STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2019

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

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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
Through August 23, 2018 (Interim)	Dr. W. Paul Bylaska
General Counsel and Vice President	
January 19, 2019 to present	Vacant
Through January 18, 2019	Ms. Sarah Luke
Chief Internal Auditor	Mr. Kristoffer Evangelista, CPA
Associate Vice President for Finance	Ms. Villalyn Baluga, CPA
Board of Trustees	Mr. Anibal Taboas
August 2, 2019 to present	Mr. Pedro Cevallos-Candau
July 26, 2019 to present	Mr. Kevin Brookins, Vice Chair
July 26, 2019 to present	Mr. John Brudnak
July 26, 2019 to present	Ms. Lisa Harrell, Chairman
July 26, 2019 to present	Ms. Angela Hickey
July 26, 2019 to present	Mr. James Kvedaras, Secretary
July 1, 2019 to present	Mr. Lester Van Moody, Student
Through July 25, 2019	Mr. Bruce Friefeld, Secretary
Through July 25, 2019	Ms. Lorraine Tyson, Vice Chair
Through June 30, 2019	Ms. Linda Coleman, Student
Through May 20, 2019	Mr. Carney Barr
Through May 20, 2019	Mr. Cornelius Griggs
Through May 20, 2019	Mr. Patrick Ormsby, Chairman
Through May 20, 2019	Ms. Masah SamForay
May 21, 2019 to July 25, 2019	4 vacancies

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

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

EXIT CONFERENCE

The University waived holding an exit conference to discuss the financial audit in a communication dated January 24, 2020.

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, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2019, 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.

The financial statements of Governors State University Foundation, a component unit of Governors State University, were not audited in accordance with *Government Auditing Standards.*

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 and the discretely presented component unit of Governors State University, as of June 30, 2019, 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 2018 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 January 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Employer's Proportionate Share of Net Pension Liability, Schedule of Employer Contributions, Notes to Pension Required Supplementary Information, Schedule of University's Proportionate Share of the Total Other Postemployment Benefit Liability, and Notes to OPEB Required Supplementary Information on pages 7 through 16 and 59 through 62 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, Statement of Cash Flows, and the Schedule of Operating Expenses – 2019 listed as supplementary information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was 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, based on our audit, the procedures performed as described above, and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

In addition, the Schedule of Operating Expenses – 2018, 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 the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and 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 24, 2020 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 the effectiveness of Governors State University's 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 24, 2020

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, 2019. 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
2019	$ 22,089,100	$ (656,200)	$ 21,432,900
2018	21,656,000	(656,200)	20,999,800

During Fiscal Year 2018, 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.

On June 4, 2018, the State of Illinois adopted a complete operating budget for Fiscal Year 2019 under Public Act 100-0586, which provided the University $22,089,100 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 was partially supported by the University's Income Fund during Fiscal Year 2018, and fully supported by the University's Income Fund during Fiscal Year 2019. Either source effectively reduces the available funding for University operations.

Mandated Tuition Waivers

Certain mandated tuition waivers administered by the Illinois Student Assistance Commission have been funded or partially funded by the State in the past. For Fiscal Year 2019, about $0.8 million of these tuition waivers have been 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 2019-2020.

Enrollment

Registered student credit hours decreased by 5.7% during Academic Year 2018-2019. Registered student credit hour totals were 111,351 in Academic Year 2017-2018 and 104,952 in Academic Year 2018-2019.

Statement of Net Position

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

	(in thousands)*			Percent
	2019	2018	Change	Change
Current assets	$ 77,799	$ 58,262	$ 19,537	34%
Noncurrent assets-capital assets	109,664	111,314	(1,650)	-1%
Noncurrent assets-other	2,545	2,342	203	9%
Total assets	190,008	171,918	18,090	11%
Deferred outflows of resources	299	427	(128)	-30%
Current liabilities	12,993	13,168	(175)	-1%
Noncurrent liabilities	60,327	70,085	(9,758)	-14%
Total liabilities	73,320	83,253	(9,933)	-12%
Deferred inflows of resources	23,571	7,910	15,661	198%
Net investment in capital assets	78,080	76,695	1,385	2%
Restricted	843	844	(1)	0%
Unrestricted	14,493	3,643	10,850	298%
Net position	$ 93,416	$ 81,182	$ 12,234	15%

* *Certain reclassifications have been made to the University's 2018 amounts to conform to the 2019 presentation.*

The 15% increase in the University's net position is due to the following:

Current Assets

Current assets consist mostly of cash and cash equivalents, investments, and receivables. The $19.5 million increase in current assets was mostly attributable to the $17.9 million increase in cash and cash equivalents and investments due to overall increase in net position and the unspent proceeds from the Certificates of Participation issued by the University during Fiscal Year 2019. Also, the increase is due to a $1.5 million receivable due from the Illinois Capital Development Board (CDB) for the CDB-funded roofing project that was managed by the University and a $0.3 million increase in amount due from component unit mainly due to timing of settlement of due to/from accounts caused by the change in the component unit's receipts process. These increases were partially offset by the $0.2 million decrease in State appropriation receivable mainly due to the timing of receipt of appropriations from the State of Illinois.

Noncurrent Assets - Capital Assets

The $1.6 million decrease in noncurrent capital assets was due to recognition of $4.7 million of depreciation expense in Fiscal Year 2019, partially offset by the $3.1 million net increase in capital assets due to the costs incurred in connection with the various deferred maintenance projects and acquisitions of equipment and library collections.

Noncurrent Assets - Other

Other noncurrent assets consist primarily of the long-term portion of student loans receivable and prepaid debt service insurance. The $0.2 million increase in noncurrent assets - other was mostly attributable to the $0.5 million increase in prepaid debt service insurance due to the insurance premium paid by the University as part of its issuance of the Certificates of Participation during Fiscal Year 2019. This increase was partially offset by the $0.3 million decrease in student loans receivable due to loan collections. 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 recognizes deferred outflows of resources related to pensions and other postemployment benefits (OPEB) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The $0.1 million decrease was mostly attributable to the decrease in the deferred outflows of resources related to OPEB as the percentage of contributions after the measurement date related to retirees decreased 9% in Fiscal Year 2019.

Current Liabilities

Current liabilities include accounts payable, agency funds payable, accrued compensated absences, unearned revenue, and the current portion of long-term liabilities, which are payable in less than one year. The $0.2 million decrease in current liabilities was mostly attributable to the $0.9 million decrease in the current portion of long-term liabilities, partially offset by the $0.7 million increase in accounts payable primarily due to timing of vendor payments.

Noncurrent Liabilities

Noncurrent liabilities are liabilities with due dates beyond one year, which include accrued compensated absences, refundable grants, revenue bonds payable, notes payable, certificates of participation, intangible asset payable and the OPEB liability. The $9.8 million decrease in noncurrent liabilities was mostly attributable to the 3.6 million in principal payments made on existing debts, the $0.4 million decrease in refundable grants which were returned to the grantor, and the $21.3 million decrease in the University's allocated share of the State's OPEB liability as of June 30, 2019. These decreases were partially offset by the $14.8 million (in principal and issue premium) of University Capital Improvement Project Certificates of Participation, Series 2018, issued by the University during Fiscal Year 2019.

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

Deferred inflows of resources

The University recognizes deferred inflows of resources related to OPEB in accordance with GASB Statement No. 75. During Fiscal Year 2019, these deferred inflows of resources resulted from differences between expected and actual experience, 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. Deferred inflows of resources increased by $15.7 million mostly due to the increase in the changes in proportion allocated to the University.

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
	2019	2018	Change	Change
OPERATING REVENUES				
Net student tuition and fees	$ 34,177	$ 35,743	$ (1,566)	-4%
Grants and contracts	6,025	6,160	(135)	-2%
Sales and services of educational departments	46	65	(19)	-29%
Auxiliary enterprises	3,380	3,206	174	5%
Other operating revenues	2,089	1,678	411	24%
Total operating revenues	45,717	46,852	(1,135)	-2%
OPERATING EXPENSES	94,470	114,891	(20,421)	-18%
Net operating loss	(48,753)	(68,039)	19,286	-28%

	(in thousands)*			Percent
	2019	2018	Change	Change
NONOPERATING REVENUES (EXPENSES)				
State appropriation	22,089	32,961	(10,872)	-33%
Payments made on behalf of the University	6,391	4,849	1,542	32%
Benefits under special funding situation	17,246	33,963	(16,717)	-49%
Federal and State nonoperating grants	14,095	16,967	(2,872)	-17%
Investment income	1,316	453	863	191%
Interest expense	(1,865)	(1,802)	(63)	3%
Other nonoperating revenues (expenses)	38	4	34	850%
Net nonoperating revenues	59,310	87,395	(28,085)	-32%
Capital appropriations and grants provided by State of Illinois	1,677	302	1,375	455%
Increase in net position	12,234	19,658	(7,424)	-38%
Net position - beginning of year, as restated	81,182	61,524	19,658	32%
Net position - end of year	$ 93,416	$ 81,182	$ 12,234	15%

** Certain reclassifications have been made to the University's 2018 amounts to conform to the 2019 presentation.*

For Fiscal Year 2019, the change in net position was due to the following:

Operating Revenues

Net student tuition and fees decreased $1.6 million mostly due to a 5.7% decrease in credit hours, partially offset by the increase in the facilities fee charged to students from $24 per credit hour in Academic Year 2017-2018 to $39 per credit hour in Academic Year 2018-2019. The $0.1 million slight decrease in grants and contracts was due to the $0.8 million decrease in State grants and contracts revenue (primarily a grant from the Illinois Department of Children and Family Services (DCFS) that ended in the previous fiscal year), partially offset by the $0.7 million increase in Federal grants and contracts revenue due to increased funding received by the University during Fiscal Year 2019 for certain existing grants. The $0.2 million increase in auxiliary enterprises revenue was primarily due to small increases in bookstore, center for performing arts and housing revenues. The $0.4 million increase in other operating revenues was mostly due to the increase in revenue received for a training program hosted by the digital learning center and the increase in revenues from the family development center operations.

Operating Expenses (by functional classification)

	(in thousands)*			Percent
	2019	2018	Change	Change
Instruction	$ 43,664	$ 55,578	$ (11,914)	-21%
Research	692	721	(29)	-4%
Public service	4,572	6,358	(1,786)	-28%
Academic support	3,155	3,626	(471)	-13%
Student services	6,534	7,428	(894)	-12%
Institutional support	14,986	18,233	(3,247)	-18%
Operation and maintenance of plant	7,901	9,264	(1,363)	-15%
Auxiliary enterprises	1,870	2,039	(169)	-8%
Student aid	6,370	6,842	(472)	-7%
Depreciation	4,726	4,802	(76)	-2%
Total operating expenses	$ 94,470	$ 114,891	$ (20,421)	-18%

** Certain reclassifications have been made to the University's 2018 amounts to conform to the 2019 presentation.*

Total operating expenses decreased by $20.4 million (18%) primarily due to the significant reduction of expenses recognized for the University's proportionate share of the other postemployment benefits expense.

Operating Expenses (by natural classification)

	(in thousands)*			Percent
	2019	2018	Change	Change
Salaries and benefits	$ 67,598	$ 89,723	$ (22,125)	-25%
Student aid	6,370	6,842	(472)	-7%
Capital expenditures	698	764	(66)	-9%
Services, supplies and other	15,078	12,760	2,318	18%
Depreciation	4,726	4,802	(76)	-2%
Total operating expenses	$ 94,470	$ 114,891	$ (20,421)	-18%

** Certain reclassifications have been made to the University's 2018 amounts to conform to the 2019 presentation.*

Salaries and benefits, representing the University's largest operating expense, decreased by $22.1 million primarily due to the significant reduction of expenses recognized for the University's proportionate share of the other postemployment benefits expense. This decrease was partially offset by the $2.3 million increase in services, supplies and other. With the receipt of a complete operating budget from the State of Illinois, the University was able to continue with its various initiatives that were delayed during the budget impasse.

Nonoperating Revenues (Expenses)
State appropriation revenue decreased by $10.9 million due to timing of revenue recognition imposed by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. State appropriation revenue recognized in Fiscal Year 2018 consisted of the $21,656,000 Fiscal Year 2018 appropriation, and $11,305,100 additional funding for Fiscal Year 2017 which was not recognized until Fiscal Year 2018 in accordance with GASB Statement No. 33. The Fiscal Year 2019 appropriation of $22,089,100 constituted an increase of 2% over the Fiscal Year 2018 appropriation.

Payments made on behalf of the University increased by $1.5 million primarily due to the increase in the University's share of State funded health, life, and dental insurance benefits for active University employees increasing from 55.0% to 63.5% of costs incurred.

Benefits under special funding situation decreased by $16.7 million primarily due to the $17.7 million decrease in the University's proportionate share of State funded other post employment benefits for retirees, partially offset by the $1.0 million increase in the University's proportionate share of State funded retirement benefits.

Federal and State nonoperating grant revenues decreased by $2.9 million primarily due to timing of revenue recognition imposed by GASB Statement No. 33. State Monetary Award Program (MAP) grant revenue recognized in Fiscal Year 2018 included about $3.1 million of Fiscal Year 2017 MAP award revenue that could not be recognized as revenue until Fiscal Year 2018 in accordance with GASB Statement No. 33. This decrease was partially offset by the $0.3 million increase in Federal awards for Fiscal Year 2019.

Investment income increased by $0.9 million due to higher cash balances on hand from receipts and from the unspent proceeds of the newly issued Certificates of Participation, which were transferred to short-term investment accounts where higher interest was earned pending expenditure for deferred maintenance projects.

Capital appropriations and grants provided by State of Illinois increased by $1.4 million primarily due to the various CDB funded projects (roofing, campus roadway and sidewalk improvement, and piping projects) that are ongoing during Fiscal Year 2019.

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
	2019	2018	Change	Change
Net cash provided by (used in):				
Operating activities	$ (25,424)	$ (20,016)	$ (5,408)	27%
Noncapital financing activities	36,529	49,489	(12,960)	-26%
Capital financing activities	5,504	(5,508)	11,012	-200%
Investing activities	(11,681)	453	(12,134)	-2,679%
Net increase in cash and cash equivalents	4,928	24,418	(19,490)	-80%
Cash and cash equivalents - beginning of year	51,069	26,651	24,418	92%
Cash and cash equivalents - end of year	$ 55,997	$ 51,069	$ 4,928	10%

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 $5.4 million primarily due to the decreases in receipts from tuition and fees and grants and contracts, and increases in payments to suppliers, payments for scholarships, and payments to employees and fringe benefits. Net cash provided by noncapital financing activities decreased by $13.0 million due to decreases in State appropriation receipts and Federal and State nonoperating grants. Net cash provided by capital financing activities increased by $11.0 million primarily due to the proceeds from issuance of the Certificates of Participation (debt) during Fiscal Year 2019, partially offset by the increase in the purchase of capital assets and increase in payments of interest and principal on capital debt. Net cash used in investing activities increased by $12.1 million primarily due to the purchase of investment securities from the unspent proceeds of the Certificates of Participation issued by the University during Fiscal Year 2019, partially offset by the proceeds from sales and maturities of investment securities and the increase in interest and dividend income.

UNIVERSITY'S DEBT RATINGS

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.

On May 14, 2019, Moody's Investors Service affirmed the "Ba3" rating on the University's Series 2007 University Facilities System Revenue Bonds, and the "B1" rating on the University's Series 2008 Certificates of Participation. The outlook was revised from negative to stable.

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in Fiscal Year 2020 and beyond will lie in:

- The levels of operating and capital appropriations 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 2019 (and beyond), and in retaining those classes of first-year students who began in the fall semesters of 2016, 2017 and 2018.

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2019
(With Comparative Totals as of June 30, 2018)

	2019		2018	
	University	Component Unit	University	Component Unit
ASSETS				
Current assets				
Cash and cash equivalents (Notes 2 and 3)	$ 54,905,613	$ 1,006,851	$ 51,068,915	$ 406,827
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	1,091,510	-	28	-
Investments, restricted (Notes 2, 3. and 4)	12,996,972	-	-	-
Accounts receivable, net of allowance for uncollectible accounts of $6,130,000 (Note 2)	3,879,648	897	3,952,134	57,222
Due from Capital Development Board	1,468,947	-	-	-
Grants receivable (Note 2)	2,245,051	26,200	2,341,217	-
State appropriation receivable	20,131	-	179,841	-
Student loans - current (Note 2)	405,707	-	400,283	-
Due from component unit (Note 10)	365,940	-	38,764	-
Prepaid debt service insurance - current (Notes 2 and 8)	72,164	-	16,132	-
Inventories (Note 2)	60,793	-	44,981	-
Other assets	286,324	4,990	219,747	6,480
Total current assets	77,798,800	1,038,938	58,262,042	470,529
Noncurrent assets				
Investments (Notes 2 and 3)	-	3,958,289	-	4,094,170
Student loans, net of allowance for uncollectible loans of $563,500 (Note 2)	1,957,901	-	2,274,051	-
Prepaid debt service insurance (Notes 2 and 8)	587,018	-	68,310	-
Capital assets (Note 7)	193,804,483	2,297,156	190,968,472	2,297,156
Accumulated depreciation (Note 7)	(84,140,796)	-	(79,654,399)	-
Total noncurrent assets	112,208,606	6,255,445	113,656,434	6,391,326
Total assets	190,007,406	7,294,383	171,918,476	6,861,855
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions after measurement date (Notes 2 and 5)	107,989	-	114,935	-
Deferred outflows from other postemployment benefits (Notes 2 and 6)	191,362	-	311,942	-
Total deferred outflows of resources	299,351	-	426,877	-
LIABILITIES				
Current liabilities				
Accounts payable	7,325,292	43,982	6,646,356	29,051
Agency funds payable	255,933	-	270,055	-
Accrued compensated absences (Notes 2 and 9)	350,000	-	350,000	-
Due to University (Note 10)	-	365,940	-	38,764
Unearned revenue (Note 2)	2,841,900	-	2,769,982	-
Revenue bonds payable (Note 8)	925,853	-	895,853	-
Notes payable (Note 8)	48,106	-	565,712	-
Certificates of participation (Note 8)	1,031,410	-	1,297,445	
Intangible asset payable (Note 8)	25,587	-	70,890	-
Other postemployement benefits (Note 6)	188,528	-	301,543	-
Total current liabilities	12,992,609	409,922	13,167,836	67,815
Noncurrent liabilities				
Accrued compensated absences (Notes 2 and 9)	2,872,039	-	2,765,672	-
Refundable grants	2,978,941	-	3,392,582	-
Revenue bonds payable (Note 8)	22,218,801	-	23,144,654	-
Notes payable (Note 8)	-	-	48,106	-
Certificates of participation (Note 8)	21,342,025	-	8,532,438	
Intangible asset payable (Note 8)	38,223	-	64,164	-
Other postemployement benefits (Note 6)	10,877,209	-	32,137,686	-
Total noncurrent liabilities	60,327,238	-	70,085,302	-
Total liabilities	73,319,847	409,922	83,253,138	67,815
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from other postemployment benefits (Notes 2 and 6)	23,570,849	-	7,910,219	-
Total deferred inflows of resources	23,570,849	-	7,910,219	-
NET POSITION (Note 2)				
Net investment in capital assets	78,080,006	2,297,156	76,694,811	2,297,156
Restricted:				
Nonexpendable	-	2,336,536	-	2,159,792
Expendable				
Loans	754,877	-	665,723	-
Debt service	25	-	28	-
Other	88,597	1,655,969	177,925	1,714,430
Unrestricted	14,492,556	594,800	3,643,509	622,662
Total net position	$ 93,416,061	$ 6,884,461	$ 81,181,996	$ 6,794,040

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, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	2019		2018	
	University	Component Unit	University	Component Unit
OPERATING REVENUES				
Student tuition and fees, net of scholarship allowances of $11,160,115 (Note 2)	$ 34,176,686	$ -	$ 35,743,173	$ -
Federal grants and contracts	4,564,544	-	3,818,130	-
State grants and contracts	1,253,873	-	2,074,356	-
Other grants and contracts	206,284	26,200	267,299	48,183
Sales and services of educational departments	46,332	-	64,952	-
Auxiliary enterprises	3,379,700	-	3,205,589	-
Other operating revenues	2,089,488	334,813	1,677,979	369,795
Total operating revenues	45,716,907	361,013	46,851,478	417,978
OPERATING EXPENSES				
Instruction	43,663,583	-	55,578,257	-
Research	691,881	-	720,280	-
Public service	4,571,619	-	6,358,324	-
Academic support	3,155,344	-	3,626,213	-
Student services	6,534,256	-	7,427,417	-
Institutional support	14,986,410	-	18,232,553	-
Operation and maintenance of plant	7,900,500	-	9,263,944	-
Auxiliary enterprises	1,869,605	-	2,039,157	-
Student aid	6,370,361	-	6,842,392	-
Depreciation	4,726,304	-	4,802,242	-
University support	-	525,823	-	522,903
Other expense	-	426,664	-	461,072
Total operating expenses	94,469,863	952,487	114,890,779	983,975
Net operating loss	(48,752,956)	(591,474)	(68,039,301)	(565,997)
NONOPERATING REVENUES (EXPENSES)				
State appropriation	22,089,100	-	32,961,100	-
Payments made on behalf of the University	6,391,000	-	4,849,000	-
Fringe benefits under special funding situation	17,246,234		33,963,302	
Federal and State nonoperating grants	14,094,485	-	16,967,034	-
Gifts	-	334,217	-	431,588
Investment income	1,315,779	170,934	452,910	300,422
Interest expense	(1,864,755)	-	(1,802,211)	-
Other nonoperating income (expense)	38,184	-	4,381	-
Net nonoperating revenues	59,310,027	505,151	87,395,516	732,010
Income (loss) before other revenues, expenses, gains and losses	10,557,071	(86,323)	19,356,215	166,013
Capital appropriations and grants provided by State of Illinois	1,676,994	-	301,698	-
Capital gifts	-	-	-	64,000
Additions to permanent endowments	-	176,744	-	57,447
Increase (decrease) in net position	12,234,065	90,421	19,657,913	287,460
NET POSITION (Note 2)				
Net position - beginning of year, as previously reported	81,181,996	6,794,040	100,779,097	6,506,580
Prior period adjustment	-	-	(39,255,014)	-
Net position - beginning of year, as restated	81,181,996	6,794,040	61,524,083	6,506,580
Net position - end of year	$ 93,416,061	$ 6,884,461	$ 81,181,996	$ 6,794,040

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, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	2019		2018	
	University	Component Unit	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 34,293,019	$ -	$ 35,824,960	$ -
Grants and contracts	5,684,866	-	8,441,715	63,867
Payments to suppliers	(15,535,223)	(28,928)	(13,804,941)	(289,340)
Payments for scholarships	(6,370,361)	(272,971)	(6,842,392)	(296,239)
Payments to employees and fringe benefits	(49,291,667)	-	(48,894,532)	-
Auxiliary enterprises	3,379,700	-	3,205,589	-
Sales and services of educational departments	46,332	-	64,952	-
Student loans issued	-	-	(9,052)	-
Student loans collected	279,837	-	320,061	-
Other operating revenues	2,089,488	26,332	1,677,979	32,795
Net cash used in operating activities	(25,424,009)	(275,567)	(20,015,661)	(488,917)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	22,248,810	-	32,781,259	-
Federal and State nonoperating grants	14,280,121	-	16,707,736	-
Contributions	-	389,552	-	466,772
Contributions for permanent endowments	-	176,744	-	57,447
Net cash provided by noncapital financing activities	36,528,931	566,296	49,488,995	524,219
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Purchase of capital assets	(2,869,170)	-	(1,146,572)	-
Principal payments on capital debt	(3,646,956)	-	(2,853,632)	-
Proceeds from disposal of capital assets	39,482	-	-	-
Proceeds from debt issuance	13,946,500	-	-	-
Interest payments on capital debt	(1,965,405)	-	(1,508,114)	-
Net cash provided by (used in) capital financing activities	5,504,451	-	(5,508,318)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investment securities	16,232,794	1,313,961	-	1,313,996
Investment income	1,200,567	87,217	452,910	83,858
Investment management fees	-	(43,824)	-	(42,798)
Purchase of investment securities	(29,114,554)	(1,048,059)	-	(1,208,457)
Net cash provided by (used in) investing activities	(11,681,193)	309,295	452,910	146,599
Net increase (decrease) in cash and cash equivalents	4,928,180	600,024	24,417,926	181,901
Cash and cash equivalents - beginning of year	51,068,943	406,827	26,651,017	224,926
Cash and cash equivalents - end of year	$ 55,997,123	$ 1,006,851	$ 51,068,943	$ 406,827
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Net operating loss	$ (48,752,956)	$ (591,474)	$ (68,039,301)	$ (565,997)
Adjustments to reconcile net operating loss to net cash used in operating activities:				
Noncash expenses included in net operating loss:				
Depreciation	4,726,304	-	4,802,242	-
Payments made on behalf of the University	6,391,000	-	4,849,000	-
Fringe benefits under special funding situation	17,246,234	-	33,963,302	-
Debt issuance costs paid directly from proceeds	160,000	-	-	-
Changes in assets, deferred outflows of resources, deferred inflows of resouces and liabilities:				
Accounts receivable, grants receivable and due from component unit	(344,160)	(26,200)	2,065,539	15,684
Inventories	(15,812)	-	27	-
Other assets	(66,577)	-	25,495	-
Student loans	310,726	-	406,256	-
Prepaid debt service insurance	69,848		18,941	
Deferred outflows of resources	127,526	-	481,928	-
Accounts payable, due to component unit, and due to University	686,198	342,107	1,277,095	61,396
Agency funds payable	(14,122)	-	47,058	-
Unearned revenue	71,918	-	113,530	-
Accrued compensated absences	106,367	-	(324,078)	-
Refundable grants	(413,641)	-	10,762	-
Other postemployment benefits	(21,373,492)	-	(7,623,676)	-
Deferred inflows of resources	15,660,630	-	7,910,219	-
Net cash used in operating activities	$ (25,424,009)	$ (275,567)	$ (20,015,661)	$ (488,917)
NONCASH INVESTING, NONCAPITAL AND CAPITAL FINANCING ACTIVITIES				
Capital assets acquired with debt	$ -	$ -	$ 9,245	$ -
Capital appropriations	$ 208,047	$ -	$ 301,698	$ -
Unrealized gain on investments	$ 37,060	$ (48,113)	$ -	$ 104,718
Donations of capital assets	$ -	$ -	$ -	$ 64,000
Other noncash contributions	$ -	$ 990	$ -	$ 2,003

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, 2019 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. The University generally considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Illinois Funds are considered cash equivalents.

Accounts, Grants, Student Loans, and State Appropriation Receivable

An aging of accounts, grants, student loans, and State appropriation receivable as of June 30, 2019 is as follows:

Not in repayment	$ 718,600
Current	7,108,627
Up to 120 days past due	950,127
From 121 to 365 days past due	1,028,813
More than 365 days past due	6,864,718
Allowance for doubtful accounts	(6,693,500)
Net accounts, grants, student loans, and State appropriation receivable	$ 9,977,385

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

The University accounts for its investments at fair value in accordance with GASB Statement No.31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* and GASB Statement No. 72, *Fair Value Measurement and Application*. Changes in fair value during the reporting period are reported as a net increase or decrease in the fair value of investments. Net investment income includes interest, dividends and realized/unrealized gains and losses.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Payments

The University deposits funds into accounts with its trustee for debt servicing the University's revenue bonds and certificates of participation as required by the applicable debt instruments. It is the University's policy to record the payment of such debts when the paying agent withdraws the funds from the University's account held by trustee.

Classification of Revenues

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Deferred Outflows/Inflows of Resources

A deferred outflow/inflow of resources is a consumption/acquisition of net position that is applicable to a future reporting period. The University has recorded deferred outflows/inflows of resources related to pensions and postemployment benefits as explained in Notes 5 and 6, respectively.

Other Postemployment Benefits (OPEB)

The State Employees Group Insurance Act of 1971 (SEGIA) (5 ILCS 375), as amended, authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, to provide health, dental, vision and life insurance benefits as a single-employer defined benefit OPEB plan not administered as a trust. Substantially all State and university component unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. The Department of Central Management Services (CMS) administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State, including the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System (SURS).

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are fully compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are fully compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Given the preceding environment, the University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees paid from the University's Income Fund or auxiliary enterprises, while (2) the University is responsible for OPEB employer contributions for employees paid from trust, Federal, and other funds.

Special Funding Situation Portion of OPEB

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan.

During the OPEB measurement period ended June 30, 2018, the University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of $294,872 to help offset the amount the State needed to provide for retirees under the special funding situation described in the preceding paragraph.

The University recognizes the proportionate share of the State's OPEB expense relative to the University's employees as non-operating revenue and OPEB expense, with the expense further allocated to the related function performed by the employees.

University's Portion of OPEB

The University reports a liability, expense allocated to the related function performed by the employees, and related deferred inflows and outflows of resources for OPEB based on the University's proportionate share of amounts paid to SEGIP pursuant to SEGIA for its employees paid from trust, Federal, and other funds compared to the collective amounts paid to SEGIP pursuant to SEGIA. The collective amounts paid to SEGIP pursuant to SEGIA includes (1) payments from State agencies for State employees, (2) the amount calculated by CMS to represent the amount paid by the General Fund related to the special funding situation, (3) the total voluntary appropriation repayment from all of the universities, and (4) the total of all payments from the universities for employees paid from trust, Federal, and other funds. This methodology has been determined by the State to be the best estimate of how future OPEB payments will be determined.

Deferred inflows and outflows of resources are recognized in OPEB expense at the beginning of the current period, using a systematic and rational method over a closed period, equal to the average expected remaining service lives of all employees, either active or inactive, provided with OPEB through SEGIP, determined as of the beginning of the measurement period.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On-Behalf Transactions

The University had an outside source of financial assistance provided by the State on behalf of the University during the year ended June 30, 2019.

Substantially all active employees participate in group insurance plans provided by the State and administered by CMS, primary providing healthcare benefits. In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, SEGIA (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund or university component unit, except the university component units shall not be required to make contributions for employees who are fully compensated from each individual university's Income Fund and auxiliary enterprises. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are fully compensated from each individual university's Income Fund and auxiliary enterprises. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

During the year ended June 30, 2019, total estimated group insurance contributions for the University's employees paid from the University's Income Fund and auxiliary enterprises were $6,808,000. The University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of $417,000 to help offset the amount the State needed to provide for current employees under the situation described in the preceding paragraph. As such, the State contributed the estimated remaining balance of $6,391,000 on-behalf of the University to meet this obligation for current employees.

As the University is not legally responsible to pay for the on-behalf support provided by the State, the University recognizes non-operating revenues and operating expenses allocated to the related function performed by the employees within the University's financial statements for its current employees' participation in group insurance.

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, 2018, 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 the purpose of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the plan net position of the State Universities Retirement System (SURS) and additions to/deductions from SURS' plan net position have 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 financial reporting purposes, the State of Illinois and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the University) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The University recognizes its proportionate share of the State's pension expense relative to the University's employees as non-operating revenue and pension expense, with the expense further allocated to the related function performed by the employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

During the year ended June 30, 2019, the University adopted the following accounting pronouncements:

- 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 that 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. This Statement did not have a material impact to the University's financial statements.

- 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. This Statement did not have an impact to the University financial statements.

- 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. During the fiscal year ended June 30, 2019, interest incurred on borrowed funds during the period of construction of capital assets was recognized as an expense by the University as disclosed in Note 7.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Adoption of GASB Statements

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 statement:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective for the year ending June 30, 2022, the University will adopt the following GASB statement:

- GASB Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establish standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

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

Reclassifications

Certain reclassifications have been made to the University's prior year amounts in order to conform to the current year presentation.

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.

The Public Funds Investment Act (30 ILCS 235) authorized the University to invest in bonds, notes, certificates of indebtedness, treasury bills, or other securities guaranteed by the United States; interest-bearing savings accounts, interest-bearing certificates of deposits, interest-bearing time deposits, or any other investment that constitutes direct obligations of any bank; short-term discount obligations of the Federal National Mortgage Association; shares or other securities legally issued by certain state or Federal savings and loan associations; insured dividend-bearing share accounts and certain other accounts of chartered credit unions; certain money market mutual funds; the Illinois Funds Money Market Funds; and repurchase agreements that meet certain instrument and transaction requirements. The Foundation is not subject to such restrictions.

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:

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

	University	Foundation
Statement of Net Position		
Cash and cash equivalents	$ 54,905,613	$ 1,006,851
Cash and cash equivalents, restricted	1,091,510	-
Investments, restricted	12,996,972	-
Investments	-	3,958,289
Total	$ 68,994,095	$ 4,965,140
Deposits and Investments		
Cash in bank	$ 10,747,900	$ 246,224
Cash on hand	8,025	-
Investments	58,238,170	4,718,916
Total	$ 68,994,095	$ 4,965,140

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 $496,224 (University and Foundation) at June 30, 2019. The remaining bank balances as of June 30, 2019 were fully collateralized. The University's and Foundation's respective bank balances were $12,519,115 and $246,224 as of June 30, 2019. 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.

University Investments

The carrying amount and fair value of the investment portfolio of the University at June 30, 2019 is as follows:

Investments:	Credit Rating	Maturity	Carrying Amount	Fair Value
Money Market Funds	Moody's Aaa-mf	< 1 year	$ 1,091,510	$ 1,091,510
U.S. Agencies	Moody's Aaa	< 1 year	12,996,972	12,996,972
Illinois Funds	Standard & Poor's AAAm	< 1 year	44,149,688	44,149,688
Total			$ 58,238,170	$ 58,238,170

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.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- *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 investment valuation by levels at June 30, 2019 is as follows:

	Fair Value	Level 1	Level 2	Level 3
Money Market Funds	$ 1,091,510	$ 1,091,510	$ -	$ -
U.S. Agencies	12,996,972	-	12,996,972	-
Illinois Funds	44,149,688	44,149,688	-	-
Total	$ 58,238,170	$ 45,241,198	$ 12,996,972	$ -

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2019, investments consisted of money market funds and U.S. agency securities held in corporate trust accounts at Amalgamated Bank of Chicago and Illinois Funds. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract.

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

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

Foundation Investments

The fair value of the investment portfolio of the Foundation at June 30, 2019 is as follows:

	Fair Value
Money Market Funds	$ 683,278
Illinois Funds	77,349
Stocks/Mutual Funds investing in stocks	2,995,929
Mutual Funds investing in bonds	760,090
Corporate Bonds	202,270
Total	$ 4,718,916

The valuation by levels at June 30, 2019 is as follows:

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

	Fair Value	Level 1	Level 2	Level 3
Money Market Funds	$ 683,278	$ 683,278	$ -	$ -
Illinois Funds	77,349	77,349	-	-
Stocks/Mutual Funds investing in stocks	2,995,929	2,995,929	-	-
Mutual Funds investing in bonds	760,090	760,090	-	-
Corporate Bonds	202,270	-	202,270	-
Total	$ 4,718,916	$ 4,516,646	$ 202,270	$ -

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2019, 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.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2019 are as follows:

		Investment Maturity (in Years)			
	Fair Value	Less Than 1	1 - 5	5 - 10	10 or More
Mutual Funds investing in bonds	$ 760,090	$ -	$ 516,508	$ -	$ 243,582
Corporate Bonds	202,270	-	202,270	-	-
Total	$ 962,360	$ -	$ 718,778	$ -	$ 243,582

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2019 are as follows:

Credit Rating	Total Debt Securities
No Rating	$ 364,460
AA	25,870
AA-	50,279
A+	50,302
A	211,151
BBB+	50,421
BBB	176,828
B	33,049
Total	$ 962,360

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 – RESTRICTED CASH AND CASH EQUIVALENTS AND RESTRICTED INVESTMENTS

The net proceeds from issuing the Certificates of Participation, Series 2018 were separately deposited in a trust escrow account with Amalgamated Bank of Chicago (Bank). As trustee, the Bank has invested the funds in money market and fixed income assets pending expenditure for the University's deferred maintenance projects. In addition, certain accounts created by the University revenue bonds and certificates of participation are held by the Bank pending expenditure for debt service. The balance of these accounts as of June 30, 2019 amounted to $14,088,482.

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, 2018 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 2018 and 2019 respectively, was 12.46% and 12.29% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for the past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

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), Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period), and Section 15-155(j-5) (relating to contributions payable due to earnings exceeding the salary set for the Governor).

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, 2018. At June 30, 2018, SURS reported a net pension liability of $27,494,556,682.

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 $276,430,273 or 1.0054%. This amount is not in the University's financial statements. The net pension liability and total pension liability as of June 30, 2018 was determined based on the June 30, 2017 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 2018.

Pension Expense

At June 30, 2018, SURS reported a collective net pension expense of $2,685,322,700.

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 2018. As a result, the University recognized fringe benefits under special funding situation revenue and pension expense of $26,998,234 for the fiscal year ended June 30, 2019.

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.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

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	$ 65,521,614	$ 181,032,053
Changes in assumptions	1,286,257,095	123,218,306
Net difference between projected and actual earnings on pension plan investments	26,810,634	-
Total	$1,378,589,343	$ 304,250,359

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
2019	$ 763,171,084
2020	540,443,042
2021	(192,612,398)
2022	(36,662,744)
2023	-
Thereafter	-
	$1,074,338,984

Employer Deferral of Fiscal Year 2019 Pension Expense

The University paid $107,989 in Federal, trust or grant contributions for the fiscal year ended June 30, 2019. These contributions were made subsequent to the pension liability date of June 30, 2018 and are recognized as deferred outflows of resources as of June 30, 2019.

Assumptions and Other Inputs

Actuarial assumptions

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period June 30, 2014 – 2017. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

Inflation	2.25 percent
Salary increases	3.25 to 12.25 percent, including inflation
Investment rate of return	6.75 percent beginning with the actuarial valuation as of June 30, 2018

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, 2018, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.00%
Private Equity	6%	8.50%
Non-U.S. Equity	19%	6.45%
Global Equity	8%	6.00%
Fixed Income	19%	1.50%
Treasury-Inflation Protected Securities	4%	0.75%
Emerging Market Debt	3%	3.65%
Real Estate REITS	4%	5.45%
Direct Real Estate	6%	4.75%
Commodities	2%	2.00%
Hedged Strategies	5%	2.85%
Opportunity Fund	1%	7.00%
Total	100%	4.55%
Inflation		2.75%
Expected Arithmetic Return		7.30%

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate

A single discount rate of 6.65% 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 6.75% and a municipal bond rate of 3.62% (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 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

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

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 6.65%, 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 5.65%	Rate Assumption 6.65%	1% Increase 7.65%
$ 33,352,188,584	$ 27,494,556,682	$ 22,650,651,520

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

NOTE 6 - POSTEMPLOYMENT BENEFITS

Plan Description

SEGIA, as amended, authorizes 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 GARS, JRS, SERS, TRS, and SURS are eligible for these OPEB. The eligibility provisions for SURS are defined within Note 5.

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

CMS administers OPEB for annuitants with the assistance of GARS, JRS, SERS, TRS, and SURS. The State recognizes SEGIP as a single-employer defined benefit plan, which 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 SEGIA. 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. SEGIA requires the 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 OPEB Cost

OPEB offered through SEGIP are financed through a combination of retiree premiums, SEGIP contributions pursuant to SEGIA (5 ILCS 375/11), and Federal government subsidies from the Medicare Part D program. These contributions are deposited in the Health Insurance Reserve Fund, which covers both active employees and retired 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 GARS, JRS, SERS, TRS, and SURS 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. CMS' Director, on an annual basis, determines the amount of contributions necessary to fund the basic program of group benefits. The State's contributions are made primarily from the State's General Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree benefits and a separate trust has not been established for the funding of OPEB.

For Fiscal Year 2019, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,269 ($6,699 if Medicare eligible) per member if the annuitant chose benefits provided by a health maintenance organization and $13,824 ($4,984 if Medicare eligible) per member 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.

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

CMS' Changes in Estimates

For the measurement date of June 30, 2018, CMS experienced two significant changes within its estimation process. The OPEB for both the special funding situation and the portion of OPEB where the University is responsible for employer contributions are both significantly impacted by (1) the University's number of participants in SEGIP and (2) the average cost per employee within SEGIP. CMS made changes to its estimation methodology that resulted in significant differences within its estimates which represent an outcome of estimation uncertainty that, as time has passed and new sources of better data have become available, continued to be refined to achieve a more representative reflection of the actual outcome of the estimate in future periods. As such, the University experienced a significant decrease in its own OPEB liability and expense and in the nonoperating revenue and operating expenses recognized from the special funding situation.

Special Funding Situation Portion of OPEB

The proportionate share of the State's OPEB expense relative to the University's employees totaled ($9,752,000) during the year ended June 30, 2019. This amount was recognized by the University as non-operating special funding situation revenue and operating expense allocated to the related function performed by the employees during the year ended June 30, 2019.

While the University is not required to record the portion of the State's OPEB liability related to the University's employees resulting from the special funding situation, the University is required to disclose this amount. The following chart displays the proportionate share of the State's contributions related to the University's special funding situation relative to all employer contributions during the years ended June 30, 2018 and 2017, each based on the June 30, 2017 and 2016, respectively, actuarial valuation rolled forward:

Measurement Date:	June 30, 2018	June 30, 2017
State of Illinois' OPEB liability related to the University under the Special Funding Situation	$172,906,564	$260,759,678
SEGIP total OPEB liability	40,093,248,494	41,323,858,855
Proportionate share of the total OPEB liability	0.4313%	0.6310%

University's Portion of OPEB and Disclosures Related to SEGIP Generally

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

The University's total OPEB liability, as reported at June 30, 2019, was measured as of the measurement date on June 30, 2018, with an actuarial valuation as of June 30, 2017, which was

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

rolled forward to the measurement date. The following chart displays the proportionate share of the University's contributions relative to all employer contributions during the years ended June 30, 2018 and 2017, each based on the June 30, 2017 and 2016, respectively, actuarial valuation rolled forward:

Measurement Date:	June 30, 2018	June 30, 2017
University's OPEB liability	$11,065,737	$32,439,229
SEGIP total OPEB liability	40,093,248,494	41,323,858,855
Proportionate share of the total OPEB liability	0.0276%	0.0785%

The University's portion of the OPEB liability was based on the University's proportional share amount determined under the methodology described in Note 2 during the year ended June 30, 2018. As of the current year measurement date of June 30, 2018, the University's proportion declined 0.0509% from its proportion measured as of the prior year measurement date of June 30, 2017.

The University recognized OPEB expense for the year ended June 30, 2019 of ($5,138,347). At June 30, 2019, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2018, from the following sources:

Deferred outflows of resources	
Differences between expected and actual experience	$ 2,834
University contributions subsequent to the measurement date	188,528
Total deferred outflows of resources	$ 191,362
Deferred inflows of resources	
Differences between expected and actual experience	$ 243,664
Changes of assumptions	1,039,183
Changes in proportion and differences between employer contributions and proportionate share of contributions	22,288,002
Total deferred inflows of resources	$ 23,570,849

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, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

Year Ending June 30,	
2020	$ (5,916,127)
2021	(5,916,127)
2022	(5,916,127)
2023	(5,183,485)
2024	(636,149)
Total	$ (23,568,015)

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, 2017, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2017.

The valuation date of June 30, 2017 below was rolled forward to June 30, 2018.

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.62%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.08% in the second year to 7.42%, followed by grading down of 0.5% per year over 5 years to 4.92% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental and Vision	6.0% grading down 0.5% per year over 3 years to 4.5%

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

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 2018 and 2019 are based on actual premiums. Premiums after 2019 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.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2017 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.

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

	Retirement age experience study[1]	Mortality[2]
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 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017.
SURS	July 2014 - June 2017	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.

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 3.56% at June 30, 2017, and 3.62% at June 30, 2018, was used to measure the total OPEB liability.

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

The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2018, calculated using a Single Discount Rate of 3.62%, as well as what the University's proportionate share of the plan's total OPEB liability would be if it were calculated using a Single Discount Rate that is one percentage point higher (4.62%) or lower (2.62%) than the current rate:

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

	1 % Decrease (2.62%)	Current Single Discount Rate Assumption (3.62%)	1% Increase (4.62%)
University's proportionate share of total OPEB liability	$ 12,973,227	$ 11,065,737	$ 9,551,504

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

The following presents the University's proportionate share of the plan's total OPEB liability measured as of June 30, 2018, calculated using the healthcare cost trend rates as well as what the University's proportionate share of 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. For calculating the healthcare cost trend rates assumption, the key trend rates are 8.00% in 2019 decreasing to an ultimate trend rate of 4.92% in 2026 for non-Medicare coverage, and 9.00% decreasing to an ultimate trend rate of 4.50% in 2028 for Medicare coverage. For the 1% decrease for calculating the healthcare cost trend rates assumption, the key trend rates are 7.00% in 2019 decreasing to an ultimate trend rate of 3.92% in 2026, for non-Medicare coverage, and 8.00% in 2019 decreasing to an ultimate trend rate of 3.50% in 2028 for Medicare coverage. For the 1% increase for calculating the healthcare cost trend rates assumption, the key trend rates are 9.00% in 2019 decreasing to an ultimate trend rate of 5.92% in 2026, for non-Medicare coverage, and 10.00% in 2019 decreasing to an ultimate trend rate of 5.50% in 2028 for Medicare coverage.

	1 % Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
University's proportionate share of total OPEB liability	$ 9,346,224	$ 11,065,737	$ 13,299,638

NOTE 6 - POSTEMPLOYMENT BENEFITS (Continued)

Total OPEB Liability Associated with the University, Regardless of Funding Source

The University is required to disclose all OPEB liabilities related to it, including (1) the portion of the State's OPEB liability related to the University's employees resulting from the special funding situation the University is not required to record and (2) the portion of OPEB liability recorded by the University for its employees paid from trust, Federal, and other funds. The following chart displays the proportionate share of contributions, regardless of funding source, associated with the University's employees relative to all employer contributions during the years ended June 30, 2018 and 2017, each based on the June 30, 2017 and 2016, respectively, actuarial valuation rolled forward:

Measurement Date:	June 30, 2018	June 30, 2017
State of Illinois' OPEB liability related to the University under the Special Funding Situation	$172,906,564	$260,759,678
University's OPEB liability	$11,065,737	$32,439,229
Total OPEB liability associated with the University	183,972,301	293,198,907
SEGIP total OPEB liability	40,093,248,494	41,323,858,855
Proportionate share of the OPEB liability associated with the University	0.4589%	0.7095%

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.

As disclosed in Note 2, the University adopted GASB Statement No. 89 during the fiscal year ended June 30, 2019, which requires interest costs incurred on borrowed funds during the period of construction of capital assets be recognized as expense in the period in which the cost is

NOTE 7 - CAPITAL ASSETS (Continued)

incurred. Interest incurred during the period of construction of $466,374 was recognized as expense during the fiscal year ended June 30, 2019.

Capital assets activity for the University and Foundation for the year ended June 30, 2019 are summarized as follows:

	Balance June 30, 2018	Additions	Deletions	Transfers	Balance June 30, 2019
Capital assets not being depreciated:					
Land	$ 1,389,086	$ -	$ -	$ -	$ 1,389,086
Construction in progress	-	1,768,974	-	-	1,768,974
Artwork/Artifacts-University	431,323	-	-	-	431,323
Artwork/Artifacts-Foundation	2,297,156	-	-	-	2,297,156
Total capital assets not being depreciated	$ 4,117,565	$ 1,768,974	$ -	$ -	$ 5,886,539
Other capital assets:					
Site improvements	$ 9,309,741	$ 347,905	$ -	$ -	$ 9,657,646
Buildings	153,138,425	673,138	-	-	153,811,563
Intangible assets	1,968,003	-	-	-	1,968,003
Equipment	12,307,336	244,625	(89,829)	-	12,462,132
Library collection	12,424,558	42,575	(151,377)	-	12,315,756
Total other capital assets	189,148,063	1,308,243	(241,206)	-	190,215,100
Accumulated depreciation:					
Site improvements	(3,956,133)	(418,892)	-	-	(4,375,025)
Buildings	(51,266,165)	(3,318,544)	-	-	(54,584,709)
Intangible assets	(1,340,940)	(166,843)	-	-	(1,507,783)
Equipment	(10,868,698)	(713,705)	88,530	-	(11,493,873)
Library collection	(12,222,463)	(108,320)	151,377	-	(12,179,406)
Total accumulated depreciation	(79,654,399)	(4,726,304)	239,907	-	(84,140,796)
Other capital assets, net	$109,493,664	$ (3,418,061)	$ (1,299)	$ -	$106,074,304
Capital assets summary:					
Capital assets not being depreciated	$ 4,117,565	$ 1,768,974	$ -	$ -	$ 5,886,539
Other capital assets	189,148,063	1,308,243	(241,206)	-	190,215,100
Accumulated depreciation	(79,654,399)	(4,726,304)	239,907	-	(84,140,796)
Total capital assets, net	$113,611,229	$ (1,649,087)	$ (1,299)	$ -	$111,960,843

NOTE 8 - LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2019 were as follows:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019	Amounts Due Within One Year
Notes payable	$ 613,818	$ -	$ 565,712	$ 48,106	$ 48,106
Intangible asset payable	135,054	-	71,244	63,810	25,587
Revenue bonds 2007	5,340,000	-	445,000	4,895,000	460,000
Revenue bonds 2012	18,705,000	-	450,000	18,255,000	465,000
Certificates of participation 2008	8,760,000	-	150,000	8,610,000	920,000
Certificates of participation 2009	1,155,000	-	1,155,000	-	-
Certificates of participation 2018	-	13,550,000	810,000	12,740,000	-
	34,708,872	13,550,000	3,646,956	44,611,916	1,918,693
Unamortized discounts	(107,271)	-	(9,584)	(97,687)	(9,584)
Unamortized premiums	17,661	1,201,088	102,973	1,115,776	121,847
	$ 34,619,262	$ 14,751,088	$ 3,740,345	$ 45,630,005	$ 2,030,956

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, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
2020	$ 48,106	$ 150	$ 48,256

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.

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, 2019, the University has not exercised this option to redeem the bonds maturing on or after October 1, 2018.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
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	540,000	108,156	648,156
2025 - 2028	2,395,000	200,985	2,595,985
	$ 4,895,000	$ 945,766	$ 5,840,766

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.

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:

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

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, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
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	525,000	715,246	1,240,246
2025 – 2029	2,980,000	3,237,199	6,217,199
2030 – 2034	3,665,000	2,540,736	6,205,736
2035 – 2039	4,610,000	1,606,130	6,216,130
2040 - 2043	4,535,000	434,194	4,969,194
	$18,255,000	$11,565,706	$29,820,706

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.

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, 2019, the University had not exercised the right to redeem the Certificates that are callable on or after January 1, 2018.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Redemption Upon Optional Termination of Purchase Contract - The Series 2008 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, 2019, 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, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
2020	$ 920,000	$ 179,150*	$ 1,099,150
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	900,000	206,463	1,106,463
2025 - 2028	3,975,000	441,712	4,416,712
	$ 8,610,000	$ 1,672,200	$10,282,200

* The July 1, 2019 interest payment of $179,150 was made before June 30, 2019.

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 Series 2009 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.

As of June 30, 2019, the Certificates of Participation, Series 2009 have been paid in full by the University.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Certificates of Participation, Series 2018

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% to pay a portion of the costs of improvements and to pay the costs of issuing the Series 2018 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 2018 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.

Optional Redemption - The Series 2018 Certificates due on July 1, 2028 are subject to redemption on any date on or after July 1, 2027 at the redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, in whole or in part, and if in part, by lot. Such redemption shall be at the direction of the Board, upon at least 35 days prior written notice from the Board to the Trustee.

Future debt service requirements at June 30, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
2020	$ -*	$ 318,500*	$ 318,500
2021	865,000	615,375	1,480,375
2022	895,000	571,375	1,466,375
2023	1,120,000	521,000	1,641,000
2024	1,185,000	463,375	1,648,375
2025 - 2029	8,675,000	1,299,125	9,974,125
	$12,740,000	$ 3,788,750	$16,528,750

* The July 1, 2019 principal and interest payments of $810,000 and $338,750, respectively, were made before June 30, 2019.

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, 2019 are as follows:

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Year Ending June 30	Amount
2020	$ 25,587
2021	26,536
2022	11,687
	$ 63,810

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, 2019 was as follows:

Balance, beginning of year	$ 3,115,672
Movement	106,367
Balance, end of year	3,222,039
Less: current portion	350,000
Balance, noncurrent portion	$ 2,872,039

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, 2019 at $308,481, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of $525,823 for the year ended June 30, 2019. Previously, most of the Foundation's cash receipts were initially deposited in the University's bank account and settled up on a periodic basis. Effective November 2018, the Foundation's cash receipts are now being deposited directly to the Foundation's checking account. The Foundation is currently working on a change in process which will allow the Foundation to pay expenditures directly from its checking account. As of June 30, 2019, $365,940 is due to the University from the Foundation.

NOTE 10 - COMPONENT UNIT (Continued)

As of and during the fiscal year ended June 30, 2019, the University and Foundation had the following inter-entity transactions:

	Foundation	
University	Due to University	Operating Revenue
Due from Foundation	$ 365,940	$ -
Operating Expenses	-	308,481
Total	$ 365,940	$ 308,481

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 and unrestricted accounts on an annual basis. As of June 30, 2019, net appreciation of endowments of $221,414 has been reported as Restricted Net Position - Expendable, Other and as Net Position – Unrestricted, as appropriate.

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, 2019.

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

Year Ending June 30	Base Rent
2020	$ 7,476
2021	3,738
	$ 11,214

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	$ 35,661,472	2043	4.75%

1 Total future principal and interest payments on debt.

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

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019

Schedule of Employer's Proportionate Share of Net Pension Liability

	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
(a) Proportional percentage of the collective net pension liability	0%	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	$ 276,430,273	$ 274,380,549	$ 283,803,489	$ 265,336,393	$ 221,808,386
Total (b) + (c)	$ 276,430,273	$ 274,380,549	$ 283,803,489	$ 265,336,393	$ 221,808,386
Employer Defined Benefit (DB) Covered Payroll	$ 35,924,051	$ 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	769.49%	721.28%	718.59%	653.07%	598.41%
SURS Plan net position as a percentage of total pension liability	41.27%	42.04%	39.57%	42.37%	44.39%

Schedule of Employer Contributions

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Federal, trust, grant and other contribution	$ 107,989	$ 114,935	$ 100,914	$ 88,657	$ 95,432	$ 171,808
Contribution in relation to the required contribution	$ 107,989	$ 114,935	$ 100,914	$ 88,657	$ 95,432	$ 171,808
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Employer DB covered payroll	$ 34,409,953	$ 35,924,051	$ 38,040,603	$ 39,494,594	$ 40,629,305	$ 37,066,314
Contributions as a percentage of covered-employee payroll	0.31%	0.32%	0.27%	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 Pension Required Supplementary Information

Note 1 - Changes of benefit terms.

There were no benefit changes recognized in the Total Pension Liability as of June 30, 2018.

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, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

- Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25 percent to 12.25 percent based on years of service, with underlying wage inflation of 2.25 percent.
- Investment return. Decrease the investment return assumption to 6.75 percent. This reflects maintaining an assumed real rate of return of 4.50 percent and decreasing the underlying assumed price inflation to 2.25 percent.
- Effective rate of interest. Decrease the long-term assumption for the ERI for crediting the money purchase accounts to 6.75 percent (effective July 2, 2019).
- Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74, and 80+, but a slight decrease in rates at all other ages. A rate of 50 percent if the member has 40 or more years of service and is younger than age 80.
- Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59).
- Turnover rates. Change rates 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.
- Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale form the MP-2014 to the MP-2017 scale.
- Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.

STATE OF ILLINOIS

GOVERNORS STATE UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2019

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

	FY 2018	FY 2017	FY 2016
University's proportion of the collective total OPEB liability	0.0276%	0.0785%	0.0921%
University's proportionate share of the collective total OPEB liability	$ 11,065,737	$ 32,439,229	$ 40,062,905
Proportionate share of the State's collective OPEB liability associated with the University	$ 172,906,564	$ 260,759,678	$ 312,776,571
Total OPEB liability associated with the University	$ 183,972,301	$ 293,198,907	$ 352,839,476
University's covered-employee payroll	$ 47,320,919	$ 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	23.38%	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 OPEB 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, 2017, for the years July 1, 2014 to June 30, 2017 with a measurement date as of June 30, 2018. 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 0.08% in the second year to 7.42%, followed by grading down of 0.5% per year over 5 years to 4.92% in year 7;
    - Medical (Post-Medicare) - 9.0% grading down 0.5% per year over 9 years to 4.5%;
    - Dental and Vision – 6.0% grading down 0.5% per year over 3 years to 4.5%
- 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, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 64,920	$ 202,089
Cash and cash equivilents, restricted	24	23
Accounts receivable, net of allowance	178,415	142,432
Prepaid debt service insurance - current	940	940
Total Current Assets	244,299	345,484
Noncurrent Assets		
Prepaid debt service insurance	7,050	7,990
Capital assets	32,096,392	32,107,533
Less accumulated depreciation	(6,502,222)	(5,660,305)
Total Noncurrent Assets	25,601,220	26,455,218
Total Assets	25,845,519	26,800,702
LIABILITIES		
Current Liabilities		
Accounts payable & accrued expenses	536,115	444,349
Unearned revenue	213,229	214,793
Revenue bonds payable	925,853	895,853
Total Current Liabilities	1,675,197	1,554,995
Noncurrent Liabilities		
Revenue bonds payable	22,218,801	23,144,654
Total Noncurrent Liabilities	22,218,801	23,144,654
Total Liabilities	23,893,998	24,699,649
NET POSITION		
Invested in capital assets, net of related debt	2,449,516	2,406,721
Unrestricted	(497,995)	(305,668)
Total Net Position	$ 1,951,521	$ 2,101,053

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, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
OPERATING REVENUES		
Bookstore commissions	$ 133,595	$ 112,922
Food and vending commissions	10,649	14,219
Parking fees	409,852	459,947
University housing fees	2,190,806	2,053,647
Student center, activity, and career & counseling fees	2,391,591	2,618,719
Total Operating Revenues	5,136,493	5,259,454
OPERATING EXPENSES		
Salaries and benefits	1,731,873	1,619,872
Scholarships and awards	225,344	257,508
Capital expenditures	119,748	243,394
Services, supplies and other	1,365,824	1,095,334
Depreciation	853,058	879,544
Total Operating Expenses	4,295,847	4,095,652
Operating Income	840,646	1,163,802
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(990,178)	(1,018,553)
Net Nonoperating Revenues (Expenses)	(990,178)	(1,018,553)
Increase (decrease) in net position	(149,532)	145,249
NET POSITION		
Net position - beginning of the year	2,101,053	1,955,804
Net position - end of the year	$ 1,951,521	$ 2,101,053

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	$ 133,595	$ 112,922
Food and vending commissions	10,649	14,219
Parking fees	405,792	436,431
Student center, activity, and career & counseling fees	2,375,758	2,670,525
University housing fees	2,173,152	2,020,746
Payments to suppliers for goods and services	(1,605,878)	(1,583,603)
Payments to employees for services	(1,736,942)	(1,578,157)
Net cash provided by operating activities	1,756,126	2,093,083
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal payments on revenue bonds	(895,000)	(865,000)
Interest payments on revenue bonds	(998,294)	(1,025,994)
Net cash used in capital financing activities	(1,893,294)	(1,890,994)
NET INCREASE (DECREASE) IN CASH	(137,168)	202,089
Cash - beginning of year	202,112	23
Cash - end of year	$ 64,944	$ 202,112
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	$ 840,646	$ 1,163,802
Adjustments to reconcile operating income to net cash provided by operating activities:		
Noncash expense included in net operating income:		
Depreciation expense	853,058	879,544
Changes in assets and liabilities:		
Accounts receivable, net of allowance	(35,983)	(36,016)
Prepaid debt service insurance	940	940
Bank overdraft	-	(46,329)
Accounts payable & accrued expenses	99,029	99,737
Unearned revenue	(1,564)	31,405
Net cash provided by operating activities	$ 1,756,126	$ 2,093,083

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

The following table presents a break-down of the various types of expenses which collectively comprise the University's functional operating expense accounts.

	Compensation and Benefits											Total Operating Expenses
	University's Expenses					State of Illinois' Expenses						
	Salaries[1]	Benefits[2]	OPEB[3]	Pension	Sub-Total	Benefits[2]	OPEB[3]	Pension	Sub-Total	Total	Other Expenses	
Instruction	29,456,270	475,410	(3,330,743)	49,719	26,650,656	3,806,457	(5,808,256)	16,328,748	14,326,949	40,977,605	2,685,978	43,663,583
Research	366,320	18,959	(37,086)	10,091	358,284	42,383	(64,672)	174,561	152,272	510,556	181,325	691,881
Public service	2,109,077	435,503	(245,100)	87,541	2,387,021	280,107	(427,414)	1,157,897	1,010,590	3,397,611	1,174,008	4,571,619
Academic support	1,635,692	22,490	(191,661)	1,369	1,467,890	219,035	(334,225)	902,288	787,098	2,254,988	900,356	3,155,344
Student services	3,487,920	57,721	(401,001)	6,135	3,150,775	458,275	(699,280)	1,891,278	1,650,273	4,801,048	1,733,208	6,534,256
Institutional support	6,940,153	102,061	(869,784)	6,211	6,178,641	994,010	(1,516,756)	4,094,802	3,572,056	9,750,697	5,235,713	14,986,410
Operation and maintenance of plant	3,497,662	48,636	(414,485)	2,959	3,134,772	473,683	(722,791)	1,950,930	1,701,822	4,836,594	3,063,906	7,900,500
Auxiliary enterprises	721,880	12,018	(102,422)	755	632,231	117,050	(178,606)	497,730	436,174	1,068,405	801,200	1,869,605
Student aid	-	-	-	-	-	-	-	-	-	-	6,370,361	6,370,361
Depreciation	-	-	-	-	-	-	-	-	-	-	4,726,304	4,726,304
Total	48,214,974	1,172,798	(5,592,282)	164,780	43,960,270	6,391,000	(9,752,000)	26,998,234	23,637,234	67,597,504	26,872,359	94,469,863

[1] Salaries includes employer contributions for Social Security, Medicare, and unemployment.

[2] Benefits includes certain group insurance costs, such as healthcare and life insurance.

[3] OPEB refers to other post-employment benefits.

For the measurement date of June 30, 2018, CMS experienced two significant changes within its estimation process. The OPEB for both the special funding situation and the portion of OPEB where the University is responsible for employer contributions were both significantly impacted by (1) the University’s number of participants in SEGIP and (2) the average cost per employee within SEGIP. CMS made changes to its estimation methodology that resulted in significant differences within its estimates which represent an outcome of estimation uncertainty that, as time has passed and new sources of better data have become available, continued to be refined to achieve a more representative reflection of the actual outcome of the estimate in future periods. As such, the University recognized a negative OPEB expense related to its own OPEB liability and a negative OPEB expense from the special funding situation. These negative OPEB expenses have offset other operating expenses as indicated above.

OTHER INFORMATION

STATE OF ILLINOIS
GOVERNORS STATE UNIVERSITY
SCHEDULE OF OPERATING EXPENSES (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

The following table presents a break-down of the various types of expenses which collectively comprise the University's functional operating expense accounts.

	Compensation and Benefits											Total Operating Expenses
	University's Expenses					State of Illinois' Expenses						
	Salaries[1]	Benefits[2]	OPEB[3]	Pension	Sub-Total	Benefits[2]	OPEB[3]	Pension	Sub-Total	Total	Other Expenses	
Instruction	29,133,844	447,353	456,486	19,414	30,057,097	2,828,787	4,655,917	15,441,899	22,926,603	52,983,700	2,594,557	55,578,257
Research	348,515	19,511	5,160	3,517	376,703	31,971	52,622	166,389	250,982	627,685	92,595	720,280
Public service	2,707,216	558,544	43,507	83,959	3,393,226	269,609	443,752	1,407,699	2,121,060	5,514,286	844,038	6,358,324
Academic support	1,483,719	20,505	24,451	-	1,528,675	151,520	249,387	788,562	1,189,469	2,718,144	908,069	3,626,213
Student services	3,408,071	54,541	53,655	3,379	3,519,646	332,492	547,250	1,732,721	2,612,463	6,132,109	1,295,308	7,427,417
Institutional support	7,499,141	109,402	130,457	-	7,739,000	808,424	1,330,591	4,207,944	6,346,959	14,085,959	4,146,594	18,232,553
Operation and maintenance of plant	3,506,225	48,468	57,796	-	3,612,489	358,152	589,485	1,871,602	2,819,239	6,431,728	2,832,216	9,263,944
Auxiliary enterprises	663,450	9,208	10,980	-	683,638	68,045	111,996	365,486	545,527	1,229,165	809,992	2,039,157
Student aid	-	-	-	-	-	-	-	-	-	-	6,842,392	6,842,392
Depreciation	-	-	-	-	-	-	-	-	-	-	4,802,242	4,802,242
Total	48,750,181	1,267,532	782,492	110,269	50,910,474	4,849,000	7,981,000	25,982,302	38,812,302	89,722,776	25,168,003	114,890,779

[1] Salaries includes employer contributions for Social Security, Medicare, and unemployment.

[2] Benefits includes certain group insurance costs, such as healthcare and life insurance.

[3] OPEB refers to other post-employment benefits.

Student Enrollment by Term (Unaudited)

	Total Enrollment	Full-Time Equivalent
Fall Term, 2018	4,857	3,320
Spring Term, 2019	4,591	3,079
Summer Term, 2019	2,421	1,088

University Fees (Unaudited)

The following mandatory fees were in effect during the 2018-2019 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	$ 39
	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 (buildings, EDP and contents, business interruption) ($25,000 deductible unless otherwise stated in the policy) (per occurrence)	$ 500,000,000
Boiler and machinery (included in blanket coverage limit) (per occurrence)	$ 100,000,000
Earthquake (per occurrence and in the aggregate)	$ 100,000,000
Flood (per occurrence and in the aggregate)	$ 100,000,000
General liability (per occurrence)	$ 10,650,000

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

Report on the Financial Statements

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 and the discretely presented component unit of Governors State University, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2019, 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 24, 2020. 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 Foundation, a component unit of Governors State University, were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control or compliance and other matters associated with this component unit.

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*.

Internal Control Over Financial Reporting

Management of Governors State University is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Governors State University's 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 above paragraphs of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 24, 2020

PRIOR FINDINGS NOT REPEATED – *GOVERNMENT AUDITING STANDARDS*

A **FINDING: Inadequate Controls Over Undergraduate Student Type Classifications**

During the prior audit, Governors State University (University) had 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 Governors State University Law.

During the current audit, our sample testing did not identify any instances in which the University charged inappropriate tuition rates to undergraduate students due to incorrect student type classifications. (Finding Code No. 2018-001)