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, 2018
(With Comparative Totals for June 30, 2017)

	2018	2017
OPERATING REVENUES		
Bookstore commissions	$ 112,922	$ 113,204
Food and vending commissions	14,219	16,032
Parking fees	459,947	557,857
University housing fees	2,053,647	2,161,775
Student center, activity, and career & counseling fees	2,618,719	2,117,833
Total Operating Revenues	5,259,454	4,966,701
OPERATING EXPENSES		
Salaries and benefits	1,619,872	1,746,920
Scholarships and awards	257,508	204,580
Capital expenditures	243,394	73,735
Services, supplies and other	1,095,334	941,911
Depreciation	879,544	879,543
Total Operating Expenses	4,095,652	3,846,689
Operating Income	1,163,802	1,120,012
NONOPERATING REVENUES (EXPENSES)		
Investment income	-	23
Interest expense	(1,018,553)	(1,044,567)
Net Nonoperating Revenues (Expenses)	(1,018,553)	(1,044,544)
Increase (decrease) in net position	145,249	75,468
NET POSITION		
Net position - beginning of the year	1,955,804	1,880,336
Net position - end of the year	$ 2,101,053	$ 1,955,804

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	$ 112,922	$ 113,204
Food and vending commissions	14,219	16,032
Parking fees	436,431	555,540
Student center, activity, and career & counseling fees	2,670,525	2,017,431
University housing fees	2,020,746	2,186,807
Payments to suppliers for goods and services	(1,583,603)	(1,262,787)
Payments to employees for services	(1,578,157)	(1,734,560)
Net cash provided by operating activities	2,093,083	1,891,667
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal payments on revenue bonds	(865,000)	(840,000)
Interest payments on revenue bonds	(1,025,994)	(1,051,669)
Net cash used in capital financing activities	(1,890,994)	(1,891,669)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	-	23
Net cash provided by investing activities	-	23
NET INCREASE (DECREASE) IN CASH	202,089	21
Cash - beginning of year	23	2
Cash - end of year	$ 202,112	$ 23
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	$ 1,163,802	$ 1,120,012
Adjustments to reconcile operating income to net cash provided by operating activities:		
Noncash expense included in net operating income:		
Depreciation expense	879,544	879,543
Changes in assets and liabilities:		
Accounts receivable, net of allowance	(36,016)	58,334
Prepaid debt service insurance	940	940
Bank overdraft	(46,329)	(60,953)
Accounts payable & accrued expenses	99,737	29,812
Unearned revenue	31,405	(136,021)
Net cash provided by operating activities	$ 2,093,083	$ 1,891,667

OTHER INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2018

Student Enrollment by Term (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2017	5,185	3,554
Spring Term, 2018	4,884	3,314
Summer Term, 2018	2,432	1,110

University Fees (Unaudited)

The following mandatory fees were in effect during the 2017-2018 academic year:

	Per Credit Hour
Counseling and Career Services	$ 5
Health Services	$ 5
Strategic Initiative	$ 11
Student Activity	$ 8
Student Center	$ 10
Technology	$ 13
University Facilities	$ 24

	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	$ 240,298,448
EDP and contents	$ 34,926,039
Business interruption	$ 35,404,793
Boiler and machinery (included in blanket coverage limit) (per occurrence)	$ 100,000,000
Earthquake (per occurrence)	$ 100,000,000
Flood (per occurrence)	$ 100,000,000
General liability (per occurrence)	$ 10,650,000

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 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, 2018, 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 January 10, 2019. 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2018-001 that we consider to be a significant deficiency.

Governors State University's Response to Finding

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

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

January 10, 2019

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2018-001 FINDING: INADEQUATE CONTROLS OVER UNDERGRADUATE STUDENT TYPE CLASSIFICATIONS

Governors State University (University) has not established adequate internal controls over undergraduate student type classifications which are used to identify the appropriate tuition rates charged to students as required by the Governors State University Law (Law).

We tested the University's internal controls over student tuition revenue for financial statement and compliance purposes. We tested 100 students who registered for classes for the Spring of 2018. Our testing identified 12 undergraduate students (12%) whose tuition rates charged were inaccurate due to inaccurate student type classifications entered in the student profile of the University's ERP system. The student type classification is utilized by the University's ERP system to determine the correct tuition rate based on tables entered into the system. We also noted 6 additional undergraduate students whose student type classifications were inaccurate, but it did not impact the tuition rate assessed due to timing and/or unchanged rates from the year prior. The financial error noted in our sample netted to $1,584 and resulted in a projected error of $211,905. The University has not adjusted its Fiscal Year 2018 financial statements to address this error.

The Law (110 ILCS 670/15-120) states for 4 continuous academic years following initial enrollment, the tuition charged an undergraduate student who is an Illinois resident shall not exceed the amount that the student was charged at the time he or she first enrolled at the University. After the 4 continuous academic years, if the student continues to qualify, the student will be charged a tuition rate based upon the tuition rate charged for new students in the academic year immediately following the year the student first enrolled in the University, for up to 2 additional continuous academic years.

The University Catalog also states "the tuition for undergraduate students who are Illinois residents is assessed at a per-credit-hour tuition rate during the term they first register and the same tuition rate will apply for each of the following eleven terms (fall, spring or summer). If the undergraduate student has not yet completed the undergraduate degree at Governors State University after the initial 12 consecutive terms then tuition will be assessed at the guaranteed rate of the year following the student's initial enrollment. This new rate will then be assessed for a maximum of 6 consecutive terms (fall, spring, or summer)."

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

University officials stated some student type classifications were incorrectly entered in student profiles of the University's ERP system and some were improperly changed without appropriate review.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2018-001 FINDING: INADEQUATE CONTROLS OVER UNDERGRADUATE STUDENT TYPE CLASSIFICATIONS (Continued)

Failure to properly enter student type classifications in student profiles results in students being charged incorrect tuition rates and results in the University's noncompliance with the Law. (Finding Code No. 2018-001)

RECOMMENDATION

We recommend the University improve its controls in order to ensure undergraduate student type classifications are properly entered (and maintained) in student profiles so tuition rates comply with the requirements of the Law. We further recommend the University verify the accuracy of the student type classification of each undergraduate student (correcting when necessary) and refund any tuition overcharges identified.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. The University performed a review of student type classifications for all undergraduate students enrolled during the Academic Year 2017-2018 and determined a net overbilling of $10,891. The University will make the necessary corrections in the ERP system and will refund overcharges identified as necessary. In addition, the University had implemented a process to periodically review student type classifications in the ERP system to ensure undergraduate student type classifications are properly entered and maintained.

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

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