



**GOVERNORS STATE
UNIVERSITY**

**Board of Trustees
Budget, Finance and Audit Committee**

**October 7, 2022
Engbretson Hall**

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TAB 1



**GOVERNORS STATE UNIVERSITY
BOARD OF TRUSTEES**

**Budget, Finance & Audit Committee Meeting
October 7, 2022 at 10:30 AM**

To be conducted by audio and video conference as permitted by Public Act 101-0640
and Illinois Governor's Disaster Proclamation dated September 16, 2022.*

Jim Kvedaras, Chair

Time**		Topic	Tab #'s
10:30am*	I.	CALL TO ORDER AND ROLL CALL	
10:35am	II.	PUBLIC COMMENT Consistent with Public Act 91-0715 and reasonable constraints determined by the Board of Trustees, at each regular or special meeting of the Board or its committees that is open to the public, members of the public may request a brief time on the approved agenda of the meeting to address the Board on relevant matters within its jurisdiction.	
10:45am	III.	APPROVAL OF MEETING AGENDA	1
10:50am	IV.	APPROVAL OF MINUTES 1. May 24, 2022 Budget and Finance Committee Meeting	2
10:55am	V.	INFORMATION ITEMS	
		1. Budget to Actual Report for period July 1, 2021 through June 30, 2022 <i>Presenter: Ms. Sandra Zurawski, Executive Director, Budget and Financial Planning</i>	3
		2. Procurement Activities of \$100,000 to \$249,999 for the Period of May 1, 2022 through August 31, 2022 <i>Presenter: Ms. Tracy Sullivan, Associate Vice President, Procurement and Business Services</i>	4
		3. Diversity Vendor Report <i>Presenter: Ms. Tracy Sullivan, Associate Vice President, Procurement and Business Services</i>	5
		4. Report on Income-Producing Contracts <i>Presenter: Dr. Corey S. Bradford, Sr., Vice President, Administration and Finance</i>	6
		5. Reporting on FY2021 Audits	7

Time**		Topic	Tab #'s
		<i>Presenters: Dr. Corey S. Bradford, Sr., Vice President, Administration and Finance & Mr. Kristoffer Evangelista, CPA, Chief Internal Auditor</i>	
		6. Retention Strategies for Students Struggling with Debt <i>Presenters: Dr. Corey S. Bradford, Sr., Vice President, Administration and Finance and Mr. Paul McGuinness, Vice President for Student Affairs and Enrollment Management</i>	
11:25am	VI.	ACTION ITEMS	
		1. Resolution 23-XX: Consideration and Possible Recommendation of FY2023 Operating Budget for Approval by Board and Submission to IBHE <i>Presenter: Dr. Corey S. Bradford, Sr., Vice President, Administration and Finance</i>	8
		2. Resolution 23-XX: Consideration and Possible Recommendation of FY2024 Operating Appropriations Budget for Approval by Board and Submission to IBHE <i>Presenter: Dr. Corey S. Bradford, Sr., Vice President, Administration and Finance</i>	9
		3. Resolution 23-XX: Consideration and Possible Recommendation of FY2024 Capital Improvement Budget for Approval by Board and Submission to IBHE <i>Presenter: Ms. Sandra Zurawski, Executive Director, Budget and Financial Planning & Mr. John Potempa, Associate VP for Facilities Management and Development</i>	10
		4. Resolution 23-XX: Approval of Investment Policy <i>Presenter: Dr. Corey S. Bradford, Sr. Vice President, Administration and Finance</i>	11
11:40am	VII.	EXECUTIVE SESSION (IF NEEDED)	
11:40am	VIII.	OLD BUSINESS/NEW BUSINESS	
11:45am	IX.	ADJOURN	

***Notice to GSU Community and Members of the Public:**

1. If you require accommodations to participate fully in the meeting, please contact Therese King Nohos (contact Information below) to request an accommodation.
2. If you wish to make a public comment, please register in advance to do so by contacting Therese King Nohos by 5 PM on Wednesday October 5, 2022.
3. If you wish to observe and listen to the meeting virtually, a link is provided below for your use.

Contact Information: Therese King Nohos; tnohos@govst.edu and phone is 780.855.1553.

Zoom Link: <https://us02web.zoom.us/j/88181694702?pwd=ejVuYU92ajc1dnRGMnNaZ2JxZFc3Zz09>

Please click the General Invitation Link herein to join the meeting with Passcode: 926498

Or one-tap mobile: US: +13092053325,88181694702# or +13126266799,88181694702#

TAB 2

GOVERNORS STATE UNIVERSITY
Board of Trustees
Budget and Finance Committee

Draft for
committee review

Minutes of the Tuesday, May 24, 2022 Regular Meeting

Note: As permitted by Public Act 101-0640 and Illinois Governor's Disaster Proclamation dated April 29, 2022, this meeting was held via Zoom.

Call to Order and Roll Call

The Governors State University Board of Trustees Budget and Finance Committee meeting for Tuesday, May 24, 2022 was called to order at 8:01 am. Roll call was taken and Trustees Kevin Brookins, John Brudnak, Pedro Cevallos-Candau, Latrice Koger, and Angela Sebastian were in attendance. Trustee Jim Kvedaras also attended. The meeting was held via Zoom.

Trustee John Brudnak left the meeting at 8:58am.

Also in attendance:

Cheryl Green, President

Corey S. Bradford, Sr., Vice President for Administration and Finance

Beverly Schneller, Provost and Vice President for Academic Affairs

Therese King Nohos, Vice President, General Counsel and Interim Vice President of Human Resources

Penny Perdue, Chief of Administrative Operations and Liaison to the Board

Rasha Abed, Director, Sponsored Programs and Research

Anaberta Acosta, Financial Analyst/Planner Specialist, Institutional Research

Josh Allen, Associate Vice President, Human Resources

Chevonne Alston, Faculty, College of Business, Faculty Senate Representative

Villalyn Baluga, Associate Vice President for Finance

Cathy Balthazar, Dean, College of Health and Human Services

Ed Bockman, Director of Support Services, Information Technology Services

Mushtaq Choudhary, Dean of Students

Will Davis, Vice President, Institutional Advancement and Marketing and Communications and CEO of the GSU Foundation

Kristoffer Evangelista, Internal Auditor

Judy Ferneau, IT Manager/Administrative Coordinator, Information Technology Services

Joan Johns-Maloney, Coordinator of Benefits & Employee Relations, Human Resources

Nadine Johnson, Senior Vice President, Public Fund Banking, Old National Bank

Maureen Kelly, Director of Community and Government Relations

Michael Lambert, Vice President, Wealth Management, Old National Bank

Blaise Lukasiewicz, Documentation/Training Specialist, Information Technology Services

Paul McGuinness, Vice President of Student Affairs and Enrollment Management

Patricia O'Neal, Executive Assistant to the President

Heather Penn, Chief Broadcasting Engineer, Digital Learning and Media Design

John Potempa, Associate Vice President, Facilities Development and Management
Donald Powell, Senior Vice President, Wealth Management, Old National Bank
Aurora Ramos, Procurement Coordinator Specialist, Procurement and Business Services
Colleen Sexton, Associate Provost and Associate Vice President for Academic Affairs
Tracy Sullivan, Associate Vice President of Procurement and Business Services
Dennis Swanson, Interim Dean, University Library
Brian Tse, Technical Associate, Information Technology Services
Kaitlyn Wild, Director of Compliance and Ethics Officer
Fred Yantes, Budget Analyst III, Office of Budget and Financial Planning
Jun Zhao, Dean, College of Business
Jason Zingsheim, Interim Dean, College of Arts and Sciences
Sandra Zurawski, Executive Director of Budget and Financial Planning

Public Comment

None.

Approval of Meeting Agenda

Chair Sebastian asked for a motion to approve the agenda for the May 24, 2022 Budget and Finance Committee meeting. Trustee Brookins motioned. Trustee Koger seconded. The motion was approved via a unanimous roll call vote.

Approval of Minutes

Chair Sebastian asked for a motion to approve the minutes of the March 1, 2022 Budget and Finance Committee meeting. Trustee Brookins motioned. Trustee Koger seconded. The motion was approved via a unanimous roll call vote.

Information Items

Chair Sebastian asked Corey S. Bradford, Sr., Vice President of Administration and Finance, to present the Budget to Actual Report for the period of July 1, 2021 through March 31, 2022. Dr. Bradford presented the report included in the Board Book. Discussion ensued.

Chair Sebastian asked Corey S. Bradford, Sr., Vice President of Administration and Finance, to present the Report on Purchases of \$50,000 to \$99,999 for the period of February 1, 2022 through April 30, 2022. Dr. Bradford presented the report included in the Board Book.

Chair Sebastian asked Corey S. Bradford, Sr., Vice President of Administration and Finance, to present the report on Income-Producing Contracts of \$10,000 or More for the Period Ended March 31, 2022. Dr. Bradford presented. A discussion ensued.

Chair Sebastian asked Will Davis, Vice President, Institutional Advancement and Marketing and Communications and CEO of the GSU Foundation, to present the Report on Contributions Between the University and University Related Organizations for the quarter ending March 31, 2022. Mr. Davis presented the report included in the Board Book.

Chair Sebastian asked Corey S. Bradford, Sr., Vice President of Administration and Finance, and Donald Powell, Senior Vice President Wealth Management at Old National Bank, to present the Report on New Investment Strategy. Dr. Bradford and Mr. Powell presented. A discussion ensued.

Chair Sebastian asked Corey S. Bradford, Sr., Vice President of Administration and Finance, John Potempa, Associate Vice President, Facilities Development and Management, and Sandra Zurawski, Executive Director of Budget and Financial Planning, to present the Fiscal Year 2023 Large Projects Plan. Dr. Bradford, Mr. Potempa, and Ms. Zurawski presented. A discussion ensued.

Action Items

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board the Amendments to Section V of the Board Regulations Regarding Administrative Affairs. Trustee Cevallos-Candau motioned. Trustee Koger seconded. Dr. Corey S. Bradford, Sr., Vice President of Administration and Finance, presented the resolution. The motion passed unanimously on a roll call vote.

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board the Approval of the Preliminary FY2023 Operating Budget. Trustee Cevallos-Candau motioned. Trustee Koger seconded. Corey S. Bradford, Sr., Vice President of Administration, and Finance, and Sandra Zurawski, Executive Director of Budget and Financial Planning, presented the resolution. The motion passed unanimously on a roll call vote.

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board the Approval of a Construction Contract with M&J Underground, Inc. for D Dock Roadway Improvements. Trustee Koger motioned. Trustee Brookins seconded. John Potempa, Associate Vice President, Facilities Development and Management, and Tracy Sullivan, Associate Vice President of Procurement and Business Services, presented the resolution. A discussion ensued. The motion passed unanimously on a roll call vote.

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board the Approval of a Construction Contract with M&J Underground, Inc. for Central Receiving Truck Dock Drainage Improvements. Trustee Koger motioned. Trustee Cevallos-Candau seconded. John Potempa, Associate Vice President, Facilities Development and Management, and Tracy Sullivan, Associate Vice President of Procurement and Business Services, presented the resolution. The motion passed unanimously on a roll call vote.

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board the Approval of Master Contracts with Five Architectural Firms: Bailey Edwards Design,

Inc.; Demonica Kemper Architects LLC; Holabird & Root LLC; LCM Architects; and Sengea Architects, Inc. Trustee Koger motioned. Trustee Brookins seconded. John Potempa, Associate Vice President, Facilities Development and Management, and Tracy Sullivan, Associate Vice President of Procurement and Business Services, presented the resolution. The motion passed unanimously on a roll call vote.

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board the Approval of Master Contracts with Four Engineering Firms: Interface Engineering Inc.; Rubinos & Mesia Engineers, Inc.; TERRA Engineering; and the HOH Group, Inc. Trustee Brookins motioned. Trustee Koger seconded. John Potempa, Associate Vice President, Facilities Development and Management, and Tracy Sullivan, Associate Vice President of Procurement and Business Services, presented the resolution. The motion passed unanimously on a roll call vote.

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board the Approval of a Contract Renewal for Document Imaging Software Maintenance with Hyland Software, Inc. Trustee Brookins motioned. Trustee Cevallos-Candau seconded. Paul McGuinness, Vice President of Student Affairs and Enrollment Management, and Tracy Sullivan, Associate Vice President of Procurement and Business Services, presented the resolution. The motion passed unanimously on a roll call vote.

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board the Approval of a Contract Renewal for Banking Related Services with First Midwest Bank. Trustee Koger motioned. Trustee Cevallos-Candau seconded. Corey S. Bradford, Sr., Vice President for Administration and Finance, and Lyn Baluga, Associate Vice President for Finance, presented the resolution. Discussion ensued. The motion passed unanimously on a roll call vote.

Chair Sebastian requested a motion for Consideration and Possible Recommendation to the Full Board Waiving the Initial Reading of, and Publishing the Proposed Regulation Regarding a New Investment Policy for Public Comment. Trustee Brookins motioned. Trustee Koger seconded. Dr. Corey S. Bradford, Sr., Vice President of Administration and Finance, presented the resolution. Discussion ensued. The motion passed unanimously on a roll call vote.

There being no old or new business, the meeting adjourned at 9:38 am with a motion from Trustee Brookins and a second from Trustee Koger. The motion passed unanimously on a voice vote.

Approved this 7th day of October, 2022

By: _____
Jim Kvedaras, Committee Chair

TAB 3

GSU Operating Budget to Actual Report

July 1, 2021 to June 30, 2022

I. REPORT

For the period of June 1, 2021 to June 30, 2022 (“FY22”), Governors State University (“GSU”) anticipates operating revenues slightly higher than expenses resulting in a minimal surplus of \$12,574.

On April 11, 2022, an additional 5% increase in Illinois State appropriations for FY22 was approved and enacted for Illinois public institutions of higher education. The increase for GSU equated to an additional \$1,159,700 in appropriations, resulting in GSU FY2022 total appropriations for Operations in the amount of \$24,353,300.

The benefit of the incremental FY22 state appropriations was offset by tuition income shortfall primarily due to the continued COVID-19 impact of transfer student enrollment. GSU has a long history as an undergraduate transfer institution. Over the last decade, especially since COVID-19, the Illinois community colleges have experienced a sharp downturn in enrollment. Thus, our Strategic Enrollment Plan includes the development of a Transfer Portal, digital media campaigns targeted at transfer students with a particular focus on students 25 years of age and older (i.e., nontraditional transfers).

Additionally, the University used \$2,007,895 from HEERF III ARP (Higher Education Emergency Relief Fund III American Rescue Plan) to help offset a portion of the tuition income shortfall. Per the funding guidelines, lost revenue refers to those revenues an institution of higher education otherwise expected but was reduced or eliminated as a result of the COVID-19 pandemic. As such, lost revenues can be estimated and may include, but are not limited to, enrollment declines, including reduced tuition, fees, and institutional charges.

Overall, reduced expenditures are the result of the COVID-19 pandemic: slow employment recovery and filling of open positions; reduced travel; and supply chain scarcity of commodities and market goods.

Appropriation monies from the Illinois Office of the Comptroller are fully vouchered and have been received timely.

Governors State University
Budget to Actual by Major Category
As of Jun 30, 2022 (Unaudited)

Category Name	FY2021 Projected Actual	FY2022 Operating Budget	FY2022 Projected Actual	FY2022 Projected Ending Balances (Budget- Actual)
Revenues:				
Income Fund	\$32,269,666	\$36,592,185	\$32,744,758	(\$3,847,427)
Appropriation	\$23,193,600	\$23,193,600	\$24,353,300	\$1,159,700
Total Revenues	\$55,463,266	\$59,785,785	\$57,098,058	(\$2,687,727)
Expenses:				
Personnel Services	\$44,830,775	\$49,093,811	\$47,317,031	\$1,776,780
Fringe Benefits	\$1,424,382	\$1,536,200	\$1,496,299	\$39,901
Contractual	\$6,286,481	\$7,253,199	\$6,979,779	\$273,420
Commodities	\$387,872	\$857,075	\$598,906	\$258,169
Permanent Improvement	\$250,422	\$0	\$19,130	(\$19,130)
Travel	\$4,748	\$425,870	\$150,054	\$275,816
Equipment	\$476,297	\$356,505	\$367,518	(\$11,013)
Telecom	\$134,858	\$182,750	\$123,454	\$59,296
Auto Operations	\$52,002	\$41,375	\$33,313	\$8,062
Awards	(\$68,569)	\$39,000	\$0	\$39,000
Reserve**	\$0	\$0	\$0	\$0
Total Expenses:	\$53,779,268	\$59,785,785	\$57,085,484	\$2,700,301
Surplus (Deficit)	\$1,683,998	\$0	\$12,574	\$12,574

Notes:

** Historical Years Surplus adequate funds to support BOT Reserve requirement for FY2022

II. Resource/Contact

Sandra Zurawski, Executive Director, Budget & Financial Planning;
 szurawski@govst.edu; 708.534.4981

TAB 4

**Procurement Activities of \$100,000 to \$249,999
for the Period of May 1, 2022 through August 31, 2022**

There are no activities to report for this time period.

Resource/Contact: Ms. Tracy Sullivan, Associate Vice President for Procurement and Business Services; tsullivan@govst.edu; 708.235.2179

TAB 5

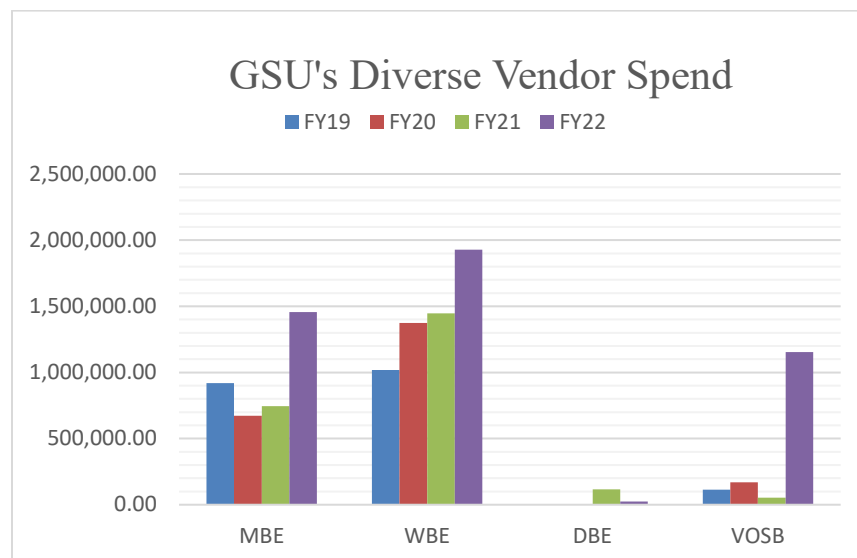
Diversity Vendor Report

The University has a commitment to supplier diversity, and encourages the use of diversely owned businesses, wherever practicable. The State of Illinois certifies businesses as diverse in the following categories: minority-owned; women-owned; disability-owned; and Veteran-owned. Certifications are processed through the Business Enterprise Program's (BEP) criteria (ownership and control) of the business entity. BEP is one area that reports to the new Commission on Equity and Inclusion (CEI).

The University reports in the fall of each year all expenditures in each category for the prior fiscal year. While BEP has not issued the request for FY22 or a new report format, GSU has prepared the data. With 95% of data received, the attached information details spending by category.

For every competitive solicitation issued, the AVP of Procurement establishes diversity goals for BEP and Veteran certified vendors. This goal is established by assessing the marketplace for the product being sourced and the number of certified firms in that category. The University establishes a 30% goal for BEP and 2% goal for use of Veteran owned businesses with each construction bid. Achievement can be reported for prime vendor contracts and/or subcontractor inclusion.

This past year we saw increases due to contracts with architects/engineers, construction, IT hardware, and a diverse supplier who assists with COVID-19 cleaning protocols. The chart below shows the total spend per category for minority (MBE), women (WBE), disabled (DBE), and Veteran (VOSB) owned entities spend with certified businesses in the last four fiscal years.



Resource/Contact: Ms. Tracy Sullivan, Associate Vice President for Procurement and Business Services; tsullivan@govst.edu; 708.235.2179

Governors State University
Summary of Diverse Vendor Spending
as of 09/15/22

<u>Ownership types:</u>	FY19	FY20	FY21	FY22
African American Male	229,891.31	309,701.54	161,643.26	207,656.33
African American Female	24,114.81	107,166.93	125,582.08	166,735.17
Hispanic American Male	23,838.00	81,635.32	96,260.00	329,238.76
Hispanic American Female	19,408.00	101,801.75	-	19,798.79
Asian American Male	177,514.44	72,273.00	361,449.00	733,847.79
Asian American Female	445,260.00	-	-	-
Female, non-minority	1,018,747.16	1,373,888.58	1,447,112.34	1,928,950.14
Persons with a disability	-	-	113,845.88	20,691.02
Sheltered Workshops	421.50	289.80	1,979.80	4,537.03
	<hr/>			
BEP Diverse Business Spend	1,939,195.22	2,046,756.92	2,307,872.36	3,411,455.03
	<hr/>			
Veteran Owned Businesses	114,332.00	170,215.00	54,088.25	1,153,951.73
	<hr/>			
Grand Total	\$ 2,053,527.22	\$ 2,216,971.92	\$ 2,361,960.61	\$ 4,565,406.76
	<hr/> <hr/>			

TAB 6

**Quarterly Report of Income Producing Contracts of \$100,000 or More
For the Period Ended June 30, 2022 (Q4FY22)**

Federal Grants:

Provider Name	Type of Contract	Income Q4FY22	Principal Investigator (PI)/ College/Department	End Date
U.S. Department of Health & Human Services	Early Head Start Grant	\$1,139,827	Erin Soto COE/Family Dev Center	12/31/2024
U.S. Small Business Administration	Shuttered Venue Operators Grant	\$392,176	Svetlana Rogachevskaya CAS/Div. of Communication-Visual Arts and Performing Arts	1/16/2023
U.S. Department of Health & Human Services, passed through the Illinois Department of Human Services	Block Grants for Prevention and Treatment of Substance Abuse	\$133,894	Cheryl Mejta CHHS/Addiction Studies and Behavioral Health	6/30/2022
U.S. Department of Education, passed through the Illinois Board of Higher Education	IL Tutoring Initiative Grant	\$211,745	Shannon Dermer COE	6/30/2023
U.S. Department of Commerce	Cluster Grants	\$116,520	Jun Zhao; Olumide Ijose COB/ Management	9/30/2023
U.S. Department of Health & Human Services	Mental and Behavioral Health Education and Training Grants	\$106,347	Cheryl Mejta CHHS/Addiction Studies and Behavioral Health	8/31/2025
U.S. Department of Health & Human Services	Substance Abuse and Mental Health Services Grant	\$104,029	Shannon Dermer COE/Counseling	9/29/2022

State Grants:

Provider Name	Type of Contract	Income Q4FY22	Principal Investigator (PI)/ College/Department	End Date
IL State Board of Education	Pre-K Block Grant, and Pre-K Expansion Grant	\$389,507	Erin Soto COE/Family Development Ctr	6/30/2022
Illinois Network of Child Care Resource and Referral Agencies	Child Care Restoration Grant	\$279,161 <i>(\$51,461 of this amount is federally funded)</i>	Erin Soto COE/ Family Development Ctr	State Portion: 6/30/2022 Federal Portion: 5/31/2022

Others:

Provider Name	Type of Contract	Income Q4FY22
Various Clients - Extended Learning	Training programs for professional development/continuing professional education to individuals, school districts, and employees of certain private organizations	\$777,924
Clearwire Spectrum Holdings	Broadband Lease of Excess Channels	\$319,797
Various Clients - Foster Pride Program	Online training curriculum	\$155,980

Note: The above agreements and concessionary contracts generate income to the University throughout the fiscal year. Quarterly reports will be provided at the subsequent Budget, Finance & Audit Committee meetings if income generated equals \$100,000 or more as required by University Regulations V.C.2.

Resource/Contact: Corey S. Bradford, PhD, Vice President for Administration and Finance; cbradford2@govst.edu; 708.235.7421

TAB 7

REPORT ON FISCAL YEAR 2021 AUDIT AND FINANCIAL RESULTS

The State of Illinois Office of the Auditor General (“OAG”) is authorized by the Illinois State Auditing Act (30 ILCS 5/) to conduct an annual Financial Audit, Federal Compliance Audit, and State Compliance Audit (each, a “Single Audit” and together, the “Audits”) of every State agency.

The Audits for the Fiscal Year Ended June 30, 2021 (“FY21”), were conducted on behalf of the OAG by the independent auditing firm of Borschnack Pelletier & Co, in the 6th fiscal year of their 6-year audit engagement. This firm also audits other Illinois state public universities and agencies.

The Financial Audit Report was released by the OAG on June 16, 2022, while the Federal and State Compliance Audit Reports were released by the OAG on July 13, 2022. These reports are available publicly at the OAG website and are also included in the board packet.

Management’s Responsibility

- Preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States.
- Design, implementation, and maintenance of internal controls over the preparation and fair presentation of financial statements that are free from material misstatement, and over compliance with State and Federal requirements.

Auditor’s Responsibility

- Perform the Audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits and attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies as adopted by the OAG; the Illinois State Auditing Act; and the audit requirements of Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- Review internal controls over financial reporting and over compliance with Federal and State requirements.
- Form and express an opinion about whether the financial statements are prepared, in all material respects, in conformity with the applicable financial accounting framework; and form an opinion on the University’s compliance with Federal and State requirements.

Auditor's Results

Clean Audit Opinion on University Financial Statements

The auditors have expressed an unmodified opinion (clean opinion) on the University's financial statements, which is the best possible outcome. GSU's financial statements as of and for the year ended June 30, 2021 are presented fairly, in all material respects, in accordance with the accounting principles generally accepted in the United States.

Fiscal Year 2021 financial position and results of operations as compared to Fiscal Year 2020

<i>(Amounts in '000)</i>	Financial Position (Balance Sheet)			
	FY 2021	FY 2020	\$ Change	% Change
Total Assets	\$ 194,996	\$ 194,668	\$ 328	0.2%
Total Liabilities	66,726	72,337	(5,611)	-7.8%
Net Deferred Inflows (Outflows) of Resources	3,931	19,361	(15,430)	-79.7%
Total Net Position	\$ 124,339	\$ 102,970	\$ 21,369	20.8%

- Net position represents the University's equity and is a way to measure the financial health of the University.
- The University's financial position shows stronger financial resources as the University amortized debt and grew unrestricted net assets.
- Cash & cash equivalents/investments and capital assets represent a significant portion of the University's assets.
- Long-term debt (Revenue Bonds and Certificates of Participation) represents a significant portion of the Universities liabilities.
- Deferred inflows and outflows pertain to the changes in actuarial calculation related to pension and other post-employment benefits ("OPEB"), as provided by the State of Illinois. The significant decrease was mainly due to the effect of the State's prior period adjustments related to OPEB.

(Amounts in '000)	Results of Operations (Income Statement)			
	FY 2021	FY 2020	\$ Change	% Change
Total revenues	\$ 133,179	\$ 109,272	\$ 23,907	21.9%
Total expenses	128,705	99,718	28,987	29.1%
Net Income (Loss)	\$ 4,474	\$ 9,554		

- The University has generated positive operating results for both FY 2021 and FY 2020.
- Tuition & fees, grants & contracts, and State appropriations (including payments on-behalf) represent a significant portion of the University's revenues.
- Salaries and benefits represent a significant portion of the University's expenses.
- The significant increases in revenues and expenses are mostly attributable to the payments made on behalf of the University by the State of Illinois for retirement and medical insurance benefits (recognized both as revenues and expenditures in the financial statements, in accordance with accounting standards).

Audit Report Findings

The University is subject to a large number of laws, rules and regulations. Just the Illinois statutory mandates alone subject the University to about 749 mandates. The University is also required to comply with the Illinois Administrative Rules, Federal Laws/Regulations, Accounting Principles/Standards, and the Information Systems and Cybersecurity Standards.

Since FY16, the University has made significant progress in addressing audit findings. For FY21, the University's audit ended with 15 report findings compared to 11 report findings in FY20. The average number of findings received for all nine Illinois public universities was 15 reported findings.

	FY21	FY20	FY19	FY18	FY17	FY16
Number of Findings	15	11	12	19	19	20
Repeated Findings	8	8	8	12	13	5
Corrected Findings (Not Repeated)	3	4	11	7	7	2
New Findings	7	3	4	7	6	15

The University takes these findings seriously and corrective actions are being taken to address these findings. We are confident that with the hiring of a University Compliance Officer and an internal auditor staffer, along with strengthening various University processes and procedures, the University will continue to make progress in all areas of compliance. It should be noted that five (5) of GSU's audit findings are similar to the findings of other Illinois State institutions (i.e., findings 2021-001 census data reconciliation, 2021-009 timesheet not properly maintained, 2021-010 weaknesses in cyber security programs and practices, 2021-011 computer security weaknesses, and 2021-012 lack of review of internal controls over service providers).

Details of the FY21 audit findings, along with the related corrective action plans were included in the board packet. The University is committed to instituting corrective actions that will affect positive change, increase accountability, and foster compliance with all laws, regulations, and policies that govern the University.



GOVERNORS STATE UNIVERSITY

FISCAL YEAR 2021 AUDIT AND FINANCIAL RESULTS

AUDIT SUMMARY

- As required by the Illinois State Auditing Act (30 ILCS 5/), the University is subject to Financial Audit, Federal Compliance Audit (Single Audit), and State Compliance Audit (“Audits”) by the State of Illinois Office of the Auditor General (OAG) on an annual basis.
- The audits for the Fiscal Year Ended June 30, 2021 were conducted on behalf of the OAG by the independent auditing firm Borschnack Pelletier & Company.
- The University is subject to a large number of laws, rules and regulations. Just the Illinois Statutory Mandates alone, the University is subject to about 749 mandates. In addition to this, the University is also required to comply with the Illinois Administrative Rules, Federal Laws/Regulations, Accounting Principles/Standards, and the Information Systems and Cybersecurity Standards.
- The auditors have expressed an unmodified opinion (clean opinion) on the University’s Fiscal Year 2021 financial statements. This means that GSU financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the University as of and for the year ended June 30, 2021 in accordance with the accounting principles generally accepted in the United States of America.
- For Fiscal Year 2021, the University’s audit ended with 15 audit report findings. Except for the finding on census data (which was issued to all Illinois State public universities), none of the findings were considered as material weakness.

FINANCIAL POSITION, AT A GLANCE

(Amounts in '000)

	FY 2021	FY 2020	\$ Change	% Change
Total Assets	\$ 194,996	\$ 194,668	\$ 328	0.2%
Total Liabilities	66,726	72,337	(5,611)	-7.8%
Net Deferred Inflows (Outflows) of Resources	3,931	19,361	(15,430)	-79.7%
Total Net Position	\$ 124,339	\$ 102,970	\$ 21,369	20.8%

- Net position represents the University's equity and is a way to measure the financial health of the University.
- The University's financial position shows stronger financial resources as the University amortized debt and grew unrestricted net assets.
- Deferred inflows and outflows pertains to the changes in actuarial calculation related to pension and other post-employment benefits (OPEB), as provided by the State of Illinois. The significant decrease was mainly due to the effect of the State's prior period adjustments related to OPEB.

Note: Amounts shown above were obtained from the FY 2021 and FY 2020 audited financial statements.

COMPONENTS OF ASSETS

(Amounts in '000)

	FY 2021	FY 2020	\$ Change	% Change
Cash & Equivalents	\$ 59,847	\$ 52,203	\$ 7,644	14.6%
Restricted Cash and Investments	9,940	13,749	(3,809)	-27.7%
Accounts Receivable, Net	4,200	4,856	(656)	-13.5%
Grants Receivable	5,255	2,354	2,901	123.2%
State Appropriation Receivable	-	4,957	(4,957)	-100.0%
Student Loans Receivable, Net	1,493	1,908	(415)	-21.7%
Capital Assets, Net	112,087	111,297	790	0.7%
Other Assets	2,174	3,344	(1,170)	-35.0%
Total Assets	\$ 194,996	\$ 194,668	\$ 328	0.2%

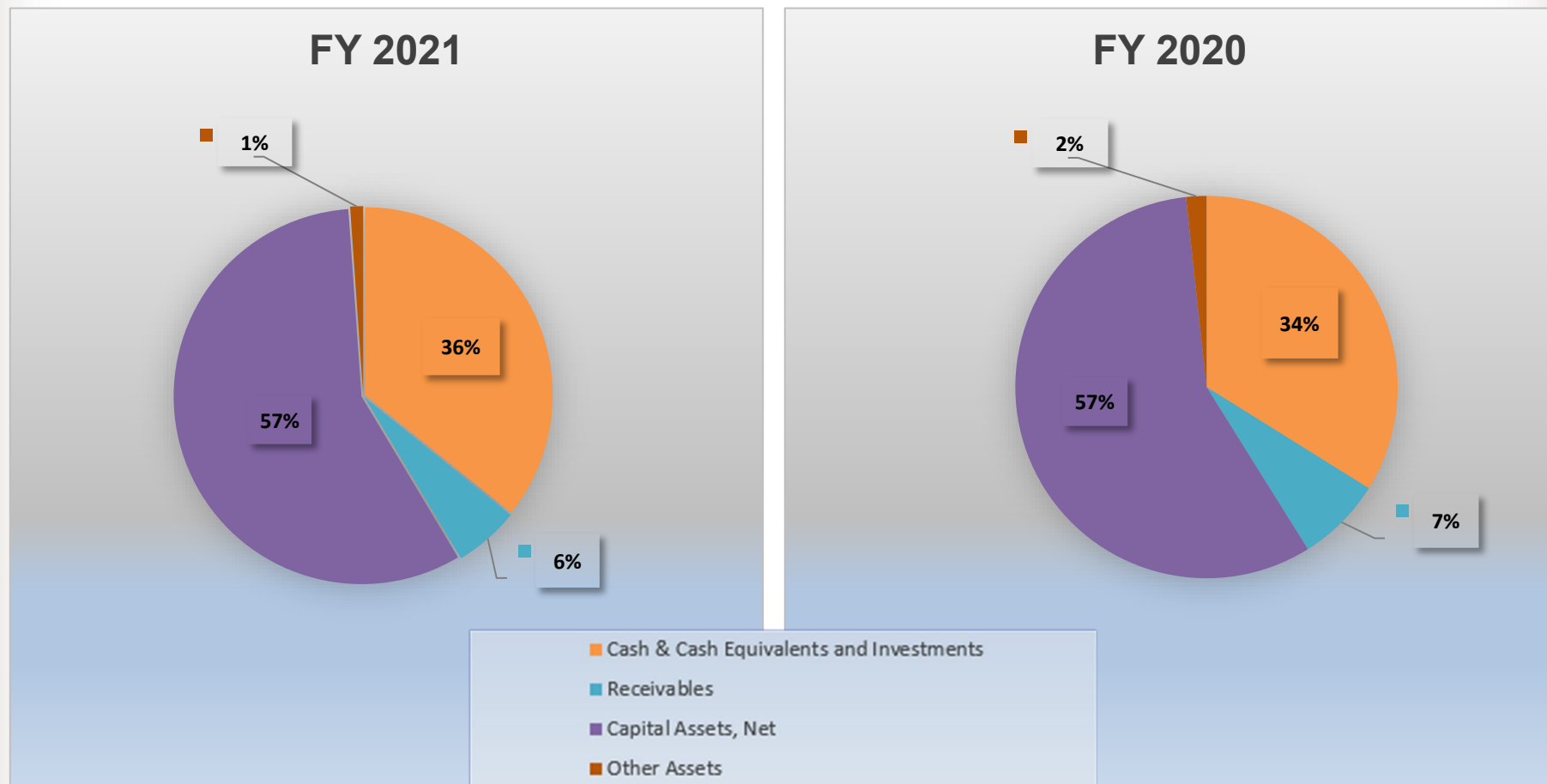
Note: Amounts shown above were obtained from the FY 2021 and FY 2020 audited financial statements.

ANALYSIS OF CHANGES IN ASSETS

FY 2021 vs FY 2020

- Cash and equivalents increased by \$7.6 million (14.6%) mostly due to the overall increase in the University's net position during FY 2021, timing of vendor payments, and timing of collections from students.
- Restricted cash and investments represents the proceeds from the University's issuance of Certificates of Participation during FY 2019, which were invested pending expenditure for the University's deferred maintenance projects. Balance decreased by \$3.8 million (27.7%) as the proceeds were spent for deferred maintenance projects.
- Net accounts receivable decreased by \$0.6 million (13.5%) mainly due to timing of payments from students.
- Grants receivable increased by \$2.9 million (123.2%) due to the overall increase in Federal and State grant funding associated with the COVID-19 relief grants.
- State appropriation receivable represents the amounts vouchered against State appropriations that were uncollected as of the end of the fiscal year. Balance decreased by \$5.0 million (100%) mainly due to the timely receipt of appropriations from the State of Illinois. At the end of FY 2021, the University received 100% of its FY 2021 appropriations from the State of Illinois.
- Student loans receivable mostly represents Federal Perkins Loans. Balance decreased by \$0.4 million (21.7%) due to loan collections. The U.S. Department of Education has curtailed the awarding of any Federal Perkins Loans after 9/30/17; thus, balance is expected to decline in coming years as existing Federal Perkins Loans are repaid by the students without replacement of new loans to students.
- Net capital assets increased by \$0.8 million (0.7%) primarily due to the \$5.5 million costs incurred during FY 2021 in connection with the various deferred maintenance projects and acquisitions of equipment, computer software, and library collections; partially offset by the \$4.7 million depreciation expense recognized during FY 2021.
- Other assets consist of prepaid expenses, inventories, amount due from GSU Foundation (related to scholarships), and amount due from the State of Illinois Capital Development Board (CDB). Balance decreased by \$1.2 million (35%) mostly due to the \$2.0 million amount due from CDB that was fully reimbursed by the University from the State during FY 2021; partially offset by the \$0.2 million increase in inventories mostly related to COVID-19 supplies, and \$0.6 million increase in prepaid expenses related to software subscriptions.

CASH & CASH EQUIVALENTS/INVESTMENTS AND CAPITAL ASSETS REPRESENT A SIGNIFICANT PORTION OF THE UNIVERSITY'S ASSETS



COMPONENTS OF LIABILITIES

(Amounts in '000)

	FY 2021	FY 2020	\$ Change	% Change
Accounts Payable	\$ 8,275	\$ 9,474	(\$ 1,199)	-12.7%
Accrued Compensated Absences	4,459	3,805	654	17.2%
Unearned Revenue	3,604	2,983	621	20.8%
Revenue Bonds Payable	21,263	22,219	(956)	-4.3%
Certificates of Participation Payable	19,415	21,342	(1,927)	-9.0%
Other Post Employment Benefits (OPEB) Payable	6,569	8,997	(2,428)	-27.0%
Refundable Grants	2,475	2,915	(440)	-15.1%
Other Liabilities	666	602	64	10.6%
Total Liabilities	\$ 66,726	\$ 72,337	(\$ 5,611)	-7.8%

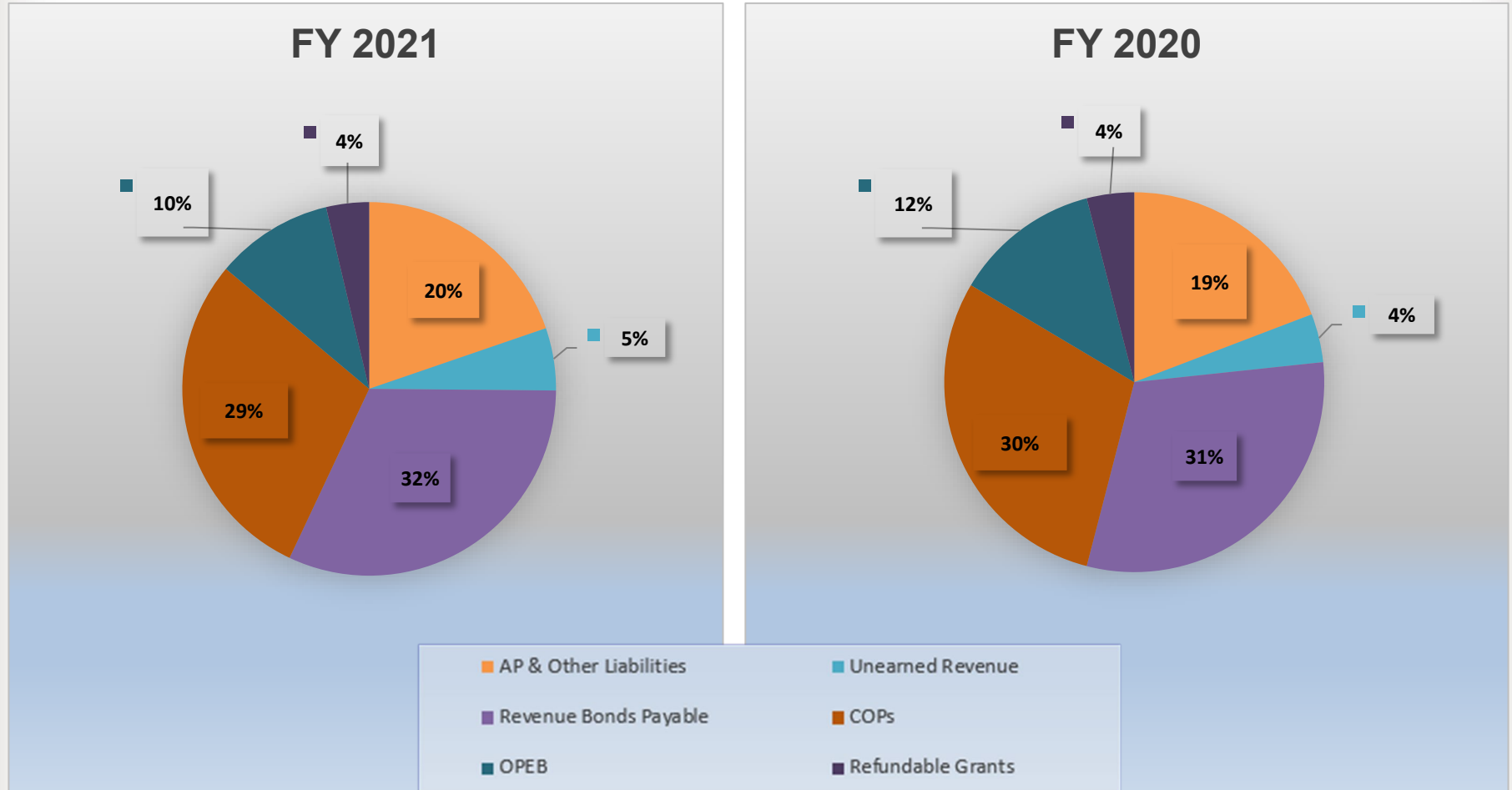
Note: Amounts shown above were obtained from the FY 2021 and FY 2020 audited financial statements.

ANALYSIS OF CHANGES IN LIABILITIES

FY 2021 vs FY 2020

- Accounts payable decreased by \$1.2 million (12.7%) primarily due to timing of vendor payments and student refunds.
- Accrued compensated absences represents the University's liability for unused compensable leave benefits. Balance increased by \$0.7 million (17.2%) due to minimal usage of compensable benefits during the COVID-19 pandemic.
- Unearned revenue represents revenues collected as of the end of the fiscal year but related to the subsequent accounting period. Balance increased by \$0.6 million (20.8%) primarily due to higher level of collections during the fiscal year that are attributable to the tuition and fees for the following fiscal year (Summer and Fall registrations both start in March), and the deferral of revenues related to AIM High grant funding that were provided by the Illinois Student Assistance Commission (ISAC) to the University in advance.
- Revenue bonds payable (Series 2007 and 2012) decreased by \$1.0 million (4.3%) primarily due to principal payments made during the fiscal year.
- Certificates of participation payable (Series 2008 and 2018) decreased by \$1.9 million (9.0%) primarily due principal payments made during the year.
- Other post employment benefits payable represents the University's allocated share of the State of Illinois' OPEB liability resulting from the adoption of the new governmental accounting standards in FY18. This amount is calculated and provided by the State of Illinois to all Illinois State agencies every year. Balance decreased by \$2.4 million (27.0%) due to the decrease in the University's allocated share of the State's OPEB liability as of the end of FY 2021.
- Refundable grants represents the U.S. Department of Education's (grantor) share of the Federal Perkins Loan Program fund. Balance decreased by \$0.4 million (15.1%) primarily due to the return of Perkins Loan Program's excess funds to the U.S Department of Education during FY 2021.
- Other liabilities mostly consists of the University's obligation related to the acquisition of computer software through a multi-year licensing agreement (intangible assets payable). There is no significant change during FY 2021 as compared to FY 2020.

LONG-TERM DEBT (REVENUE BONDS AND CERTIFICATES OF PARTICIPATION) REPRESENTS A SIGNIFICANT PORTION OF THE UNIVERSITY'S LIABILITIES



COMPONENTS OF NET POSITION

(Amounts in '000)

	FY 2021	FY 2020	\$ Change	% Change
Net Investments in Capital Assets	\$ 79,294	\$ 78,159	\$ 1,135	1.5%
Restricted Expendable	2,178	2,258	(80)	-3.5%
Unrestricted	42,867	22,553	20,314	90.0%
Total Net Position	\$ 124,339	\$ 102,970	\$ 21,369	20.8%

- Net investments in capital assets consist 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 (net of the related unspent proceeds of those debt obligations). Balance increased by \$1.1 million (1.5%) primarily due to the costs incurred during FY 2021 in connection with the various deferred maintenance projects and acquisitions of equipment, computer software, and library collections, net of depreciation expense.
- 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. This includes the University's share of the Federal Perkins Loan Program fund, and the amount held for debt service (principal and interest) due July 1st. There is no significant change during FY 2021 as compared to FY 2020.
- 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. Balance significantly increased by \$20.3 million (20.8%) due to the positive operating results during FY 2021 (\$4.5 million), coupled with the State's allocation adjustment on the University's proportionate share of OPEB balances (\$16.9 million).

Note: Amounts shown above were obtained from the FY 2021 and FY 2020 audited financial statements.

RESULTS OF OPERATIONS, AT A GLANCE

(Amounts in '000)

	FY 2021	FY 2020	\$ Change	% Change
Total Revenues	\$ 133,179	\$ 109,272	\$ 23,907	21.9%
Total Expenses	128,705	99,718	28,987	29.1%
Net Income (Loss)	\$ 4,474	\$ 9,554		

- The University has generated positive operating results for both FY 2021 and FY 2020.
- The significant increases in revenues and expenses are mostly attributable to the payments made on behalf of the University by the State of Illinois for retirement and medical insurance benefits (recognized both as revenues and expenditures in the financial statements, in accordance with accounting standards).

Note: Amounts shown above were obtained from the FY 2021 and FY 2020 audited financial statements.

COMPONENTS OF REVENUES

(Amounts in '000)

	FY 2021	FY 2020	\$ Change	% Change
Net Tuition & Fees	\$ 33,437	\$ 34,855	(\$ 1,418)	-4.1%
Grants and Contracts	27,283	21,286	5,997	28.2%
Auxiliary Enterprises	1,673	3,345	(1,672)	-5.0%
State Appropriation	23,193	23,193	-	0.0%
Payments Made on Behalf	43,606	22,379	21,227	94.9%
Investment Income	110	961	(851)	-88.6%
Capital Appropriations and Grants Provided by the State of Illinois	2,567	1,106	1,461	132.1%
Other Revenues	1,310	2,147	(837)	-39.0%
Total Revenues	\$ 133,179	\$ 109,272	\$ 23,907	21.9%

Note: Amounts shown above were obtained from the FY 2021 and FY 2020 audited financial statements.

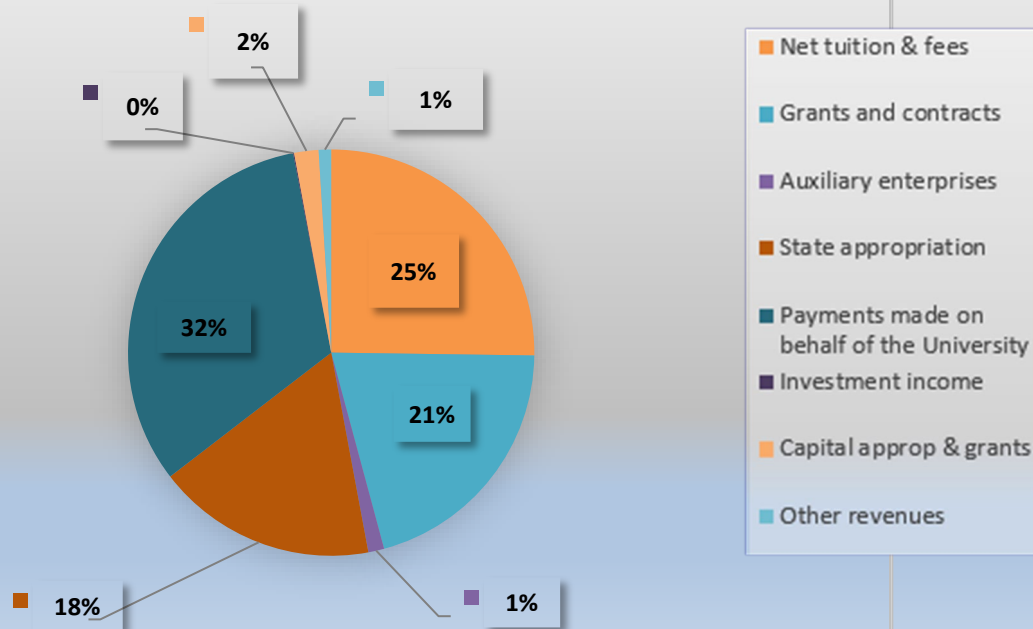
ANALYSIS OF CHANGES IN REVENUES

FY 2021 vs FY 2020

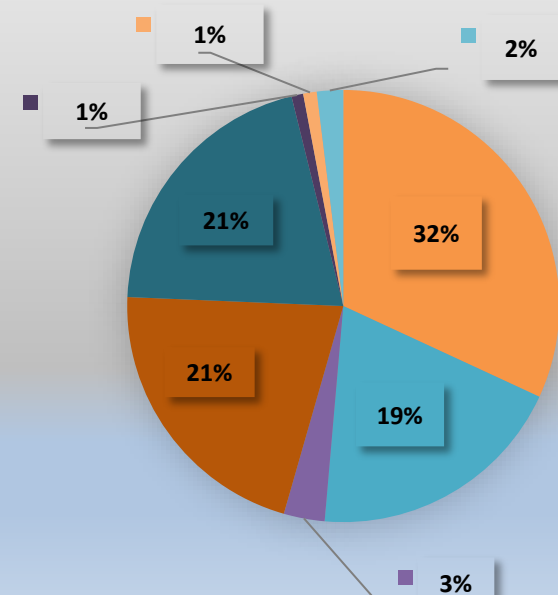
- Net tuition and fees decreased by \$1.4 million (4.1%) due to 4% decrease in credit hours from 104,643 in AY 2019-2020 to 100,393 in AY 2020-2021.
- Grants and contracts increased by \$6.0 million (28.2%) mostly due to the various new Federal COVID-19 relief grant funding received from the Federal government, coupled with the new Illinois State AIM HIGH grant funding received from the State of Illinois.
- Auxiliary enterprises mostly consist of revenues from housing, parking, bookstore, food service, and center for performing arts operations. Amount decreased by \$1.7 million (5.0%) as the operations of these auxiliary enterprises were significantly impacted by the COVID-19 pandemic during FY 2021.
- State appropriation received by the University from the State of Illinois is at the same level in FY 2021 and FY 2020.
- Payments made on behalf represents the University's proportionate share of State funded retirement and medical insurance (health, life, and dental) benefits. Related expense (the same amount) is also recognized as part of the University's total expenses, in accordance with accounting standards. These amounts are provided by the State of Illinois every year. Amount increased by \$21.2 million (94.9%) primarily due to the increase in the University's proportionate share of State funded retirement and medical insurance benefits during FY 2021.
- Investment income decreased by \$0.9 million (88.6%) as the invested proceeds of Certificates of Participation issued by the University during FY 2019 were expended for deferred maintenance projects during FY 2021; thus, lower cash balances were available for investments. In addition, money market interest rates significantly declined during FY 2021 due to the COVID-19 pandemic.
- Capital appropriations and grants provided by the State of Illinois represent capital projects funded by the Illinois Capital Development Board (CDB). Amount increased by \$1.5 million (132.1%) primarily due to the additional project expenditures incurred for various CDB-funded projects that are ongoing during FY 2021 (main building roofing, campus roadway and sidewalk improvements, and piping projects).
- Other revenues mostly consist of revenues related to the foster pride online programs, tower ground lease, broadband lease of excess channels, and Family Development Center (FDC) childcare fees. Amount decreased by \$0.8 million (39.0%) mostly due to the decrease in FDC revenues due to the overall economic challenges caused by the COVID-19 pandemic.

TUITION & FEES, GRANTS & CONTRACTS, AND APPROPRIATIONS FROM THE STATE (INCLUDING PAYMENTS ON-BEHALF) REPRESENT A SIGNIFICANT PORTION OF THE UNIVERSITY'S REVENUES

FY 2021



FY 2020



COMPONENTS OF EXPENSES

(Amounts in '000)

	FY 2021	FY 2020	\$ Change	% Change
<i>Salaries</i>	\$ 53,113	\$ 49,931	\$ 3,182	6.4%
<i>Benefits</i>	45,342	18,958	26,384	139.2%
Total Salaries and Benefits	98,455	68,889	29,566	42.9%
Student Aid	8,635	7,408	1,227	16.6%
Capital Expenditures	2,142	1,103	1,039	94.2%
Services, Supplies and Others	13,061	15,930	(2,869)	-18.0%
Depreciation	4,702	4,563	139	3.0%
Interest Expense	1,710	1,825	(115)	-6.3%
Total Expenses	\$ 128,705	\$ 99,718	\$ 28,987	29.1%

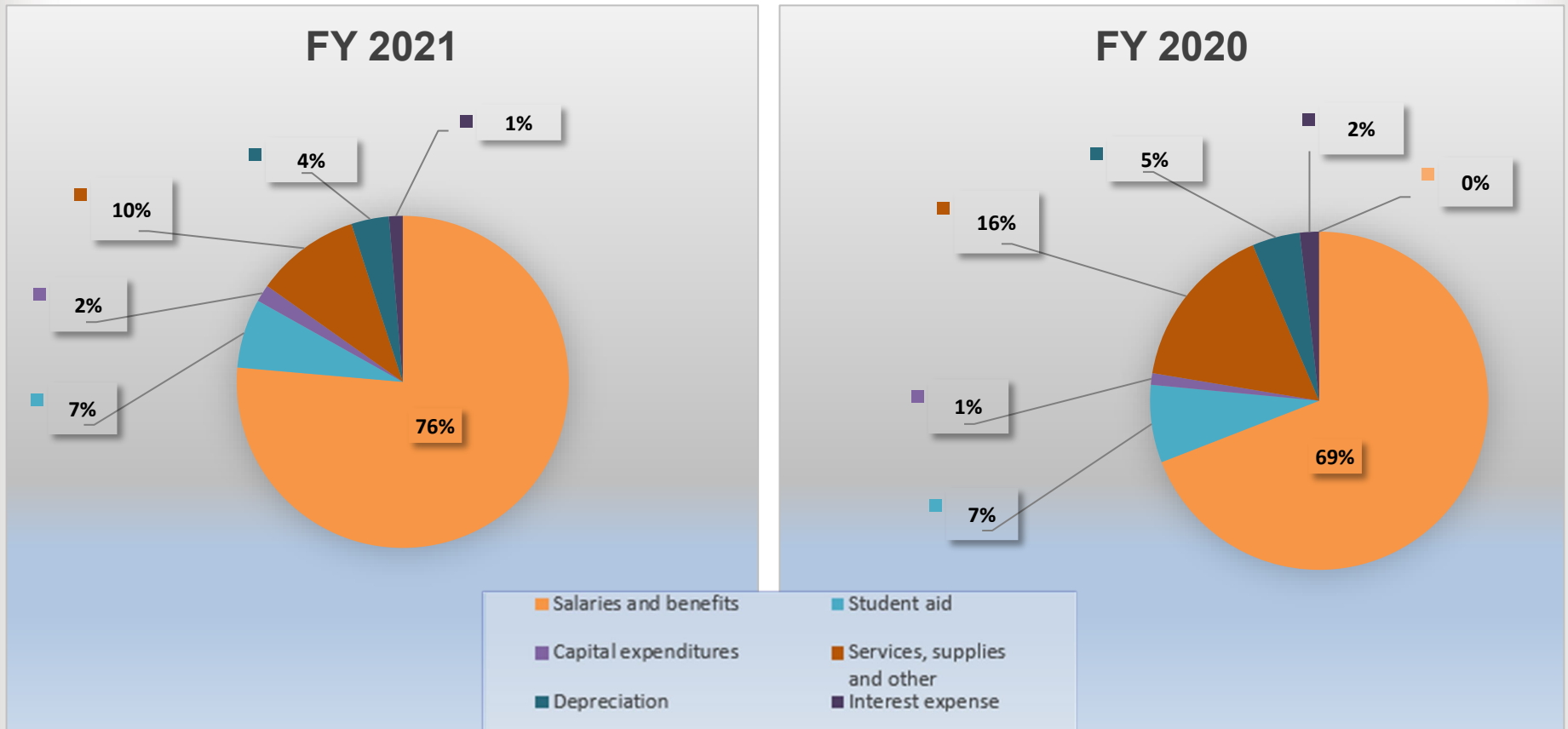
Note: Amounts shown above were obtained from the FY 2021 and FY 2020 audited financial statements.

ANALYSIS OF CHANGES IN EXPENSES

FY 2021 vs FY 2020

- Salaries and benefits, representing the University's largest operating expense, increased by \$29.6 million (42.9%) mostly due to the significant increase in expenses recognized for the University's proportionate share of State funded benefits (pension and medical insurance), coupled with the 2.75% across the board salary increase during FY 2021.
- Student aid increased by \$1.2 million (16.6%) mostly due to the increase in Federal and State grant funding that are available for student awards during FY 2021 (various Federal COVID-19 relief grant funding received from the Federal Government, and the AIM High grant received from the State of Illinois).
- Capital expenditures increased by \$1.0 million (94.2%) as the University continues with its deferred maintenance project initiatives that were delayed during the budget impasse.
- Services, supplies and others include contractual, commodities, travel, telecoms, and all other expenditures other than salaries and benefits, student aid, and capital expenditures. Amount decreased by \$2.9 million (18.0%) primarily as a result of reduction in activities due to the COVID-19 pandemic.
- Depreciation represents the reduction in the value of a capitalized asset with the passage of time. There is no significant change during FY 2021 as compared to FY 2020.
- Interest expense mostly consist of interest from long-term debt. Amount decreased by \$0.1 million (6.3%), and is expected to decrease from year to year as the outstanding principal balances decrease due to principal payments.

SALARIES AND BENEFITS REPRESENT A SIGNIFICANT PORTION OF THE UNIVERSITY'S EXPENSES



AUDIT REPORT FINDINGS - FINANCIAL AUDIT

Finding Number	Finding Title	Finding Description	Corrective Action	Status of Corrective Action
2021-001	<p>Inadequate Controls Over Census Data (Repeat)</p> <p>(Note: This finding was issued to all the 9 IL public universities)</p>	<p>No initial reconciliation performed on employee census data with SURS.</p> <p>No process developed to annually obtain census data changes from SURS and reconcile against University records.</p> <p>One employee (out of 512 employees tested) was improperly excluded from SURS.</p>	<p>Procedures have been established to ensure census data events are reported to SURS timely and accurately.</p> <p>The University will continue to work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary, in accordance with the reconciliation process developed by SURS.</p> <p>On the one employee noted by the auditors that was improperly excluded from SURS, the University worked with SURS and determined the actual impact. The related retroactive contributions were already remitted by the University to SURS.</p>	Implemented.

AUDIT REPORT FINDINGS - FEDERAL COMPLIANCE

Finding Number	Finding Title	Finding Description	Corrective Action	Status of Corrective Action
2021-002	Exit Counseling (New)	The University did not timely provide exit counseling for 5 students who ceased half-time study at the University.	Procedures have been updated and report is now generated every 2 weeks to capture all students who graduated, totally withdrew, and dropped below half-time to ensure that exit counseling letters are sent out timely.	Implemented.
2021-003	Enrollment Reporting (New)	The University did not accurately and timely report changes in student enrollment (graduated status) for 2 students to the U.S. Department of Education's National Student Loan Data System (NSLDS).	Procedures have been updated, and the Registrar's Office has also worked to create a new validation warning code that will help identify possible reporting date issues and ensure timely and accurate reporting to the NSLDS.	Implemented.
2021-004	Fiscal Operations Report (New)	Did not report accurate information for two items related to Federal Perkins Loan Program. Second submission of the report, which included final changes, corrections and edits, was not timely filed (34 days late).	Procedures have been updated to ensure that reporting requirements and deadlines are met. The Office of Financial Aid will work with the Office of Financial Services to review and ensure that Federal Perkins Loan information are accurately reflected in the report.	Implemented.
2021-005	Federal Perkins Loan Cohort Default Rate Too High (Repeat)	The Federal Perkins Loan cohort default rate as of June 30, 2021 (for borrowers who entered repayment during Fiscal Year 2020) was 16.67%, which exceeded the 15% threshold.	<p>The University will continue to closely monitor and communicate with students entering on default on a month-to-month basis, in addition to sending defaulted student loans to the Illinois State Comptroller's Offset system.</p> <p>OAG considers this finding as Level 3 (low level), which means no internal control deficiencies as the University has done all the federally required due diligence procedures.</p>	Implemented. The University has made significant improvement in its Perkins cohort default rate; from 38.96% in FY19 and 22.67% in FY20, to 16.67% in FY21.

AUDIT REPORT FINDINGS - STATE COMPLIANCE

Finding Number	Finding Title	Finding Description	Corrective Action	Status of Corrective Action
2021-006	Child Abuse Reporter Training <i>(Repeat)</i>	Certain employees either did not receive the training or did not have the proper training documentation.	The University now asks new employees to take their online training before or during new hire orientation. The University is also in the process of automating its onboarding process, which will require all new hires to complete training using the up-to-date forms through the PeopleAdmin system.	Partially implemented. The automation of onboarding process is underway.
2021-007	Noncompliance with the Campus Security and Enhancement Act of 2008 <i>(Repeat)</i>	1 employee hired for a security sensitive position without any evidence the criminal background investigation was ever obtained; 5 employees did not have a criminal background investigation completed prior to employment.	The University has secured a new vendor to conduct criminal background investigations prior to hiring employees for all positions, not just security sensitive positions, and has developed a formalized comprehensive policy on criminal background checks similar to other State universities. This was passed by the Board on 6/10/22 (Section II.A.24 of the GSU Board of Trustees Regulations).	Partially implemented. The University is in the process of evaluating conducting background checks for current employees who hold security sensitive positions but have no background check on file and will perform such check if feasible.
2021-008	Internal Audit Deficiencies <i>(Repeat)</i>	Not all major systems of accounting and administrative controls were included in the audit at least every 2 years; no Internal Audit Report provided to the auditors for 6 audits that were reported as completed.	Audit supporting documentation for the 6 audits were completed after the auditors' testing, covering all major systems. The Office of Internal Audit is currently hiring an Internal Audit staff to provide additional support to the department.	Partially implemented. The hiring of an additional Internal Audit staff to provide additional support is underway.
2021-009	Time Sheets Not Properly Maintained <i>(Repeat)</i> <i>(Note: This finding was issued to 6 of the IL public universities)</i>	The University is not maintaining time sheets for its faculty members and advisors in compliance with the State Officials and Employees Ethics Act (Act).	The University is currently developing a policy, revising its procedures, and reviewing existing time reporting requirements for faculty employees in connection with its implementation of an electronic timekeeping system.	In-progress.

AUDIT REPORT FINDINGS - STATE COMPLIANCE (I.T.)

Finding Number	Finding Title	Finding Description	Corrective Action	Status of Corrective Action
2021-010	Weaknesses in Cybersecurity Programs and Practices (<i>Repeat</i>) (Note: This finding was issued to 8 of the IL public universities)	University had not implemented adequate internal controls related to cybersecurity programs and practices.	Establish a formal cybersecurity plan; provide cybersecurity training to contractors; ensure employees complete cybersecurity training; develop and document risk management and data classification methodology to manage security risks; develop and communicate the University security program.	Partially implemented. Two remediations completed. Several remediations are 75%-99% completed and several under 25% complete.
2021-011	Computer Security Weaknesses (<i>Repeat</i>) (Note: This finding was issued to 7 of the IL public universities)	User accounts not removed for terminated employees; no formal guidelines established for configuration of virus detection software.	Maintain a complete inventory of all computers; improved processes (including automation), documentation, policies, procedures, and logging changes to user access and rights to applications are planned as part of an account lifecycle management reconstruction; establish formal policies and guidelines for virus detection systems.	In-progress. Two remediations at 25% completed.
2021-012	Lack of Review of Internal Controls Over Service Providers (<i>New</i>) (Note: This finding was issued to 7 of the IL public universities)	University did not obtain or conduct timely independent internal controls reviews over its service providers.	The University has established a vendor risk management process, which covers cloud service providers, and has hired an Extra Help employee to help make additional progress. As of this time, ITS has satisfactorily completed reviews for more than 50% of the University's service providers.	In-progress. All four remediations are between 50%-75% completed.
2021-013	Remote Access to University Information Systems (<i>New</i>)	University has not developed and documented adequate policies and procedures governing remote access to the University's information systems.	Maintain records of users' acknowledgment and acceptance of Policy 64 (Computing and Networking); develop, document and disseminate policies and procedures governing the security and control of remote access, and governing incident and breach notification requirements.	Partially implemented. One remediation completed. A few remediation still to start.
2021-014	Inadequate Controls Over Access Rights (<i>New</i>)	University did not maintain adequate controls over user access rights to applications and data.	Maintain an accurate listing of ERP users; re-evaluate procedures for the assignment of access rights to ERP system users and regularly re-determine if the rights granted remain appropriate; establish a period of separation and inactivity after which student accounts are disabled.	In-progress. Remediation at 25% completed.
2021-015	Weaknesses With Payment Card Industry Data Security Standards (<i>New</i>)	University had not completed all requirements to demonstrate full compliance with the Payment Card Industry Data Security Standards (PCI DSS).	Establish a separate PCI DSS policy; hired an Extra Help employee to assist with PCI DSS compliance efforts; document the PCI DSS compliance of each service provider; complete an annual inventory and review of all payment points and terminal locations; perform an upgrade of non-compliance credit card readers; provide an annual security training to employees involved in the processing of cardholder data.	Partially implemented. One remediation completed. All others at 25% completed.

Questions and Answers



**GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT**

FOR THE YEAR ENDED JUNE 30, 2021

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

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2021

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Other Reports Issued Under Separate Cover:

The Federal Single Audit and State Compliance Examination for Governors State University for the Year Ended June 30, 2021 will be issued under separate covers.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2021

UNIVERSITY OFFICIALS

President	Dr. Cheryl F. Green
Vice President for Administration and Finance (October 11, 2021 to Present)	Dr. Corey S. Bradford
Vice President for Administration and Finance (July 1, 2020 to October 15, 2021)	Dr. W. Paul Bylaska
General Counsel and Vice President (November 16, 2020 to Present)	Ms. Therese Nohos
General Counsel and Vice President (July 1, 2020 to November 15, 2020)	Vacant
Chief Internal Auditor	Mr. Kristoffer Evangelista, CPA
Associate Vice President for Finance	Ms. Villalyn Baluga, CPA

OFFICERS OF THE UNIVERSITY BOARD OF TRUSTEES

Chairman	Ms. Lisa Harrell
Vice Chairman	Mr. Kevin Brookins
Secretary	Mr. James Kvedaras

UNIVERSITY BOARD OF TRUSTEES

Trustee	Ms. Jeanine Latrice Koger, Student
Trustee	Mr. Pedro Cevallos-Candau
Trustee	Mr. Kevin Brookins
Trustee	Mr. John Brudnak
Trustee	Ms. Lisa Harrell
Trustee	Ms. Angela Sebastian
Trustee	Mr. James Kvedaras
Trustee	Mr. Anibal Taboas

UNIVERSITY OFFICES

1 University Parkway
University Park, Illinois 60484

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2021

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
<u>Findings</u>	1	1
Repeated findings	1	0
Prior recommendations implemented or not repeated	0	0

<u>Item No.</u>	<u>Page</u>	<u>Last/First</u> <u>Reported</u>	<u>Description</u>	<u>Finding Type</u>
2021-001	77	2020/2020	Inadequate Internal Controls Over Census Data	Material Weakness / Noncompliance

**GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT**

FOR THE YEAR ENDED JUNE 30, 2021

FINANCIAL STATEMENT REPORT

SUMMARY (Continued)

EXIT CONFERENCE

The University waived an exit conference in a correspondence from Ms. Villalyn Baluga, Associate Vice President for Finance, in a correspondence dated May 25, 2022.

The response to the recommendation was provided by Ms. Villalyn Baluga, Associate Vice President for Finance, in a correspondence dated May 25, 2022.

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 (University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 the 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 the University, as of June 30, 2021, 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.

Emphasis of Matter

Further, as discussed in Note 16 to the financial statements, the University's beginning net position has been restated to correct a material misstatement related to other postemployment benefits. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Employer's Proportionate Share of Net Pension Liability, Schedule of Employer Contributions, Notes to 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 17 and 66 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements.

The University Facilities System Revenue Bonds Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and the Schedule of Operating Expenses – 2021, listed as supplementary information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The University's Facilities System Revenue Bonds Student Enrollment by Term, University Fees, and Schedule of Insurance, listed as other information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2022 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the 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 University's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Kankakee, IL

May 25, 2022

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

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, 2021. 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 Institutional 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
2021	\$ 23,193,600	\$ (656,200)	\$ 22,537,400
2020	23,193,600	(656,200)	22,537,400

On June 5, 2019, the State of Illinois adopted a complete operating budget for Fiscal Year 2020 under Public Act 101-0007, which provided the University \$23,193,600 of State appropriations for general operations.

On June 10, 2020, the State of Illinois adopted a complete operating budget for Fiscal Year 2021 under Public Act 101-0637, which provided the University \$23,193,600 of State appropriations for general operations.

Payments to the Health Reserve Fund were fully paid from State Appropriated Funds during Fiscal Years 2020 and 2021.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

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 2021, about \$0.6 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 2019, 267 (93%) of the 286 beds available were occupied. During the Fall of 2020, 162 (60%) of the 272 beds available were occupied.

Accreditations

During the Spring of 2020, the Higher Learning Commission (HLC) team completed its review and reaccredited GSU for the maximum ten years (with the next reaffirmation of accreditation scheduled for Academic Year 2029-2030).

Enrollment

Registered student credit hours decreased by 4% from 104,643 in Academic Year 2019-2020 to 100,393 in Academic Year 2020-2021.

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
	2021	2020	Change	Change
Current assets	\$ 81,381	\$ 81,437	\$ (56)	0%
Noncurrent assets-capital assets	112,087	111,297	790	1%
Noncurrent assets-other	1,528	1,934	(406)	-21%
Total assets	194,996	194,668	328	0%
Deferred outflows of resources	493	612	(119)	-19%
Current liabilities	15,762	16,171	(409)	-3%
Noncurrent liabilities	50,964	56,166	(5,202)	-9%
Total liabilities	66,726	72,337	(5,611)	-8%
Deferred inflows of resources	4,424	19,973	(15,549)	-78%
Net investment in capital assets	79,294	78,159	1,135	1%
Restricted	2,178	2,258	(80)	-4%
Unrestricted	42,867	22,553	20,314	90%
Net position	\$ 124,339	\$ 102,970	\$ 21,369	21%

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

The summarized Statement of Net Position on the previous page does not reflect any adjustments to Fiscal Year 2020 amounts for the effects of the prior period adjustments related to OPEB (discussed later in this analysis) and the adoption of Governmental Accounting Standards Board (GASB) Statement No. 84 *Fiduciary Activities* (Note 16 to the financial statements).

The 21% increase in the University's net position is due to the following:

Current Assets

Current assets, consisting mostly of cash and cash equivalents, and receivables, slightly decreased as of June 30, 2021 as compared to 2020. The slight decrease was mostly attributable to the \$3.8 million net decrease in restricted cash and investments as the proceeds from the Certificates of Participation issued by the University during Fiscal Year 2019 were spent for deferred maintenance projects; the \$0.6 million decrease in accounts receivable mainly due to timing of payments from students, and increase in the related allowance for doubtful accounts; the \$2.0 million decrease in amount due from Capital Development Board (CDB) as the receivable was fully reimbursed by CDB to the University during Fiscal Year 2021; and the \$5.0 million decrease in State appropriation receivable mainly due to timely receipt of appropriations from the State of Illinois. At the end of Fiscal Year 2021, the University received 100% of its Fiscal Year 2021 appropriation from the State of Illinois. These decreases were partially offset by the \$7.6 million increase in cash and cash equivalents mostly due to the overall increase in the University's net position during the fiscal year, timing of vendor payments, and timing of collections from students; the \$2.9 million increase in grants receivable due to the overall increase in Federal and State grant funding associated with the COVID-19 relief grants, and the related timing of receipt of funds from the grantors; \$0.2 million increase in inventories mostly related to COVID-19 supplies; and the \$0.6 million increase in other assets mostly due to prepaid expenses related to software subscriptions.

Noncurrent Assets - Capital Assets

The \$0.8 million net increase in noncurrent capital assets was due to the \$5.5 million costs incurred during Fiscal Year 2021 in connection with the various deferred maintenance projects and acquisitions of equipment, computer software and library collections. This increase was partially offset by the \$4.7 million depreciation expense recognized during Fiscal Year 2021.

Noncurrent Assets - Other

Other noncurrent assets consist primarily of the long-term portion of student loans receivable and prepaid debt service insurance. The \$0.4 million decrease in noncurrent assets - other was mostly attributable to 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; thus, are expected to decline in coming years as existing Federal Perkins Loans are repaid by students without replacement of new loans to students. In addition, prepaid debt service insurance decreased by \$0.1 million due to the amortization expense recognized during Fiscal Year 2021.

Deferred outflows of resources

The University recognizes deferred outflows of resources related to pensions and other postemployment benefits (OPEB) in accordance with GASB Statement No. 68, *Accounting and*

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

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 by 10%, coupled with the decrease in the actuarially determined changes in assumptions during Fiscal Year 2021.

Current Liabilities

Current liabilities include accounts payable, accrued compensated absences, unearned revenue, and the current portion of long-term liabilities, which are payable in less than one year. The \$0.4 million decrease in current liabilities was mostly attributable to the \$1.2 million decrease in accounts payable primarily due to timing of vendor payments and student refunds; partially offset by the \$0.6 million increase in unearned revenue primarily due to the higher level of collections during the fiscal year that are attributable to the tuition and fees for the following fiscal year, the deferral of revenues related to the AIM HIGH grant funding that were provided by the Illinois Student Assistance Commission to the University in advance; and the \$0.2 million increase in intangible asset payable due to additional acquisitions of computer software through multi-year licensing agreements.

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 \$5.2 million decrease in noncurrent liabilities was mostly attributable to the 3.2 million in principal payments made on existing debts; the \$2.4 million decrease in the University's allocated share of the State's OPEB liability as of June 30, 2021; and the \$0.4 million decrease in refundable grants primarily due to the return of the Perkins Loan Program's excess funds to the Department of Education during Fiscal Year 2021. These decreases were partially offset by the \$0.7 million increase in accrued compensated absences due to minimal usage of compensable benefits during the COVID-19 pandemic, and the 2.75% across the board salary increase approved by the University's Board of Trustees during the Fiscal Year 2021.

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 2021, 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 decreased by \$15.5 million mainly due to the effects of the prior period adjustments related to OPEB as discussed later in this analysis and as disclosed under Note 16 to the Financial Statements.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

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
	2021	2020	Change	Change
OPERATING REVENUES				
Net student tuition and fees	\$ 33,437	\$ 34,855	\$ (1,418)	-4%
Grants and contracts	4,836	5,015	(179)	-4%
Sales and services of educational departments	1	31	(30)	-97%
Auxiliary enterprises	1,673	3,345	(1,672)	-50%
Other operating revenues	1,309	2,116	(807)	-38%
Total operating revenues	41,256	45,362	(4,106)	-9%
OPERATING EXPENSES	126,995	97,887	29,108	30%
Net operating loss	(85,739)	(52,525)	(33,214)	63%
NONOPERATING REVENUES (EXPENSES)				
State appropriation	23,193	23,193	-	0%
Payments made on behalf of the University	7,602	5,154	2,448	47%
Fringe benefits under special funding situation	36,004	17,225	18,779	109%
Federal and State nonoperating grants	22,447	16,271	6,176	38%
Investment income	110	961	(851)	-89%
Interest expense	(1,710)	(1,825)	115	-6%
Other nonoperating revenues (expenses)	-	(6)	6	-100%
Net nonoperating revenues	87,646	60,973	26,673	44%
Capital appropriations and grants provided by State of Illinois	2,567	1,106	1,461	132%
Increase in net position	4,474	9,554	(5,080)	-53%
Net position - beginning of year, as previously stated	102,970	93,416	9,554	10%
Prior period adjustment	16,895	-	16,895	0%
Net position - beginning of year, as restated	119,865	93,416	26,449	28%
Net position - end of year	\$ 124,339	\$ 102,970	\$ 21,369	21%

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

The summarized Statement of Revenues, Expenditures and Changes in Net Position on the previous page and the Operational Expenses (by functional classification) schedule which follows do not reflect any adjustments to Fiscal Year 2020 amounts for the effects of the prior period adjustments related to OPEB (discussed later in this analysis) and the adoption of GASB Statement No. 84 *Fiduciary Activities* (see Note 16 to the Financial Statements).

For Fiscal Year 2021, the change in net position was due to the following:

Operating Revenues

Net student tuition and fees decreased by \$1.4 million mostly due to a 4% decrease in credit hours from 104,643 in Academic Year 2019-2020 to 100,393 in Academic Year 2020-2021. Grants and contracts decreased by \$0.2 million mostly due to the \$0.9 million decrease in federal grants and contracts as the physical therapy and mental health counseling programs under the Health Professions Students from Disadvantaged Backgrounds grant ended during Fiscal Year 2020, partially offset by the \$0.7 million increase in State grants and contracts primarily due to new grants and increased funding on existing grants received by the University from the State during Fiscal Year 2021. Auxiliary enterprises decreased by \$1.7 million mostly attributable to the decreases in housing, parking and center for performing arts revenues as the operations of these auxiliary enterprises were significantly impacted by the COVID-19 pandemic during Fiscal Year 2021. Other operating revenues decreased by \$0.8 million primarily due to the overall economic challenges caused by the COVID-19 pandemic.

Operating Expenses (by functional classification)

	(in thousands)			Percent
	2021	2020	Change	Change
Instruction	\$ 59,960	\$ 43,811	\$ 16,149	37%
Research	880	703	177	25%
Public service	5,802	3,979	1,823	46%
Academic support	4,599	3,364	1,235	37%
Student services	9,500	7,655	1,845	24%
Institutional support	20,393	15,768	4,625	29%
Operation and maintenance of plant	10,007	8,721	1,286	15%
Auxiliary enterprises	2,517	1,915	602	31%
Student aid	8,635	7,408	1,227	17%
Depreciation	4,702	4,563	139	3%
Total operating expenses	<u>\$ 126,995</u>	<u>\$ 97,887</u>	<u>\$ 29,108</u>	<u>30%</u>

Total operating expenses increased by \$29.1 million mostly due to increase in personnel costs attributable to the significant increase in expenses recognized for the University's proportionate share of State funded health care, retirement, and other postemployment benefits, coupled with the 2.75% across the board salary increase during Fiscal Year 2021. Student aid increased by \$1.2 million mostly due to the increase in the Federal and State nonoperating grants attributable to the various COVID-19 relief grant funding received from the Federal Government, and the Illinois AIM HIGH grant.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

Operating Expenses (by natural classification)

	(in thousands)			Percent
	2021	2020	Change	Change
Salaries and benefits	\$ 98,455	\$ 68,889	\$ 29,566	43%
Student aid	8,635	7,408	1,227	17%
Capital expenditures	2,142	1,103	1,039	94%
Services, supplies and other	13,061	15,924	(2,863)	-18%
Depreciation	4,702	4,563	139	3%
Total operating expenses	<u>\$ 126,995</u>	<u>\$ 97,887</u>	<u>\$ 29,108</u>	<u>30%</u>

Salaries and benefits, representing the University's largest operating expense, increased by \$29.6 million mostly due to the significant increase in expenses recognized for the University's proportionate share of State funded health care, retirement, and other postemployment benefits, coupled with the 2.75% across the board salary increase during Fiscal Year 2021. Student aid increased by \$1.2 million mostly due to the increase in the Federal and State nonoperating grants attributable to the various COVID-19 relief grant funding received from the Federal Government, and the Illinois AIM HIGH grant. Capital expenditures increased by \$1.0 million as the University continues with its deferred maintenance project initiatives that were delayed during the budget impasse. These increases were partially offset by the \$2.9 million decrease in services, supplies and other, primarily as a result of reduction in activities due to the COVID-19 pandemic.

Nonoperating Revenues (Expenses)

The University received the same level of State appropriation revenue from the State of Illinois during Fiscal Years 2021 and 2020.

Payments made on behalf of the University increased by \$2.4 primarily due to the increase in the University's proportionate share of State funded health, life, and dental insurance benefits for active University employees increasing from 55.35% to 65.39% of costs incurred.

Fringe benefits under special funding situation increased by \$18.8 million primarily due to the \$13.8 million increase in the University's proportionate share of State funded health, life, and dental insurance benefits for retired University employees, and the \$5.0 million increase in the University's proportionate share in the State funded retirement benefits.

Federal and State nonoperating grant revenues increased by \$6.2 million primarily due to the increase in the COVID-19 relief grant funding received from the Federal Government, and the Illinois AIM HIGH grant.

Investment income decreased by \$0.9 million as the invested proceeds of Certificates of Participation, Series 2018 issued by the University during Fiscal Year 2019 were expended for deferred maintenance projects during Fiscal Year 2021; thus, lower cash balances were available for investments. In addition, money market interest rates significantly declined during Fiscal Year 2021 due to the COVID-19 pandemic.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

Capital appropriations and grants provided by State of Illinois increased by \$1.5 million primarily due to the additional project expenditures incurred for various CDB-funded projects (main building roofing, campus roadway and sidewalk improvements, piping, and arts in architecture projects) that are ongoing during Fiscal Year 2021.

Prior Period Adjustment

As disclosed in Note 16 to the Financial Statements, the University restated its beginning net position during Fiscal Year 2021. The \$16.9 million restatement was mostly attributable to an error correction that occurred due to the Illinois State Toll Highway Authority (Tollway) and the State of Illinois, Department of Central Management Services not separately stating OPEB balances for Tollway employees who only partake in the State Employees Group Insurance Program (SEGIP) upon their retirement from the Tollway from other employees accounted for within SEGIP's cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP's cost-sharing proportionate share allocation, which is used by the State of Illinois' agencies and public universities to record their OPEB activity. At the University, this correction also impacted the beginning OPEB liability and the related deferred inflows of resources and deferred outflows of resources. The University also restated its net position for the adoption of GASB Statement No. 84.

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
	2021	2020	Change	Change
Net cash provided by (used in):				
Operating activities	\$ (37,233)	\$ (30,794)	\$ (6,439)	21%
Noncapital financing activities	47,806	33,840	13,966	41%
Capital financing activities	(6,847)	(7,049)	202	-3%
Investing activities	<u>10,120</u>	<u>3,947</u>	<u>6,173</u>	<u>156%</u>
Net increase (decrease) in cash and cash equivalents	13,846	(56)	13,902	-24,825%
Cash and cash equivalents - beginning of year	<u>55,941</u>	<u>55,997</u>	<u>(56)</u>	<u>0%</u>
Cash and cash equivalents - end of year	<u>\$ 69,787</u>	<u>\$ 55,941</u>	<u>\$ 13,846</u>	<u>25%</u>

The primary cash receipts from operating activities consist of student tuition and fees, grants and contracts, and auxiliary enterprises revenues. Cash outlays include payment of wages, benefits, services, supplies, and scholarships. Net cash used in operating activities increased by \$6.4 million primarily due to the decreases in receipts from grants and contracts and auxiliary enterprises, partially offset by the increases in receipts from student tuition and fees; and increases in payments for scholarships and payments to employees and fringe benefits, partially offset by the decreases in payments to suppliers.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

Net cash provided by noncapital financing activities increased by \$14.0 million due to the \$9.9 million increase in State appropriation receipts, and \$4.1 million increase in the Federal and State nonoperating grants receipts.

Net cash used in capital financing activities increased by \$0.2 million due to the \$2.0 million of capital grants provided by State of Illinois during Fiscal Year 2021, partially offset by the \$0.3 million increase in purchase of capital assets, \$1.1 million increase in principal payments on capital debt, and \$0.4 million increase in interest payments on capital debt.

Net cash provided by investing activities increased by \$6.2 million due to the \$20 million decrease in the purchase of investment securities, partially offset by the \$13 million decrease in the proceeds from sales and maturities of investment securities, and \$0.8 million decrease in investment income.

UNIVERSITY'S DEBT RATINGS

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.

On April 9, 2020, S&P Global Ratings revised the outlook to negative from stable and affirmed its "BB+" underlying rating on the University's Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 Certificates of Participation.

On December 21, 2020, Moody's Investors Service issued its annual comment on the University and has not changed its rating and outlook on the University's Series 2007 University Facilities System Revenue Bonds and Series 2008 Certificates of Participation from its May 14, 2019 rating action as discussed above.

On March 11, 2021, S&P Global Ratings revised the outlook to stable from negative and affirmed its "BB+" underlying rating on the University's Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 Certificates of Participation.

On August 12, 2021, S&P Global Ratings assigned its "BBB-" long-term rating to the University's Series 2021 University Facilities System Refunding Revenue Bonds and Series 2021 Certificates of Participation. The outlook was stable. These new debts, issued by the University on September 23, 2021, refunded the University's outstanding Series 2007 and 2012 University Facilities System Revenue Bonds and Series 2008 Certificates of Participation.

On May 6, 2022, S&P Global Ratings have upgraded its rating to "BBB" from "BBB-" on the University's Series 2021 University Facilities System Refunding Revenue Bonds and Series 2021 Certificates of Participation. The outlook was stable.

FACTORS AFFECTING FUTURE OPERATIONS

The strongest effects on the financial operations of the University in Fiscal Year 2022 and beyond will lie in:

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- 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 2021 (and beyond), and in retaining those classes of first-year students who began in the fall semesters of 2018, 2019 and 2020.

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic.

The Federal Government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020 which included funding for the Higher Education Emergency Relief Fund (HEERF). These funds were awarded to institutions of higher education in two equal allotments: (1) institutional portion to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus, and (2) student portion to provide emergency financial aid grants to students. During Fiscal Year 2020, the University received an allocation of \$1.85 million in each category. In addition, the University received allocations of \$181,244, \$267,164, and \$438,688 during Fiscal Years 2020, 2021, and 2022, respectively, as a recognized Minority Serving Institution.

The CARES Act also provided funding through the Education Stabilization Fund Program Governor's Emergency Education Relief Fund (GEERF). During Fiscal Year 2021, the University received a total allocation of \$1.92 million in GEERF via an Intergovernmental Agreement with the Illinois Board of Higher Education to support efforts to enroll and retain low-income, underrepresented and first-generation students who might not otherwise enroll or return due to the pandemic, including by closing digital equity gaps.

On December 27, 2020, President Trump signed the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) (P.L. 116-260), which gave the U.S. Department of Education (Department) approximately \$22.7 billion to distribute to institutions of higher education in order to prevent, prepare for, and respond to COVID-19 through the HEERF. Of this funding, the University has been allocated \$6.35 million. A minimum of \$1.85 million must be used to provide students with financial aid grants, which may be used for any component of the student's cost of attendance or for emergency costs that arise due to COVID-19, such as tuition, food, housing, health care (including mental health care) or child care. The balance of \$4.5 million may be used by the University to defray expenses associated with COVID-19, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll.

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On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (“ARP”) (Pub. L. 117-2). The ARP appropriated approximately \$39.6 billion for HEERF and represents the third stream of funding appropriated for HEERF to prevent, prepare for, and respond to coronavirus. At least half of an institution’s allocation under ARP must be used to make emergency financial aid grants to students; the remainder may be used for institutional purposes. During Fiscal Year 2021, the University received a total allocation of \$10.16 million, consisting of \$5.29 million student portion and \$4.87 million institutional portion. The ARP has two new required uses of HEERF institutional portion grant funds for public and private nonprofit institutions in which, if the institutional portion is not used entirely for emergency financial grants to students, a portion of funds must be used to: (a) implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and (b) conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances, described in section 479A of the Higher Education Act.

COVID-19 may impact various parts of the University’s Fiscal Year 2022 and future fiscal years’ operations and financial results. Management believes the University is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

GOVERNORS STATE UNIVERSITY
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STATEMENT OF NET POSITION
JUNE 30, 2021

	<u>University</u>	<u>Component Unit</u>
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2 and 3)	\$ 59,847,333	\$ 955,678
Cash and cash equivalents, restricted (Notes 2, 3 and 4)	9,939,906	-
Accounts receivable, net of allowance for uncollectible accounts of \$7,113,100 (Note 2)	4,200,170	-
Grants receivable (Note 2)	5,255,391	-
Student loans - current (Note 2)	407,913	-
Due from component unit (Note 11)	389,075	-
Prepaid debt service insurance - current (Notes 2 and 9)	72,164	-
Inventories (Note 2)	314,504	-
Other assets	954,335	3,031
Total current assets	<u>81,380,791</u>	<u>958,709</u>
Noncurrent assets		
Investments (Notes 2 and 3)	-	6,243,551
Student loans, net of allowance for uncollectible loans of \$270,000 (Note 2)	1,085,397	-
Prepaid debt service insurance (Notes 2 and 9)	442,691	-
Capital assets (Note 8)	204,982,845	2,370,742
Accumulated depreciation (Note 8)	(92,895,468)	(26,793)
Total noncurrent assets	<u>113,615,465</u>	<u>8,587,500</u>
Total assets	<u>194,996,256</u>	<u>9,546,209</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions after measurement date (Notes 2 and 5)	123,363	-
Deferred outflows from other postemployment benefits (Notes 2 and 7)	369,740	-
Total deferred outflows of resources	<u>493,103</u>	<u>-</u>
LIABILITIES		
Current liabilities		
Accounts payable	8,275,555	27,637
Accrued compensated absences (Notes 2 and 10)	350,000	-
Due to University (Note 11)	-	389,075
Unearned revenue (Note 2)	3,603,633	-
Revenue bonds payable (Note 9)	990,853	-
Certificates of participation (Note 9)	2,006,410	-
Intangible asset payable (Note 9)	382,891	37,500
Other postemployment benefits (Note 7)	153,059	-
Total current liabilities	<u>15,762,401</u>	<u>454,212</u>
Noncurrent liabilities		
Accrued compensated absences (Notes 2 and 10)	4,108,633	-
Refundable grants	2,475,051	-
Revenue bonds payable (Note 9)	20,272,094	-
Certificates of participation (Note 9)	17,409,205	-
Intangible asset payable (Note 9)	283,605	-
Other postemployment benefits (Note 7)	6,415,636	-
Total noncurrent liabilities	<u>50,964,224</u>	<u>-</u>
Total liabilities	<u>66,726,625</u>	<u>454,212</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from other postemployment benefits (Notes 2 and 7)	4,423,891	-
Total deferred inflows of resources	<u>4,423,891</u>	<u>-</u>
NET POSITION (Notes 2 and 16)		
Net investment in capital assets	79,293,531	2,306,449
Restricted:		
Nonexpendable	-	2,867,314
Expendable		
Loans	809,016	-
Debt service	1,333,460	-
Other	35,432	3,305,754
Unrestricted	42,867,404	612,480
Total net position	<u>\$ 124,338,843</u>	<u>\$ 9,091,997</u>

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

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	University	Component Unit
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of \$12,349,090 (Note 2)	\$ 33,437,549	\$ -
Federal grants and contracts	2,999,817	-
State grants and contracts	1,697,126	-
Other grants and contracts	139,105	68,100
Sales and services of educational departments	750	-
Auxiliary enterprises	1,673,061	-
Other operating revenues	1,308,686	317,078
Total operating revenues	41,256,094	385,178
OPERATING EXPENSES		
Instruction	59,959,445	-
Research	880,102	-
Public service	5,801,697	-
Academic support	4,599,303	-
Student services	9,500,035	-
Institutional support	20,393,385	-
Operation and maintenance of plant	10,006,840	-
Auxiliary enterprises	2,516,869	-
Student aid	8,635,464	-
Depreciation	4,702,200	26,793
University support	-	729,222
Other expense	-	339,915
Total operating expenses	126,995,340	1,095,930
Net operating loss	(85,739,246)	(710,752)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	23,193,600	-
Payments made on behalf of the University	7,602,000	-
Fringe benefits under special funding situation	36,003,647	-
Federal and State nonoperating grants	22,447,185	-
Gifts	-	715,258
Investment income	109,515	1,377,966
Interest expense	(1,710,887)	-
Other nonoperating income (expense)	543	-
Net nonoperating revenues	87,645,603	2,093,224
Income (loss) before other revenues, expenses, gains and losses	1,906,357	1,382,472
Capital appropriations and grants provided by State of Illinois	2,567,116	-
Additions to permanent endowments	-	392,325
Increase (decrease) in net position	4,473,473	1,774,797
NET POSITION (Notes 2 and 16)		
Net position - beginning of year	102,970,579	7,317,200
Prior period adjustment	16,894,791	-
Net position - beginning of year, as restated	119,865,370	7,317,200
Net position - end of year	\$ 124,338,843	\$ 9,091,997

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

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

	University	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 34,400,048	\$ -
Grants and contracts	4,627,215	68,100
Payments to suppliers	(15,862,889)	(274,330)
Payments for scholarships	(8,635,464)	(397,118)
Payments to employees and fringe benefits	(55,132,317)	-
Auxiliary enterprises	1,673,061	-
Sales and services of educational departments	750	-
Student loans issued	(49,706)	-
Student loans collected	437,572	-
Other operating revenues	1,308,686	1,993
Net cash used in operating activities	(37,233,044)	(601,355)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriation	28,150,742	-
Federal and State nonoperating grants	19,655,016	-
Contributions	-	715,258
Contributions for permanent endowments	-	392,325
Cash provided by noncapital financing activities	47,805,758	1,107,583
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(3,747,373)	(36,086)
Principal payments on capital debt	(3,207,010)	-
Capital grants provided by State of Illinois	1,980,060	-
Interest payments on capital debt	(1,872,731)	-
Net cash used in capital financing activities	(6,847,054)	(36,086)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	9,972,000	1,031,832
Investment income	148,476	81,316
Investment management fees	-	(57,229)
Purchase of investment securities	-	(1,209,786)
Net cash provided by (used in) investing activities	10,120,476	(153,867)
Net increase in cash and cash equivalents	13,846,136	316,275
Cash and cash equivalents - beginning of year	55,941,103	639,403
Cash and cash equivalents - end of year	\$ 69,787,239	\$ 955,678
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Net operating loss	\$ (85,739,246)	\$ (710,752)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Noncash expenses included in net operating loss:		
Depreciation	4,702,200	26,793
Payments made on behalf of the University	7,602,000	-
Fringe benefits under special funding situation	36,003,647	-
Changes in assets, deferred outflows of resources, deferred inflows of resources and liabilities:		
Accounts receivable, grants receivable and due from component unit	466,031	-
Inventories	(223,011)	-
Other assets	(577,190)	-
Student loans	414,939	-
Prepaid debt service insurance	72,164	-
Deferred outflows of resources	116,175	-
Accounts payable, due to component unit, and due to University	240,546	82,604
Unearned revenue	620,944	-
Accrued compensated absences	653,754	-
Refundable grants	(440,277)	-
Other postemployment benefits	(2,358,546)	-
Deferred inflows of resources	1,212,826	-
Net cash used in operating activities	\$ (37,233,044)	\$ (601,355)
NONCASH INVESTING, NONCAPITAL AND CAPITAL FINANCING ACTIVITIES		
Capital assets acquired with debt	\$ 571,274	\$ 37,500
Capital appropriations	\$ 2,567,116	\$ -
Unrealized gain (loss) on investments	\$ -	\$ 1,144,047

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

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021 was conducted by an independent certified public accountant. Complete financial statements for this component unit may be obtained by writing the: Vice President for Institutional 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.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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, and Student Loans Receivable

An aging of accounts, grants, and student loans receivable as of June 30, 2021 is as follows:

Not in repayment	\$ 405,177
Current	7,583,684
Up to 120 days past due	1,127,194
From 121 to 365 days past due	1,159,450
More than 365 days past due	8,056,466
Allowance for doubtful accounts	<u>(7,383,100)</u>
Net accounts, grants, student loans, and State appropriation receivable	<u>\$10,948,871</u>

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.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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 mostly 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, and grants prior to the end of the fiscal year but related to the subsequent accounting period.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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, Emergency grants under the Federal Higher Education Emergency Relief Fund (HEERF), State Monetary Award Program (MAP) grants, and Illinois AIM HIGH 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, Emergency grants under the Federal HEERF, State MAP grants, Illinois AIM HIGH grants, and investment income.

Classification of Expenses

The majority of the University's expenses are exchange transactions, which GASB defines as operating expenses for financial statement presentation. Nonoperating expenses include interest expense of the University.

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.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

The University's net position are classified as follows:

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

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

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

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

Deferred Outflows/Inflows of Resources

A deferred outflow/inflow of resources is a consumption/acquisition of net position that is applicable to a future reporting period. The University has recorded deferred outflows/inflows of resources related to pensions and postemployment benefits as explained in Notes 5 and 7, 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).

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020, the University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of \$292,904 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 nonoperating 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.

GOVERNORS STATE UNIVERSITY
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2021.

Substantially all active employees participate in group insurance plans provided by the State and administered by CMS, primarily 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, 2021, total estimated group insurance contributions for the University's employees paid from the University's Income Fund and auxiliary enterprises were \$8,031,000. The University made a voluntary appropriation repayment from either its State appropriation or locally-held resources that was not considered a contribution of \$429,000 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 \$7,602,000 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.

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NOTES TO THE FINANCIAL STATEMENTS
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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.

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 deferred 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 (State) 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.

GOVERNORS STATE UNIVERSITY
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

During the year ended June 30, 2021, the University adopted the following accounting pronouncements:

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

Future Adoption of GASB Statements

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

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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Effective for the year ending June 30, 2023, the University will adopt the following GASB statements:

- 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.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which is

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

defined in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

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

COVID-19 Funding

On March 27, 2020, the Federal Government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which included funding for the Higher Education Emergency Relief Fund (HEERF). These funds were awarded to institutions of higher education in two equal allotments: (1) institutional portion to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus, and (2) student portion to provide emergency financial aid grants to students. During Fiscal Year 2020, the University received an allocation of \$1.85 million in each category. In addition, the University received an allocation of \$181,244, \$267,164, and \$438,688 during Fiscal Years 2020, 2021, and 2022, respectively, as a recognized Minority Serving Institution (MSI).

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The CARES Act also provided funding through the Education Stabilization Fund Program Governor's Emergency Education Relief Fund (GEERF). During Fiscal Year 2021, the University received a total allocation of \$1.92 million in GEERF via an Intergovernmental Agreement with the Illinois Board of Higher Education to support efforts to enroll and retain low-income, underrepresented and first-generation students who might not otherwise enroll or return due to the pandemic, including by closing digital equity gaps.

On December 27, 2020, former President Trump signed the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) (P.L. 116-260), which gave the U.S. Department of Education approximately \$22.7 billion to distribute to institutions of higher education in order to prevent, prepare for, and respond to COVID-19 through the HEERF. Of this funding, the University has been allocated \$6.35 million. A minimum of \$1.85 million must be used to provide students with financial aid grants, which may be used for any component of the student's cost of attendance or for emergency costs that arise due to COVID-19, such as tuition, food, housing, health care (including mental health care) or child care. The balance of \$4.5 million may be used by the University to defray expenses associated with COVID-19, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (ARP) (P. L. 117-2). The ARP appropriated approximately \$39.6 billion for HEERF and represents the third stream of funding appropriated for HEERF to prevent, prepare for, and respond to coronavirus. At least half of an institution's allocation under ARP must be used to make emergency financial aid grants to students; the remainder may be used for institutional purposes. During Fiscal Year 2021, the University received a total allocation of \$10.16 million, consisting of \$5.29 million student portion and \$4.87 million institutional portion. The ARP has two new required uses of HEERF institutional portion grant funds for public and private nonprofit institutions in which, if the institutional portion is not used entirely for emergency financial grants to students, a portion of funds must be used to: (a) implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and (b) conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances, described in section 479A of the Higher Education Act.

During the year ended June 30, 2021, the University expended \$4,415,235 from its allocated institutional portion, \$2,733,902 from its allocated student portion, \$265,087 from its MSI allocation, and \$667,490 from its GEERF allocation. During the year ended June 30, 2020, the University expended \$419,785 from its allocated institutional portion, and \$968,700 from its allocated student portion. The related revenues and expenses are reported in the Nonoperating Revenues and Operating Expenses section, respectively, of the Statements of Revenues, Expenses, and Changes in Net Position.

GOVERNORS STATE UNIVERSITY
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As discussed above, the University has received three separate awards (consisting of an initial award and two supplemental awards) from the Higher Education Emergency Relief Fund as part of the federal government's response to the COVID-19 pandemic. The University's period of availability for using these federal funds is set to expire on May 18, 2022, but this can be extended for up to one additional year. The following chart reflects the remaining balance of this activity at June 30, 2021, which the University intends to claim and recognize as non-operating revenue in future fiscal years.

	Award		Remaining Balance	
	University's Portion	Student Aid Portion	University's Portion	Student Aid Portion
HEERF 1	\$ 1,851,301	\$ 1,851,301	\$ 155,310	\$ -
HEERF 2	4,496,723	1,851,301	1,357,694	-
HEERF 3	4,870,030	5,288,070	4,870,030	\$ 5,288,070

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 at June 30, 2021 is as follows:

	<u>University</u>	<u>Foundation</u>
<u>Statement of Net Position</u>		
Cash and cash equivalents	\$ 59,847,333	\$ 955,678
Cash and cash equivalents, restricted	9,939,906	-
Investments	-	6,243,551
Total	<u>\$ 69,787,239</u>	<u>\$ 7,199,229</u>

GOVERNORS STATE UNIVERSITY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

	<u>University</u>	<u>Foundation</u>
<u>Deposits and Investments</u>		
Cash in bank	\$ 6,814,709	\$ 531,921
Cash on hand	8,025	-
Investments	62,964,505	6,667,308
Total	<u>\$ 69,787,239</u>	<u>\$ 7,199,229</u>

Custodial Credit Risk - is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation insured bank balances totaling \$500,000 (University and Foundation) at June 30, 2021. The remaining bank balances as of June 30, 2021 were fully collateralized. The University's and Foundation's respective bank balances were \$7,172,415 and \$517,348 as of June 30, 2021. 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, 2021 are as follows:

Investments:	<u>Credit Rating</u>	<u>Maturity</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Money Market Funds	Moody's Aaa-mf	< 1 year	\$ 9,939,906	\$ 9,939,906
Illinois Funds	Fitch's AAmmf	< 1 year	53,024,599	53,024,599
Total			<u>\$ 62,964,505</u>	<u>\$ 62,964,505</u>

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The University's investment valuation by levels at June 30, 2021 is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Funds	\$ 9,939,906	\$ 9,939,906	\$ -	\$ -
Illinois Funds	<u>53,024,599</u>	<u>53,024,599</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 62,964,505</u>	<u>\$ 62,964,505</u>	<u>\$ -</u>	<u>\$ -</u>

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2021, investments consisted of money market funds held in corporate trust accounts at Amalgamated Bank of Chicago and Illinois Funds. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract.

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

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

Foundation Investments

The fair value of the investment portfolio of the Foundation at June 30, 2021 is as follows:

	<u>Fair Value</u>
Money Market Funds	\$ 345,102
Illinois Funds	78,655
Stocks/Mutual Funds investing in stocks	5,193,718
Mutual Funds investing in bonds	766,495
Corporate Bonds	<u>283,338</u>
Total	<u>\$ 6,667,308</u>

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The valuation by levels at June 30, 2021 is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Funds	\$ 345,102	\$ 345,102	\$ -	\$ -
Illinois Funds	78,655	78,655	-	-
Stocks/Mutual Funds investing in stocks	5,193,718	5,193,718	-	-
Mutual Funds investing in bonds	766,495	766,495	-	-
Corporate Bonds	<u>283,338</u>	<u>-</u>	<u>283,338</u>	<u>-</u>
Total	<u>\$ 6,667,308</u>	<u>\$ 6,383,970</u>	<u>\$ 283,338</u>	<u>\$ -</u>

Custodial Credit Risk - is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2021, investments consisted of money market funds, stocks, mutual funds, and corporate bonds. All investments other than Illinois Funds are being held by the First Midwest Bank Trust Division, in the name of the Foundation.

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 ladder 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, 2021 are as follows:

	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>5 - 10</u>	<u>10 or More</u>
Mutual Funds investing in bonds	\$ 766,495	\$ -	\$ 529,344	\$ -	237,151
Corporate Bonds	<u>283,338</u>	<u>75,950</u>	<u>155,259</u>	<u>52,129</u>	<u>-</u>
Total	<u>\$1,049,833</u>	<u>\$ 75,950</u>	<u>\$ 684,603</u>	<u>\$ 52,129</u>	<u>\$ 237,151</u>

GOVERNORS STATE UNIVERSITY
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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, 2021 are as follows:

<u>Credit Rating</u>	<u>Total Debt Securities</u>
No Rating	\$ 60,840
AAA	61,493
AA	25,107
AA-	103,150
A+	104,239
A	372,235
A-	50,843
BBB	52,437
BB	<u>219,489</u>
Total	<u>\$ 1,049,833</u>

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

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 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, 2021 amounted to \$9,939,906 and were all held in money market accounts.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

The University contributes to the State Universities Retirement System (SURS), a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby 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

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NOTE 5 - DEFINED BENEFIT PENSION PLAN (Continued)

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's financial reporting entity and is included in the State's Comprehensive Annual Financial Report 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 reciprocal system service. The revised plan is referred to as Tier 2. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either the traditional or portable benefit plans. A summary of the benefit provisions as of June 30, 2020 can be found in the SURS Annual Comprehensive Financial Report-Notes to the Financial Statements.

Contributions

The State 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 within SURS 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 2020 and Fiscal Year 2021, respectively, was 13.02% and 12.70% 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, except for police officers and fire fighters who contribute 9.5% of their earnings. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants), 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).

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NOTE 5 - DEFINED BENEFIT PENSION PLAN (Continued)

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

Net Pension Liability

The net pension liability (NPL) was measured as of June 30, 2020. At June 30, 2020, SURS defined benefit plan reported a net pension liability of \$30,619,504,321.

Employer Proportionate Share of Net Pension Liability

The amount of the proportionate share of the NPL to be recognized for the University is \$0. The proportionate share of the State's NPL associated with the University is \$306,929,605 or 1.0024%. The University's proportionate share changed by 0.0507% from 0.9517% since the last measurement date on June 30, 2019. This amount is not recognized in the University's financial statements. The NPL and total pension liability as of June 30, 2020 was determined based on the June 30, 2019, 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 defined benefit plan during Fiscal Year 2020.

Defined Benefit Pension Expense

At June 30, 2020, SURS defined benefit plan reported a collective net pension expense of \$3,364,411,021.

Employer Proportionate Share of Defined Benefit Pension Expense

The employer proportionate share of collective defined benefit pension expense is recognized as nonoperating revenue with matching operating expense (compensation and benefits) 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 defined benefit plan during Fiscal Year 2020. As a result, the University recognized revenue and defined benefit pension expense of \$33,724,822 from this special funding situation during the year ended June 30, 2021.

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

Deferred outflows of resources are the consumption of net position by SURS that is applicable to future reporting periods. Conversely, deferred inflows of resources are the acquisition of net position by SURS that is applicable to future reporting periods.

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NOTE 5 - DEFINED BENEFIT PENSION PLAN (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 170,987,483	\$ -
Changes in assumptions	473,019,629	-
Net difference between projected and actual earnings on pension plan investments	<u>474,659,178</u>	<u>-</u>
Total	<u>\$1,118,666,290</u>	<u>\$ -</u>

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

<u>Year Ending June 30,</u>	<u>Net Deferred Outflows of Resources</u>
2021	\$ 435,271,667
2022	346,428,171
2023	183,483,935
2024	153,482,517
2025	-
Thereafter	<u>-</u>
	<u>\$1,118,666,290</u>

University's Deferral of Fiscal Year 2021 Contributions

The University paid \$123,363 in Federal, trust or grant contributions to SURS defined benefit pension plan during the year ended June 30, 2021. These contributions were made subsequent to the pension liability measurement date of June 30, 2020, and are recognized as deferred outflows of resources as of June 30, 2021.

Assumptions and Other Inputs

Actuarial assumptions

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period June 30, 2014 through June 30, 2017. The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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NOTE 5 - DEFINED BENEFIT PENSION PLAN (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 RP-2014 White Collar, gender distinct tables with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on defined benefit 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 consultants and actuary. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2020, these best estimates are summarized in the following table:

Defined Benefit Plan	Strategic Policy Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Traditional Growth		
Global Public Equity	44.0%	6.67%
Stabilized Growth		
Credit Fixed Income	14.0%	2.39%
Core Real Assets	5.0%	4.14%
Options Strategies	6.0%	4.44%
Non-Traditional Growth		
Private Equity	8.0%	9.66%
Non-Core Real Assets	3.0%	8.70%
Inflation Sensitive		
U.S. Tips	6.0%	0.13%
Principal Protection		
Core Fixed Income	8.0%	(0.45%)
Crisis Risk Offset		
Systematic Trend Following	2.1%	2.16%
Alternative Risk Premia	1.8%	1.60%
Long Duration	2.1%	0.86%
Total	100%	4.84%
Inflation		2.25%
Expected arithmetic return		7.09%

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NOTE 5 - DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate

A single discount rate of 6.49% 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 2.45% (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 SURS 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 NPL to changes in the single discount rate, the following presents the State's NPL, calculated using a single discount rate of 6.49%, as well as what the State's NPL would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<u>1% Decrease</u>	<u>Rate Assumption</u>	<u>1% Increase</u>
<u>5.49%</u>	<u>6.49%</u>	<u>7.49%</u>
\$ 36,893,469,884	\$ 30,619,504,321	\$ 25,441,837,592

Additional information regarding the SURS basic financial statements, including the plan's net position can be found in the SURS Annual Comprehensive Financial Report by accessing the website at www.SURS.org.

NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN

General Information about the Pension Plan

Plan Description

The University contributes to the Retirement Savings Plan (RSP) administered by SURS, a cost-sharing multiple-employer defined contribution pension plan with a special funding situation whereby the State makes substantially all required contributions on behalf of the participating employers. SURS was established on July 21, 1941 to provide retirement annuities and other

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NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN (Continued)

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's financial reporting entity and is included in the State's Comprehensive Annual Financial Report 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. The RSP and its benefit terms were established and may be amended by the State's General Assembly.

Benefits Provided

A defined contribution pension plan, originally called the Self-Managed Plan, was added to SURS benefit offerings as a result of Public Act 90-0448 enacted effective January 1, 1998. The plan was renamed the RSP effective September 1, 2020, after an extensive plan redesign. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either the traditional or portable benefit plans or the RSP. A summary of the benefit provisions as of June 30, 2020 can be found in the SURS Annual Comprehensive Financial Report-Notes to the Financial Statements.

Contributions

All employees who have elected to participate in the RSP are required to contribute 8.0% of their annual covered earnings. Section 15-158.2(h) of the Illinois Pension Code provides for an employer contribution to the RSP of 7.6% of employee earnings. The State is primarily responsible for contributing to the RSP on behalf of the individual employers. Employers are required to make the 7.6% contributions for employee earnings paid from "trust, Federal, and other funds" as described in Section 15-155(b) of the Illinois Pension Code. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

Forfeitures

Employees are not vested in employer contributions to the RSP until they have attained five years of service credit. Should an employee leave SURS-covered employment with less than five years of service credit, the portion of the employee's RSP account designated as employer contributions is forfeited. Employees who later return to SURS-covered employment will have these forfeited employer contributions reinstated to their account, so long as the employee's own contributions remain in the account. Forfeited employer contributions are managed by SURS and are used both to reinstate previously forfeited contributions and to fund a portion of the State's contributions on behalf of the individual employers. The vesting and forfeiture provisions of the RSP are established and may be amended by the Illinois General Assembly.

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NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN (Continued)

Pension Expense Related to Defined Contribution Pensions

Defined Contribution Pension Expense

For the year ended June 30, 2020, the State's contributions to the RSP on behalf of individual employers totaled \$74,418,691. Of this amount, \$68,874,215 was funded via an appropriation from the State and \$5,544,476 was funded from previously forfeited contributions.

Employer Proportionate Share of Defined Contribution Pension Expense

The employer proportionate share of collective defined contribution pension expense is recognized as nonoperating revenue with matching operating expense (compensation and benefits) in the financial statements. The basis of allocation used in the proportionate share of collective defined contribution pension expense is the actual reported pensionable contributions made to the RSP during Fiscal Year 2020. The University's share of pensionable contributions was 0.9310%. As a result, the University recognized revenue and defined contribution pension expense of \$692,825 from this special funding situation during the year ended June 30, 2021, of which \$51,618 constituted forfeitures.

NOTE 7 - POSTEMPLOYMENT BENEFITS

Plan Description

SEGLA, 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 Notes 5 and 6.

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.

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NOTE 7 - POSTEMPLOYMENT BENEFITS (Continued)

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 2021, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$12,261 (\$6,910 if Medicare eligible) per member if the annuitant chose benefits provided by a health maintenance organization and \$15,224 (\$6,449 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.

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NOTE 7 - 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 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, this change in estimate was amortized for subsequent recognition in the University's OPEB expense over a period of approximately five years, which began in Fiscal Year 2019.

Special Funding Situation Portion of OPEB

The proportionate share of the State's OPEB expense relative to the University's employees totaled \$1,586,000 during the year ended June 30, 2021. 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, 2021.

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, 2020 and 2019, each based on the June 30, 2019 and 2018, respectively, actuarial valuation rolled forward:

Measurement Date:	<u>June 30, 2020</u>	<u>June 30, 2019*</u>
State of Illinois' OPEB liability related to the University under the Special Funding Situation	\$165,703,048	\$175,571,582
SEGIP total OPEB liability	<u>\$42,366,626,302</u>	<u>\$43,889,169,017</u>
Proportionate share of the total OPEB liability	0.3911%	0.4000%

* Amounts have not been adjusted for the error correction described in Note 16.

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NOTE 7 - POSTEMPLOYMENT BENEFITS (Continued)

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, 2021, was measured as of the measurement date on June 30, 2020, with an actuarial valuation as of June 30, 2019, which was 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, 2020 and 2019, each based on the June 30, 2019 and 2018, respectively, actuarial valuation rolled forward:

Measurement Date:	June 30, 2020	June 30, 2019*
University's OPEB liability	\$6,568,695	\$8,997,280
SEGIP total OPEB liability	\$42,366,626,302	\$43,889,169,017
Proportionate share of the total OPEB liability	0.0155%	0.0205%

* Amounts have not been adjusted for the error correction described in Note 16.

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, 2020. As of the current year measurement date of June 30, 2020, the University's proportion declined 0.005% from its proportion measured as of the prior year measurement date of June 30, 2019.

The University recognized OPEB expense for the year ended June 30, 2021 of (\$857,735). At June 30, 2021, the University reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2020, from the following sources:

Deferred outflows of resources	
Differences between expected and actual experience	\$ 37,173
Changes of assumptions	179,508
University contributions subsequent to the measurement date	<u>153,059</u>
Total deferred outflows of resources	<u>\$ 369,740</u>
Deferred inflows of resources	
Differences between expected and actual experience	\$ 70,733
Changes of assumptions	659,659
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>3,693,499</u>
Total deferred inflows of resources	<u>\$ 4,423,891</u>

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NOTE 7 - POSTEMPLOYMENT BENEFITS (Continued)

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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	
2022	\$ (1,267,296)
2023	(1,192,128)
2024	(1,079,171)
2025	(601,030)
2026	<u>(67,585)</u>
Total	<u>\$ (4,207,210)</u>

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, 2019, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2019.

The valuation date of June 30, 2019 below was rolled forward to June 30, 2020.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare and Post-Medicare)	8.25% grading down 0.25% per year over 16 years to 4.25% in year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.
*Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.	

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NOTE 7 - 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 2020 and 2021 are based on actual premiums. Premiums after 2021 were projected based on the same healthcare cost trend rates applied to per capita claim costs.
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The above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7.
Medical and Rx (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%.
Dental and Vision	6.00% grading down 0.50% per year over 3 years to 4.50%.
*Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.	

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NOTE 7 - POSTEMPLOYMENT BENEFITS (Continued)

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2019 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	<u>Retirement age experience study¹</u>	<u>Mortality²</u>
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales.
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales.
SERS	July 2015 - June 2018	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.
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.

¹The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

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

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NOTE 7 - POSTEMPLOYMENT BENEFITS (Continued)

Discount rate

Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.13% at June 30, 2019, and 2.45% at June 30, 2020, 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, 2020, calculated using a Single Discount Rate of 2.45%, 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 (3.45) or lower (1.45) than the current rate:

	1 % Decrease 1.45%	Current Single Discount Rate Assumption 2.45%	1% Increase 3.45%
University's proportionate share of total OPEB liability	\$ 7,731,941	\$ 6,568,695	\$ 5,640,964

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, 2020, 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 8.25% in 2021 decreasing to an ultimate trend rate of 4.25% in 2037.

	1 % Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
University's proportionate share of total OPEB liability	\$ 5,498,971	\$ 6,568,695	\$ 7,971,390

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NOTE 7 - 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, 2020 and 2019, each based on the June 30, 2019 and 2018, respectively, actuarial valuation rolled forward:

Measurement Date:	<u>June 30, 2020</u>	<u>June 30, 2019*</u>
State of Illinois' OPEB liability related to the University under the Special Funding Situation	\$165,703,048	\$175,571,582
University's OPEB liability	<u>\$6,568,695</u>	<u>\$8,997,280</u>
Total OPEB liability associated with the University	\$172,271,743	\$184,568,862
SEGIS total OPEB liability	<u>\$42,366,626,302</u>	<u>\$43,889,169,017</u>
Proportionate share of the OPEB liability associated with the University	0.4066%	0.4205%

* Amounts have not been adjusted for the error correction described in Note 16.

NOTE 8 - 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, two to seven years for intangible assets, and three to 40 years for equipment and library collection.

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NOTE 8 - CAPITAL ASSETS (Continued)

Interest incurred during the period of construction of \$473,641 was recognized as an expense during the fiscal year ended June 30, 2021.

Capital assets activity for the University for the year ended June 30, 2021 are summarized as follows:

	Balance June 30, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Capital assets not being depreciated:					
Land	\$ 1,389,086	\$ -	\$ -	\$ -	\$ 1,389,086
Construction in progress	4,949,491	4,153,007	-	(836,246)	8,266,252
Artwork/Artifacts	431,323	-	-	-	431,323
Total capital assets not being depreciated	<u>\$ 6,769,900</u>	<u>\$ 4,153,007</u>	<u>\$ -</u>	<u>\$ (836,246)</u>	<u>\$ 10,086,661</u>
Other capital assets:					
Site improvements	\$ 9,657,646	\$ 98,005	\$ -	\$ 836,246	\$ 10,591,897
Buildings	155,917,656	236,835	-	-	156,154,491
Intangible assets	2,657,348	571,274	-	-	3,228,622
Equipment	12,531,065	424,584	(131,470)	-	12,824,179
Library collection	12,220,582	12,789	(136,376)	-	12,096,995
Total other capital assets	<u>192,984,297</u>	<u>1,343,487</u>	<u>(267,846)</u>	<u>836,246</u>	<u>194,896,184</u>
Accumulated depreciation:					
Site improvements	(4,802,615)	(471,097)	-	-	(5,273,712)
Buildings	(57,990,446)	(3,472,246)	-	-	(61,462,692)
Intangible assets	(1,753,732)	(422,011)	-	-	(2,175,743)
Equipment	(11,791,826)	(300,669)	127,813	-	(11,964,682)
Library collection	(12,118,837)	(36,177)	136,375	-	(12,018,639)
Total accumulated depreciation	<u>(88,457,456)</u>	<u>(4,702,200)</u>	<u>264,188</u>	<u>-</u>	<u>(92,895,468)</u>
Other capital assets, net	<u>\$104,526,841</u>	<u>\$ (3,358,713)</u>	<u>\$ (3,658)</u>	<u>\$ 836,246</u>	<u>\$102,000,716</u>
Capital assets summary:					
Capital assets not being depreciated	\$ 6,769,900	\$ 4,153,007	\$ -	\$ (836,246)	\$ 10,086,661
Other capital assets	192,984,297	1,343,487	(267,846)	836,246	194,896,184
Accumulated depreciation	<u>(88,457,456)</u>	<u>(4,702,200)</u>	<u>264,188</u>	<u>-</u>	<u>(92,895,468)</u>
Total capital assets, net	<u>\$111,296,741</u>	<u>\$ 794,294</u>	<u>\$ (3,658)</u>	<u>\$ -</u>	<u>\$112,087,377</u>

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NOTE 8 - CAPITAL ASSETS (Continued)

Capital assets activity for the Foundation for the year ended June 30, 2021 are summarized as follows:

	Balance June 30, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Capital assets not being depreciated:					
Artwork/Artifacts	\$ 2,297,156	\$ 20,000	\$ -	\$ -	\$ 2,317,156
Other capital assets:					
Intangible assets	-	53,586	-	-	53,586
Total capital assets	2,297,156	73,586	-	-	2,370,742
Accumulated depreciation:					
Intangible assets	-	(26,793)	-	-	(26,793)
Total accumulated depreciation	-	(26,793)	-	-	(26,793)
Total capital assets, net	\$ 2,297,156	\$ 46,793	\$ -	\$ -	\$ 2,343,949

NOTE 9 - LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2021 were as follows:

	Balance June 30, 2020	Additions	Deductions	Balance June 30, 2021	Amounts Due Within One Year
Intangible asset payable	\$ 532,232	\$ 571,274	\$ 437,010	\$ 666,496	\$ 382,891
Revenue bonds 2007	4,435,000	-	480,000	3,955,000	500,000
Revenue bonds 2012	17,790,000	-	475,000	17,315,000	490,000
Certificates of participation 2008	7,690,000	-	950,000	6,740,000	1,000,000
Certificates of participation 2018	12,740,000	-	865,000	11,875,000	895,000
	43,187,232	571,274	3,207,010	40,551,496	3,267,891
Unamortized discounts	(88,103)	-	(9,583)	(78,520)	(9,584)
Unamortized premiums	993,929	-	121,847	872,082	121,847
	\$ 44,093,058	\$ 571,274	\$ 3,319,274	\$ 41,345,058	\$ 3,380,154

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NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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, 2021, the University has not exercised this option to redeem the bonds maturing on or after October 1, 2018.

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

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

Future debt service requirements at June 30, 2021 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 500,000	\$ 149,756	\$ 649,756
2023	520,000	129,356	649,356
2024	540,000	108,156	648,156
2025	565,000	86,056	651,056
2026	585,000	63,056	648,056
2027 - 2028	<u>1,245,000</u>	<u>51,872</u>	<u>1,296,872</u>
	<u>\$ 3,955,000</u>	<u>\$ 588,252</u>	<u>\$ 4,543,252</u>

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NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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. As of June 30, 2021, the University has not exercised this option to redeem the bonds maturing on or after October 1, 2020.

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:

<u>Term Bonds due 10/01/26</u>		<u>Term Bonds due 10/01/37</u>		<u>Term Bonds due 10/01/42</u>	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
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

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NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

Future debt service requirements at June 30, 2021 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	550,000	694,403	1,244,403
2026	570,000	672,002	1,242,002
2027 - 2031	3,230,000	2,982,261	6,212,261
2032 - 2036	4,015,000	2,197,954	6,212,954
2037 - 2041	5,050,000	1,159,923	6,209,923
2042 - 2043	<u>2,375,000</u>	<u>111,716</u>	<u>2,486,716</u>
	<u>\$17,315,000</u>	<u>\$10,019,187</u>	<u>\$27,334,187</u>

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, 2021, the University had not exercised the right to redeem the Certificates that are callable on or after January 1, 2018.

Redemption Upon Optional Termination of Purchase Contract - The 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:

<u>Redemption Date</u>	<u>Redemption Price</u>
January 1, 2013	110%
On or after January 1, 2018	100%

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NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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, 2021, 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.

Future debt service requirements at June 30, 2021 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	935,000	170,462	1,105,462
2026	970,000	131,894	1,101,894
2027 - 2028	<u>2,070,000</u>	<u>139,356</u>	<u>2,209,356</u>
	<u>\$ 6,740,000</u>	<u>\$ 1,171,550</u>	<u>\$ 7,911,550</u>

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 9 - 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, 2021 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,235,000	402,875	1,637,875
2026	1,310,000	339,250	1,649,250
2027 - 2029	<u>6,130,000</u>	<u>557,000</u>	<u>6,687,000</u>
	<u>\$11,875,000</u>	<u>\$ 2,854,875</u>	<u>\$14,729,875</u>

GOVERNORS STATE UNIVERSITY
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NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

Intangible Asset Payable

The University acquired computer software through multi-year licensing agreements. 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 agreements. The license agreements are for three to five years and require various payments over the term of the agreements. Implicit interest is considered immaterial. Future maturities at June 30, 2021 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2022	\$ 382,891
2023	228,590
2024	43,529
2025	11,486
	<u>\$ 666,496</u>

The Foundation acquired computer software through a multi-year licensing agreement. In accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, the Foundation has recorded a liability representing its obligation to make annual payments over the life of the agreement. The license agreement is for two years and requires two equal payments over the term of the agreement. Implicit interest is considered immaterial. Future maturity at June 30, 2021 is as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2022	\$ 37,500
	<u>\$ 37,500</u>

NOTE 10 - 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, 2021 was as follows:

	<u>Amount</u>
Balance, beginning of year	\$ 3,804,879
Movement	<u>653,754</u>
Balance, end of year	4,458,633
Less: current portion	<u>350,000</u>
Balance, noncurrent portion	<u>\$ 4,108,633</u>

GOVERNORS STATE UNIVERSITY
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NOTE 11 - 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, 2021 at \$315,085, including all direct payroll expenses and fringe benefits. The Foundation provided the University with support in the amount of \$765,308 for the year ended June 30, 2021. As of June 30, 2021, \$389,075 is due to the University from the Foundation.

As of and during the fiscal year ended June 30, 2021, the University and Foundation had the following inter-entity transactions:

<u>University</u>	<u>Foundation</u>	
	<u>Due to University</u>	<u>Operating Revenue</u>
Due from Foundation	\$ 389,075	\$ -
Operating Expenses	-	315,085
Total	<u>\$ 389,075</u>	<u>\$ 315,085</u>

NOTE 12 - 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, University management believes that the ultimate cost of these matters will not adversely affect the University's future financial condition or results of operations.

The University participates in certain federal and State government agencies grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. University management believes disallowances, if any, would not have a material effect on the University's financial position.

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NOTE 13 - 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, 2021, net appreciation of endowments of \$1,691,083 has been reported as Restricted Net Position - Expendable, Other and as Net Position - Unrestricted, as appropriate.

NOTE 14 - OPERATING LEASES

An equipment lease expired in December 2020, and a new five-year equipment lease was signed during the fiscal year. The total rental expense for the lease agreements was \$8,487 for the year ended June 30, 2021. Future minimum lease payments on the equipment lease are as follows:

<u>Year Ending June 30</u>	<u>Base Rent</u>
2022	\$ 9,499
2023	9,499
2024	9,499
2025	9,499
2026	4,749
	<u>\$ 42,745</u>

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 15 - 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					(CURRENT YEAR)
BOND ISSUE	PURPOSE	SOURCE OF REVENUE PLEDGED	FUTURE NET REVENUES PLEDGED ¹	TERM OF COMMITMENT	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	\$ 31,877,439	2043	6.17%

¹ Total future principal and interest payments on debt.

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

NOTE 16 - RESTATEMENT OF NET POSITION

During Fiscal Year 2021, an error correction resulted in a restatement to beginning net position, as follows:

	Amount
07/01/2020, as previously reported	\$ 102,970,579
Error Correction	16,829,183
Other	65,608
07/01/2020, as restated	\$ 119,865,370

The error correction of \$16,829,183 occurred due to the Illinois State Toll Highway Authority (Tollway) and the State of Illinois, Department of Central Management Services not separately stating OPEB balances for Tollway employees who only partake in the SEGIP upon their retirement from the Tollway from other employees accounted for within SEGIP's cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP's cost-sharing proportionate share allocation, which is used by the State of Illinois' agencies and public universities to record their OPEB activity. At the University, this correction also impacted the beginning OPEB liability and the related deferred inflows of resources and deferred outflows of resources.

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NOTE 16 - RESTATEMENT OF NET POSITION (Continued)

The other restatement of \$65,608 is due to the University's adoption of GASB Statement No. 84, *Fiduciary Activities*. Upon adoption and evaluation, the University determined that certain activities previously recognized as fiduciary-like liabilities no longer met the definition of a fiduciary relationship under the new standard. Such amounts were restated to net position.

NOTE 17 - SUBSEQUENT EVENTS AND CONTINGENCIES

The COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the University, COVID-19 has impacted University operations and may continue to impact various parts of its future fiscal years' operations and financial results. Management believes the University is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 remains unknown and cannot be reasonably estimated as these events are still developing.

On September 23, 2021, the University issued \$18,845,000 of University Facilities System Refunding Revenue Bonds, Series 2021, for a 20-year period with interest rates ranging from 2.5% to 5.00%, to refund in advance of maturity all of the \$3,455,000 and \$16,825,000 outstanding principal (after the October 1, 2021 debt service payment), plus accrued interest, on the University Facilities System Revenue Bonds, Series 2007 and Series 2012, respectively, and to pay the costs of issuing the Series 2021 Refunding Revenue Bonds. The issue premium amounting to \$2,370,762 will be accreted to interest expense over the term of the Series 2021 Refunding Revenue Bonds.

On September 23, 2021, the University issued \$6,185,000 of University Capital Improvement Project Certificates of Participation, Series 2021, for a 6-year period with an interest rate of 5.00%, to refund in advance of maturity all of the \$6,740,000 outstanding principal, plus accrued interest, on the Certificates of Participation, Series 2008 and to pay the costs of issuing the Series 2021 Certificates. The issue premium amounting to \$819,237 will be accreted to interest expense over the term of the Series 2021 Certificates.

On May 6, 2022, S&P Global Ratings have upgraded its rating to "BBB" from "BBB-" on the University's Series 2021 University Facilities System Refunding Revenue Bonds and Series 2021 Certificates of Participation. The outlook was stable.

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNORS STATE UNIVERSITY
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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
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Schedule of Employer's Proportionate Share of Net Pension Liability

	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
(a) Proportional percentage of the collective net pension liability	0%	0%	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	\$ 306,929,605	\$ 273,328,917	\$ 276,430,273	\$ 274,380,549	\$ 283,803,489	\$ 265,336,393	\$ 221,808,386
Total (b) + (c)	\$ 306,929,605	\$ 273,328,917	\$ 276,430,273	\$ 274,380,549	\$ 283,803,489	\$ 265,336,393	\$ 221,808,386
Employer Defined Benefit (DB) Covered Payroll	\$ 37,241,402	\$ 34,409,953	\$ 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 percentage of DB covered payroll	824.16%	794.33%	769.49%	721.28%	718.59%	653.07%	598.41%
SURS Plan net position as a percentage of total pension liability	39.05%	40.71%	41.27%	42.04%	39.57%	42.37%	44.39%

Schedule of Employer Contributions

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Federal, trust, grant and other contribution	\$ 123,363	\$ 109,283	\$ 107,989	\$ 114,935	\$ 100,914	\$ 88,657	\$ 95,432	\$ 171,808
Contribution in relation to the required contribution	\$ 123,363	\$ 109,283	\$ 107,989	\$ 114,935	\$ 100,914	\$ 88,657	\$ 95,432	\$ 171,808
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer DB covered payroll	\$ 40,129,078	\$ 37,241,402	\$ 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%	0.29%	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.

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Notes to Pension Required Supplementary Information

These pension schedules are presented to illustrate the requirements of the Governmental Accounting Standards Board's Statement No. 68 to show information for 10 years. However, until a full 10-year trend is compiled, the University will only present available information measured in accordance with the requirements of Statement No. 68.

Note 1 - Changes of benefit terms.

There were no benefit changes recognized in the Total Pension Liability as of June 30, 2020.

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 effective rate of interest 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 from 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.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

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

	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
		(1)	(1)	(1)	(1)
University's proportion of the collective total OPEB liability	0.0155%	0.0205%	0.0276%	0.0785%	0.0921%
University's proportionate share of the collective total OPEB liability	\$ 6,568,695	\$ 8,997,280	\$ 11,065,737	\$ 32,439,229	\$ 40,062,905
Proportionate share of the State's collective OPEB liability associated with the University	\$ 165,703,048	\$ 175,571,582	\$ 172,906,564	\$ 260,759,678	\$ 312,776,571
Total OPEB liability associated with the University	<u>\$ 172,271,743</u>	<u>\$ 184,568,862</u>	<u>\$ 183,972,301</u>	<u>\$ 293,198,907</u>	<u>\$ 352,839,476</u>
University's covered-employee payroll	\$ 47,372,063	\$ 44,689,475	\$ 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	13.87%	20.13%	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.

(1) These amounts have not been adjusted for the error correction noted in Note 16 of the Fiscal Year 2021 Financial Statements. The error occurred due to the Illinois State Toll Highway Authority (Tollway) and the State of Illinois, Department of Central Management Services not separately stating OPEB balances for Tollway employees who only partake in the State Employee Group Insurance Program (SEGIP) upon their retirement from the Tollway from other employees accounted for within SEGIP's cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP's cost-sharing proportionate share allocation, which is used by the State of Illinois' agencies and public universities to record their OPEB activity.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2021

Notes to Required Supplementary Information

Note 1 - Payment of benefits.

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

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

An actuarial valuation was performed as of June 30, 2019 with a measurement date as of June 30, 2020. 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 2.25%, salary increase 2.50% - 12.25%.
- Healthcare Cost Trend Rate:
 - Medical and Rx (Pre-Medicare and Post-Medicare) - 8.25% grading down 0.25% per year over 16 years to 4.25% in year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
 - Dental and Vision - 4.00% grading up 0.25% in the first year to 4.25% through 2037.
- 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.

SUPPLEMENTARY INFORMATION

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF NET POSITION
JUNE 30, 2021
(With Comparative Totals for June 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 254,821	\$ 340,910
Cash and cash equivalents, restricted	24	24
Accounts receivable, net of allowance	239,122	278,581
Prepaid debt service insurance - current	940	940
Total Current Assets	<u>494,907</u>	<u>620,455</u>
Noncurrent Assets		
Prepaid debt service insurance	5,170	6,110
Capital assets	32,275,753	32,085,251
Less accumulated depreciation	(8,210,890)	(7,344,139)
Total Noncurrent Assets	<u>24,070,033</u>	<u>24,747,222</u>
Total Assets	<u>24,564,940</u>	<u>25,367,677</u>
LIABILITIES		
Current Liabilities		
Accounts payable & accrued expenses	486,171	522,389
Unearned revenue	207,564	190,969
Revenue bonds payable	990,853	955,853
Total Current Liabilities	<u>1,684,588</u>	<u>1,669,211</u>
Noncurrent Liabilities		
Revenue bonds payable	20,272,094	21,262,948
Total Noncurrent Liabilities	<u>20,272,094</u>	<u>21,262,948</u>
Total Liabilities	<u>21,956,682</u>	<u>22,932,159</u>
NET POSITION		
Invested in capital assets, net of related debt	2,801,916	2,522,311
Unrestricted	<u>(193,658)</u>	<u>(86,793)</u>
Total Net Position	<u>\$ 2,608,258</u>	<u>\$ 2,435,518</u>

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021
(With Comparative Totals for June 30, 2020)

	2021	2020
OPERATING REVENUES		
Bookstore commissions	\$ 51,422	\$ 64,538
Food and vending commissions	54,517	27,330
Parking fees	391,799	422,327
University housing fees	1,971,168	2,109,856
Student center, activity, and career & counseling fees	3,138,062	3,209,699
Total Operating Revenues	<u>5,606,968</u>	<u>5,833,750</u>
OPERATING EXPENSES		
Salaries and benefits	2,120,113	1,979,480
Scholarships and awards	327,046	340,249
Capital expenditures	95,235	86,093
Services, supplies and other	1,098,443	1,131,348
Depreciation	866,751	853,058
Total Operating Expenses	<u>4,507,588</u>	<u>4,390,228</u>
Operating Income	1,099,380	1,443,522
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(926,640)	(959,525)
Net Nonoperating Revenues (Expenses)	<u>(926,640)</u>	<u>(959,525)</u>
Increase (decrease) in net position	172,740	483,997
NET POSITION		
Net position - beginning of the year	<u>2,435,518</u>	<u>1,951,521</u>
Net position - end of the year	<u>\$ 2,608,258</u>	<u>\$ 2,435,518</u>

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021
(With Comparative Totals for June 30, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Bookstore commissions	\$ 51,422	\$ 64,538
Food and vending commissions	54,517	27,330
Parking fees	395,513	396,838
Student center, activity, and career & counseling fees	3,173,455	3,155,342
University housing fees	1,988,114	2,067,276
Payments to suppliers for goods and services	(1,553,448)	(1,590,002)
Payments to employees for services	(2,114,304)	(1,952,157)
Net cash provided by operating activities	<u>1,995,269</u>	<u>2,169,165</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(190,502)	-
Principal payments on revenue bonds	(955,000)	(925,000)
Interest payments on revenue bonds	(935,856)	(968,175)
Net cash used in capital financing activities	<u>(2,081,358)</u>	<u>(1,893,175)</u>
NET INCREASE (DECREASE) IN CASH	(86,089)	275,990
Cash - beginning of year	<u>340,934</u>	<u>64,944</u>
Cash - end of year	<u><u>\$ 254,845</u></u>	<u><u>\$ 340,934</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	\$ 1,099,380	\$ 1,443,522
Adjustments to reconcile operating income to net cash provided by operating activities:		
Noncash expense included in net operating income:		
Depreciation expense	866,751	853,058
Changes in assets and liabilities:		
Accounts receivable, net of allowance	39,459	(100,166)
Prepaid debt service insurance	940	940
Accounts payable & accrued expenses	(27,856)	(5,929)
Unearned revenue	16,595	(22,260)
Net cash provided by operating activities	<u><u>\$ 1,995,269</u></u>	<u><u>\$ 2,169,165</u></u>

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
TABLE OF OPERATING EXPENSES
For the Year Ended June 30, 2021

The following table presents a break-down of the various types of expenses which collectively comprise the University's functional operating expense accounts for the fiscal year ended June 30, 2021.

	Compensation and Benefits										Other Expenses	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		
Instruction	32,368,045	426,912	(587,388)	45,155	32,252,724	4,397,316	917,409	20,208,008	25,522,733	57,775,457	2,183,988	59,959,445
Research	468,282	9,572	(8,089)	6,058	475,823	60,556	12,634	267,746	340,936	816,759	63,343	880,102
Public service	2,573,288	476,379	(47,249)	83,284	3,085,702	353,720	73,796	1,589,263	2,016,779	5,102,481	699,216	5,801,697
Academic support	1,985,954	24,582	(37,243)	1,557	1,974,850	278,807	58,167	1,232,863	1,569,837	3,544,687	1,054,616	4,599,303
Student services	4,020,157	55,634	(83,089)	6,600	3,999,302	622,023	129,772	2,759,404	3,511,199	7,510,501	1,989,534	9,500,035
Institutional support	8,044,985	117,581	(156,789)	16,617	8,022,394	1,173,757	244,880	5,192,235	6,610,872	14,633,266	5,760,119	20,393,385
Operation and maintenance of plant	4,060,973	49,648	(76,830)	2,777	4,036,568	575,170	119,998	2,543,186	3,238,354	7,274,922	2,731,918	10,006,840
Auxiliary enterprises	1,007,822	12,141	(18,788)	682	1,001,857	140,651	29,344	624,942	794,937	1,796,794	720,075	2,516,869
Student aid	-	-	-	-	-	-	-	-	-	-	8,635,464	8,635,464
Depreciation	-	-	-	-	-	-	-	-	-	-	4,702,200	4,702,200
Total	54,529,506	1,172,449	(1,015,465)	162,730	54,849,220	7,602,000	1,586,000	34,417,647	43,605,647	98,454,867	28,540,473	126,995,340

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

² Benefits includes certain group insurance costs, such as healthcare and life insurance. For the University, it also includes employer § 403(b) contributions.

³ OPEB refers to other post-employment benefits.

OTHER INFORMATION

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
UNIVERSITY FACILITIES SYSTEM REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2021

Student Enrollment by Term (Unaudited)

	<u>Total Enrollment</u>	<u>Full-Time Equivalent</u>
Fall Term, 2020	4,649	3,220
Spring Term, 2021	4,343	2,947
Summer Term, 2021	2,295	1,058

University Fees (Unaudited)

The following mandatory fees were in effect during the 2020-2021 academic year:

	<u>Per Credit Hour</u>
Counseling and Career Services	\$ 5
Health Services	\$ 5
Strategic Initiative	\$ 16
Student Activity	\$ 11
Student Center	\$ 16
Technology	\$ 13
University Facilities	\$ 39
Online/Off-Campus *	\$ 32

* - Students enrolled in a totally on-line or off-campus program are charged with the online/off-campus fee of \$32 per credit hour instead of being charged with the health services, student activity and student center fees.

	<u>Per Term</u>
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) (per occurrence)	\$ 500,000,000
Boiler and machinery (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
Member deductible - Property	\$ 25,000 **

** unless otherwise stated in the policy

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Governors State University (University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated May 25, 2022. Our report includes a reference to another auditor who audited the financial statements of the 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 the 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 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2021-001.

Internal Control Over Financial Reporting

Management of the 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 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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

Our consideration of internal control was for the limited purpose described in the above paragraphs of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2021-001 that we consider to be a material weakness.

University's Response to the Finding

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

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
May 25, 2022

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA

Governors State University (University) did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the University's employees are members of both the State Universities Retirement System (SURS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, CMS' actuaries use census data for employees of the State's public universities provided by SURS along with census data for the other participating members which is provided by the State's four other pension plans to prepare the projection of the OPEB plan's liabilities.

During testing, we noted the following:

- The University had not performed an initial complete reconciliation of its census data recorded by SURS to its internal records to establish a base year of complete and accurate census data.
- After establishing a base year, the University had not developed a process to annually obtain from SURS the incremental changes recorded by SURS in their census data records and reconcile these changes back to the University's internal supporting records.

Based on information we obtained while performing our audit, we learned these deficiencies are pervasive across the public universities participating in SURS and across the State's agencies participating in one of the other four State pension plans, the State Employees' Retirement System of Illinois. These conditions significantly increase the risk there could be errors at one or more employers within the plans, and these errors could have a significant impact on SURS' and CMS' measurement of pension and OPEB liabilities, respectively.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

In addition, we noted errors within CMS' allocation of OPEB-related balances across the State's funds, public universities, and the Illinois State Toll Highway Authority related to a failure by CMS to account for a separately financed specific OPEB liability for certain groups of employees at one component unit of the State. The impact of these errors resulted in the University restating its beginning net position by \$16,829,183 as of July 1, 2020.

Based upon the significance of these issues alone, we concluded a material weakness exists within the University's internal controls related to ensuring both SURS and CMS can provide their respective actuaries with complete and accurate census data related to the University's active employees. Even given these exceptions, we performed detail testing of a sample of employees and certain data analysis tests of the total population of the University's census data transactions reported to SURS and noted that one of 512 employees that taught a course during either the Fall 2018 or Spring 2019 semester on a continuous basis for four months or one academic term, whatever is less was improperly excluded from SURS. In earlier years, this employee took refunds of their prior contributions; however, this does not preclude the employee from participating in the future. SURS determined the total potential impact to the employee's total service credit could be off by 3.5 years.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Additionally, eligibility criteria for participation in SURS under the Illinois Pension Code (Code) (40 ILCS 5/15-134(a)) states any person who is an employee of the University becomes a participant in SURS. Under the Code (40 ILCS 5/15-107), an employee is a person who works for the University in a secretarial, mechanical, labor, clerical, educational, administrative, or other staff position which is either (a) permanent and continuous or (b) for a period of four months or an academic term, whichever is less, who is:

- 1) not a student employed on a less than full-time temporary basis;
- 2) not receiving a retirement or disability annuity from SURS;
- 3) not on military leave;
- 4) not eligible to participate in the Federal Civil Service Retirement System,

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

- 5) not currently on a leave of absence without pay more than 60 days after the termination of SURS' disability benefits;
- 6) not paid from funds received under the Federal Comprehensive Employment and Training Act as a public service employment program participant hired on or after July 1, 1979;
- 7) not a patient in a hospital or home;
- 8) not an employee compensated solely on a fee basis where such income would net earnings from self-employment;
- 9) not providing military courses pursuant to a federally-funded contract where the University has filed a written notice with SURS electing to exclude these persons from the definition of an employee;
- 10) currently on lay-off status of not more than 120 days after the lay-off date;
- 11) not on an absence without pay of more than 30 days; and,
- 12) a nonresident alien on a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the United States Code who (1) has met the Internal Revenue Service's substantial presence test and (2) became an employee on and after July 1, 1991.

Further, for CMS' OPEB plan, we noted participation in OPEB is derivative of an employee's eligibility to participate in SURS, as members of SURS participate in OPEB as annuitants under the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3(b)).

In addition, the Illinois Pension Code (40 ILCS 5/15-157) requires the University to, at a minimum, withhold contributions of each employee's total compensation of 8% (9.5% for firefighters or police officers) for their participation in SURS, unless further contributions by the employee would either exceed the maximum retirement annuity in the Code (40 ILCS 5/15-136(c)) or the Tier 2 earnings limitation within the Code (40 ILCS 5/15-111(b)), and remit these amounts to SURS. Further, the Code (40 ILCS 5/15-155(b)) requires the University remit employer contributions to SURS reflecting the accruing normal costs of an employee paid from federal or trust funds. Additionally, the Act (5 ILCS 375/10) requires active employees to make contributions as set by CMS and the Act (5 ILCS 375/11) requires employer contributions by the University for all employees not totally compensated from its Income Fund, local auxiliary funds, and the Agricultural Premium Fund.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

University officials indicated:

- The University had no established practice or procedure to verify the census data submitted by SURS to the plan actuaries are complete and accurate.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

- The University believed that once an employee received a refund of prior SURS contributions it precluded the employee from SURS participation in the future.

Failure to ensure complete and accurate census data was reported to SURS could result in a material misstatement of the University's financial statements and reduced the overall accuracy of pension/OPEB-related liabilities, deferred inflows and outflows of resources, and expense recorded by the State, the State's agencies, and other public universities and community colleges across the State. In addition, failure to reconcile active members' census data reported to and held by SURS to the University's internal records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the pension and OPEB balances, which could result in a material misstatement of these amounts. Finally, the allocation error involving one component unit in the OPEB plan resulted in misstatements within each employer's allocation, which resulted in a restatement at the University. (Finding Code No. 2021-001, 2020-001)

RECOMMENDATION

We recommend the University implement controls to ensure census data events are timely and accurately reported to SURS.

Further, we recommend the University work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary. After completing an initial full reconciliation, the University may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods. Any errors identified during this process should be promptly corrected by either the University or SURS, with the impact of these errors communicated to both SURS' actuary and CMS' actuary.

Finally, we recommend the University work with SURS and CMS to identify and address any unremitted or erroneously remitted employee and, if applicable, employer contributions related to these events.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. Procedures have been established by the University to ensure census data events are reported to SURS timely and accurately. The University will continue to work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary, in accordance with the reconciliation process developed by SURS. On the one employee noted by the auditors that was improperly excluded from SURS, the University is currently working with SURS to determine the actual impact and the related corrective action.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois

STATE COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

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

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATE COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

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GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATE COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

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Governors State University's Financial Audit and Federal Single Audit for the Year Ended June 30, 2021 have been issued under separate covers.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATE COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

UNIVERSITY OFFICIALS

President	Dr. Cheryl F. Green
Vice President for Administration and Finance (October 11, 2021 to Present)	Dr. Corey S. Bradford
Vice President for Administration and Finance (July 1, 2020 to October 15, 2021)	Dr. W. Paul Bylaska
General Counsel and Vice President (November 16, 2020 to Present)	Ms. Therese Nohos
General Counsel and Vice President (July 1, 2020 to November 15, 2020)	Vacant
Chief Internal Auditor	Mr. Kristoffer Evangelista, CPA
Associate Vice President for Finance	Ms. Villalyn Baluga, CPA

OFFICERS OF THE UNIVERSITY BOARD OF TRUSTEES

Chairman	Ms. Lisa Harrell
Vice Chairman	Mr. Kevin Brookins
Secretary	Mr. James Kvedaras

UNIVERSITY BOARD OF TRUSTEES

Trustee	Ms. Jeanine Latrice Koger, Student
Trustee	Mr. Pedro Cevallos-Candau
Trustee	Mr. Kevin Brookins
Trustee	Mr. John Brudnak
Trustee	Ms. Lisa Harrell
Trustee	Ms. Angela Sebastian
Trustee	Mr. James Kvedaras
Trustee	Mr. Anibal Taboas

UNIVERSITY OFFICE

1 University Parkway
University Park, Illinois 60484

MANAGEMENT ASSERTION LETTER

June 27, 2022

Borschneck, Pelletier & Co.
Certified Public Accountants
200 E. Court St., Suite 608
Kankakee, IL 60901

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of Governors State University (University). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the University's compliance with the following specified requirements during the year ended June 30, 2021. Based on this evaluation, we assert that during the year ended June 30, 2021, the University has materially complied with the specified requirements listed below.

- A. The University has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The University has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. Other than what has been previously disclosed and reported in the Schedule of Findings, the University has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the University are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the University on behalf of the State or held in trust by the University have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Governors State University

SIGNED ORIGINAL ON FILE

Dr. Cheryl F. Green, President

SIGNED ORIGINAL ON FILE

Dr. Corey S. -Bradford, Vice President for Administration and Finance

SIGNED ORIGINAL ON FILE

Ms. Therese Nohos, General Counsel and Vice President

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATE COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

STATE COMPLIANCE REPORT

SUMMARY

The State compliance testing performed during this examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act; and the *Audit Guide*.

ACCOUNTANT'S REPORT

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations, disclaimers, but does contain a modified opinion on compliance and identifies a material weakness over internal control over compliance.

SUMMARY OF FINDINGS

<u>Number of</u> <u>Findings</u>	<u>Current Report</u>	<u>Prior Report</u>
	15	11
Repeated findings	8	8
Prior recommendations implemented or not repeated	3	4

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First</u> <u>Reported</u>	<u>Description</u>	<u>Finding Type</u>
2021-001	9	2020/2020	Inadequate Internal Controls Over Census Data	Material Weakness / Material Noncompliance
2021-002	13	New	Exit Counseling	Significant Deficiency / Noncompliance
2021-003	15	New	Enrollment Reporting	Significant Deficiency / Noncompliance
2021-004	17	New	Fiscal Operations Report	Significant Deficiency / Noncompliance
2021-005	19	2020/2016	Federal Perkins Loan Cohort Default Rate Too High	Noncompliance
2021-006	21	2020/2016	Child Abuse Reporter Training	Significant Deficiency / Noncompliance

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATE COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
2021-007	23	2020/2016	Noncompliance with the Campus Security Enhancement Act of 2008	Significant Deficiency / Noncompliance
2021-008	25	2020/2020	Internal Audit Deficiencies	Significant Deficiency / Noncompliance
2021-009	27	2020/2005	Time Sheets Not Properly Maintained	Significant Deficiency / Noncompliance
2021-010	29	2020/2019	Weaknesses in Cybersecurity Programs and Practices	Significant Deficiency / Noncompliance
2021-011	33	2020/2016	Computer Security Weaknesses	Significant Deficiency / Noncompliance
2021-012	35	New	Lack of Review of Internal Controls of Service Providers	Significant Deficiency / Noncompliance
2021-013	37	New	Remote Access to University Information Systems	Significant Deficiency / Noncompliance
2021-014	39	New	Inadequate Controls Over Access Rights	Significant Deficiency / Noncompliance
2021-015	41	New	Weaknesses with Payment Card Industry Data Security Standards	Significant Deficiency / Noncompliance

PRIOR FINDINGS NOT REPEATED

A	44	2020/2014	Failure to Meet Earmarking Requirements for Head Start Program
B	44	2020/2016	Inadequate Controls over Computers and Equipment
C	44	2020/2020	Illinois Articulation Initiative

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATE COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

EXIT CONFERENCE

Governors State University waived an exit conference in a correspondence from Ms. Villalyn Baluga, Associate Vice President for Finance, on June 14, 2022. The responses to the recommendations were provided by Ms. Villalyn Baluga, Associate Vice President for Finance, in correspondences dated May 25, 2022 and June 15, 2022.

**INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE AND
ON INTERNAL CONTROL OVER COMPLIANCE**

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by Governors State University (University) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the year ended June 30, 2021. Management of the University is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the University's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The University has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The University has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The University has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the University are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the University on behalf of the State or held in trust by the University have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the University complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the University complied with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the University's compliance with specified requirements.

Our examination disclosed material noncompliance with specified requirement C applicable to the University during the year ended June 30, 2021. As described in the accompanying Schedule of Findings as item 2021-001, the University had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

In our opinion, except for the material noncompliance with the specified requirement described in the preceding paragraph, the University complied with the specified requirements during the year ended June 30, 2021. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide*, and are described in the accompanying Schedule of Findings as items 2021-002 through 2021-015.

The University's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The University's responses were not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered the University's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the University's compliance with the specified requirements and to test and report on the University's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we

do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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, noncompliance with the specified requirements on a timely basis. *A material weakness in internal control* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item 2021-001 to be a material weakness.

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 2021-002 through 2021-004 and 2021-006 through 2021-015 to be significant deficiencies.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The University's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The University's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Kankakee, IL

June 27, 2022

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA

Governors State University (University) did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the University's employees are members of both the State Universities Retirement System (SURS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, CMS' actuaries use census data for employees of the State's public universities provided by SURS along with census data for the other participating members which is provided by the State's four other pension plans to prepare the projection of the OPEB plan's liabilities.

During testing, we noted the following:

- The University had not performed an initial complete reconciliation of its census data recorded by SURS to its internal records to establish a base year of complete and accurate census data.
- After establishing a base year, the University had not developed a process to annually obtain from SURS the incremental changes recorded by SURS in their census data records and reconcile these changes back to the University's internal supporting records.

Based on information we obtained while performing our audit, we learned these deficiencies are pervasive across the public universities participating in SURS and across the State's agencies participating in one of the other four State pension plans, the State Employees' Retirement System of Illinois. These conditions significantly increase the risk there could be errors at one or more employers within the plans, and these errors could have a significant impact on SURS' and CMS' measurement of pension and OPEB liabilities, respectively.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

In addition, we noted errors within CMS' allocation of OPEB-related balances across the State's funds, public universities, and the Illinois State Toll Highway Authority related to a failure by CMS to account for a separately financed specific OPEB liability for certain groups of employees at one component unit of the State. The impact of these errors resulted in the University restating its beginning net position by \$16,829,183 as of July 1, 2020.

Based upon the significance of these issues alone, we concluded a material weakness exists within the University's internal controls related to ensuring both SURS and CMS can provide their respective actuaries with complete and accurate census data related to the University's active employees. Even given these exceptions, we performed detail testing of a sample of employees and certain data analysis tests of the total population of the University's census data transactions reported to SURS and noted that one of 512 employees that taught a course during either the Fall 2018 or Spring 2019 semester on a continuous basis for four months or one academic term, whatever is less was improperly excluded from SURS. In earlier years, this employee took refunds of their prior contributions; however, this does not preclude the employee from participating in the future. SURS determined the total potential impact to the employee's total service credit could be off by 3.5 years.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Additionally, eligibility criteria for participation in SURS under the Illinois Pension Code (Code) (40 ILCS 5/15-134(a)) states any person who is an employee of the University becomes a participant in SURS. Under the Code (40 ILCS 5/15-107), an employee is a person who works for the University in a secretarial, mechanical, labor, clerical, educational, administrative, or other staff position which is either (a) permanent and continuous or (b) for a period of four months or an academic term, whichever is less, who is:

- 1) not a student employed on a less than full-time temporary basis;
- 2) not receiving a retirement or disability annuity from SURS;
- 3) not on military leave;
- 4) not eligible to participate in the Federal Civil Service Retirement System,

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

- 5) not currently on a leave of absence without pay more than 60 days after the termination of SURS' disability benefits;
- 6) not paid from funds received under the Federal Comprehensive Employment and Training Act as a public service employment program participant hired on or after July 1, 1979;
- 7) not a patient in a hospital or home;
- 8) not an employee compensated solely on a fee basis where such income would net earnings from self-employment;
- 9) not providing military courses pursuant to a federally-funded contract where the University has filed a written notice with SURS electing to exclude these persons from the definition of an employee;
- 10) currently on lay-off status of not more than 120 days after the lay-off date;
- 11) not on an absence without pay of more than 30 days; and,
- 12) a nonresident alien on a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the United States Code who (1) has met the Internal Revenue Service's substantial presence test and (2) became an employee on and after July 1, 1991.

Further, for CMS' OPEB plan, we noted participation in OPEB is derivative of an employee's eligibility to participate in SURS, as members of SURS participate in OPEB as annuitants under the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3(b)).

In addition, the Illinois Pension Code (40 ILCS 5/15-157) requires the University to, at a minimum, withhold contributions of each employee's total compensation of 8% (9.5% for firefighters or police officers) for their participation in SURS, unless further contributions by the employee would either exceed the maximum retirement annuity in the Code (40 ILCS 5/15-136(c)) or the Tier 2 earnings limitation within the Code (40 ILCS 5/15-111(b)), and remit these amounts to SURS. Further, the Code (40 ILCS 5/15-155(b)) requires the University remit employer contributions to SURS reflecting the accruing normal costs of an employee paid from federal or trust funds. Additionally, the Act (5 ILCS 375/10) requires active employees to make contributions as set by CMS and the Act (5 ILCS 375/11) requires employer contributions by the University for all employees not totally compensated from its Income Fund, local auxiliary funds, and the Agricultural Premium Fund.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

University officials indicated:

- The University had no established practice or procedure to verify the census data submitted by SURS to the plan actuaries are complete and accurate.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

- The University believed that once an employee received a refund of prior SURS contributions it precluded the employee from SURS participation in the future.

Failure to ensure complete and accurate census data was reported to SURS could result in a material misstatement of the University's financial statements and reduced the overall accuracy of pension/OPEB-related liabilities, deferred inflows and outflows of resources, and expense recorded by the State, the State's agencies, and other public universities and community colleges across the State. In addition, failure to reconcile active members' census data reported to and held by SURS to the University's internal records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the pension and OPEB balances, which could result in a material misstatement of these amounts. Finally, the allocation error involving one component unit in the OPEB plan resulted in misstatements within each employer's allocation, which resulted in a restatement at the University. (Finding Code No. 2021-001, 2020-001)

RECOMMENDATION

We recommend the University implement controls to ensure census data events are timely and accurately reported to SURS.

Further, we recommend the University work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary. After completing an initial full reconciliation, the University may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods. Any errors identified during this process should be promptly corrected by either the University or SURS, with the impact of these errors communicated to both SURS' actuary and CMS' actuary.

Finally, we recommend the University work with SURS and CMS to identify and address any unremitted or erroneously remitted employee and, if applicable, employer contributions related to these events.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. Procedures have been established by the University to ensure census data events are reported to SURS timely and accurately. The University will continue to work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary, in accordance with the reconciliation process developed by SURS. On the one employee noted by the auditors that was improperly excluded from SURS, the University is currently working with SURS to determine the actual impact and the related corrective action.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-002 FINDING: EXIT COUNSELING

Federal Department:	U.S. Department of Education
Assistance Listing Number:	84.268
Cluster Name:	Student Financial Assistance Cluster
Program:	Federal Direct Student Loans
Award Numbers:	P268K200567, P268K210567
Questioned Cost:	None
Program Expenditures:	\$27,426,646
Cluster Expenditures:	\$40,197,084

Governors State University (University) did not timely provide exit counseling for Federal Direct Student Loan recipients who ceased half-time study at the University.

We tested a sample of 60 students who received Federal student financial aid. Included in those 60 students were 14 Federal Direct Student Loan recipients who ceased half-time study at the University during Fiscal Year 2021. The University's notification to the students of the need to complete exit counseling was provided 43 days late for 2 (14%) of the students and was never sent for 3 (21%) students. The sample was not intended to be, and was not, a statistically valid sample.

The Code of Federal Regulations (34 CFR 685.304(b)) requires schools to ensure exit counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school. In addition, if a student borrower withdraws from school without the school's prior knowledge or fails to complete the exit counseling as required, exit counseling must, within 30 days after the school learns that the student borrower has withdrawn from the school or failed to complete exit counseling as required, be provided either through interactive electronic means, by mailing written counseling materials to the student borrower at the student borrower's last known address, or by sending written counseling materials to an email address provided by the student borrower that is not an email address associated with the school sending the counseling materials.

The Uniform Guidance (2 CFR 200.303) requires nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and terms and conditions of the Federal award. Effective internal controls should include procedures to ensure the University conducts timely exit counseling for students that have received Federal Direct Student Loans and have ceased half-time study at the school.

University officials indicated the Office of Financial Aid receives a report from the Office of the Registrar indicating which students have ceased half-time enrollment and due to issues with the timing of reports, some exit counseling notifications were sent out late. The notifications not sent at all were due to oversight.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-002 FINDING: EXIT COUNSELING (Continued)

Failure to conduct timely exit counseling resulted in students not being notified of their rights and responsibilities, and could result in the loss of Federal funding. (Finding Code No. 2021-002)

RECOMMENDATION

We recommend the University conduct timely exit counseling in accordance with Federal regulations.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation and has updated its procedures to conduct timely exit counseling in accordance with Federal regulations.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-003 FINDING: ENROLLMENT REPORTING

Federal Department:	U.S. Department of Education
Assistance Listing Number:	84.268
Cluster Name:	Student Financial Assistance Cluster
Program Name:	Federal Direct Student Loans
Award Numbers:	P268K200567, P268K210567
Questioned Cost:	None
Program Expenditures:	\$27,426,646
Cluster Expenditures:	\$40,197,084

Governors State University (University) did not accurately and timely report student enrollment information to the U.S. Department of Education's National Student Loan Data System (NSLDS).

During our audit, we tested 25 students who experienced a change in enrollment status during the fiscal year. Our testing identified two students (8%) who had a change in enrollment status (graduated) which was not reported accurately to the NSLDS (student was erringly reported as withdrawn). These two students were reported to NSLDS 119 days (59 days late) after the status change.

The sample was not intended to be, and was not, a statistically valid sample.

The Code of Federal Regulations (34 CFR 685.309) requires the University, upon the receipt of an enrollment report from the Secretary, to update all information included in the report and return the report to the Secretary within the timeframe prescribed by the Secretary. It further requires the University to report enrollment changes within 30 days unless a roster file is expected within 60 days, in which case the enrollment data may be updated on that roster file.

The Uniform Guidance (2 CFR 200.303) requires nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and terms and conditions of the Federal award. Effective internal controls should include procedures to ensure accurate and timely student enroll status reports are submitted to NSLDS.

University officials stated the Registrar's office did not timely and accurately update student enrollment with NSLDS due to delays in transitioning students to graduate status in the University's system.

Enrollment reporting in a timely and accurate manner is critical for effective management of the student financial aid programs. Noncompliance with enrollment reporting regulations may result in a loss of future Federal funding. (Finding Code No. 2021-003)

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-003 FINDING: ENROLLMENT REPORTING (Continued)

RECOMMENDATION

We recommend the University improve its procedures to ensure timely and accurate reporting of student enrollment status to the NSLDS.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation and has updated its procedures to ensure timely and accurate reporting of students to NSLDS.

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SCHEDULE OF FINDINGS
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CURRENT FINDINGS

2021-004 FINDING: FISCAL OPERATIONS REPORT

Federal Department:	U.S. Department of Education
Assistance Listing Number:	84.038
Cluster Name:	Student Financial Assistance Cluster
Program Name:	Federal Perkins Loan Program – Federal Capital Contributions
Questioned Cost:	None
Program Expenditures:	\$3,257,469
Cluster Expenditures:	\$40,197,084

Governors State University (University) did not have adequate procedures to ensure accurate information was reported and the final changes, corrections, and edits to the Fiscal Operations Report and Application to Participate (FISAP) were timely filed.

During the audit, we noted the University did not report accurate information for the following fields related to the Federal Perkins Loan Program:

	<u>As reported</u>	<u>Correct amount</u>
Part III, Section A, Field 30.2 (Repayments of excess/liquidated fund capital to Institution)	\$77,118	\$95,122
Part III, Section B, Field 13 (Amount of loan service cancellation)	\$ -	\$59,881

We also noted the second submission of the FISAP, which included final changes, corrections and edits, was not timely filed. The University submitted its final FISAP to the U.S. Department of Education on January 18, 2022 (34 days late). (The FISAP's first submission was made timely by the University and there were only minor updates/changes on the final submission.)

The Code of Federal Regulations (34 CFR 674.19 (d)(2)) requires the University to submit a Fiscal Operations Report plus other information required; the information must be accurate and shall be submitted on the form at the time specified.

The Federal Register notice on January 26, 2021 (86 FR 7075) requires corrections to the FISAP be made by December 15, 2021.

The Uniform Guidance (2 CFR 200.303) requires nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and terms and conditions of the Federal award. Effective internal controls should include procedures to ensure accurate information is reported on the FISAP on a timely basis.

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CURRENT FINDINGS

2021-004 FINDING: FISCAL OPERATIONS REPORT (Continued)

University officials stated the input error in FISAP was due to oversight on the part of the employee preparing the FISAP. The amounts were thought to be immaterial differences, and the correct amounts were properly reported and included on the totals column. The late filing of the second submission was due to additional changes that need to be made after the December 15, 2021 deadline. University officials stated changes made were extremely minor and did not affect total amounts of Perkins, FSEOG, or FWS. As allowed by Federal regulations, the University can request to change the information on FISAP even after the deadline, and the University has secured approval from the U.S. Department of Education to submit changes after the deadline.

Failure to timely and accurately submit the University's FISAP may jeopardize future federal funding. (Finding Code No. 2021-004)

RECOMMENDATION

We recommend the University improve procedures to ensure accurate and timely reporting.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation and has updated its procedures to ensure that reporting requirements and deadlines are met.

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CURRENT FINDINGS

2021-005 FINDING: FEDERAL PERKINS LOAN COHORT DEFAULT RATE TOO HIGH

Federal Department:	U.S. Department of Education
Assistance Listing Numbers:	84.038, 84.033, 84.007, 84.063, 84.268, 84.379
Cluster Name:	Student Financial Assistance Cluster
Programs:	Federal Perkins Loan Program – Federal Capital Contributions, Federal Work-Study Program, Federal Supplemental Educational Opportunity Grants, Federal Pell Grant Program, Federal Direct Student Loans, Teacher Education Assistance for College and Higher Education Grants
Award Numbers:	P033A201156, P033A191156, P007A151156, P007A191156, P007A201156, P063P190567, P063P200567, P268K210567, P268K200567, P379T200567, P379T210567
Questioned Cost:	None
Program Expenditures:	\$3,257,469; \$437,855; \$303,625; \$7,662,088; \$27,426,646; \$12,244
Cluster Expenditures:	\$40,197,084

Governors State University's (University) Federal Perkins loan cohort default rate is in excess of the threshold for administrative capability stipulated by the U.S. Department of Education.

The Federal Perkins Loan cohort default rate as of June 30, 2021 (for borrowers who entered repayment during Fiscal Year 2020) was 16.67%, which exceeded the 15% threshold. The University chose to continue servicing their Perkins Loan portfolio after Federal Perkins Loan Program loan originations were discontinued in Fiscal Year 2018.

The Code of Federal Regulations (Code) (34 CFR 668.16) states "to begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution – ... (m)(1) Has a cohort default rate - (iii) as defined in 34 CFR 674.5, on loans made under the Federal Perkins Loan Program to students for attendance at the institution that does not exceed 15 percent."

The U.S. Department of Education's Dear Colleague Letter (DCL ID: GEN-17-10) states institutions that choose to continue to service their outstanding Perkins Loan portfolios must continue to service these loans in accordance with the Federal Perkins Loan Program regulations in 34 CFR 674.

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CURRENT FINDINGS

2021-005 FINDING: FEDERAL PERKINS LOAN COHORT DEFAULT RATE TOO HIGH (Continued)

The Uniform Guidance (2 CFR 200.303) requires nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and terms and conditions of the Federal award. Effective internal controls should include procedures to ensure the University maintains a Federal Perkins Loan cohort default rate of less than 15%.

University officials indicated they have met all due diligence requirements with regards to Perkins collections and have worked closely with the collection agency and with former students to facilitate loan consolidations, to reduce the cohort default rate; however economic conditions continue to present challenges for some former students.

Failure to maintain a Federal Perkins Loan cohort default rate below 15% resulted in noncompliance with the Code, the Uniform Guidance, and the U.S. Department of Education's directive. (Finding Code No. 2021-005, 2020-002, 2019-005, 2018-008, 2017-003, 2016-006)

RECOMMENDATION

We recommend the University improve its efforts and procedures to ensure its cohort default rate is not in excess of the threshold for administrative capabilities stipulated by the U.S. Department of Education.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. The University will continue to closely monitor and communicate with students entering on default on a month-to-month basis, in addition to sending defaulted student loans to the Illinois State Comptroller's Offset system.

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CURRENT FINDINGS

2021-006 FINDING: CHILD ABUSE REPORTER TRAINING

Governors State University (University) did not comply with the Abused and Neglected Child Reporting Act (Act) requiring training of those personnel required to report child abuse.

Our testing of 35 employees identified:

- 11 (31%) employees did not receive the required reporter training within one year of initial employment or within three months of initial employment if they were hired after 1/1/2020.
- Two (6%) employees for which the University did not have any documentation in which the employee acknowledged the reporting requirements of the Act.
- Nine (26%) employees did not sign the documentation in which the employee acknowledged the reporting requirements of the Act prior to the commencement of employment.
- 18 (51%) employees signed documents after January 1, 2019 acknowledging the reporting requirements of the Act; however, the form was not up to date as it did not include information regarding mandated reporter training provided by the Department of Children and Family Services.

The University has failed to take substantive corrective actions to resolve the conditions noted in this finding. These conditions were first noted in 2016.

The Act (325 ILCS 5/4) requires personnel of institutions of higher education having reasonable cause to believe a child known to them in their professional or official capacity may be an abused or neglected child to immediately report or cause a report to be made to the Department of Children and Family Services (DCFS). The Act further requires University personnel to undergo reporter training within one year of initial employment (or within three months of initial employment effective January 1, 2020) and at least every 5 years thereafter (every 3 years effective January 1, 2020). This training must be completed by an authorized provider. Also, a statement must be signed, prior to commencement of employment, by the employee acknowledging they have knowledge and understanding of the reporting requirements. The Act also requires all signed statements after January 1, 2019 include information about available mandated reporter training provided by DCFS. The training requirement became effective on July 1, 2014 with Public Act 098-0408.

University officials indicated the noncompliance was primarily due to a lack of staffing in the University's Human Resource Department and other issues related to the COVID-19 pandemic.

Failure to use up to date acknowledgement statements, provide child abuse reporter training, and obtain signed statements timely are violations of the Act and could potentially leave children at risk of abuse. (Finding Code No. 2021-006, 2020-004, 2019-006, 2018-011, 2017-010, 2016-012)

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CURRENT FINDINGS

2021-006 FINDING: CHILD ABUSE REPORTER TRAINING (Continued)

RECOMMENDATION

We recommend the University comply with the requirements of the Act and ensure all employees receive the proper training within the required timeframe, include the proper information in the employee's signed training statements, and timely obtain signed statements from required employees.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. The University will continue to conduct an annual training for Mandated Reporter Training every spring. The University now asks new employees to take their online training before or during new hire orientation and provide their training certification upon completion. In addition, the University is in the process of automating its onboarding process, which will require all new hires to complete training using the up-to-date forms through the PeopleAdmin system.

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CURRENT FINDINGS

**2021-007 FINDING: NONCOMPLIANCE WITH THE CAMPUS SECURITY
ENHANCEMENT ACT OF 2008**

Governors State University (University) did not comply with the Campus Security Enhancement Act of 2008 (Act).

The University did not obtain criminal background investigations prior to employing individuals for security-sensitive positions. We obtained a listing of positions the University identified as security-sensitive positions and selected 25 employees from such positions for testing. Our testing identified 1 employee (4%) hired for a security sensitive position without any evidence the criminal background investigations was ever obtained. Our testing also identified 5 employees (20%) did not have a criminal background investigation completed prior to employment.

The University has failed to take substantive corrective actions to resolve the condition noted in this finding. This condition was first reported in 2016.

The Act (110 ILCS 12/5) requires each public institution of higher education, through written policy and procedures, identify security-sensitive positions and make provision for the completion of criminal background investigations prior to employing individuals in those positions.

University officials indicated its identification of security sensitive positions has been overly broad and resulted in some being missed due to oversight.

Failure to obtain the required criminal background investigations prior to the employment of individuals in security-sensitive positions results in noncompliance with the Act and may result in the University allowing access to security-sensitive information to individuals who should not be entrusted with such access. (Finding Code No. 2021-007, 2020-005, 2019-007, 2018-012, 2017-011, 2016-013)

RECOMMENDATION

We recommend the University comply with the requirements of the Act by:

- obtaining criminal background investigations prior to hiring employees for security-sensitive positions; and
- obtaining criminal background investigations for all employees in security-sensitive positions for which a prior background investigation was not obtained.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. The University has secured a new vendor to conduct criminal background investigations prior to hiring employees for all positions, not just security sensitive positions. The University developed a comprehensive policy on criminal background checks similar to other State universities. The University is in the

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CURRENT FINDINGS

**2021-007 FINDING: NONCOMPLIANCE WITH THE CAMPUS SECURITY
ENHANCEMENT ACT OF 2008 (Continued)**

process of evaluating conducting background checks for current employees who hold security sensitive positions but have no background check on file and will perform such check if feasible.

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CURRENT FINDINGS

2021-008 FINDING: INTERNAL AUDIT DEFICIENCIES

Governors State University's (University) program of internal auditing included deficiencies in completing its responsibilities in accordance with the Fiscal Control and Internal Auditing Act (Act).

The University's Chief Internal Auditor utilized a risk-based approach to select discretionary risk areas to recommend in its two year audit plan, then planned procedures in order to ensure all 11 major systems of accounting and administrative controls are included at least every two years. From the audits provided, we noted the property, equipment and inventories major system was only minimally reviewed by audits during the two year period. Although several audits were included in the University's two year internal audit plan (including an audit specific to the property, equipment and inventories major system), the only internal audit reports provided to the auditors included an audit of the Illinois Board of Higher Education tuition and fee waiver guidelines from Fiscal Year 2020; and audits of expenditures for the Early Head Start Grant Program, a pre-implementation review of a new information system application used for Admissions and a pre-implementation review of an electronic time entry application from Fiscal Year 2021. In addition, the auditors noted the Chief Internal Auditor reported six other audits were "completed" in the annual report dated September 30, 2021 to the University's President; however, as of February 14, 2022, none of the noted six audit reports had been provided to the auditors in response to requests for audits completed.

The Act (30 ILC 10/2003(a)(2)) requires the University President to ensure the internal auditing program includes audits of major systems of internal accounting and administrative controls so all major systems are reviewed at least every two years. The audits must include testing of:

- A. the obligation, expenditure, receipt and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations; and
- B. grants received or made by the University to determine the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations.

The Act (30 ILC 10/2003(a)(1)) further requires the chief internal auditor to submit a written report to the chief executive officer detailing how the audit plan for that year was carried out. Reporting audits as having been completed, when they have not been, misrepresents the results.

The University's Internal Audit Charter includes the following in its description of the audit process:

- Adequate documentation supporting the audit procedures performed, the results of testing, analysis, and conclusions.
- A written report of the Office of Internal Audit's evaluation of the risks and controls, including the results of testing, exceptions noted, weaknesses identified, and recommendations.

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CURRENT FINDINGS

2021-008 FINDING: INTERNAL AUDIT DEFICIENCIES (Continued)

University officials indicated its Office of Internal Audit is required by the International Standards for the Professional Practice of Internal Auditing to use a systematic, disciplined and risk-based approach in determining its internal audit activities. University officials also indicated there were difficulties in completing the internal audits due to delays in obtaining the requested information and documents from the auditees, partially related to COVID-19 issues and insufficient staffing. Further, University officials indicated there were many competing priorities for the Chief Internal Auditor's time including coordination of the comprehensive and University-wide annual risk assessment, and the Fiscal Control and Internal Auditing Act internal control evaluation and certification. This resulted in the Chief Internal Auditor being unable to finalize all of the required internal audits. Furthermore, University officials indicated the audits were reported as completed to management because they were substantially completed.

Failure to fully review all major systems of accounting and administrative controls increases the risk an effective system of internal control may not be maintained. Reporting audits as completed when the documentation has not been finalized precludes management from having a clear picture of internal audit activity. (Finding Code No. 2021-008, 2020-006)

RECOMMENDATION

We recommend the University improve its procedures to ensure all major systems of internal accounting and administrative controls are fully reviewed at least once every two years as required by the Act. We further recommend the chief internal auditor timely finalize its audit documentation and clearly report the status of audits in its annual reports.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. An additional three audits were issued as of June 30, 2021, but the related audit documentation was completed after the auditors' testing, including the full audit of the property, equipment and inventories major system. These audits along with the audits previously furnished to the auditors, provide a full review of all major systems as required by the Act. The Office of Internal Audit will ensure the efficient completion of planned audits and timely issuance of the reports thereon. Further, the Office of Internal Audit is currently hiring an Internal Audit staff to provide additional support to the department.

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CURRENT FINDINGS

2021-009 FINDING: TIME SHEETS NOT PROPERLY MAINTAINED

Governors State University (University) is not maintaining time sheets for its faculty members and advisors in compliance with the State Officials and Employees Ethics Act (Act).

The Act required the Illinois Board of Higher Education (IBHE), with respect to State employees of public universities, to adopt and implement personnel policies. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit timesheets documenting the time spent each day on official State business to the nearest quarter hour; contractual State employees may satisfy the time sheets requirement by complying with the terms of their contract, which shall provide for means of compliance with this requirement." The IBHE adopted personnel policies for public universities on February 3, 2004 in accordance with the Act. The University has not incorporated these policies into the University's policies.

We tested the time sheets for 30 employees during the fiscal year and noted 8 (27%) faculty members/advisors used "negative" timekeeping whereby the employee is assumed to be working unless noted otherwise.

The University has failed to take substantive corrective actions to resolve the condition noted in this finding. This condition was first reported in 2005.

University officials indicated they have not changed timesheet policies to comply with the Act since the inception of the Act. Further, University officials indicated the University continues to review, along with other State universities, time reporting for faculty members, as it relates to existing collectively bargained contractual obligations and the Illinois President and Chancellors Group and the individual universities will continue to discuss and explore time reporting.

By not requiring positive time reporting from all its employees, the University is not in compliance with the Act. (Finding Code No. 2021-009, 2020-009, 2019-009, 2018-016, 2017-017, 2016-017, 2015-005, 2014-004, 2013-010, 12-11, 11-11, 10-11, 09-3, 08-3, 07-3, 06-4, 05-7)

RECOMMENDATION

We recommend the University revise its procedures, policies, and/or contracts to ensure all employees submit time sheets documenting the time spent each day on official State business to the nearest quarter hour.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. The University currently collects and monitors reported time spent on official business from all nonacademic, civil service, and professional and administrative staff. The University is currently developing a policy, revising

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CURRENT FINDINGS

2021-009 FINDING: TIME SHEETS NOT PROPERLY MAINTAINED (Continued)

its procedures, and reviewing existing time reporting requirements for faculty employees in connection with its implementation of an electronic timekeeping system.

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CURRENT FINDINGS

2021-010 FINDING: WEAKNESSES IN CYBERSECURITY PROGRAMS AND PRACTICES

Governors State University (University) had not implemented adequate internal controls related to cybersecurity programs and practices.

As a result of the University's mission to provide higher educational opportunities to its student body, the University maintains computer systems that contain large volumes of confidential or personal information such as names, addresses, educational records, and Social Security numbers within its computerized systems.

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review State agencies, including universities, and their cybersecurity programs and practices. During our examination of the University's cybersecurity program, practices, and control of confidential information, we noted the University had not:

- Documented a risk management methodology to manage security risks to University resources.
- Developed a data classification methodology or identified and classified its confidential and personal data to identify and ensure adequate protection of information.
- Implemented appropriate controls to reduce the risk of unauthorized disclosure.
- Developed a formal, comprehensive, adequate, and communicated security program (policies, procedures, and processes) to manage and monitor the regulatory, legal, environmental and operational requirements.
- Established a formal cybersecurity plan.
- Communicated all of its information system policies to employees, students, and contractors utilizing the University's resources.
- Developed a project management framework to ensure new applications were developed and implemented in accordance with management's intentions.
- Developed written procedures for monitoring security events and did not maintain a log of security events occurring in Fiscal Year 2021.

In addition, we sampled 25 employees to determine if they had completed cybersecurity training during Fiscal Year 2021, noting 4 (16%) employees did not complete the training. Additionally, contractors were not required to complete cybersecurity training.

The University has failed to take substantive corrective actions to resolve the conditions noted in this finding. This condition was first reported in 2019.

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CURRENT FINDINGS

2021-010 FINDING: WEAKNESSES IN CYBERSECURITY PROGRAMS AND PRACTICES (Continued)

The Framework for Improving Critical Infrastructure Cybersecurity and the Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology requires entities to consider risk management practices, threat environments, legal and regulatory requirements, mission objectives and constraints in order to ensure the security of their applications, data, and continued business mission.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

University officials indicated use of the document imaging system is evolving to reduce the occurrence of social security numbers in future documents, and a solution to remove their presence in existing documents is in process. University officials also indicated the establishment of a formal security program, risk management methodology, project management framework, and training programs were not completed due to competing priorities, mainly COVID-19 issues.

The lack of adequate cybersecurity programs and practices could result in unidentified risks and vulnerabilities and ultimately lead to the University's information system resources and volumes of personal information being susceptible to cyber-attacks and unauthorized disclosure. (Finding Code No. 2021-010, 2020-010, 2019-010)

RECOMMENDATION

The University has the ultimate responsibility for ensuring its information system resources are available for authorized use and confidential information is protected from accidental or unauthorized disclosure. Specifically, we recommend the University:

- Document a risk management methodology to manage security risks to University resources.
- Develop a data classification methodology and identify and classify its data to ensure adequate protection of confidential or personal information most susceptible to attack.
- Implement appropriate controls to reduce the risk of unauthorized disclosure.
- Develop and communicate the University's security program (formal and comprehensive policies, procedures and processes) to manage and monitor the regulatory, legal, environmental and operational requirements.
- Establish a formal cybersecurity plan.

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CURRENT FINDINGS

2021-010 FINDING: WEAKNESSES IN CYBERSECURITY PROGRAMS AND PRACTICES (Continued)

- Regularly communicate security policies to employees, students and contractors and maintain a record of such.
- Develop a project management framework to guide the process of developing and implementing new applications.
- Develop written procedures for security event monitoring and maintain a log of security events.
- Provide cybersecurity training to contractors and ensure employees complete cybersecurity training.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation.

Regarding risk management, the University continues to improve and strengthen its risk management activities with its Vendor Risk Management process and annual risk register review. The University's Office of Information Technology Services (ITS) plans to evaluate and propose a timeline for adopting an established risk management methodology during Fiscal Year 2022-2023.

Regarding data classification, a formal Data Classification policy has already been submitted for review on March 9, 2022. Once approved, this policy will be followed by a variety of policies, procedures, and efforts aimed to classify existing data and secure all data based on its classification.

Regarding unauthorized disclosure, a project is well underway to redact all social security numbers within the University's Document Imaging system. A vendor has been hired to perform the bulk of this work and it is anticipated to be completed in June 2022.

Regarding the information security program, the foundational information security policy has been drafted and is being reviewed within ITS before being sent for formal approval. Once approved, this policy will formally establish the Information Security Program and its areas of focus, and will guide the creation of supporting policies, standards, and processes for each focus area.

Regarding cybersecurity training, ITS has built and implemented cybersecurity training for faculty and staff over the past two years. ITS will coordinate with the University's Compliance Office and establish monitoring procedures to ensure all employees complete the annual cybersecurity trainings.

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CURRENT FINDINGS

2021-010 FINDING: WEAKNESSES IN CYBERSECURITY PROGRAMS AND PRACTICES (Continued)

Regarding the communication of policies, ITS will follow the University's process to communicate policies, standards, and procedures.

Regarding a project management framework, processes are in place to ensure that software development projects are properly scoped, tested, documented, and completed. All members of the ITS leadership team are either Project Management Professional (PMP) certified or have taken a Certified Associate in Project Management (CAPM) preparation course through the University's School of Extended Learning.

Regarding security event monitoring:

- A written policy and processes are planned as part of the Information Security Program.
- The University uses multiple products for event monitoring and logging.
- Over the past several months, ITS has worked to build the necessary tracking criteria into the University's ticketing system and intends to use the system to track responses to individual events.

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CURRENT FINDINGS

2021-011 FINDING: COMPUTER SECURITY WEAKNESSES

Governors State University (University) had not established adequate controls for its computing environment.

During the examination, we requested the University provide a list of computers in order to determine if the University's computers were properly secured. In response to our request, the University provided a listing. We compared the listing to other records obtained from the University and concluded the listing was not complete and accurate.

Due to these conditions, we were unable to conclude whether the University's population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36). **Even given the population limitations noted above which hindered our ability to conclude whether a sample selected could be representative of the population**, we selected a sample and performed testing noting the University's computing environment contained significant weaknesses.

We also sampled 15 employees who terminated employment in Fiscal Year 2021, noting 6 (40%) employees with user accounts for the University's ERP system which had not been removed. These six employees had terminated employment with the University 88 to 377 days prior to the date of our testing. The University indicated these employees' active directory accounts were deactivated but could not provide evidence of when the deactivation was performed, so we were unable to conclude those accounts were deactivated timely.

Further, we noted the University had not established formal guidelines for configuration of virus detection software.

This condition was first reported in 2016. In the subsequent years, the University has failed to take substantive corrective actions to resolve the conditions noted in this finding.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control section requires timely termination and periodic reviews of access rights; System and Information Integrity section requires implementation of security protection mechanisms; System and Services Acquisition section requires a properly secured infrastructure; and Configuration Management section requires the development of configuration management policies and procedures.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently and effectively and in compliance with applicable law.

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CURRENT FINDINGS

2021-011 FINDING: COMPUTER SECURITY WEAKNESSES (Continued)

University officials indicated security weaknesses were mainly due to COVID-19 pandemic issues and employees working from home. University officials also indicated funding affected the University's ability to secure the environment. Further, University officials noted although procedures are in place, formal policies had not been adopted and the ERP system accounts of terminated employees were inactivated by other means, but evidence of when it occurred was not retained.

Inadequate security controls may result in unauthorized access to, damage to, or theft of University data and computing equipment. (Finding Code No. 2021-011, 2020-011, 2019-011, 2018-019, 2017-019, 2016-020)

RECOMMENDATION

We recommend the University maintain a complete inventory of all computers, ensure the environment is appropriately secured, and ensure access rights of terminated or transferred employees are removed on a timely basis. We further recommend the University establish formal policies and guidelines for virus detection systems.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. The University intends to keep an Office of Information Technology Services-specific inventory of all technology assets using an endpoint manager suite system. A project to build and maintain this inventory has been started and efforts to locate and categorize stray equipment are underway.

Improved processes (including automation), documentation, policies, procedures, and logging changes to user access and rights to applications are planned as part of an account lifecycle management reconstruction. Some of these items have been partially implemented at this time.

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CURRENT FINDINGS

2021-012 FINDING: LACK OF REVIEW OF INTERNAL CONTROLS OF SERVICE PROVIDERS

Governors State University (University) did not obtain or conduct timely independent internal controls reviews over its service providers.

The University maintains numerous cloud-based solutions with various service providers. These service providers maintain the hardware, software and the data for various applications regarding many sectors, such as campus news and events, student orientation, employment, photographs, student organizations, visitor tracking, course evaluations, and emergency notifications.

We selected a sample of seven service providers and requested the University to provide a) documentation of having obtained independent reviews assessing the reliability of controls in place, b) evidence of having reviewed the independent reviews obtained, and c) the University's internal evaluation of the controls related to service providers who did not provide an independent review report. We noted the following:

- The University had not obtained a System and Organization Control (SOC) report for 6 (86%) service providers.
- For the one (14%) SOC report obtained, no evidence of the University's review of SOC report was noted along with reviewing the Complimentary User Entity Controls. This SOC report also identified a subservice provider. However, there was no evidence the University obtained and reviewed the SOC report of the subservice provider or performed alternative procedures to determine the impact on the University's internal control environment.

The University is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to ensure resources and data are adequately protected from unauthorized or accidental disclosure, modifications, or destruction. This responsibility is not limited due to the process being outsourced.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53 (Fifth Revision)) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Services Acquisition sections, states the organization should ensure operational success by consistently monitoring service providers and organizational security performance against identified requirements, periodically evaluating changes in risks and threats to the organization and ensuring the organizational security solution is adjusted as necessary to maintain an acceptable security posture. As such, reviews of assessments, audits and inspections should be completed to determine the controls are in place at all service providers and subservice providers.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-012 FINDING: LACK OF REVIEW OF INTERNAL CONTROLS OF SERVICE PROVIDERS (Continued)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

University officials indicated they have been unable to fully address the issue due to lack of resources.

Without having reviewed a SOC report, another form of independent internal control review, or having performed its own review and evaluation, the University does not have assurance the service provider's internal controls are adequate. (Finding Code No. 2021-012)

RECOMMENDATION

We recommend the University perform the following procedures for all service providers which the University has determined that a review of controls is required:

- Obtain SOC reports or (perform independent reviews) of internal controls associated with outsourced systems at least annually.
- Monitor and document the operation of the Complimentary User Entity Controls relevant to the University's operations noted in the SOC reports.
- Obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.
- Document its review of the SOC and other reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the University, and any compensating controls.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. The University's Office of Information Technology Services (ITS) has established a Vendor Risk Management process which covers cloud service providers, and has hired an Extra Help employee to help make additional progress. At this time, ITS believes it has satisfactorily completed reviews for more than 50% of the University's service providers.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-013 FINDING: REMOTE ACCESS TO UNIVERSITY INFORMATION SYSTEMS

Governors State University (University) has not developed and documented adequate policies and procedures governing remote access to the University's information systems.

The University has granted remote access to the University's information systems to numerous University faculty, staff and others. Remote access is governed by the user's membership assignment to an organizational unit and is only available to users in specified security groups.

University Policy 64, *Acceptable Use Policy for Computing and Networking, Network Security, and Wireless Computing*, dictates general policies and procedures for network usage, which also apply to remote users. All users of the system are required to accept Policy 64 before being allowed access to the computer network for the first time; however, the University did not maintain a log or record of users agreeing to the Policy. Further, Policy 64 is general in nature and did not specifically address:

- Requirements to obtain remote access
- Rules and procedures regarding usage of remote access, and
- Incident and breach notification requirements for users

Also, we noted the University did not have a policy or procedure for conducting periodic reviews of users' remote access and did not conduct such reviews.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology, Access Control and System and Communication Protection sections, requires entities to implement adequate internal controls over access to their environments, applications and data.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the University's resources.

University officials indicated Policy 64, located on the University website, addressed remote access of computers and believed it contained or implied the necessary information. University officials further indicated the University no longer maintains a record of staff acknowledgements and acceptances of Policy 64 due to time constraints.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

**2021-013 FINDING: REMOTE ACCESS TO UNIVERSITY INFORMATION
SYSTEMS (Continued)**

Failure to develop, document and disseminate policies and procedures related to security and control of remote access increases the risk of unauthorized access and inappropriate usage of University resources. Failure to maintain a record of users acknowledging and accepting the University' computer use policy increases the risk the University may not be able to enforce the policies as there is no documentation of the employee agreeing to them. (Finding Code No. 2021-013)

RECOMMENDATION

We recommend the University:

- Maintain records of users' acknowledgement and acceptance of the University's Policy 64.
- Develop, document, and disseminate, policies and procedures governing the security and control of remote access or update Policy 64 to address the requirements to obtain remote access, procedures for usage of remote access, and incident and breach notification requirements.
- Conduct periodic reviews of users' remote access.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation.

The University will replace Policy 64 with disparate, modern policies which address individual control areas as defined in the University's Information Security Policy (currently drafted and under internal review). Remote access is intended to be comprehensively addressed across multiple areas including Identity and Access Management, Network Security, and Data Handling.

The University's Office of Information Technology Services Network Team has begun (as of October 27, 2021) retaining the automatic logs generated when a user accepts Policy 64. As new policies are drafted and approved, they will continue to be made publicly available. The University will consider options for, and work towards more robust dissemination, communication, and acknowledgement processes for policies, standards, and procedures.

An internal information security auditing process is planned as part of the Information Security Program, pending the availability of resources. This process will include a requirement for the noted periodic reviews of users' remote access.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-014 FINDING: INADEQUATE CONTROLS OVER ACCESS RIGHTS

Governors State University (University) did not maintain adequate controls over user access rights to applications and data.

During the examination, we requested the University provide a list of all users of the University's primary ERP system in order to test if user access had been appropriately restricted. The University provided us with a list of users. We attempted to verify the completeness and accuracy of the user list and concluded the list was not complete and accurate.

Due to these conditions, we were unable to conclude whether the University's population records were sufficiently precise and detailed under the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36) to test the access rights of the University's primary ERP system. **Even given the population limitations noted above which hindered the ability of the accountants to conclude whether a sample selected could be representative of the population,** the accountants selected a sample and performed testing noting the exception below.

We reviewed and evaluated the access rights of 25 users and noted one (4%) student worker who was assigned management rights to add, modify, or delete student and academic records, including their own.

We also noted the University did not disable student user accounts after a specified period of separation from the University. We noted students still had access to their University e-mail and the on-line learning management system.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control section requires appropriate assignment and periodic reviews of access rights. It also recommends disabling expired/inactive accounts supporting the concept of least privilege and least functionality which reduce the attack surface of the system.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently and effectively and in compliance with applicable law.

University officials indicated the student worker assigned management rights in the ERP system was an oversight. University officials also indicated student accounts were not disabled in order to encourage students to return to the University and pursue their educational goals. Further, University officials could not explain why certain users were not included in the user list provided.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-014 FINDING: INADEQUATE CONTROLS OVER ACCESS RIGHTS
(Continued)

Without proper assignment and review of access rights, there is a greater risk of unauthorized access to University resources. In addition, failure to remove student access rights after a defined period of separation increases the likelihood and opportunities for unauthorized access to University resources. Further, without the University providing a complete and accurate population record, the auditors were unable to conclude whether the controls are working as intended and provide useful and relevant feedback to the General Assembly regarding the University's control over access rights. (Finding Code No. 2021-014)

RECOMMENDATION

We recommend the University re-evaluate its procedures for the assignment of access rights to its ERP system users and regularly re-determine if the rights granted remain appropriate. Also, we recommend the University maintain an accurate listing of ERP users. We further recommend the University establish a period of separation/inactivity after which student accounts are disabled.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation.

The University will explore appropriate options for improving the process of ensuring accuracy and appropriateness of user access to University systems.

Student accounts are planned for inclusion in a multi-year effort to comprehensively reconstruct the University's account lifecycle management standards and processes, including acknowledgement in the Information Security Policy.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-015 FINDING: WEAKNESSES WITH PAYMENT CARD INDUSTRY DATA SECURITY STANDARDS

Governors State University (University) had not completed all requirements to demonstrate full compliance with the Payment Card Industry Data Security Standards (PCI DSS).

In Fiscal Year 2021, the University accepted approximately 18,900 credit card transactions estimated at \$14.5 million.

Upon review of the University's efforts to ensure compliance with PCI DSS, we noted the University had not:

- established formal policies dedicated to the processing of PCI transactions,
- completed any formal assessments of each location accepting credit card payments, including the appropriate Self-Assessment Questionnaire (SAQ) and certifying compliance,
- ensured all employees involved in the processing of cardholder data received annual security training,
- maintained documentation verifying PCI DSS compliance of each service provider,
- performed an annual inventory/review of all payment points, terminal locations (including equipment type and serial numbers), along with review of responsible employees using the equipment, and
- ensured all terminals accept Europay, Mastercard and Visa (EMV) compliant credit cards.

PCI DSS was developed to detail security requirements for entities that store, process, or transmit cardholder data. Cardholder data is any personally identifiable data associated with a cardholder. To assist merchants in the assessments of their environment, the PCI Council has established Self-Assessment Questionnaires (SAQ) for validating compliance with PCI's core requirements.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

University officials indicated formal policies dedicated to PCI compliance were not adopted due to time constraints. University officials also indicated they had commenced the annual inventory/review for Fiscal Year 2021; however, due to resource limitations and a new process,

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

2021-015 FINDING: WEAKNESSES WITH PAYMENT CARD INDUSTRY DATA
SECURITY STANDARDS (Continued)

were unable to finish and certify compliance with PCI DSS. University officials further indicated they had monitored compliance of its service providers; however, they were unaware of the need to retain documentation of the monitoring. Also, University officials indicated the non-EMV compliant credit card readers were not removed due to time constraints.

Failure to establish formal policies and maintain proper controls and procedures to handle and protect confidential and personally identifiable information could result in identity theft or the loss of credit card data or loss of the right to utilize certain credit card providers if not in compliance with current PCI standards. Failure to maintain PCI approved and EMV compliant terminals increases the risk of unauthorized disclosure of cardholder data. (Finding Code No. 2021-015)

RECOMMENDATION

We recommend the University:

- Establish policies dedicated to the processing of PCI transactions. Such policies would establish the framework for procedures to ensure PCI DSS compliance.
- At least annually, assess each location accepting credit card payments and match the method of acceptance to the appropriate SAQ and complete the appropriate SAQ(s) for its environment and maintain documentation supporting its validation efforts.
- Provide annual security training to employees involved in the processing of cardholder data.
- Document the PCI DSS compliance of each service provider.
- Complete an annual inventory/review of all payment points, terminal locations (including equipment type and serial numbers), along with review of responsible employees using the equipment.
- Perform an upgrade of non-EMV compliant credit card readers.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation.

A separate PCI DSS policy is planned as part of the Information Security Program (currently under internal review prior to submission for approval) and will be accompanied by appropriate standards and procedures.

The University's Office of Information Technology Services (ITS) has hired an Extra Help employee to assist with compliance efforts including initial PCI DSS compliance. ITS is continuing its efforts with two of the University's most complex merchants and is currently evaluating solutions to enable continued telephone transactions while being able to maintain compliance with PCI regulations.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

CURRENT FINDINGS

**2021-015 FINDING: WEAKNESSES WITH PAYMENT CARD INDUSTRY DATA
SECURITY STANDARDS (Continued)**

The University's verification of service providers' PCI compliance will be documented going forward.

An inventory of all payment devices considered "in scope" will be built and maintained, along with complete scoping and data-flow diagrams for each merchant as part of the initial and yearly compliance process. This has already been completed for one of the two aforementioned merchants. Per PCI requirements, all policies, processes, and listing of applicable staff will be documented and maintained.

The procurement process to replace the non EMV compliant payment terminals was initiated in August 2021 and the new EMV compliant terminals are now in place.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2021

PRIOR FINDINGS NOT REPEATED

A FINDING: Failure to Meet Earmarking Requirements for Head Start Program

During the prior examination, Governors State University (University) did not meet the funded enrollment requirement for its Head Start Program (Program).

During the current examination period, the U.S. Department of Health and Human Services (Department) suspended the enrollment requirements for the Program due to the COVID-19 pandemic. The Department will begin monitoring enrollment again beginning January 2022. (Finding Code No. 2020-003, 2019-001, 2018-010, 2017-004, 2016-007, 2015-002, 2014-003)

B FINDING: Inadequate Controls over Computers and Equipment

During the prior examination, the University did not comply with requirements applicable to its computers and other equipment.

During the current examination, our sample testing did not identify any significant instances of the University not complying with the requirements applicable to its computers and equipment. (Finding Code No. 2020-007, 2019-012, 2018-018, 2017-009, 2016-010)

C FINDING: Illinois Articulation Initiative

During the prior examination, the University did not submit a minimum of one course per major under the Illinois Articulation Initiative (Initiative) for some majors offered by the University.

During the current examination, the University submitted at least one course per major under the Initiative. (Finding Code No. 2020-008)

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
STATE COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

DISCLOSURES REPORT

SUMMARY

A reading of the accompanying report components of Governors State University was performed by Borschnack, Pelletier & Co., CPAs.

ACCOUNTANT'S REPORT

The accountants did not conclude an omission or uncorrected material misstatement of the other information exists in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report.

EXIT CONFERENCE

Governors State University waived an exit conference in a correspondence from Ms. Villalyn Baluga, Associate Vice President for Finance, on June 14, 2022.

INDEPENDENT ACCOUNTANT'S REPORT ON DISCLOSURES
ACCOMPANYING A STATE COMPLIANCE EXAMINATION REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

Disclosures Accompanying a State Compliance Examination Report

Management of Governors State University (University) is responsible for the *Disclosures Accompanying a State Compliance Examination Report* (other information), which consists of the Fiscal Schedules and Analysis and Analysis of Operations report components as listed in the Table of Contents. The other information comprises disclosures which must be presented by management in accordance with *Report Components* memorandum published by the Auditor General of the State of Illinois, but does not include our *Independent Accountant's Report on State Compliance and on Internal Control over Compliance* found in the separate *State Compliance Examination Report* included within this document. Our opinion on the University's State compliance and internal control over compliance does not cover this other information, and we do not express an opinion or any form of assurance thereon.

In connection with our examination of the University, our responsibility is to read the other information and consider whether:

- 1) a material inconsistency exists between the other information and our knowledge and facts of the University we obtained as part of the University's State compliance examination;
- 2) the other information appears to have been omitted; or,
- 3) the other information appears to be materially misstated.

If, based on the work performed, we concluded an omission or uncorrected material misstatement of the other information exists, we are required to describe it in this report.

SIGNED ORIGINAL ON FILE

Kankakee, IL
June 27, 2022

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES

Expenditure Authority for Fiscal Year 2021
For the Fifteen Months Ended September 30, 2021

	Expenditure Authority (Net of Transfers)	Expenditures through 6/30/21	Lapse Period Expenditures 7/01 - 9/30/21	Total Expenditures 15 Months ended 9/30/2021	Balances Lapsed 9/30/2021
Public Act 101-0637					
Education Assistance Fund - 007:					
Operational expenses	\$ 23,193,600	\$ 23,193,600	\$ -	\$ 23,193,600	\$ -
Total Education Assistance Fund - 007	\$ 23,193,600	\$ 23,193,600	\$ -	\$ 23,193,600	\$ -
Total Appropriated Funds	\$ 23,193,600	\$ 23,193,600	\$ -	\$ 23,193,600	\$ -

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the University's records and have been reconciled to the State Comptroller's records as of September 30, 2021.

Note 2: Expenditure amounts are vouchers approved for payment by the University and submitted to the State Comptroller for payment to the vendor.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES, AND LAPSED BALANCES
For the Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>
APPROPRIATED FUNDS		
Education Assistance Fund - 007:		
Expenditure Authority:	\$ 23,193,600	\$ 23,193,600
Expenditures:		
Operational expenses	23,193,600	23,193,600
Total Expenditures	23,193,600	23,193,600
Balances Lapsed	\$ -	\$ -
TOTAL APPROPRIATED FUNDS		
Expenditure Authority	\$ 23,193,600	\$ 23,193,600
Expenditures	23,193,600	23,193,600
Balances Lapsed	\$ -	\$ -
GRAND TOTAL - ALL FUNDS		
Expenditures	\$ 23,193,600	\$ 23,193,600

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the University's records and have been reconciled to the State Comptroller's records as of September 30, 2021 and September 30, 2020.

Note 2: Expenditure amounts are vouchers approved for payment by the University and submitted to the State Comptroller for payment to the vendor.

Note 3: The University received appropriations during Fiscal Year 2021 from Public Act 101-0637. In addition, the University received appropriations during Fiscal Year 2020 from Public Act 101-0007.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
COMPARATIVE SCHEDULE OF NET EXPENDITURES BY MAJOR ACTIVITY
For the Fiscal Year Ended June 30,

	<u>2021</u>	<u>2020</u>
EXPENDITURE STATISTICS		
All State Treasury Funds		
Total Operating Expenditures:	\$ 23,193,600	\$ 23,193,600
Percentage of Total Expenditures:	100%	100%
Personal services	22,537,400	22,537,400
Other payroll costs	656,200	656,200
GRAND TOTAL - ALL EXPENDITURES:	<u>\$ 23,193,600</u>	<u>\$ 23,193,600</u>

Note 1: Expenditures were obtained from the University's records and have been reconciled to the State Comptroller's records as of September 30, 2021 and September 30, 2020.

Note 2: Expenditure amounts are vouchers approved for payment by the University and submitted to the State Comptroller for payment to the vendor.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Year Ended June 30, 2021

Fiscal Year 2021 Compared to Fiscal Year 2020

Education Assistance Fund - 007

Personal Services and Group Insurance

There were no significant variations in expenditures during Fiscal Year 2021 as the University was provided the same level of State appropriations.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the Year Ended June 30, 2021

Education Assistance Fund – 007

Personal Services and Group Insurance

There was no significant lapse period spending during the lapse period for Fiscal Year 2021.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF CHANGES IN PROPERTY
For the Year Ended June 30, 2021

	Balance June 30, 2020	Additions	Deletions	Net Transfers	Balance June 30, 2021
Property					
Land and land improvements	\$ 1,389,086	\$ -	\$ -	\$ -	\$ 1,389,086
Site improvements	9,657,646	98,005	-	836,247	10,591,898
Buildings and building improvements*	155,841,479	236,835	-	-	156,078,314
Equipment *	33,589,904	1,404,911	524,986	-	34,469,829
Total	<u>\$ 200,478,115</u>	<u>\$ 1,739,751</u>	<u>\$ 524,986</u>	<u>\$ 836,247</u>	<u>\$ 202,529,127</u>
Construction in Progress					
Construction in progress	\$ 4,505,758	\$ 1,585,890	\$ -	\$ (241,446)	\$ 5,850,202
Total	<u>\$ 4,505,758</u>	<u>\$ 1,585,890</u>	<u>\$ -</u>	<u>\$ (241,446)</u>	<u>\$ 5,850,202</u>

Note 1: These balances were obtained from the University's records and have been reconciled to the University's quarterly *Agency Report of State Property* reports submitted to the Office of the State Comptroller for the year ended June 30, 2021.

Note 2: This schedule was prepared from State property records as required by the Illinois Administrative Code (Code) and the Statewide Accounting Management System (SAMS). The capitalization policy required by the Code and SAMS is different from the capitalization policy established by the Office of the State Comptroller for financial reporting in accordance with generally accepted accounting principles (GAAP).

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
ANALYSIS OF SIGNIFICANT VARIATIONS IN ACCOUNT BALANCES
For the Year Ended June 30, 2021

Fiscal Year 2021 Compared to Fiscal Year 2020

The University's Fiscal Year 2021 Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position can be found on pages 18 and 19, respectively, within its separately released Fiscal Year 2021 financial audit report. Additionally, the University's Fiscal Year 2020 Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position can be found on pages 16 and 17, respectively, within its previously released Fiscal Year 2020 financial audit report.

Statement of Net Position

Current Assets

Current assets, consisting mostly of cash and cash equivalents, and receivables, slightly decreased as of June 30, 2021 as compared to 2020. The slight decrease was mostly attributable to the \$3.8 million net decrease in restricted cash and investments as the proceeds from the Certificates of Participation issued by the University during Fiscal Year 2019 were spent for deferred maintenance projects; the \$0.6 million decrease in accounts receivable mainly due to timing of payments from students, and increase in the related allowance for doubtful accounts; the \$2.0 million decrease in amount due from Capital Development Board (CDB) as the receivable was fully reimbursed by CDB to the University during Fiscal Year 2021; and the \$5.0 million decrease in State appropriation receivable mainly due to timely receipt of appropriations from the State of Illinois. At the end of Fiscal Year 2021, the University received 100% of its Fiscal Year 2021 appropriation from the State of Illinois. These decreases were partially offset by the \$7.6 million increase in cash and cash equivalents mostly due to the overall increase in the University's net position during the fiscal year, timing of vendor payments, and timing of collections from students; the \$2.9 million increase in grants receivable due to the overall increase in Federal and State grant funding associated with the COVID-19 relief grants, and the related timing of receipt of funds from the grantors; \$0.2 million increase in inventories mostly related to COVID-19 supplies; and the \$0.6 million increase in other assets mostly due to prepaid expenses related to software subscriptions.

Noncurrent Assets - Capital Assets

The \$0.8 million net increase in noncurrent capital assets was due to the \$5.5 million costs incurred during Fiscal Year 2021 in connection with the various deferred maintenance projects and acquisitions of equipment, computer software and library collections. This increase was partially offset by the \$4.7 million depreciation expense recognized during Fiscal Year 2021.

Noncurrent Assets - Other

Other noncurrent assets consist primarily of the long-term portion of student loans receivable and prepaid debt service insurance. The \$0.4 million decrease in noncurrent assets - other was mostly attributable to the \$0.3 million decrease in student loans receivable due to loan

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
ANALYSIS OF SIGNIFICANT VARIATIONS IN ACCOUNT BALANCES
For the Year Ended June 30, 2021

collections. The U.S. Department of Education curtailed the awarding of any Federal Perkins Loans after September 30, 2017; thus, are expected to decline in coming years as existing Federal Perkins Loans are repaid by students without replacement of new loans to students. In addition, prepaid debt service insurance decreased by \$0.1 million due to the amortization expense recognized during Fiscal Year 2021.

Deferred outflows of resources

The University recognizes deferred outflows of resources related to pensions and other postemployment benefits (OPEB) in accordance with 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 by 10%, coupled with the decrease in the actuarially determined changes in assumptions during Fiscal Year 2021.

Current Liabilities

Current liabilities include accounts payable, accrued compensated absences, unearned revenue, and the current portion of long-term liabilities, which are payable in less than one year. The \$0.4 million decrease in current liabilities was mostly attributable to the \$1.2 million decrease in accounts payable primarily due to timing of vendor payments and student refunds; partially offset by the \$0.6 million increase in unearned revenue primarily due to the higher level of collections during the fiscal year that are attributable to the tuition and fees for the following fiscal year, the deferral of revenues related to the AIM HIGH grant funding that were provided by the Illinois Student Assistance Commission to the University in advance; and the \$0.2 million increase in intangible asset payable due to additional acquisitions of computer software through multi-year licensing agreements.

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 \$5.2 million decrease in noncurrent liabilities was mostly attributable to the 3.2 million in principal payments made on existing debts; the \$2.4 million decrease in the University's allocated share of the State's OPEB liability as of June 30, 2021; and the \$0.4 million decrease in refundable grants primarily due to the return of the Perkins Loan Program's excess funds to the Department of Education during Fiscal Year 2021. These decreases were partially offset by the \$0.7 million increase in accrued compensated absences due to minimal usage of compensable benefits during the COVID-19 pandemic, and the 2.75% across the board salary increase approved by the University's Board of Trustees during the Fiscal Year 2021.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
ANALYSIS OF SIGNIFICANT VARIATIONS IN ACCOUNT BALANCES
For the Year Ended June 30, 2021

Deferred inflows of resources

The University recognizes deferred inflows of resources related to OPEB in accordance with GASB Statement No. 75. During Fiscal Year 2021, 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 decreased by \$15.5 million mainly due to the effects of the prior period adjustments related to OPEB as discussed under analysis of Statement of Revenue, Expenses, and Changes in Net Position analysis and as disclosed under Note 16 to the Financial Statements.

Statement of Revenue, Expenses, and Changes in Net Position

Operating Revenues

Net student tuition and fees decreased by \$1.4 million mostly due to a 4% decrease in credit hours from 104,643 in Academic Year 2019-2020 to 100,393 in Academic Year 2020-2021. Grants and contracts decreased by \$0.2 million mostly due to the \$0.9 million decrease in federal grants and contracts as the physical therapy and mental health counseling programs under the Health Professions Students from Disadvantaged Backgrounds grant ended during Fiscal Year 2020, partially offset by the \$0.7 million increase in State grants and contracts primarily due to new grants and increased funding on existing grants received by the University from the State during Fiscal Year 2021. Auxiliary enterprises decreased by \$1.7 million mostly attributable to the decreases in housing, parking and center for performing arts revenues as the operations of these auxiliary enterprises were significantly impacted by the COVID-19 pandemic during Fiscal Year 2021. Other operating revenues decreased by \$0.8 million primarily due to the overall economic challenges caused by the COVID-19 pandemic.

Operating Expenses

Salaries and benefits, representing the University's largest operating expense, increased by \$28.9 million mostly due to the significant increase in expenses recognized for the University's proportionate share of State funded health care, retirement, and other postemployment benefits, coupled with the 2.75% across the board salary increase during Fiscal Year 2021. Student aid increased by \$1.2 million mostly due to the increase in the Federal and State nonoperating grants attributable to the various COVID-19 relief grant funding received from the Federal Government, and the Illinois AIM HIGH grant. Capital expenditures increased by \$1.0 million as the University continues with its deferred maintenance project initiatives that were delayed during the budget impasse. These increases were partially offset by the \$2.9 million decrease in services, supplies and other, primarily as a result of reduction in activities due to the COVID-19 pandemic.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
ANALYSIS OF SIGNIFICANT VARIATIONS IN ACCOUNT BALANCES
For the Year Ended June 30, 2021

Nonoperating Revenues (Expenses)

The University received the same level of State appropriation revenue from the State of Illinois during Fiscal Years 2021 and 2020.

Payments made on behalf of the University increased by \$2.4 million primarily due to the increase in the University's proportionate share of State funded health, life, and dental insurance benefits for active University employees increasing from 55.35% to 65.39% of costs incurred.

Fringe benefits under special funding situation increased by \$18.8 million primarily due to the \$13.8 million increase in the University's proportionate share of State funded health, life, and dental insurance benefits for retired University employees, and the \$5.0 million increase in the University's proportionate share in the State funded retirement benefits.

Federal and State nonoperating grant revenues increased by \$6.2 million primarily due to the increase in the COVID-19 relief grant funding received from the Federal Government, and the Illinois AIM HIGH grant.

Investment income decreased by \$0.9 million as the invested proceeds of Certificates of Participation, Series 2018 issued by the University during Fiscal Year 2019 were expended for deferred maintenance projects during Fiscal Year 2021; thus, lower cash balances were available for investments. In addition, money market interest rates significantly declined during Fiscal Year 2021 due to the COVID-19 pandemic.

Capital appropriations and grants provided by State of Illinois increased by \$1.5 million primarily due to the additional project expenditures incurred for various CDB-funded projects (main building roofing, campus roadway and sidewalk improvements, piping, and arts in architecture projects) that are ongoing during Fiscal Year 2021.

Prior Period Adjustment

As disclosed in Note 16 to the Financial Statements, the University restated its beginning net position during Fiscal Year 2021. The \$16.9 million restatement was mostly attributable to an error correction that occurred due to the Illinois State Toll Highway Authority (Tollway) and the State of Illinois, Department of Central Management Services not separately stating OPEB balances for Tollway employees who only partake in the State Employees Group Insurance Program (SEGIP) upon their retirement from the Tollway from other employees accounted for within SEGIP's cost-sharing proportionate share allocation of OPEB balances. This error impacted SEGIP's cost-sharing proportionate share allocation, which is used by the State of Illinois' agencies and public universities to record their OPEB activity. At the University, this correction also impacted the beginning OPEB liability and the related deferred inflows of resources and deferred outflows of resources. The University also restated its net position for the adoption of GASB Statement No. 84.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF SOURCES AND APPLICATIONS –
INDIRECT COST REIMBURSEMENTS
For the Year Ended June 30, 2021

The University receives indirect and administrative cost reimbursements for administration of grants and contracts, federally assisted financial aid programs, Veterans Affairs programs, and other related activities. These funds are recorded in Other Unrestricted Funds and are expended for directly identifiable charges associated with such programs.

The administrative personal services expenditures are for selected University employees working in the functions generating the related revenues. The contractual services expenditures include audit charges to federally assisted programs. The remaining charges are for other expenditures related to the respective programs.

Balances remaining at June 30, 2021 are used to meet budgeted operational costs in Fiscal Year 2022. The following is an analysis of the sources and applications of indirect and administrative cost reimbursements recorded in the current fund for the year ended June 30, 2021:

	<u>Indirect Costs</u>	<u>Administrative Overhead</u>	<u>Total</u>
Balance at June 30, 2020	\$ 1,948,824	\$ 106,581	\$ 2,055,405
Add: Sources			
Recovered from grants and contracts	522,218	-	522,218
Financial aid program reimbursements	-	55,664	55,664
Total sources	<u>522,218</u>	<u>55,664</u>	<u>577,882</u>
Less: Applications			
Personal services	13,893	12,956	26,849
Contractual services	137,128	-	137,128
Commodities	1,133	675	1,808
Equipment	1,047	-	1,047
Others	198,054	-	198,054
Total applications	<u>351,255</u>	<u>13,631</u>	<u>364,886</u>
Balance at June 30, 2021	<u>\$ 2,119,787</u>	<u>\$ 148,614</u>	<u>\$ 2,268,401</u>

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
AUXILIARY ENTERPRISES, ACTIVITIES AND ACCOUNTING ENTITIES
For the Year Ended June 30, 2021

Accounting entities as defined by the 1982 Legislative Audit Commission Guidelines and their primary revenue sources are as follows:

- University Facilities System Revenue Bonds includes all operations of the Student Center, University Bookstore, University Parking Facilities, University Housing, and University Food Service and Vending Facilities.
 - Student Center is the focal point of student activity programs on campus and includes student activities and recreation facilities. Student Center revenue is derived from fees charged to students.
 - Bookstore operations provide textbooks and supplies to students. The bookstore is managed under contract by a third party whereby the University receives commission revenue from operations.
 - Parking provides operation and maintenance of University parking facilities. Revenues are generated from user fees.
 - Housing provides living quarters for students on campus. Revenues are generated from residence fees.
 - Food service and vending provide meals and catering services under contract to the University community. Commission revenue is received by the University.
- Center for Performing Arts provides cultural entertainment to the University community. Revenues are generated from ticket sales.
- Educational and Student Life Activities represent credit and noncredit conferences, workshops and seminars, and organized student activities. Revenues are generated from course fees charged to participants and from student activity fees.
- Service Departments provide products or services to University departments. Revenues are generated from chargebacks to user departments.
- Indirect and Administrative Cost accounts receive the “overhead” portion of grant and contract expense incurred. Revenues are generated from charges to sponsors as well as royalties received on special projects.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
COMPARATIVE SCHEDULE OF INCOME FUND REVENUES AND EXPENDITURES
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Income fund revenues:		
Student tuition and fees	\$ 36,075,791	\$ 36,239,523
Investment income	59,001	741,541
Miscellaneous		4,556
Total income fund revenues	<u>\$ 36,134,792</u>	<u>\$ 36,985,620</u>
Income fund expenditures:		
Personal services (including change in accrued compensated absences)	\$ 22,315,608	\$ 20,100,213
Medicare and benefits	1,424,382	1,445,355
Contractual services	6,463,731	7,567,652
Travel	4,748	187,310
Commodities	387,872	601,426
Equipment and permanent improvements	726,719	507,877
Telecommunications services	134,859	148,451
Operation of automotive equipment	52,002	48,862
Miscellaneous expenditures	6,562	-
Awards, grants and matching funds	518,667	900,234
Tuition and fee waivers	2,402,792	2,089,341
Debt services transfer	60,640	48,181
Total income fund expenditures	<u>\$ 34,498,582</u>	<u>\$ 33,644,902</u>

Note: This schedule has been prepared on the accrual basis of accounting.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
BALANCE SHEETS - AUXILIARY ENTERPRISES AND ACTIVITIES ENTITIES
AS OF JUNE 30, 2021

	Auxiliary Enterprises		Activities			Total
	University Facilities	Center for Performing Arts	Educational and Student Life Activities	University Service Departments	Administrative Overhead/ Indirect Costs	Auxiliary Enterprises and Activities
Assets						
Cash and cash equivalents	\$ 254,845	\$ 6,136	\$ 5,265,396	\$ -	\$ 2,381,019	\$ 7,907,396
Accounts receivable, net	239,122	-	371,732	-	-	610,854
Inventories	-	-	209,203	105,301	-	314,504
Prepaid debt service insurance	6,110	-	-	-	-	6,110
Buildings and improvements, net	4,257,379	4,930,854	20,023,462	70,248	-	29,281,943
Housing, net	17,824,792	-	-	-	-	17,824,792
Parking lots, net	1,784,365	-	-	-	-	1,784,365
Equipment, net	198,327	34,417	-	198,168	-	430,912
Total assets	24,564,940	4,971,407	25,869,793	373,717	2,381,019	58,160,876
Liabilities						
Accounts payable	486,171	7,257	588,058	21,260	112,618	1,215,364
Revenue bonds payable	21,262,947	-	-	-	-	21,262,947
Unearned revenue	207,564	-	414,562	-	-	622,126
Total liabilities	21,956,682	7,257	1,002,620	21,260	112,618	23,100,437
Fund balances						
Other unrestricted funds	(193,658)	(1,121)	4,843,711	84,041	2,268,401	7,001,374
Net investment in capital assets	2,801,916	4,965,271	20,023,462	268,416	-	28,059,065
Total fund balances	2,608,258	4,964,150	24,867,173	352,457	2,268,401	35,060,439
Total liabilities and fund balances	\$ 24,564,940	\$ 4,971,407	\$ 25,869,793	\$ 373,717	\$ 2,381,019	\$ 58,160,876

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
AUXILIARY ENTERPRISES AND ACTIVITIES ENTITIES
For the Year Ended June 30, 2021

	Auxiliary Enterprises	
	University Facilities	
	System Revenue	Center for
	Bonds	Performing Arts *
Revenues	\$ 5,606,968	\$ 557,974
Expenditures		
Personal services	2,120,113	474,905
Contractual services	1,829,074	54,581
Commodities	203,847	22,629
Equipment	488	3,835
Other	1,280,706	944
Total expenditures	5,434,228	556,894
Excess of revenues over expenditures	172,740	1,080
Fund balance (deficit), beginning of year	2,435,518	(2,201)
Fund balance (deficit), end of year	\$ 2,608,258	\$ (1,121)

* This Schedule only presents "Other Unrestricted Funds" for the Center for Performing Arts.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
AUXILIARY ENTERPRISES AND ACTIVITIES ENTITIES
For the Year Ended June 30, 2021

	Educational and Student Life Activities *						
	Educational Program	Student Activities	Academic Enhancement	Media	Farm	Telecomm	Others
	\$	\$	\$	\$	\$	\$	\$
Revenues	1,748,684	694,048	2,508,085	447,702	45,054	-	394,567
Expenditures							
Personal services	1,269,925	364,803	-	411,442	-	-	96,213
Contractual services	174,882	425,158	648,969	58,860	3,006	-	609,646
Commodities	25,632	38,943	-	1,617	-	-	17,946
Equipment	54,080	-	574,136	9,469	-	-	24,551
Others	63,246	42,250	999,567	-	2,480	-	28,794
Total expenditures	1,587,765	871,154	2,222,672	481,388	5,486	-	777,150
Transfers							
Transfer out	-	-	(2,740,656)	-	-	-	(2,313)
Total transfers, net	-	-	(2,740,656)	-	-	-	(2,313)
Total expenditures and transfers	1,587,765	871,154	4,963,328	481,388	5,486	-	779,463
Excess (deficiency) of revenues over (under) expenditures and transfers	160,919	(177,106)	(2,455,243)	(33,686)	39,568	-	(384,896)
Fund balance (deficit), beginning of year	389,573	854,163	3,940,081	(5,062)	525,360	16,628	1,973,412
Fund balance (deficit), end of year	\$ 550,492	\$ 677,057	\$ 1,484,838	\$ (38,748)	\$ 564,928	\$ 16,628	\$ 1,588,516

* This Schedule only presents "Other Unrestricted Funds" for the Educational and Student Life Activities.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
AUXILIARY ENTERPRISES AND ACTIVITIES ENTITIES
For the Year Ended June 30, 2021

	University Service Departments *			
	Business Services	Motor Pool	Mail Service	Total
Revenues	\$ 241,967	\$ 46,326	\$ 99,105	\$ 387,398
Expenditures				
Personal services	4,124	-	-	4,124
Contractual services	32,482	389	90,133	123,004
Commodities	127,904	-	633	128,537
Other	4,602	45,334	-	49,936
Total expenditures	169,112	45,723	90,766	305,601
Excess of revenues over expenditures and transfers	72,855	603	8,339	81,797
Fund balance (deficit), beginning of year	564	(603)	2,283	2,244
Fund balance, end of year	\$ 73,419	\$ -	\$ 10,622	\$ 84,041

* This Schedule only presents "Other Unrestricted Funds" for the University Service Departments Activities.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
AUXILIARY ENTERPRISES AND ACTIVITIES ENTITIES
For the Year Ended June 30, 2021

	Administrative Overhead/Indirect Costs *				Total
	Grants and Contracts	Financial Services **	Financial Aid and Veterans Affairs	Other Activities	
Revenues	\$ 328,273	\$ 26,664	\$ 29,000	\$ 193,945	\$ 577,882
Expenditures					
Personal services	13,893	-	12,956	-	26,849
Contractual services	136,250	-	-	878	137,128
Commodities	1,133	-	675	-	1,808
Equipment	1,047	-	-	-	1,047
Others	7,685	-	-	190,369	198,054
Total expenditures	160,008	-	13,631	191,247	364,886
Excess of revenues over expenditures	168,265	26,664	15,369	2,698	212,996
Fund balance, beginning of year	1,170,681	54,090	52,491	778,143	2,055,405
Fund balance, end of year	\$ 1,338,946	\$ 80,754	\$ 67,860	\$ 780,841	\$ 2,268,401

* This Schedule only presents "Other Unrestricted Funds" for the Administrative Overhead/Indirect Costs Activities.

** Formerly called Business Office

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FUNCTIONS AND PLANNING
For the Year Ended June 30, 2021

Functions

Governors State University (University or GSU) 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 the University created in January 1996 as a result of legislation to reorganize governance of State higher education institutions. As a comprehensive public university, the University provides liberal arts, science, and professional preparation at the undergraduate, master and doctoral levels. The University's curricula (baccalaureate through doctoral) are offered through the Colleges of Arts and Sciences, Business, Education, and Health and Human Services.

The University's mission and vision statements are as follows:

Mission Statement: Governors State University is committed to offering exceptional and accessible education that prepares students with the knowledge, skills and confidence to succeed in a global society.

Vision Statement: Governors State University will create an intellectually stimulating public square, serve as an economic catalyst for the region, and lead as a model of academic excellence, innovation, diversity and responsible citizenship.

The mission and vision statements are supported by six core values, specified as follows:

- (1) Invest in Student Success through a commitment to mentoring and a deliberate University focus on student achievement of academic, professional and personal goals.
- (2) Provide Opportunity and Access to a first-class public education to residents of our surrounding communities and all those traditionally underserved by higher education.
- (3) Serve as an Economic Catalyst for the citizens of the State of Illinois and our larger Midwest region, so that our communities grow and flourish.
- (4) Prepare Stewards of our Future to thrive in the global economy, to contribute to ongoing innovative research and to serve as stewards of the environment.
- (5) Demonstrate Inclusiveness and Diversity to encourage acceptance of wide-ranging perspectives among students, staff, faculty and members of the broader community.
- (6) Promote Quality of Life, which encompasses civic, personal, professional and cultural growth.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FUNCTIONS AND PLANNING
For the Year Ended June 30, 2021

Consistent with these values, the University actively pursues the following eight primary goals, with the related strategic objectives:

(1) Academic Excellence: Provide quality, current and relevant, academic programs.

Strategic Objectives:

- Ensure that all academic programs are up to date, relevant, and in demand, while aligned with professional or discipline standards.
- Utilize continuous improvement processes for increasing the quality of academic programs.
- Provide a campus environment and infrastructure that supports learning/teaching and scholarly/ creative activities.

(2) Student Success: Provide equitable pathways to graduation which lead to academic, personal, and career success.

Strategic Objectives:

- Deliver academic support services that advance timely degree completion goals.
- Provide a broad array of extra-academic support services for all GSU students.
- Provide meaningful opportunities for practical career application/experiential learning.

(3) High Quality Faculty and Staff: Create a learning environment where highly qualified and diversified faculty and staff are hired and retained.

Strategic Objectives:

- Hire, develop, and retain diverse and exceptional faculty.
- Hire, develop, and retain diverse and exceptional staff.
- Utilize contingent faculty in an effective and strategic manner to address program and student needs.

(4) Enrollment Optimization: Implement a strategic enrollment plan consistent with University mission.

Strategic Objectives:

- Optimize enrollment within the framework of the University's Strategic Enrollment Management Plan.
- Increase enrollment of and support for our Hispanic student population.
- Determine and develop course/program delivery modes that support enrollment optimization.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FUNCTIONS AND PLANNING
For the Year Ended June 30, 2021

(5) **Invest in Excellence:** Enhance and diversify revenue streams, serve as a destination for social, cultural, and continuing education, and be an economic catalyst for the region.

Strategic Objectives:

- Increase and diversify revenue streams and external stakeholder investments to grow resources, reach, and reputation.
- Provide opportunities to engage with GSU as a premier community resource/destination.
- Contribute to workforce development and regional economy.

(6) **Social, Ethical and Environmental Responsibility:** Institutional actions and decisions demonstrate a commitment to social, ethical, and environmental responsibility.

Strategic Objectives:

- Demonstrate a commitment to ethics, equity, inclusiveness, diversity, and accountability for all students, faculty, and staff.
- Integrate sustainability, environmental health, ecological stewardship, and environmental justice into campus operations, academic programs, university development, and student life.
- Realize the university's public responsibility to stimulate educational, cultural, environmental, and economic development in Chicagoland and beyond, with particular emphasis on community members historically underserved by higher education.

(7) **Strong Cyber Presence:** Support the people, tools, and environment that are needed to succeed in today's digital world.

Strategic Objectives:

- Infuse information technology excellence across the University by selecting and implementing information and communications platforms and training and support systems that are driven by university priorities and user needs.
- Invest in innovative instructional technologies to deliver and support excellent and accessible academic programs and student services, and build institutional digital expertise through end-user training, development, and recognition.
- Increase GSU's Digital Visibility to promote GSU programs, faculty, and resources through our web presence, social media, news media, and digital marketing.

(8) **Continuous Improvement:** Institutional processes for continuous improvement are guided by evidence-based decision-making to achieve the mission of the University.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FUNCTIONS AND PLANNING
For the Year Ended June 30, 2021

Strategic Objectives:

- Each unit will undergo a strategic planning process resulting in key performance indicators that provide qualitative and quantitative data which demonstrate the unit's contribution toward meeting the goals of the University strategic plan.
- Engage members of the campus community in an examination of campus/unit wide findings and data analysis.
- Inform the campus community about progress toward meeting Strategic Plan goals.

The University is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools. The University is also a member of the Illinois Council of Baccalaureate and Higher Degree Programs. Each program is accredited by a professional accrediting agency in each case where there is a national accreditation body.

As a campus for both traditional and non-traditional students, the University's main campus, located 35 miles south of Chicago in University Park, is easily accessible by car, the Metra train system, or Pace bus service. The campus is situated on 760 acres of wooded landscape with several lakes, ponds, and nature trails. It is home to the internationally renowned Nathan Manilow Sculpture Park, the Center for Performing Arts, and the Family Development Center. The University boasts a complete library equipped with numerous smart classrooms, a health center that provides both physical and mental health services, a Follett Bookstore, a cafeteria, student housing, and a fully-equipped fitness center with swimming pool. The vast grounds also include a 120 acre environmental research preserve as well as a fully certified organic farm.

The University's Nathan Manilow Sculpture Park is a collection of 30 master works of large-scale sculpture situated within 100 acres of the prairie landscape and is open for public viewing 365 days a year, free of charge. The Park provides programs for adults and children that integrate art and nature and is complimented with our on-site Visual Arts Gallery. The Sculpture Park was founded and is maintained through grants and donations from businesses and individuals.

The University's Center for Performing Arts (CPA) presents more than 50 performances offering diverse, high quality and affordable cultural and arts education experiences to more than 60,000 people. The CPA offers national touring acts, Chicago-based artists and community and academic theatre as well as contributes a vital role in achieving the University's academic mission within the College of Arts and Sciences.

Within the campus, the Family Development Center (FDC) provides university-quality programs for children and their parents. The FDC is an educational experience promoting lifelong learning with programs that model the best practices in Early Childhood Education and draw on the expertise of University faculty and staff in Early Childhood Education, Nursing, Communications Disorders (speech and hearing), Psychology and Counseling. University students in these programs at both the undergraduate and graduate levels are active participants in the FDC. The FDC has been nationally recognized for meeting the highest standards of early childhood education and has been awarded accreditation from the National Association for the Education of Young Children, the nation's leading professional organization working on behalf of young children.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FUNCTIONS AND PLANNING
For the Year Ended June 30, 2021

In 1972, GSU proclaimed its “responsibility to serve the educational needs of low and middle-income and minority students.” In developing its academic programs, the University gives priority to providing instruction designed to meet the educational needs and concerns of those residing in its service region. The University provides access to education for all citizens of the region but gives special emphasis to serving adult, minority, female, and economically disadvantaged students. As a result of this historical commitment to diversity, the University’s student body and full-time faculty members are among the most diverse in the nation.

The University strives to create opportunities for students to transform themselves and change the world. With the University’s commitment to offer an exceptional and accessible education, the University prepares students with the knowledge, skills and confidence to succeed in a global society. In every college, the University has stellar programs and passionate professors, all focused on delivering academic excellence in a small-class setting. An example of our commitment to our mission is the campus-wide effort to support the Dual Degree Program (DDP). This program is a national model for university-community college partnerships, where students receive intensive advising while still at the community college (academic, financial, and social) and guaranteed admission to GSU with a locked-in tuition rate. In 2014, GSU’s DDP was honored with the Student Success and College Completion Award by the American Association of State Colleges and Universities. That same year, the National Resource Center (NRC) for the First Year Experience and Students in Transition also recognized the DDP at GSU with an award during its annual conference. GSU was also awarded the 2015 American Council on Education/Fidelity Investments Award for Institutional Transformation. As an institution that serves undergraduates that are primarily transfer-entry, GSU continues to focus on serving its community while becoming a national leader in this area.

Guided by our six core values, GSU invests in student success through a commitment of mentoring, counseling and a deliberate University focus on student achievement of academic, professional and personal goals including the availability of technology for innovative instruction. GSU continually seeks partnership programs and pursues grant funding to design and implement student services programs for all of our students especially individuals from disadvantaged backgrounds.

The following are the University’s selected service efforts and accomplishments:

	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>
Student headcount - Fall term (a)	5,819	5,185	4,857	4,789	4,649
Minority enrollment - Fall term (a)	2,937	2,845	2,731	2,794	2,680
Degrees awarded - Fiscal year (a)	1,688	1,559	1,347	1,304	1,038
Credit hours - Academic year (a)	119,937	111,351	104,952	104,643	100,393

As further described in the *Independent Accountant’s Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

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	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>
Unduplicated headcount - Academic Year (a, c)	7,128	6,347	5,954	5,947	5,651
Annualized tuition and fees (b):					
Undergraduate					
Resident (d)	\$ 8,884	\$ 9,412	\$ 9,772	\$ 10,108	\$ 10,108
Nonresident	\$ 15,412	\$ 16,924	\$ 17,284	\$ 17,620	\$ 17,620
Graduate					
Resident	\$ 7,882	\$ 8,254	\$ 8,068	\$ 8,320	\$ 8,320
Nonresident	\$ 13,408	\$ 14,608	\$ 14,422	\$ 14,674	\$ 14,674

- (a) Per data file extracted by the University's Institutional Research Office each term.
- (b) The calculation uses 12 and 9 credit hours per term for full-time status undergraduate and graduate students, respectively.
- (c) This represents cumulative students for the academic year without double counting students enrolled more than one term.
- (d) Tuition rate used is the rate for new full-time undergraduate students.

After years of positive enrollment trends, the University experienced enrollment declines starting with Academic Year 2016-2017 primarily driven by lack of State confidence and losses in graduate enrollment. As a historically upper-division school, the University developed a strategic plan to facilitate baccalaureate degree completion for its nontraditional enrollment base and enrolled freshman beginning in the fall semester of 2014. The University management team has focused on increasing undergraduate enrollment by leveraging the strong demographics of high school graduates in the Chicago area through admissions and marketing activities and through active coordination with regional feeder community colleges. Recent efforts focused on undergraduate recruitment include the hiring of academic and recruitment advisers to serve at each of the local community colleges, the formalization of the dual-degree program with 17 surrounding community colleges, and expanded marketing efforts. To combat graduate enrollment pressures, expected to continue based on market indications, GSU has added focus with a Director of Graduate Admissions, support staff and international partnership efforts. The University's tuition and fee rates remain to be among the lowest as compared to the other Illinois public universities.

Planning

Vision 2020 is the strategic plan of the University. Vision 2020 was formally adopted by the University Board of Trustees on February 27, 2015 and was designed to provide general direction for all University initiatives through the 2019-2020 academic year. The University has revised its strategic plan (Strategy 2025) and on February 14, 2020, the University Board of Trustees affirmed the mission, vision, values, and proposed Strategy 2025 goals. The Strategy 2025 was again presented to the University Board of Trustees on August 13, 2021, with the strategic objectives that were developed for each goal. The University's units are in the process of developing their strategic plans to align with the University Strategy 2025.

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Within the larger context set by the University's strategic plan, the annual budget process at the University operates under the general direction of the Planning and Budget Advisory Council (PBAC), a group composed of administrators, faculty, staff and students, and co-chaired by the Provost and the Vice President for Administration and Finance. The role of PBAC is to develop recommendations on all budgetary issues of University-wide scope and, after due deliberation, to forward those recommendations to the University President.

Every spring, PBAC operates the annual budget process. The group develops guidelines consistent with the goals of the University's strategic plan, and procedures and timelines in accordance with which every budget unit of the University develops its budget requests for the fiscal year to come. Public hearings are held at which each unit presents its request and is subject to questions and discussions from the members of the PBAC. Final recommendations are developed and forwarded to the President for her adoption. The President, in turn, forwards final recommendations on tuition and fees and on budgets to the Board of Trustees.

The University relies heavily on State appropriations to fund operations with about half of overall revenue coming from State appropriations, including the special funding situation and on behalf payments for pension and post-retirement benefits. Favorably, State funding has improved after two years of reduced payments (Fiscal Years 2016 and 2017), which led to stressed operating performance and a use of liquid reserves to fund operations. State funding prospects are improved, with stable funding in Fiscal Years 2018 and 2019. The funding increased by 5% in Fiscal Year 2020 and remained at the same level in Fiscal Year 2021. These payments materially improved the University's operating performance and significantly increased liquidity. As a result of the University's planned financial recovery process, including prioritized expense management, the University has recognized surplus results in Fiscal Year 2018 through Fiscal Year 2021, significantly mitigating risks.

As represented in GSU's financial statements, the State of Illinois adopted complete operating budgets for Fiscal Years 2017-2021 providing the University with full funding for general operations. Fiscal Year 2018 operating appropriations totaled \$21.7 million, and the University also retroactively received State appropriation funds for Fiscal Year 2017, equal to \$11.3 million. The total \$33.0 million of State funds were recognized as revenue in Fiscal Year 2018 in accordance with governmental accounting standards; thus, audited operating results are inflated in Fiscal Year 2018. With a modest increase in appropriations and another full accrual, a surplus was realized for Fiscals Year 2019, 2020, and 2021 increasing the University's net position by 15%, 10%, and 21%, respectively. The 21% increase in net position in Fiscal Year 2021 was partly due to the effects of the prior period adjustment related to other postemployment benefits as disclosed under Note 16 to the financial audit report. Net tuition revenue, the second largest revenue source, remains stable. With improved State funding and stabilized enrollment, GSU has slowly filled previously vacant positions, with only modest expense growth. GSU management is not currently planning for significant programmatic expansion at this time, which will further contain operating expense growth. The University has been able to continue with its various initiatives that were delayed during the budget impasse and maintain effective operations. GSU remains focused on

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continuing to build its liquidity through retaining cash flow, while making necessary strategic investments, to prepare for any future State funding impasses. Further information on the University's financial and enrollment highlights can be found on pages 7 through 17 of the Fiscal Year 2021 financial audit report.

Given the difficult budgetary challenges and the uncertainties of stable State appropriations, fund reallocations were considered for new programs and strategic initiatives that promote enrollment growth. University employees have a direct responsibility to align the allocation of resources to invest in priorities and initiatives that support the University's mission and allocate these resources to meet strategic goals. University employees with budgetary authority are expected to monitor revenues and expenses regularly. They are further expected to review budget versus actual reports to proactively assess budget performance and ensure that budgeted revenues are realized and spending is within budgetary authority.

The University's top priorities for the next fiscal year are as follows:

1. Maintain and enhance the academic program enrichment opportunities for both faculty and students at a high level of quality by achieving specialized program accreditation or reaccreditation of all programs where such processes are operative and relevant; achieving recognition, validation of the curriculum and expected program outcomes from external reviewers for programs where no specialized program accrediting agencies exist; developing a staff training program array for professional development, personal enrichment and greater staff retention; expanding the Social Justice Institute to broaden its focus to include research, performing arts, community service, training, post-doctoral fellows and a legal clinic; and assessing and examining the longer term impact of COVID-19.
2. Release of Rebuild Illinois monies for capital renewal and investment. Public Act 101-0029 appropriates \$32,725,000 in funding from the Capital Development Fund to the Capital Development Board (CDB) for the construction of an expansion of academic building E, and other capital improvements at GSU that need funding to be released so the projects can be effectively coordinated to avoid additional costs/reconstruction. It is critical that these funds be released as soon as possible in order to provide state of the art resources and learning environments and to contribute to student success inclusive of more student services as well as places for study, research and collaborative group interactions. Use of Rebuild Illinois funds will enable GSU to recruit and serve more first generation and Illinois students and grow enrollment according to the University's strategic planning.
3. Strategic Student Recruitment and Retention, including partnered efforts with local high schools and community colleges. With the promise of a stabilized State appropriated budget and an Enrollment, Recruitment, and Retention Task Force focused on student success, retention, and institutional growth, GSU was experiencing more predictable enrollment and retention prior to COVID-19. GSU remains a Minority-Serving Institution, one of only a few state universities in Illinois with that designation, with more than half of

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all students a minority race or ethnicity. GSU continues to be on the path for two national distinctions for the diversity of our student body. Designation as a Predominantly Black Institution (PBI) is a Federal designation that signifies more than 40% of our undergraduates are Black or African American. The other designation, determined by the national advocacy and education organization Excelencia in Education recognizes “emerging Hispanic-serving Institutions” (eHSI) which are institutions that serve a significant population of Latinx students and together these designations note the broad diversity of the communities that GSU serves in its region that call Governors State University their university. GSU will respond to the highly competitive marketplace by streamlining and modernizing its recruitment and admissions operations to increase the efficiency and effectiveness of student engagement at the point of entry into the University. The implementation of AIM HIGH assists with the recruiting and retention of high achieving students. Further investments will allow GSU to improve its outreach to some of the most vulnerable populations including transfer students, part-time students, and students who have dropped out / stopped out but can still complete a degree program.

4. Organize and implement new academic, degree-granting programs and other new or expanded academic program options in accordance with the University’s Academic Master Plan, including partnered efforts with local high schools and community colleges, to better meet the educational and employment needs of its region by exploring the development of a 3-year BA/BS and the development of a Dual Enrollment Program; by strengthening and expanding GSU offering of High Impact Practices (HIPS) across all academic programs; and by implementing the recently approved PhD degree designation for the doctorate in Counselor Education and Supervision.
5. Pursue funding for Instructional Design and Technology supporting the implementation of a Strategic Technology Plan designed for 21st Century learning. GSU is seriously concerned about its dated technology infrastructure and security. GSU is in need of new investment funding for Instructional Design & Technology allowing for the implementation of the Strategic Technology Plan designed for 21st Century learning including: infrastructure and cloud services; development and integration of centralized ERP; individual computers with updated software; connected services for recruitment, student applications, admissions, Financial Aid and student communication. This Technology Infrastructure plan will provide state of the art resources including advanced technology-enhanced classrooms and wireless access, resulting in pedagogical support for a digital age, optimized for our students and faculty, supporting collaborative learning environments, interaction analysis, and computational modeling.

Significant Challenges

As discussed above, the University relies heavily on State appropriations to fund operations with about half of overall revenue coming from State appropriations, including the special funding situation and on behalf payments for pension and post-retirement benefits. There can be no assurance that appropriations will continue to be made at the current level or received in a timely

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manner. The University is attempting to rely more on its own resources by increasing fund-raising and attempting to increase enrollment. However, despite such measures, the University cannot continue to operate satisfactorily over time without sufficient State appropriations. The amount of State appropriations and the timely receipt thereof in future fiscal years cannot be predicted and is not controlled by the University. A drastic reduction of State appropriations would have a materially adverse impact on the University.

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. During Fiscal Years 2020, 2021, and 2022, the University received various funding under the Federal Government's Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA), and the American Rescue Plan Act of 2021 (ARP). These funds were awarded to institutions of higher education to cover any institutional costs associated with significant changes to the delivery of instruction due to the coronavirus; to defray institutional expenses associated with COVID-19, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll; to provide emergency financial aid grants to students; to support efforts to enroll and retain low-income, underrepresented and first-generation students who might not otherwise enroll or return due to the pandemic, including by closing digital equity gaps; to implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and to conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances, described in section 479A of the Higher Education Act.

COVID-19 may impact various parts of the University's Fiscal Year 2022 and future fiscal years' operations and financial results. Management believes the University is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

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GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NUMBER OF EMPLOYEES
For the Year Ended June 30,

	<u>2021</u>	<u>2020</u>
<u>AVERAGE FULL-TIME EMPLOYEES</u>		
By Function		
Instruction	335.0	324.7
Academic Support	206.7	204.7
Student Services	32.7	35.0
Institutional Support	300.0	327.7
Operation and Maintenance of Plant	51.0	49.7
Auxiliary Activities	8.3	6.0
Total Full-Time Equivalent Employees	<u>933.7</u>	<u>947.8</u>

Note 1: This schedule presents the average number of employees, by function, at the University.

Note 2: Full-time equivalents were prepared in accordance with the State of Illinois, Board of Higher Education's methodology where (1) each employee with a full-time contract is counted as a full-time equivalent and (2) each part-time employee is multiplied by the number of months worked and then divided by 12 to derive their full-time equivalency.

	<u>2021</u>	<u>2020</u>
By Type		
Faculty	335.0	324.7
Academic Professionals	161.0	192.0
Support Staff	308.0	254.3
Other	129.7	176.8
Total Full-Time Equivalent Employees	<u>933.7</u>	<u>947.8</u>

Note 1: This schedule presents the average number of employees, by type, at the University.

Note 2: The other category includes graduate assistants, student workers, and extra-help employees.

Note 3: Full-time equivalents were prepared in accordance with the State of Illinois, Board of Higher Education's methodology where (1) each employee with a full-time contract is counted as a full-time equivalent and (2) each part-time employee is multiplied by the number of months worked and then divided by 12 to derive their full-time equivalency.

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GOVERNORS STATE UNIVERSITY
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COST STATISTICS
For the Year Ended June 30,

	<u>2021</u>	<u>2020</u>
<u>Appropriations Method (Note 1)</u>		
Main Campus		
Total Costs	\$ 23,193,600	\$ 23,193,600
Full-Time Equivalent Students (Note 3)	3,613	3,740
Cost Per Full-Time Equivalent Student	<u>\$ 6,419</u>	<u>\$ 6,201</u>

Instructional Expenses Method (Note 2)

Main Campus

Total Costs	\$ 59,959,445	\$ 43,810,798
Full-Time Equivalent Students (Note 3)	3,613	3,740
Cost Per Full-Time Equivalent Student	<u>\$ 16,595</u>	<u>\$ 11,714</u>

Note 1: The total cost for the appropriations method equals the amount of funds appropriated to the University for the fiscal year. Expenditures related to salaries are prioritized for appropriation funding and vouchered to the State of Illinois accordingly. Instructional costs are greater than the amount of appropriations received.

Note 2: The total cost for the instructional expenses method is total operating expenses related to instruction from the University's Statement of Revenues, Expenses, and Changes in Net Position.

Note 3: Full-time equivalent students are calculated in accordance with the guidelines established by the Illinois Board of Higher Education (IBHE), which is determined by dividing the total credit hours generated in the fiscal year by 30 hours for undergraduate students and 24 hours for graduate students.

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GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
DISCLOSURE OF EMERGENCY PURCHASES
For the Year Ended June 30, 2021

The University did not have any emergency purchases during Fiscal Year 2021; however, the University had one emergency purchase that continued from previous fiscal years. The need for these emergency services also concluded during Fiscal Year 2021.

Immediate Need for Legal Services to Prevent Disruption of the University Services

Obligation Number:	Emergency Award Number 040819
Vendor:	Burke, Burns & Pinelli, Ltd.
Estimated Amount:	\$787,000
Final Amount:	\$826,447

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GOVERNORS STATE UNIVERSITY
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HOUSING BENEFITS
For the Year Ended June 30, 2021

Lodging Provided for the Convenience of the Employer

The University, as a condition of employment with each resident assistant, provides a free room in a four-bedroom single occupancy apartment, so they can immediately respond to emergencies occurring during the academic year. All maintenance and repairs to the room, except for intentional damage or gross negligence, is paid for by the University, along with all utility costs in accordance with each resident assistant's contract. The University has deemed the rooms for its resident assistants as a fringe benefit excluded from taxable income.

The University, as a condition of employment with each faculty-in-residence, provides a 2-bedroom apartment within student housing, to promote interaction between students and faculty through out-of-classroom experiences. All maintenance and repairs to the room is paid for by the University, along with all utilities, cable service and wireless internet. The University has deemed the rooms for its faculty-in-residence as a fringe benefit excluded from taxable income.

Other Lodging

The University provides the University President with a monthly stipend for the purchase, or lease and maintenance, of a personal residence. The stipend is considered a taxable fringe benefit by the University.

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GOVERNORS STATE UNIVERSITY
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ANALYSIS OF OVERTIME AND COMPENSATORY TIME
For the Year Ended June 30,

FUNCTION	2021	2020
Instruction		
Overtime Hours Paid	239	324
Compensatory Hours Granted	185	499
Total	424	823
Value of Overtime Hours Paid	\$ 7,110	\$ 9,172
Value of Compensatory Hours Granted	3,418	8,893
Total Costs	\$ 10,528	\$ 18,065
Research		
Overtime Hours Paid	-	4
Compensatory Hours Granted	-	-
Total	-	4
Value of Overtime Hours Paid	\$ -	\$ 143
Value of Compensatory Hours Granted	-	-
Total Costs	\$ -	\$ 143
Public Service		
Overtime Hours Paid	39	103
Compensatory Hours Granted	75	53
Total	114	156
Value of Overtime Hours Paid	\$ 1,481	\$ 2,572
Value of Compensatory Hours Granted	1,202	816
Total Costs	\$ 2,683	\$ 3,388
Academic Support		
Overtime Hours Paid	15	84
Compensatory Hours Granted	-	-
Total	15	84
Value of Overtime Hours Paid	\$ 556	\$ 2,684
Value of Compensatory Hours Granted	-	-
Total Costs	\$ 556	\$ 2,684
Student Services		
Overtime Hours Paid	71	151
Compensatory Hours Granted	12	64
Total	83	215
Value of Overtime Hours Paid	\$ 1,989	\$ 5,223
Value of Compensatory Hours Granted	139	1,040
Total Costs	\$ 2,128	\$ 6,263

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GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
ANALYSIS OF OVERTIME AND COMPENSATORY TIME
For the Year Ended June 30,

	<u>2021</u>	<u>2020</u>
Institutional Support		
Overtime Hours Paid	86	298
Compensatory Hours Granted	59	147
Total	<u>145</u>	<u>445</u>
Value of Overtime Hours Paid	\$ 2,800	\$ 9,283
Value of Compensatory Hours Granted	1,213	2,869
Total Costs	<u>\$ 4,013</u>	<u>\$ 12,152</u>
Operation and Maintenance of Plant		
Overtime Hours Paid	7,336	6,844
Compensatory Hours Granted	261	391
Total	<u>7,597</u>	<u>7,235</u>
Value of Overtime Hours Paid	\$ 345,335	\$ 320,157
Value of Compensatory Hours Granted	7,689	11,602
Total Costs	<u>\$ 353,024</u>	<u>\$ 331,759</u>
Auxiliary Enterprises		
Overtime Hours Paid	831	1,478
Compensatory Hours Granted	8	5
Total	<u>839</u>	<u>1,483</u>
Value of Overtime Hours Paid	\$ 32,908	\$ 47,326
Value of Compensatory Hours Granted	345	97
Total Costs	<u>\$ 33,253</u>	<u>\$ 47,423</u>
GRAND TOTAL - UNIVERSITY		
Overtime Hours Paid	8,617	9,286
Compensatory Hours Granted	600	1,159
Total	<u>9,217</u>	<u>10,445</u>
Value of Overtime Hours Paid	\$ 392,179	\$ 396,560
Value of Compensatory Hours Granted	14,006	25,317
Total Costs	<u>\$ 406,185</u>	<u>\$ 421,877</u>

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MAJOR CONSTRUCTION PROJECTS
For the Year Ended June 30, 2021

Jaguar Dining Center (Cafeteria) - Equipment/Infrastructure Replacement

The new Jaguar Dining Center officially opened on August 31, 2020. The overhaul of the 17,500-square-foot café features expanded and renovated spaces now serving as cafeteria stations, the dining area, and the kitchen. Renovation began mid-April 2020 and currently features spaced serving stations and socially distanced seating. Although the Dining Center is designed to accommodate over 200 seats, the University currently set the Dining Center so social distancing can be practiced in accordance with the Center for Disease Control (CDC) as well as Illinois Board of Higher Education (IBHE) guidelines. The renovation was substantially completed as of June 30, 2021.

Pathway Lighting (Vehicular/Pedestrian Circulation Renovations)

For campus safety and improvement of vehicular/pedestrian circulation, the University has completed its Alumni Pathway lighting and emergency phones project subsequent to June 30, 2020. This project used solar powered and wired equipment covering 4,200 linear feet. Although maintenance costs are higher for solar powered equipment, lower operating costs offset the higher cost of maintenance. The project was completed as of June 30, 2021.

Building(s) Roof Replacement/Safety Upgrading

Of the 286,000 net square footage of roofing covering the University's main campus complex, over half (163,000 square feet) is over twenty years old. The relationship between fully-functional roofing and the structural soundness of the buildings underneath is self-evident. Construction bids related to the roof replacements of the other buildings (A, B, and the Center for Performing Arts) are being processed through the Illinois Capital Development Board (CDB). The project is ongoing as of June 30, 2021.

Deteriorating Piping/Domestic Water Line Replacement and Washroom Upgrade

This project is to replace corroded domestic water pipes, sewer, and storm drains in buildings A through E, as well as remodel/upgrade the washrooms. This project is planned for a phased approach; it is estimated to take three to four years to complete; and is currently being coordinated by the University and the CDB.

Campus Roadway and Sidewalk Improvements

Projects replacing and renovating campus roadways and sidewalks are currently being coordinated by the University and the CDB.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
MAJOR CONSTRUCTION PROJECTS
For the Year Ended June 30, 2021

HVAC Replacement and Upgrade

A number of the University's boilers, HVAC equipment, and RTU (Roof-top Units) have ongoing issues because of poor design, improper ductwork, air distribution, and the age of the equipment. Replacements are necessary to bring the University's facility up to current code, as well as creating greater safety and efficiency.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SPECIAL DATA REQUIREMENTS FOR UNIVERSITY ENGAGEMENTS
For the Year Ended June 30, 2021

Purpose

In accordance with a July 25, 2000, memorandum from the Office of the Auditor General entitled “*Matters Regarding University Audits*”, certain supplemental data is required to be reported for University engagements. The table below cross references the requirements (indicated by number and letter paragraph references) to the University financial audit and compliance examination reports for the year ended June 30, 2021, where such special data is found.

Compliance Findings

- 13(a) There were no violations of the compliance requirements of the *University Guidelines* identified during the financial audit and compliance examination of the University for the year ended June 30, 2021.

Indirect Cost Reimbursements

- 13(b) A statement of the sources and application of indirect cost recoveries is presented on page 57 within this report.
- 13(c) The University’s calculation sheet for indirect cost carryforward and any required remittance to the University’s Income Fund is presented within this report on page 89.

Tuition Charges and Fees

- 13(d) There were no diversions of tuition revenues to auxiliary enterprise operations identified during the financial audit and compliance examination of the University for the year ended June 30, 2021.

Auxiliary Enterprises, Activities and Accounting Entities

- 13(e) An identification of each specific accounting entity and a description of each entity’s sources of revenues and purpose are presented within this report on page 58.
- 13(f) The present financial statements for each accounting entity are presented on pages 60 through 64 within this report. These financial statements should be read in conjunction with the University’s audited financial statements for the year ended June 30, 2021.
- 13(g) The University’s calculation sheets for current excess funds within each accounting entity and any required remittance to the University’s Income Fund are presented within this report on page 88.

As further described in the Independent Accountant’s Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SPECIAL DATA REQUIREMENTS FOR UNIVERSITY ENGAGEMENTS
For the Year Ended June 30, 2021

- 13(h) The following is a schedule of indirect subsidies to Auxiliary Enterprises and Activities for the year ended June 30, 2021:

Auxiliary Enterprises:	
University Facilities System Revenue Bonds	\$ 1,740,607
Center for Performing Arts	389,896
	<u>\$ 2,130,503</u>
Activities:	
Educational and Student Life Activities	\$ 1,758,892
University Service Departments	3,386
	<u>\$ 1,762,278</u>

Indirect subsidies represent support received by Auxiliary Enterprises and Activities from State appropriated funds for retirement and group insurance benefits. There were no direct subsidies to Auxiliary Enterprises and Activities from appropriated funds during the year ended June 30, 2021.

- 13(i) The present financial statements for Housing, the Student Center, Bookstore, Parking, Food Service and Vending entities which are covered by a bond indenture are presented on pages 70-72 in the financial audit report. A description of the Housing, the Student Center, Bookstore, Parking, Food Service and Vending entities' sources of revenues and purpose are presented within this report on page 58.
- 13(j) There were no violations of the University's bond covenants identified during the financial audit and compliance examination for the year ended June 30, 2021.
- 13(k) The University does not currently have any non-instructional facilities reserves established by the University's Board of Trustees.

University Related Organizations (UROs)

- 13(l) The University recognizes the Governors State University Foundation (Foundation) as a University Related Organization. The University does not have any "Independent Organizations" under Section VII of the *University Guidelines*.
- 13(m) The Foundation does not pay the University for services provided. Compensation is in the form of University support. See page 86 of this report for details related to services and support provided.

As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SPECIAL DATA REQUIREMENTS FOR UNIVERSITY ENGAGEMENTS
For the Year Ended June 30, 2021

- 13(n) The University does not pay the Foundation for services provided. Compensation is in the form of services and facilities provided. See footnote 11 on page 62 of the financial audit report for details related to services and support provided.
- 13(o) As of June 30, 2021, there are no unreimbursed subsidies to the Foundation from the University or appropriated funds.
- 13(p) There is no debt financing provided by the Foundation.

Other Topics

- 13(q) The University's cash and cash equivalents are disclosed within the financial audit report in Notes 3 and 4 on pages 34-38. The University's investments are disclosed within the financial audit report in Notes 3 and 4 on pages 34-38.
- 13(r) Income from the investment of pooled funds is credited to the University's Income Fund. Income from the investment of non-pooled funds is credited to the fund making the investment.
- 13(s) The cost per full-time equivalent student, prepared in accordance with the requirements of the State of Illinois, Board of Higher Education, is presented within this report on page 76.
- 13(t) The University and its Foundation did not purchase any real estate with an acquisition cost in excess of \$250,000 that was not funded by a separate, specific appropriation from the General Assembly.
- 13(u) The University's Certificate of Participation issuances are disclosed within the financial audit report in Note 9 on pages 55-61.

Other Schedules

- 13(1) An analysis of State appropriations to the University is presented on pages 47 through 49 within this report. In addition, the University's analysis of significant variations in expenditures and significant spending during the Lapse Period is presented within this report on page 50 and 51, respectively.
- 13(2) A Comparative Schedule of Revenues and Expenses for the University's Income Fund is presented on page 59 within this report.
- 13(3) Separate schedules of tuition and fee waivers for undergraduate and graduate students, respectively, are presented within this report on page 87.

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SUMMARY OF FOUNDATION TRANSACTIONS WITH THE UNIVERSITY
For the Year Ended June 30, 2021

During Fiscal Year 2021, the University engaged the Foundation, under contract, to provide fundraising services. As provided in the contract agreement, the University provided \$315,085 of services to the Foundation equal to the cost of the services the Foundation provided the University for the fiscal year ended June 30, 2021. In addition, the Foundation supported the University with funds considered to be unrestricted for purposes of the University Guidelines computations and other non-qualifying restricted funds.

Presented below is a summary of cash support provided to the University by the Foundation for the fiscal year ended June 30, 2021.

Funds considered unrestricted for purposes of the University Guidelines computations:

Restricted only as to campus, college or department and generally available for on-going University operations:	
- Given to a particular college	\$ 2,350
- Given to a particular department	331,340
Total funds considered unrestricted	<u>333,690</u>

Funds considered restricted for purposes of the University Guidelines computations:

Given for the Center for Performing Arts	34,500
Given for scholarships	<u>397,118</u>
Total funds considered restricted	<u>431,618</u>

Total funds provided to the University by the Foundation	<u>\$ 765,308</u>
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As further described in the *Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report*, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF TUITION AND FEE WAIVERS
For the Year Ended June 30, 2021

	Undergraduate				Graduate			
	Tuition Waivers		Fee Waivers		Tuition Waivers		Fee Waivers	
	Number of Recipients	Value of Waivers (In Thousands)	Number of Recipients	Value of Waivers (In Thousands)	Number of Recipients	Value of Waivers (In Thousands)	Number of Recipients	Value of Waivers (In Thousands)
Mandatory Waivers								
Teacher Special Education	-	\$ -	-	\$ -	7	\$ 30.5	7	\$ 7.6
DCFS	5	24.1	5	6.1	-	-	-	-
Children of Employees	26	68.5	-	-	-	-	-	-
Senior Citizens	6	20.9	-	-	9	24.0	-	-
Veterans Grants & Scholarships	88	235.4	88	58.8	54	201.3	54	50.3
Subtotal	125	348.9	93	64.9	70	255.8	61	57.9
Discretionary Waivers								
Faculty/Administrators	8	24.9	8	6.3	29	147.4	29	36.8
Civil Service	7	26.3	7	6.5	14	59.9	14	14.9
Academic/Other Talent	108	536.1	108	134.0	3	10.0	12	2.5
AIM High Match	288	471.8	288	117.9	-	-	-	-
Athletics	93	333.6	93	83.4	3	16.2	3	4.1
Cooperating Professionals	-	-	-	-	1	1.1	1	0.3
Foreign Exchange	1	2.5	1	0.7	21	52.2	21	13.1
Other Assistants	-	-	-	-	91	469.0	91	117.3
Interinstitutional	37	124.0	37	31.0	52	217.6	52	54.4
Subtotal	542	1,519.2	542	379.8	214	973.4	223	243.4
Total	667	\$ 1,868.1	635	\$ 444.7	284	\$ 1,229.2	284	\$ 301.3

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF EXCESS FUNDS CALCULATION BY ENTITY AS REQUIRED
BY 1982 UNIVERSITY GUIDELINES (AMENDED 2020)
For the Year Ended June 30, 2021

	Auxiliary Enterprises		Activities	
	University	Center for	Educational	University
	Facilities	Performing	and Student	Service
	System Revenue	Arts	Life Activities	Departments
	Bonds			
Current available funds:				
Cash and cash equivalents	A \$ 254,845	\$ 6,136	\$ 5,265,396	\$ -
Working capital allowance:				
Highest month's expenditures	1,331,905	60,296	2,411,272	56,289
Current liabilities paid during lapse period	486,171	7,257	588,058	21,260
Unearned revenue	207,564	-	414,562	-
Working capital allowance	B 2,025,640	67,553	3,413,892	77,549
Current excess funds (margin of compliance):				
Deduct B from A	\$ (1,770,795)	\$ (61,417)	\$ 1,851,504	\$ (77,549)
Calculation of net excess funds for remittance:				
Indentured capital reserves:				
Unspent project proceeds included in cash above			\$ -	
Funds reserved for debt retirement			-	
Nonindentured capital reserves:				
5% of the replacement cost of buildings and improvements			5,270,783	
10% of the historical cost of parking lots			-	
20% of the historical cost of equipment			-	
Total allowable capital reserves			\$ 5,270,783	
Net excess funds			\$ (3,419,279)	

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF INDIRECT COST FUNDS TO BE DEPOSITED INTO THE UNIVERSITY INCOME
FUND AS REQUIRED BY 1982 UNIVERSITY GUIDELINES (AMENDED 2020)
For the Year Ended June 30, 2021

Cash and cash equivalents balance:	
Cash and cash equivalents	<u>\$ 2,381,019</u>
Actual cash carried forward	<u>2,381,019</u>
Less: Allowable carry-forward per formula:	
Allocated reimbursements: 30% of total indirect cost reimbursements allocated for expenditure for the fiscal year completed (\$7,567,810 x 30%)	2,270,343
Unallocated reimbursements: Lesser of actual unallocated indirect cost reimbursements for the fiscal year completed or 10% of total indirect cost allocations for the fiscal year completed	-
Current liabilities paid in lapse period	<u>112,618</u>
Maximum allowable carry-forward	<u>2,382,961</u>
Excess cash and cash equivalents to be deposited into the University Income Fund	<u><u>\$ -</u></u>

As further described in the Independent Accountant's Report on Disclosures Accompanying a State Compliance Examination Report, the accountants do not express an opinion or any form of assurance on this report component.

**GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois**

**FEDERAL SINGLE AUDIT
(In Accordance with the Single Audit Act
and Applicable Federal Regulations)
For the Year Ended June 30, 2021**

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

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FEDERAL SINGLE AUDIT
In Accordance with the Single Audit Act and Applicable Federal Regulations
For the Year Ended June 30, 2021

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Governors State University's Financial Audit and State Compliance Examination for the Year Ended June 30, 2021 have been issued under separate covers.	

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FEDERAL SINGLE AUDIT
In Accordance with the Single Audit Act and Applicable Federal Regulations
For the Year Ended June 30, 2021

UNIVERSITY OFFICIALS

President	Dr. Cheryl F. Green
Vice President for Administration and Finance (October 11, 2021 to Present)	Dr. Corey S. Bradford
Vice President for Administration and Finance (July 1, 2020 to October 15, 2021)	Dr. W. Paul Bylaska
General Counsel and Vice President (November 16, 2020 to Present)	Ms. Therese Nohos
General Counsel and Vice President (July 1, 2020 to November 15, 2020)	Vacant
Chief Internal Auditor	Mr. Kristoffer Evangelista, CPA
Associate Vice President for Finance	Ms. Villalyn Baluga, CPA

OFFICERS OF THE UNIVERSITY BOARD OF TRUSTEES

Chairman	Ms. Lisa Harrell
Vice Chairman	Mr. Kevin Brookins
Secretary	Mr. James Kvedaras

UNIVERSITY BOARD OF TRUSTEES

Trustee	Ms. Jeanine Latrice Koger, Student
Trustee	Mr. Pedro Cevallos-Candau
Trustee	Mr. Kevin Brookins
Trustee	Mr. John Brudnak
Trustee	Ms. Lisa Harrell
Trustee	Ms. Angela Sebastian
Trustee	Mr. James Kvedaras
Trustee	Mr. Anibal Taboas

UNIVERSITY OFFICE

1 University Parkway
University Park, Illinois 60484

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FEDERAL SINGLE AUDIT
In Accordance with the Single Audit Act and Applicable Federal Regulations
For the Year Ended June 30, 2021

FEDERAL COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this audit of Governors State University (University) was conducted in accordance with the Single Audit Act, Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Guidance Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Government Auditing Standards.*

AUDITOR'S REPORT

The Independent Auditor's Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards, and the Schedule of Federal and Nonfederal Activity does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	5	3
Repeated findings	2	2
Prior recommendations implemented or not repeated	1	3

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
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CURRENT FINDINGS GOVERNMENT AUDITING STANDARDS

2021-001	13	2020/2020	Inadequate Internal Controls Over Census Data	Material Weakness / Noncompliance
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CURRENT FINDINGS FEDERAL COMPLIANCE

2021-002	17	New	Exit Counseling	Significant Deficiency / Noncompliance
2021-003	19	New	Enrollment Reporting	Significant Deficiency / Noncompliance
2021-004	21	New	Fiscal Operations Report	Significant Deficiency / Noncompliance
2021-005	23	2020/2016	Federal Perkins Loan Cohort Default Rate Too High	Noncompliance

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FEDERAL SINGLE AUDIT
In Accordance with the Single Audit Act and Applicable Federal Regulations
For the Year Ended June 30, 2021

SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>
PRIOR FINDINGS NOT REPEATED			
A	25	2020/2014	Failure to Meet Earmarking Requirements for Head Start Program

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
FEDERAL SINGLE AUDIT
In Accordance with the Single Audit Act and Applicable Federal Regulations
For the Year Ended June 30, 2021

EXIT CONFERENCE

Governors State University waived an exit conference in a correspondence from Ms. Villalyn Baluga, Associate Vice President for Finance, on June 14, 2022. The responses to the recommendations were provided by Ms. Villalyn Baluga, Associate Vice President for Finance, in correspondences dated May 25, 2022 and June 15, 2022.



Certified Public Accountants & Consultants

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815.933.1771 • fax: 815.933.1163

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Governors State University (University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated May 25, 2022. Our report includes a reference to another auditor who audited the financial statements of the 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 the 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 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2021-001.

Internal Control Over Financial Reporting

Management of the 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 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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

Our consideration of internal control was for the limited purpose described in the above paragraphs of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2021-001 that we consider to be a material weakness.

University's Response to the Findings

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

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
May 25, 2022



Certified Public Accountants & Consultants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE; REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE; AND REPORT ON THE SCHEDULE OF FEDERAL AND NONFEDERAL FINANCIAL ACTIVITY

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

The Board of Trustees
Governors State University

Report on Compliance for Each Major Federal Program

As Special Assistant Auditors for the Auditor General, we have audited compliance by Governors State University (University) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2021. The University's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The University's basic financial statements include the operations of Governors State University Foundation, a component unit of the University, which is not included in the University's Schedule of Expenditures of Federal Awards during the year ended June 30, 2021. Our audit, as described below, did not include the operations of this component unit because the component unit engaged other auditors to perform an audit of their financial statements.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit

requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-002 through 2021-005. Our opinion on each major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Additionally, the University is responsible for preparing a corrective action plan to address each finding included in our auditor's report. The University's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the corrective action plan.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance

requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2021-002 through 2021-004 that we consider to be significant deficiencies.

The University's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and the Report on the Schedule of Federal and Nonfederal Financial Activity

We have audited the financial statements of the business-type activities of Governors State University and its discretely presented component unit as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated May 25, 2022, which contained unmodified opinions on those financial statements. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of basic the financial statements. In addition, the accompanying Schedule of Federal and Nonfederal Activity is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of

Expenditures of Federal Awards and the Schedule of Federal and Nonfederal Activity are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SIGNED ORIGINAL ON FILE

Kankakee, IL

June 27, 2022

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR'S RESULTS
For the Year Ended June 30, 2021

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- | | | | | |
|---|---------------|-----|---------------|---------------|
| • Material weakness(es) identified? | <u> X </u> | Yes | <u> </u> | No |
| • Significant deficiency(ies) identified? | <u> </u> | Yes | <u> X </u> | None Reported |

Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No
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Federal Awards

Internal control over major programs:

- | | | | | |
|---|---------------|-----|---------------|---------------|
| • Material weakness(es) identified? | <u> </u> | Yes | <u> X </u> | No |
| • Significant deficiency(ies) identified? | <u> X </u> | Yes | <u> </u> | None reported |

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 C.F.R. section 516(a)?	<u> X </u>	Yes	<u> </u>	No
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GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR'S RESULTS
For the Year Ended June 30, 2021

Identification of major federal programs:

Assistance Listing Numbers	Name of Federal Program or Cluster
	<u>Student Financial Assistance Cluster:</u>
84.268	Federal Direct Student Loans
84.063	Federal Pell Grant Program
84.038	Federal Perkins Loan Program - Federal Capital Contributions
84.033	Federal Work-Study Program
84.007	Federal Supplemental Educational Opportunity Grants
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)
93.264	Nurse Faculty Loan Program (NFLP)
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds
	<u>Research and Development Cluster</u>
84.031A	Higher Education – Institutional Aid
84.220	Centers for International Business Education
93.859	Biomedical Research and Research Training
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research
47.076	Education and Human Resources
47.074	Biological Sciences
84.425	<u>COVID 19 - Education Stabilization Fund</u>

Dollar threshold used to distinguish between type A and type B
programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021

CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA

Governors State University (University) did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the University's employees are members of both the State Universities Retirement System (SURS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, CMS' actuaries use census data for employees of the State's public universities provided by SURS along with census data for the other participating members which is provided by the State's four other pension plans to prepare the projection of the OPEB plan's liabilities.

During testing, we noted the following:

- The University had not performed an initial complete reconciliation of its census data recorded by SURS to its internal records to establish a base year of complete and accurate census data.
- After establishing a base year, the University had not developed a process to annually obtain from SURS the incremental changes recorded by SURS in their census data records and reconcile these changes back to the University's internal supporting records.

Based on information we obtained while performing our audit, we learned these deficiencies are pervasive across the public universities participating in SURS and across the State's agencies participating in one of the other four State pension plans, the State Employees' Retirement System of Illinois. These conditions significantly increase the risk there could be errors at one or more employers within the plans, and these errors could have a significant impact on SURS' and CMS' measurement of pension and OPEB liabilities, respectively.

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CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

In addition, we noted errors within CMS' allocation of OPEB-related balances across the State's funds, public universities, and the Illinois State Toll Highway Authority related to a failure by CMS to account for a separately financed specific OPEB liability for certain groups of employees at one component unit of the State. The impact of these errors resulted in the University restating its beginning net position by \$16,829,183 as of July 1, 2020.

Based upon the significance of these issues alone, we concluded a material weakness exists within the University's internal controls related to ensuring both SURS and CMS can provide their respective actuaries with complete and accurate census data related to the University's active employees. Even given these exceptions, we performed detail testing of a sample of employees and certain data analysis tests of the total population of the University's census data transactions reported to SURS and noted that one of 512 employees that taught a course during either the Fall 2018 or Spring 2019 semester on a continuous basis for four months or one academic term, whatever is less was improperly excluded from SURS. In earlier years, this employee took refunds of their prior contributions; however, this does not preclude the employee from participating in the future. SURS determined the total potential impact to the employee's total service credit could be off by 3.5 years.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Additionally, eligibility criteria for participation in SURS under the Illinois Pension Code (Code) (40 ILCS 5/15-134(a)) states any person who is an employee of the University becomes a participant in SURS. Under the Code (40 ILCS 5/15-107), an employee is a person who works for the University in a secretarial, mechanical, labor, clerical, educational, administrative, or other staff position which is either (a) permanent and continuous or (b) for a period of four months or an academic term, whichever is less, who is:

- 1) not a student employed on a less than full-time temporary basis;
- 2) not receiving a retirement or disability annuity from SURS;
- 3) not on military leave;
- 4) not eligible to participate in the Federal Civil Service Retirement System,

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CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

- 5) not currently on a leave of absence without pay more than 60 days after the termination of SURS' disability benefits;
- 6) not paid from funds received under the Federal Comprehensive Employment and Training Act as a public service employment program participant hired on or after July 1, 1979;
- 7) not a patient in a hospital or home;
- 8) not an employee compensated solely on a fee basis where such income would net earnings from self-employment;
- 9) not providing military courses pursuant to a federally-funded contract where the University has filed a written notice with SURS electing to exclude these persons from the definition of an employee;
- 10) currently on lay-off status of not more than 120 days after the lay-off date;
- 11) not on an absence without pay of more than 30 days; and,
- 12) a nonresident alien on a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the United States Code who (1) has met the Internal Revenue Service's substantial presence test and (2) became an employee on and after July 1, 1991.

Further, for CMS' OPEB plan, we noted participation in OPEB is derivative of an employee's eligibility to participate in SURS, as members of SURS participate in OPEB as annuitants under the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3(b)).

In addition, the Illinois Pension Code (40 ILCS 5/15-157) requires the University to, at a minimum, withhold contributions of each employee's total compensation of 8% (9.5% for firefighters or police officers) for their participation in SURS, unless further contributions by the employee would either exceed the maximum retirement annuity in the Code (40 ILCS 5/15-136(c)) or the Tier 2 earnings limitation within the Code (40 ILCS 5/15-111(b)), and remit these amounts to SURS. Further, the Code (40 ILCS 5/15-155(b)) requires the University remit employer contributions to SURS reflecting the accruing normal costs of an employee paid from federal or trust funds. Additionally, the Act (5 ILCS 375/10) requires active employees to make contributions as set by CMS and the Act (5 ILCS 375/11) requires employer contributions by the University for all employees not totally compensated from its Income Fund, local auxiliary funds, and the Agricultural Premium Fund.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

University officials indicated:

- The University had no established practice or procedure to verify the census data submitted by SURS to the plan actuaries are complete and accurate.

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CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS

2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA (Continued)

- The University believed that once an employee received a refund of prior SURS contributions it precluded the employee from SURS participation in the future.

Failure to ensure complete and accurate census data was reported to SURS could result in a material misstatement of the University's financial statements and reduced the overall accuracy of pension/OPEB-related liabilities, deferred inflows and outflows of resources, and expense recorded by the State, the State's agencies, and other public universities and community colleges across the State. In addition, failure to reconcile active members' census data reported to and held by SURS to the University's internal records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the pension and OPEB balances, which could result in a material misstatement of these amounts. Finally, the allocation error involving one component unit in the OPEB plan resulted in misstatements within each employer's allocation, which resulted in a restatement at the University. (Finding Code No. 2021-001, 2020-001)

RECOMMENDATION

We recommend the University implement controls to ensure census data events are timely and accurately reported to SURS.

Further, we recommend the University work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary. After completing an initial full reconciliation, the University may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods. Any errors identified during this process should be promptly corrected by either the University or SURS, with the impact of these errors communicated to both SURS' actuary and CMS' actuary.

Finally, we recommend the University work with SURS and CMS to identify and address any unremitted or erroneously remitted employee and, if applicable, employer contributions related to these events.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. Procedures have been established by the University to ensure census data events are reported to SURS timely and accurately. The University will continue to work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary, in accordance with the reconciliation process developed by SURS. On the one employee noted by the auditors that was improperly excluded from SURS, the University is currently working with SURS to determine the actual impact and the related corrective action.

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CURRENT FINDINGS – FEDERAL COMPLIANCE

2021-002 FINDING: EXIT COUNSELING

Federal Department:	U.S. Department of Education
Assistance Listing Number:	84.268
Cluster Name:	Student Financial Assistance Cluster
Program:	Federal Direct Student Loans
Award Numbers:	P268K200567, P268K210567
Questioned Cost:	None
Program Expenditures:	\$27,426,646
Cluster Expenditures:	\$40,197,084

Governors State University (University) did not timely provide exit counseling for Federal Direct Student Loan recipients who ceased half-time study at the University.

We tested a sample of 60 students who received Federal student financial aid. Included in those 60 students were 14 Federal Direct Student Loan recipients who ceased half-time study at the University during Fiscal Year 2021. The University's notification to the students of the need to complete exit counseling was provided 43 days late for 2 (14%) of the students and was never sent for 3 (21%) students. The sample was not intended to be, and was not, a statistically valid sample.

The Code of Federal Regulations (34 CFR 685.304(b)) requires schools to ensure exit counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school. In addition, if a student borrower withdraws from school without the school's prior knowledge or fails to complete the exit counseling as required, exit counseling must, within 30 days after the school learns that the student borrower has withdrawn from the school or failed to complete exit counseling as required, be provided either through interactive electronic means, by mailing written counseling materials to the student borrower at the student borrower's last known address, or by sending written counseling materials to an email address provided by the student borrower that is not an email address associated with the school sending the counseling materials.

The Uniform Guidance (2 CFR 200.303) requires nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and terms and conditions of the Federal award. Effective internal controls should include procedures to ensure the University conducts timely exit counseling for students that have received Federal Direct Student Loans and have ceased half-time study at the school.

University officials indicated the Office of Financial Aid receives a report from the Office of the Registrar indicating which students have ceased half-time enrollment and due to issues with the timing of reports, some exit counseling notifications were sent out late. The notifications not sent at all were due to oversight.

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CURRENT FINDINGS – FEDERAL COMPLIANCE

2021-002 FINDING: EXIT COUNSELING (Continued)

Failure to conduct timely exit counseling resulted in students not being notified of their rights and responsibilities, and could result in the loss of Federal funding. (Finding Code No. 2021-002)

RECOMMENDATION

We recommend the University conduct timely exit counseling in accordance with Federal regulations.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation and has updated its procedures to conduct timely exit counseling in accordance with Federal regulations.

GOVERNORS STATE UNIVERSITY
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CURRENT FINDINGS – FEDERAL COMPLIANCE

2021-003 FINDING: ENROLLMENT REPORTING

Federal Department:	U.S. Department of Education
Assistance Listing Number:	84.268
Cluster Name:	Student Financial Assistance Cluster
Program Name:	Federal Direct Student Loans
Award Numbers:	P268K200567, P268K210567
Questioned Cost:	None
Program Expenditures:	\$27,426,646
Cluster Expenditures:	\$40,197,084

Governors State University (University) did not accurately and timely report student enrollment information to the U.S. Department of Education’s National Student Loan Data System (NSLDS).

During our audit, we tested 25 students who experienced a change in enrollment status during the fiscal year. Our testing identified two students (8%) who had a change in enrollment status (graduated) which was not reported accurately to the NSLDS (student was erringly reported as withdrawn). These two students were reported to NSLDS 119 days (59 days late) after the status change.

The sample was not intended to be, and was not, a statistically valid sample.

The Code of Federal Regulations (34 CFR 685.309) requires the University, upon the receipt of an enrollment report from the Secretary, to update all information included in the report and return the report to the Secretary within the timeframe prescribed by the Secretary. It further requires the University to report enrollment changes within 30 days unless a roster file is expected within 60 days, in which case the enrollment data may be updated on that roster file.

The Uniform Guidance (2 CFR 200.303) requires nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and terms and conditions of the Federal award. Effective internal controls should include procedures to ensure accurate and timely student enroll status reports are submitted to NSLDS.

University officials stated the Registrar’s office did not timely and accurately update student enrollment with NSLDS due to delays in transitioning students to graduate status in the University’s system.

Enrollment reporting in a timely and accurate manner is critical for effective management of the student financial aid programs. Noncompliance with enrollment reporting regulations may result in a loss of future Federal funding. (Finding Code No. 2021-003)

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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CURRENT FINDINGS – FEDERAL COMPLIANCE

2021-003 FINDING: ENROLLMENT REPORTING (Continued)

RECOMMENDATION

We recommend the University improve its procedures to ensure timely and accurate reporting of student enrollment status to the NSLDS.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation and has updated its procedures to ensure timely and accurate reporting of students to NSLDS.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021

CURRENT FINDINGS – FEDERAL COMPLIANCE

2021-004 FINDING: FISCAL OPERATIONS REPORT

Federal Department:	U.S. Department of Education
Assistance Listing Number:	84.038
Cluster Name:	Student Financial Assistance Cluster
Program Name:	Federal Perkins Loan Program – Federal Capital Contributions
Questioned Cost:	None
Program Expenditures:	\$3,257,469
Cluster Expenditures:	\$40,197,084

Governors State University (University) did not have adequate procedures to ensure accurate information was reported and the final changes, corrections, and edits to the Fiscal Operations Report and Application to Participate (FISAP) were timely filed.

During the audit, we noted the University did not report accurate information for the following fields related to the Federal Perkins Loan Program:

	<u>As reported</u>	<u>Correct amount</u>
Part III, Section A, Field 30.2 (Repayments of excess/liquidated fund capital to Institution)	\$77,118	\$95,122
Part III, Section B, Field 13 (Amount of loan service cancellation)	\$ -	\$59,881

We also noted the second submission of the FISAP, which included final changes, corrections and edits, was not timely filed. The University submitted its final FISAP to the U.S. Department of Education on January 18, 2022 (34 days late). (The FISAP's first submission was made timely by the University and there were only minor updates/changes on the final submission.)

The Code of Federal Regulations (34 CFR 674.19 (d)(2)) requires the University to submit a Fiscal Operations Report plus other information required; the information must be accurate and shall be submitted on the form at the time specified.

The Federal Register notice on January 26, 2021 (86 FR 7075) requires corrections to the FISAP be made by December 15, 2021.

The Uniform Guidance (2 CFR 200.303) requires nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and terms and conditions of the Federal award. Effective internal controls should include procedures to ensure accurate information is reported on the FISAP on a timely basis.

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CURRENT FINDINGS – FEDERAL COMPLIANCE

2021-004 FINDING: FISCAL OPERATIONS REPORT (Continued)

University officials stated the input error in FISAP was due to oversight on the part of the employee preparing the FISAP. The amounts were thought to be immaterial differences, and the correct amounts were properly reported and included on the totals column. The late filing of the second submission was due to additional changes that need to be made after the December 15, 2021 deadline. University officials stated changes made were extremely minor and did not affect total amounts of Perkins, FSEOG, or FWS. As allowed by Federal regulations, the University can request to change the information on FISAP even after the deadline, and the University has secured approval from the U.S. Department of Education to submit changes after the deadline.

Failure to timely and accurately submit the University's FISAP may jeopardize future federal funding. (Finding Code No. 2021-004)

RECOMMENDATION

We recommend the University improve procedures to ensure accurate and timely reporting.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation and has updated its procedures to ensure that reporting requirements and deadlines are met.

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CURRENT FINDINGS – FEDERAL COMPLIANCE

2021-005 FINDING: FEDERAL PERKINS LOAN COHORT DEFAULT RATE TOO HIGH

Federal Department:	U.S. Department of Education
Assistance Listing Numbers:	84.038, 84.033, 84.007, 84.063, 84.268, 84.379
Cluster Name:	Student Financial Assistance Cluster
Programs:	Federal Perkins Loan Program – Federal Capital Contributions, Federal Work-Study Program, Federal Supplemental Educational Opportunity Grants, Federal Pell Grant Program, Federal Direct Student Loans, Teacher Education Assistance for College and Higher Education Grants
Award Numbers:	P033A201156, P033A191156, P007A151156, P007A191156, P007A201156, P063P190567, P063P200567, P268K210567, P268K200567, P379T200567, P379T210567
Questioned Cost:	None
Program Expenditures:	\$3,257,469; \$437,855; \$303,625; \$7,662,088; \$27,426,646; \$12,244
Cluster Expenditures:	\$40,197,084

Governors State University's (University) Federal Perkins loan cohort default rate is in excess of the threshold for administrative capability stipulated by the U.S. Department of Education.

The Federal Perkins Loan cohort default rate as of June 30, 2021 (for borrowers who entered repayment during Fiscal Year 2020) was 16.67%, which exceeded the 15% threshold. The University chose to continue servicing their Perkins Loan portfolio after Federal Perkins Loan Program loan originations were discontinued in Fiscal Year 2018.

The Code of Federal Regulations (Code) (34 CFR 668.16) states "to begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution – ... (m)(1) Has a cohort default rate - (iii) as defined in 34 CFR 674.5, on loans made under the Federal Perkins Loan Program to students for attendance at the institution that does not exceed 15 percent."

The U.S. Department of Education's Dear Colleague Letter (DCL ID: GEN-17-10) states institutions that choose to continue to service their outstanding Perkins Loan portfolios must continue to service these loans in accordance with the Federal Perkins Loan Program regulations in 34 CFR 674.

The Uniform Guidance (2 CFR 200.303) requires nonfederal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and terms and conditions of the Federal award. Effective internal controls

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CURRENT FINDINGS – FEDERAL COMPLIANCE

2021-005 FINDING: FEDERAL PERKINS LOAN COHORT DEFAULT RATE TOO HIGH (Continued)

should include procedures to ensure the University maintains a Federal Perkins Loan cohort default rate of less than 15%.

University officials indicated they have met all due diligence requirements with regards to Perkins collections and have worked closely with the collection agency and with former students to facilitate loan consolidations, to reduce the cohort default rate; however economic conditions continue to present challenges for some former students.

Failure to maintain a Federal Perkins Loan cohort default rate below 15% resulted in noncompliance with the Code, the Uniform Guidance, and the U.S. Department of Education's directive. (Finding Code No. 2021-005, 2020-002, 2019-005, 2018-008, 2017-003, 2016-006)

RECOMMENDATION

We recommend the University improve its efforts and procedures to ensure its cohort default rate is not in excess of the threshold for administrative capabilities stipulated by the U.S. Department of Education.

UNIVERSITY RESPONSE

The University agrees with this finding and accepts the recommendation. The University will continue to closely monitor and communicate with students entering on default on a month-to-month basis, in addition to sending defaulted student loans to the Illinois State Comptroller's Offset system.

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PRIOR FINDINGS NOT REPEATED

A FINDING: Failure to Meet Earmarking Requirements for Head Start Program

During the prior audit, Governors State University (University) did not meet the funded enrollment requirement for its Head Start Program (Program).

During the current audit period, the U.S. Department of Health and Human Services (Department) suspended the enrollment requirements for the Program due to the COVID-19 pandemic. The Department will begin monitoring enrollment again beginning January 2022. (Finding Code No. 2020-003, 2019-001, 2018-010, 2017-004, 2016-007, 2015-002, 2014-003)

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For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor Program/Grant Title	Assistance Listing Number	Federal Project or Pass-Through Number	Pass-Through To Subrecipients	FY 2021 Expenditures
MAJOR PROGRAMS				
STUDENT FINANCIAL ASSISTANCE CLUSTER:				
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Federal Direct Student Loans	84.268		\$ -	\$ 27,426,646
Federal Pell Grant Program	84.063		-	7,662,088
Federal Perkins Loan Program - Federal Capital Contributions	84.038		-	3,257,469
Federal Work-Study Program	84.033		-	437,855
Federal Supplemental Educational Opportunity Grants	84.007		-	303,625
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		-	12,244
TOTAL U.S. DEPARTMENT OF EDUCATION			-	39,099,927
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Scholarships for Health Professions Students from Disadvantaged Backgrounds <i>Scholarships for Health Professions Students from Disadvantaged Backgrounds/Occupational Therapy</i>	93.925		-	383,996
Nurse Faculty Loan Program (NFLP) <i>Nurse Faculty Loan Program</i>	93.264		-	713,161
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			-	1,097,157
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER			-	40,197,084
<u>U.S. DEPARTMENT OF EDUCATION</u>				
COVID-19 - Education Stabilization Fund				
COVID-19 - Education Stabilization Fund/Governors State University Emergency Financial Aid Grants Under CARES Act - Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion	84.425E		-	2,733,902
COVID-19 - Education Stabilization Fund/Governors State University Higher Education Emergency Relief Fund (HEERF) - Institutional Portion	84.425F		-	4,415,235
COVID-19 - Education Stabilization Fund/Governors State University Higher Education Emergency Relief Fund (HEERF) - Strengthening Institutions Program (SIP)	84.425M		-	168,455
Passed through the Illinois Board of Higher Education				
COVID-19 - Education Stabilization Fund Program Governor's Emergency Education Relief Fund (GEERF)	84.425C	21GEERGSU	-	515,484
COVID-19 - Education Stabilization Fund Program Governor's Emergency Education Relief Fund (GEERF)	84.425C	21RFP04	-	152,006
Total COVID-19 - Education Stabilization Fund			-	7,985,082
TOTAL U.S. DEPARTMENT OF EDUCATION			-	7,985,082

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Federal Grantor/Pass-Through Grantor Program/Grant Title	Assistance Listing Number	Federal Project or Pass-Through Number	Pass-Through To Subrecipients	FY 2021 Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:				
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Higher Education - Institutional Aid <i>Integrating Pathways: Student Success Through Junior Year Transition</i>	84.031A		-	291,684
Centers for International Business Education Passed through Indiana University <i>Center for International Business Education Research (CIBER)</i>	84.220	IN-4236302-GSU	-	26,813
TOTAL U.S. DEPARTMENT OF EDUCATION			-	318,497
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Biomedical Research and Research Training Passed through the Board of Trustees of the University of Illinois <i>IRACDA at University of Illinois at Chicago</i>	93.859	18121	-	14,514
Family Smoking Prevention and Tobacco Control Act Regulatory Research Passed through the Regents of the University of Michigan <i>Center for the Assessment of the Public Health Impact of Tobacco Regulations</i>	93.077	SUBK00014316	-	6,166
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			-	20,680
<u>NATIONAL SCIENCE FOUNDATION</u>				
Education and Human Resources Passed through Chicago State University <i>Illinois Louis Stokes Alliance for Minority Participation</i>	47.076	53953	-	18,853
Biological Sciences Passed through Cornell University <i>Coastal SEES Collaborative Research</i>	47.074	84104-10936	-	9,959
TOTAL NATIONAL SCIENCE FOUNDATION			-	28,812
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			-	367,989
TOTAL MAJOR PROGRAMS			-	48,550,155
OTHER PROGRAMS				
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Child Care Access Means Parents in School <i>CCAMPIS at Governors State University</i>	84.335A		-	19,174
Undergraduate International Studies and Foreign Language Programs <i>Making Spanish and Global Studies Accessible to All</i>	84.016A		-	35,530
TOTAL U.S. DEPARTMENT OF EDUCATION			-	54,704
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Head Start <i>Early Head Start</i>	93.600		-	1,036,048
<i>COVID-19 - Early Head Start</i>	93.600		-	21,451
Total Head Start			-	1,057,499

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor Program/Grant Title	Assistance Listing Number	Federal Project or Pass-Through Number	Pass-Through To Subrecipients	FY 2021 Expenditures
Mental and Behavioral Health Education and Training Grants <i>Behavioral Health Workforce Education and Training (BHWET)</i>	93.732		-	525,307
Substance Abuse and Mental Health Services Projects of Regional and National Significance <i>Module-Based Substance Use Disorders Training for Behavioral, Medical, and Allied Health Practitioners</i>	93.243		-	28,067
Block Grants for Prevention and Treatment of Substance Abuse Passed through the Illinois Department of Human Services <i>Block Grants for Prevention and Treatment of Substance Abuse</i>	93.959	260134400	-	297,309
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			-	1,908,182
<u>U.S. DEPARTMENT OF COMMERCE</u>				
Cluster Grants <i>Fostering Supply Chain and Logistics Innovation in Chicago Southland</i>	11.020		-	29,567
TOTAL U.S. DEPARTMENT OF COMMERCE			-	29,567
<u>NATIONAL ENDOWMENT FOR THE ARTS</u>				
Promotion of the Arts Partnership Agreements <i>Arts Midwest Touring Fund-MOMIX</i>	45.025		-	2,800
Promotion of the Arts Grants to Organizations and Individuals <i>Importance of Arts Participation for the Sense of Belonging and Academic Outcomes of University Students of Color</i>	45.024		-	2,186
TOTAL NATIONAL ENDOWMENT FOR THE ARTS			-	4,986
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Child and Adult Care Food Program Passed through the Illinois State Board of Education <i>Child and Adult Food Care Program</i>	10.558	56099527051	-	54,224
TOTAL U.S. DEPARTMENT OF AGRICULTURE			-	54,224
TOTAL OTHER PROGRAMS			-	2,051,663
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 50,601,818

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the State of Illinois, Governors State University (University) under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position, or cash flows of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - FEDERAL STUDENT LOAN PROGRAMS

The federal student loan programs listed subsequently are administered directly by the University and balances and transactions relating to these programs are included in the University's basic financial statements. Expenditures reported on the Schedule include loans outstanding at the beginning of the year, loans made during the year, any administrative cost allowance claimed, cash balance of the fund as of the end of the year, and cancellations receivable at the end of the year. The balance of loans outstanding at June 30, 2021 consists of:

Assistance		Outstanding Balance
<u>Listing Number</u>	<u>Program Name</u>	<u>at June 30, 2021</u>
84.038	Federal Perkins Loan Program	\$1,305,864
93.264	Nurse Faculty Loan Program	\$ 311,949

NOTE 4 - SUBRECIPIENTS

During the year ended June 30, 2021, the University did not pass through federal assistance to any subrecipients.

NOTE 5 - NON-CASH ASSISTANCE

The University did not receive any federal non-cash assistance during the year ended June 30, 2021.

NOTE 6 - INSURANCE

The University did not have federally funded insurance in effect during the year ended June 30, 2021.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FEDERAL AND NONFEDERAL FINANCIAL ACTIVITY
For the Year Ended June 30, 2021

The following schedules are used to determine the University's Single Audit costs in accordance with the Uniform Guidance (2 C.F.R. § 200.425).

Schedule A: Federal Financial Component

Total federal expenditures ¹	\$ 50,601,818
Total, Schedule A	<u>\$ 50,601,818</u>

Schedule B: Total Financial Component

Total operating expenses ²	\$ 126,995,340
Total nonoperating expenses ²	1,710,887
Federal loan balances: ^{1,3}	
Perkins Loan Program	3,257,469
Nursing Faculty Loan Program	663,455
Total value of new federal loans: ^{1,4}	
Perkins Loan Program	-
Nursing Faculty Loan Program	49,706
Federal Direct Loans	27,426,646
Other noncash federal award expenditures	-
Total, Schedule B	<u>\$ 160,103,503</u>

Schedule C: Computation of Nonfederal Expenses

Total, Schedule B	\$ 160,103,503	100.0%
Total, Schedule A	50,601,818	31.6%
Total nonfederal expenses	<u>\$ 109,501,685</u>	<u>68.4%</u>

¹ Obtained from the Schedule of Expenditures of Federal Awards

² Obtained from the Statement of Revenues, Expenses, and Changes in Net Positions

³ Balance at the beginning of the fiscal year with continuing compliance requirements

⁴ Balance of loans issued during the fiscal year

CORRECTIVE ACTION PLANS**2021-001 FINDING: INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA**

Corrective Action Plan: The University has established procedures to ensure census data events are reported to SURS timely and accurately. The University will continue to work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary, in accordance with the reconciliation process developed by SURS. On the one employee noted by the auditors that was improperly excluded from SURS, the University is currently working with SURS to determine the actual impact and the related corrective action.

Responsible University Personnel: Josh Allen, Vice President for Human Resources; Sandra Marak, Director of Human Resources.

2021-002 FINDING: EXIT COUNSELING

Corrective Action Plan: The University has updated its procedures to conduct timely exit counseling in accordance with Federal regulations.

Responsible University Personnel: John Perry, Executive Director of Financial Aid and Scholarships.

2021-003 FINDING: ENROLLMENT REPORTING

Corrective Action Plan: The University has updated its procedures to ensure timely and accurate reporting of students to the U.S. Department of Education's National Student Loan Data System.

Responsible University Personnel: Timothy Carrol, Registrar.

2021-004 FINDING: FISCAL OPERATIONS REPORT

Corrective Action Plan: The University has updated its procedures to ensure that reporting requirements and deadlines are met.

Responsible University Personnel: John Perry, Executive Director of Financial Aid and Scholarships; Villalyn Baluga, Associate Vice President for Finance; Linda Theres-Jones, Director/Chief Accountant.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2021

2021-005 FINDING: FEDERAL PERKINS LOAN COHORT DEFAULT RATE TOO HIGH

Corrective Action Plan: The University will continue to closely monitor and communicate with students entering on default on a month-to-month basis, in addition to sending defaulted student loans to the Illinois State Comptroller's Offset system.

Responsible University Personnel: Villalyn Baluga, Associate Vice President for Finance; Linda Theres-Jones, Director/Chief Accountant.

2021-006 FINDING: CHILD ABUSE REPORTER TRAINING

Corrective Action Plan: The University will continue to conduct an annual training for Mandated Reporter Training every spring. The University now asks new employees to take their online training before or during new hire orientation and provide their training certification upon completion. In addition, the University is in the process of automating its onboarding process, which will require all new hires to complete training using the up-to-date forms through the PeopleAdmin system.

Responsible University Personnel: Josh Allen, Vice President for Human Resources; Sandra Marak, Director of Human Resources; Kaitlyn Anne Wild, Director of Compliance & Ethics Officer.

2021-007 FINDING: NONCOMPLIANCE WITH THE CAMPUS SECURITY ENHANCEMENT ACT OF 2008

Corrective Action Plan: The University has secured a new vendor to conduct criminal background investigations prior to hiring employees for all positions, not just security sensitive positions. The University developed a comprehensive policy on criminal background checks similar to other State universities. The University is in the process of evaluating conducting background checks for current employees who hold security sensitive positions but have no background check on file and will perform such check if feasible.

Responsible University Personnel: Josh Allen, Vice President for Human Resources; Sandra Marak, Director of Human Resources; Kaitlyn Anne Wild, Director of Compliance & Ethics Officer.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2021

2021-008 FINDING: INTERNAL AUDIT DEFICIENCIES

Corrective Action Plan: The Office of Internal Audit issued an additional three audits as of June 30, 2021, but the related audit documentation was completed after the auditors' testing, including the full audit of the property, equipment and inventories major system. These audits along with the audits previously furnished to the auditors, provide a full review of all major systems as required by the Fiscal Control and Internal Auditing Act. The Office of Internal Audit will ensure the efficient completion of planned audits and timely issuance of the reports thereon. Further, the Office of Internal Audit is currently hiring an Internal Audit staff to provide additional support to the department.

Responsible University Personnel: Kristoffer Evangelista, Chief Internal Auditor.

2021-009 FINDING: TIME SHEETS NOT PROPERLY MAINTAINED

Corrective Action Plan: The University currently collects and monitors reported time spent on official business from all nonacademic, civil service, and professional and administrative staff. The University is currently developing a policy, revising its procedures, and reviewing existing time reporting requirements for faculty employees in connection with its implementation of an electronic timekeeping system.

Responsible University Personnel: Josh Allen, Vice President for Human Resources; Sandra Marak, Director of Human Resources; Villalyn Baluga, Associate Vice President for Finance; Charles Pustz, Associate Vice President for Information Technology Services and Chief Information Officer.

2021-010 FINDING: WEAKNESSES IN CYBERSECURITY PROGRAMS AND PRACTICES

Corrective Action Plan: Regarding risk management, the University continues to improve and strengthen its risk management activities with its Vendor Risk Management process and annual risk register review. The University's Office of Information Technology Services (ITS) plans to evaluate and propose a timeline for adopting an established risk management methodology during Fiscal Year 2022-2023.

Regarding data classification, a formal Data Classification policy has already been submitted for review on March 9, 2022. Once approved, this policy will be followed by a variety of policies, procedures, and efforts aimed to classify existing data and secure all data based on its classification.

Regarding unauthorized disclosure, a project is well underway to redact all social security numbers within the University's Document Imaging system. A vendor has been hired to perform the bulk

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2021

of this work and it is anticipated to be completed in June 2022.

Regarding the information security program, the foundational information security policy has been drafted and is being reviewed within ITS before being sent for formal approval. Once approved, this policy will formally establish the Information Security Program and its areas of focus, and will guide the creation of supporting policies, standards, and processes for each focus area.

Regarding cybersecurity training, ITS has built and implemented cybersecurity training for faculty and staff over the past two years. ITS will coordinate with the University's Compliance Office and establish monitoring procedures to ensure that all employees complete the annual cybersecurity trainings.

Regarding the communication of policies, ITS will follow the University's process to communicate policies, standards, and procedures.

Regarding a project management framework, processes are in place to ensure that software development projects are properly scoped, tested, documented, and completed. All members of the ITS leadership team are either Project Management Professional (PMP) certified or have taken a Certified Associate in Project Management (CAPM) preparation course through the University's School of Extended Learning.

Regarding security event monitoring:

- A written policy and processes are planned as part of the Information Security Program.
- The University uses multiple products for event monitoring and logging.
- Over the past several months, ITS has worked to build the necessary tracking criteria into the University's ticketing system and intends to use the system to track responses to individual events.

Responsible University Personnel: Charles Pustz, Associate Vice President for Information Technology Services and Chief Information Officer; David Weissbohn, Director of Information Security and Compliance.

2021-011 FINDING: COMPUTER SECURITY WEAKNESSES

Corrective Action Plan: The University intends to keep an Office of Information Technology Services-specific inventory of all technology assets using an endpoint manager suite system. A project to build and maintain this inventory has been started and efforts to locate and categorize stray equipment are underway.

Improved processes (including automation), documentation, policies, procedures, and logging changes to user access and rights to applications are planned as part of an account lifecycle management reconstruction. Some of these items have been partially implemented at this time.

GOVERNORS STATE UNIVERSITY
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CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2021

Responsible University Personnel: Charles Pustz, Associate Vice President for Information Technology Services and Chief Information Officer; David Weissbohn, Director of Information Security and Compliance.

2021-012 FINDING: LACK OF REVIEW OF INTERNAL CONTROLS OF SERVICE PROVIDERS

Corrective Action Plan: The University's Office of Information Technology Services (ITS) has established a Vendor Risk Management process which covers cloud service providers, and has hired an Extra Help employee to help make additional progress. At this time, ITS believes it has satisfactorily completed reviews for more than 50% of the University's service providers.

Responsible University Personnel: Charles Pustz, Associate Vice President for Information Technology Services and Chief Information Officer; David Weissbohn, Director of Information Security and Compliance.

2021-013 FINDING: REMOTE ACCESS TO UNIVERSITY INFORMATION SYSTEMS

Corrective Action Plan: The University will replace Policy 64 with disparate, modern policies which address individual control areas as defined in the University's Information Security Policy (currently drafted and under internal review). Remote access is intended to be comprehensively addressed across multiple areas including Identity and Access Management, Network Security, and Data Handling.

The University's Office of Information Technology Services Network Team has begun (as of October 27, 2021) retaining the automatic logs generated when a user accepts Policy 64. As new policies are drafted and approved, they will continue to be made publicly available. The University will consider options for, and work towards more robust dissemination, communication, and acknowledgement processes for policies, standards, and procedures.

An internal information security auditing process is planned as part of the Information Security Program, pending the availability of resources. This process will include a requirement for the noted periodic reviews of users' remote access.

Responsible University Personnel: Charles Pustz, Associate Vice President for Information Technology Services and Chief Information Officer; David Weissbohn, Director of Information Security and Compliance.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2021

2021-014 FINDING: INADEQUATE CONTROLS OVER ACCESS RIGHTS

Corrective Action Plan: The University will explore appropriate options for improving the process of ensuring accuracy and appropriateness of user access to University systems.

Student accounts are planned for inclusion in a multi-year effort to comprehensively reconstruct the University's account lifecycle management standards and processes, including acknowledgement in the Information Security Policy.

Responsible University Personnel: Charles Pustz, Associate Vice President for Information Technology Services and Chief Information Officer; David Weissbohn, Director of Information Security and Compliance.

2021-015 FINDING: WEAKNESSES WITH PAYMENT CARD INDUSTRY DATA SECURITY STANDARDS

Corrective Action Plan: A separate Payment Card Industry Data Security Standards (PCI DSS) policy is planned as part of the Information Security Program (currently under internal review prior to submission for approval) and will be accompanied by appropriate standards and procedures.

The University's Office of Information Technology Services (ITS) has hired an Extra Help employee to assist with compliance efforts including initial PCI DSS compliance. ITS is continuing its efforts with two of the University's most complex merchants and is currently evaluating solutions to enable continued telephone transactions while being able to maintain compliance with PCI regulations.

The University's verification of service providers' PCI compliance will be documented going forward.

An inventory of all payment devices considered "in scope" will be built and maintained, along with complete scoping and data-flow diagrams for each merchant as part of the initial and yearly compliance process. This has already been completed for one of the two aforementioned merchants. Per PCI requirements, all policies, processes, and listing of applicable staff will be documented and maintained.

The procurement process to replace the non EMV compliant payment terminals was initiated in August 2021 and the new EMV compliant terminals are now in place.

Responsible University Personnel: Charles Pustz, Associate Vice President for Information Technology Services and Chief Information Officer; David Weissbohn, Director of Information Security and Compliance.

TAB 8

EXECUTIVE SUMMARY**Resolution 23-XX*****Resolution for the Approval of FY2023 Operating Budget***

I. ACTION ITEM: Approval of Fiscal Year 2023 (“FY2023”) Operating Budget as set forth in the proposed resolution submitted herewith.

II. BACKGROUND: The Board of Trustees of Governors State University (the “Board,” and “University,” respectively) historically approves the operating budget for the University at its October meeting. With all known factors in place, we present the FY2023 Operating Budget for approval. The Fiscal Year 2023 Operating Budget reflects the final actions of the Governor and the Illinois General Assembly for the State budget general funds budgets. Resources have been directed to support the University’s highest priorities and to maintain ongoing operations.

The University plans an operating budget based on a fiscal year that runs from July 1 to the following June 30. The current proposed action item requests approval of an operating budget for July 1, 2022 to June 30, 2023. The proposed FY2023 Operating Budget is the same as that which was approved by the Board on a preliminary basis at the June 10, 2022 meeting.

Approval of this proposal will enable the University to meet its statutory obligation to submit a budget to the Illinois Board of Higher Education (“IBHE”) by November 15 of each year. See 110 ILCS 205/8.

III. ANALYSIS: At the June 10, 2022 Board meeting, the President recommended and the Board approved a preliminary FY2023 Operating Budget granting the University spending authority between July 1, 2022 and the October 2022 meeting, at which time the Board would review the University’s FY2023 operating budget again and approve the final figures. The preliminary operating budget constituted a conservative estimate of revenues and expenditures of \$58,500,000. The final enacted State appropriation of \$24,353,300, along with University income fund revenues based on enrollment census data, provide for a balanced budget.

The attached represents the core or “State Funds” final operating budget proposed for FY2023 in the amount of \$58,500,000. The revenues to support the budget come from a combination of the annual State of Illinois appropriation to the University plus the revenues projected to be generated by net tuition, user fees, and interest

income.

Through our collaborative PBAC (Planning and Budget Advisory Council) process, which involves discussions with constituencies and many individuals at all levels within the University, we have developed a FY2023 Operating Budget in line with the State appropriations and have further considered the lingering impact of COVID-19 on our operations as well as the implementation of our Strategic Enrollment Plan.

Governors State University
FY2023 Operating Budget
State Funds (Illinois State Appropriation + University Net Tuition Revenues)

	<u>FY2023</u>
<u>Revenues:</u>	
Income Fund	\$34,146,700
Appropriation	24,353,300
Total Revenues	\$58,500,000
<u>Expenses:</u>	
Personnel Services	\$48,399,209
Fringe Benefits	1,449,578
Contractual	6,986,732
Commodities	718,875
Permanent Improvements	0
Travel	377,931
Equipment	315,105
Telecom	194,195
Auto Operations	37,375
Awards	21,000
Reserve	0
Total Expenses:	\$58,500,000

BOT Resolution 16-28 established an operating reserve not to exceed 5% of the University's core operating budget. At this time, the FY19 - FY2022 operating surplus exceeds that reserve amount, so no Reserve allocation has been budgeted for FY2023.

IV. Proposed Resolution: A proposed resolution is submitted with this Executive Summary.

Committee Approval

CHAIR: _____ DATE: _____

CONSIDERED VOTE: _____

Resolution No. 23-XX
Approval of Operating Budget for
Fiscal Year 2023

WHEREAS, The Board of Trustees of Governors State University (the “Board”) was created on January 1, 1996, by Public Act 89-4 to operate, manage, control, and maintain Governors State University in accordance with the rights, powers, and duties vested by law in the Board; and

WHEREAS, Article V(A)(1) of the Board of Trustee’s (“Board’s”) Regulations provides that the President shall establish guidelines and procedures for establishing an operating budget; and

WHEREAS, Article V(A)(2) of the Board’s Regulations provides that the President shall review and make recommendations on the operating budget and submit it to the Board; and

WHEREAS, Section 8 of the Board of Higher Education Act, 110 ILCS 205/8, requires the Board to submit an operating budget to the Illinois Board of Higher Education by November 15 of each year; and

WHEREAS, The University’s Planning and Budget Advisory Council (“PBAC”), appointed by the President and representing a cross-section of University personnel, issued guidelines and held hearings regarding budget requests and operating expenses for Fiscal Year 2023 (“FY23) in March and April 2022; and

WHEREAS, As a result of the PBAC hearings and further analysis, the President presented to the Budget and Finance Committee (the “Committee,” n/k/a Budget, Finance and Audit Committee) a recommended Preliminary Operating Budget for FY23 in a total amount of \$58,500,000, which constituted a 2.45% increase over year-end actuals for Fiscal Year 2022; and

WHEREAS, The Board adopted the Committee’s recommended Preliminary Operating Budget for FY23 by Resolution 22-35 at a meeting held on June 10, 2022; and

WHEREAS, Upon recommendation of the President, the Committee considered a final operating budget for FY23 (the “FY23 Operating Budget”) at a meeting held on October 7, 2022 in substantially the same form as the Preliminary Operating Budget for FY23 and voted to recommend its approval by the Board; therefore

Resolved, that the Board adopts the Committee’s recommendation for the Operating Budget for FY23 as follows:

[Remainder of page intentionally left blank]

Governors State University
FY2023 Operating Budget
State Funds (Illinois State Appropriation + University Net Tuition Revenues)

	<u>FY2023</u>
<u>Revenues:</u>	
Income Fund	\$34,146,700
Appropriation	24,353,300
Total Revenues	<u>\$58,500,000</u>
<u>Expenses:</u>	
Personnel Services	\$48,399,209
Fringe Benefits	1,449,578
Contractual	6,986,732
Commodities	718,875
Permanent Improvements	0
Travel	377,931
Equipment	315,105
Telecom	194,195
Auto Operations	37,375
Awards	21,000
Reserve	0
Total Expenses:	<u>\$58,500,000</u>

Resolved, that the Board directs the President to take all reasonable and necessary steps to submit the Operating Budget for FY23 to the IBHE in the format required by the IBHE by the November 15, 2022 deadline.

Approved October 21, 2022

Angela Sebastian, Chair
Board of Trustees

James Kvedaras, Secretary
Board of Trustees

TAB 9

EXECUTIVE SUMMARY**Resolution 23-XX*****Resolution for the Approval of FY2024 Operating Appropriations Budget
Request to the Illinois Board of Higher Education***

I. ACTION ITEM: Approve Operating Appropriations Budget Request for Fiscal Year 2024 (“FY2024”) to the Illinois Board of Higher Education (“IBHE”).

II. BACKGROUND: In preparation for the upcoming budget year of July 1, 2023 to June 30, 2024 (*i.e.*, FY2024), the Illinois public universities submit their “State Funds” operating requests (appropriations and university income fund – primarily net revenues from tuition and user fees) to IBHE for the forthcoming fiscal year.

IBHE compiles and develops these funding requests in order to produce one consolidated higher education budget request to the Governor, typically in early February for inclusion in the Governor’s Budget Address to the General Assembly later that month. In turn, the Governor’s budget request forms the basis for appropriation bills, which are introduced into the Assembly and eventually passed by the Assembly and signed into law by the Governor.

III. ANALYSIS: The schedule accompanying this Executive Summary displays GSU’s FY2024 preliminary State Funds budget request to IBHE of \$60,935,200. GSU anticipates flat net tuition revenues and is seeking a total operating funds increase for FY2024 of \$2.435 million, a 4.2% increase in total University Operating Budget year-over-year. The FY2024 operating appropriations request is \$26,788,500, an increase of \$2.435 million over the fiscal year 2023 State appropriations, or a 10% increase. The incremental state funds would be used to cover ordinary increases in compensation expenses, additional STEM and bilingual faculty, and continuation of student support and retention services initially funded through the HEERF Grant.

Last year, we were pleasantly pleased by the IBHE’s new proposed method for distributing funds based on equity considerations to those institutions that serve a high percentages and numbers of underserved students.

Governors State University
 Budget Revenues and Expenditures by Major Category
 FY2024 IBHE Operating Budget

STATE FUNDS	FY2023 Operating Budget	FY2024 PROPOSED Operating Budget	\$ to Prior Year Budget	% to Prior Year Budget
Revenues:				
Income Fund	\$34,146,700	\$34,146,700	\$0	0.0%
Appropriation	24,353,300	26,788,500	2,435,200	10.0%
Total Revenues	\$58,500,000	\$60,935,200	\$2,435,200	4.2%
Expenses:				
Personnel Services	\$48,399,209	\$50,834,409	\$2,435,200	5.0%
Fringe Benefits	1,449,578	1,449,578	-	0.0%
Contractual	6,986,732	6,986,732	-	0.0%
Commodities	718,875	718,875	-	0.0%
Permanent Improvement	0	0	-	0.0%
Travel	377,931	377,931	-	0.0%
Equipment	315,105	315,105	-	0.0%
Telecom	194,195	194,195	-	0.0%
Auto Operations	37,375	37,375	-	0.0%
Awards	21,000	21,000	-	0.0%
Reserve**	0	0	0	0.0%
Total Expenses:	\$58,500,000	\$60,935,200	\$2,435,200	4.2%

Notes:

** Historical Surplus adequate funds to support BOT Reserve requirement for FY2024

III. Proposed Resolution: A proposed resolution is submitted with this Executive Summary.

Committee Approval

CHAIR: _____ DATE: _____

CONSIDERED VOTE: _____

Resolution No. 23-XX***Approval of Operating Appropriations Budget Request to IBHE for
Fiscal Year 2024***

WHEREAS, The Board of Trustees of Governors State University (the “Board”) was created on January 1, 1996, by Public Act 89-4 to operate, manage, control, and maintain Governors State University in accordance with the rights, powers, and duties vested by law in the Board; and

WHEREAS, The Board is comprised of eight members, seven of whom are appointed by the Governor of Illinois with the advice and consent of the Senate, and one whom is a Governors State University student selected by student peers; and

WHEREAS, Article V(A)(1) of the Board of Trustee’s (“Board’s”) Regulations provides that the President shall establish guidelines and procedures for establishing operating appropriations budget requests; and

WHEREAS, Article V(A)(2) of the Board’s Regulations provides that the President shall review and make recommendations on appropriation requests for operating budget expenditures and submit them to the Board; and

WHEREAS, Section 8 of the Board of Higher Education Act, 110 ILCS 205/8, requires the Board to submit appropriation requests for operating expenditures for the ensuing year to the Illinois Board of Higher Education (“IBHE”) by November 15 of each year; and

WHEREAS, IBHE compiles and develops these funding requests in order to produce one consolidated higher education budget request for the Governor; and

WHEREAS, As a result of the foregoing planning process and further analysis, the President presented to the Budget, Finance and Audit Committee (the “Committee”) a recommendation for requesting appropriations for operations for the period July 1, 2023 to June 30 2024 (“FY2024”), which the Committee approved at a meeting held on October 7, 2022; therefore

Resolved, that the Board adopts the Committee’s recommendation for the FY2024 Operating Appropriations Budget Request.

Resolved, that the FY2024 Operating Appropriations Budget Request is approved for submission to the IBHE in a format recommended by IBHE as follows:

[Remainder of page intentionally left blank.]

Governors State University
 Budget Revenues and Expenditures by Major Category
 FY2024 IBHE Operating Budget

STATE FUNDS	FY2023 Operating Budget	FY2024 PROPOSED Operating Budget	\$ to Prior Year Budget	% to Prior Year Budget
Revenues:				
Income Fund	\$34,146,700	\$34,146,700	\$0	0.0%
Appropriation	24,353,300	26,788,500	2,435,200	10.0%
Total Revenues	\$58,500,000	\$60,935,200	\$2,435,200	4.2%
Expenses:				
Personnel Services	\$48,399,209	\$50,834,409	\$2,435,200	5.0%
Fringe Benefits	1,449,578	1,449,578	-	0.0%
Contractual	6,986,732	6,986,732	-	0.0%
Commodities	718,875	718,875	-	0.0%
Permanent Improvement	0	0	-	0.0%
Travel	377,931	377,931	-	0.0%
Equipment	315,105	315,105	-	0.0%
Telecom	194,195	194,195	-	0.0%
Auto Operations	37,375	37,375	-	0.0%
Awards	21,000	21,000	-	0.0%
Reserve**	0	0	0	0.0%
Total Expenses:	\$58,500,000	\$60,935,200	\$2,435,200	4.2%

Notes:

** Historical Surplus adequate funds to support BOT Reserve requirement for FY2024

Resolved, that the Board directs the President to take all reasonable and necessary steps to timely submit the FY2024 Operating Appropriations Budget Request to the IBHE in the format required by the IBHE.

Approved October 21, 2022

Angela Sebastian, Chair
Board of Trustees

James Kvedaras, Secretary
Board of Trustees

TAB 10

EXECUTIVE SUMMARY**Resolution 23-XX*****Resolution for the Approval of FY2024 Capital Improvement Budget
to the Illinois Board of Higher Education***

- I. ACTION ITEM:** Approve submission of the Capital Improvement Budget to the Illinois Board of Higher Education (“IBHE”) for the ensuing fiscal year of July 1, 2023 to June 30, 2024, fiscal year 2024 (“FY2024”).
- II. BACKGROUND:** Annually, the State of Illinois prepares a Capital Budget in coordination with state agencies seeking capital improvement appropriations. 20 ILCS 3010/1. All state universities, including Governors State University (“GSU”), are required by the Illinois Board of Higher Education Act to submit capital appropriations requests by November 15. 110 ILCS 205/8. Board of Trustees Regulation V(A)(1) requires that the President “shall review and make recommendations concerning the requests and submit them to the Board for approval.” Further, once approved, “the President shall submit budget requests approved by the Board to the Board of Higher Education and shall take such actions on the Board’s behalf as are necessary and appropriate during the Board of Higher Education budget review process.” *Id.*
- III. ANALYSIS:** Submitted with this Executive Summary are a proposed resolution to be presented to the Board upon consideration and approval by the Budget, Finance and Audit Committee, as well as the proposed Capital Improvement Appropriations Request, which appears as Exhibit A to the proposed resolution. Both are submitted with the recommendation of the President.

Resource/Contacts: John Potempa, Associate VP for Facilities Management & Development; jpotempa2@govst.edu; 708.235-7447 and Sandra Zurawski, Executive Director, Budget & Financial Planning; szurwski@govst.edu; 708.534.4981

Committee Approval

CHAIR: _____ DATE: _____

CONSIDERED VOTE: _____

Resolution No. 23-XX***Approval of Capital Requests to IBHE for
Fiscal Year 2024***

WHEREAS, The Board of Trustees of Governors State University (the “Board”) was created on January 1, 1996, by Public Act 89-4 to operate, manage, control, and maintain Governors State University in accordance with the rights, powers, and duties vested by law in the Board; and

WHEREAS, The Board is comprised of eight members, seven of whom are appointed by the Governor of Illinois with the advice and consent of the Senate, and one whom is a Governors State University student selected by student peers; and

WHEREAS, Article V(A)(1) of the Board of Trustee’s (“Board’s”) Regulations provides that the President shall establish guidelines and procedures for establishing capital appropriations budget requests; and

WHEREAS, Article V(A)(2) of the Board’s Regulations provides that the President shall review and make recommendations on appropriation requests for capital budget expenditures and submit them to the Board; and

WHEREAS, Section 8 of the Board of Higher Education Act, 110 ILCS 205/8, requires the Board to submit appropriation requests for capital expenditures for the ensuing year to the Illinois Board of Higher Education (“IBHE”) by November 15 of each year; and

WHEREAS, The University engaged in a master facilities planning process resulting in a Campus Facilities Master Plan approved by the Board by Resolution 23-01 at a meeting held on August 5, 2022; and

WHEREAS, As a result of the foregoing planning process and further analysis, the President presented to the Budget, Finance and Audit Committee (the “Committee”) a recommendation for requesting appropriations for capital improvements in the form attached hereto as **Exhibit A** (the “FY2024 Capital Improvement Budget”), which the Committee approved at a meeting held on October 7, 2022; therefore

Resolved, that the Board adopts the Committee’s recommendation for the FY2024 Capital Improvement Budget.

Resolved, that information contained in the FY2024 Capital Improvement Budget attached hereto as Exhibit A is approved for submission to the IBHE in a format recommended by IBHE.

Resolved, that the Board directs the President to take all reasonable and necessary steps to timely submit the FY2024 Capital Improvement Budget to the IBHE in the format required by the IBHE.

Approved October 21, 2022

Angela Sebastian, Chair
Board of Trustees

James Kvedaras, Secretary
Board of Trustees

Exhibit A

**Governors State University
Capital Improvement Requests for
Budget Year FY2024**

**GOVERNORS STATE UNIVERSITY
LARGE PROJECT PLAN
BUDGET YEAR FY2024**

Subject to change before October Board Meeting based on continuing discussions with IBHE

<u>Projected Fiscal Year</u>	<u>PROJECT NAME</u>	<u>TOTAL Planning Amount</u>	<u>State Appropriation</u>	<u>GSU Debt COP2018</u>
NEW CAPITAL INVESTMENT				
NEW FY24	Center for Health Equity (Health Sciences Building)	\$26,323,000	\$26,323,000	
TBD	Building C Addition for Student Security & Safety	\$2,850,000	\$2,850,000	
TBD	Center for Instruction and Innovation	\$29,865,000	\$29,865,000	
TBD	Library and Learning Commons	\$38,755,000	\$38,755,000	
TBD	Student Success Center	\$35,250,000	\$35,250,000	
REBUILD ILLINOIS PROJECTS - NEW CAPITAL: Need Appropriated Funds Released				
TBD	Academic Building E Extension	\$3,530,000	\$3,530,000	
REBUILD ILLINOIS PROJECTS - CAPITAL RENEWAL: Project Currently In Progress with CDB				
2021	HVAC Replacement and Upgrade	\$4,264,200	\$4,264,200	

<u>Projected Fiscal Year</u>	<u>PROJECT NAME</u>	<u>TOTAL Planning Amount</u>	<u>State Appropriation</u>	<u>GSU Debt COP2018</u>
REBUILD ILLINOIS PROJECTS - CAPITAL RENEWAL: Need Appropriated Funds Released				
TBD	Building E (Sherman Hall & Art Studio Annex) Renovation	\$2,245,000	\$2,245,000	
TBD	Renovation / Replacement Library: Library area	\$4,050,000	\$4,050,000	
TBD	Renovation / Replacement Library: Student Space	\$4,800,000	\$4,800,000	
TBD	Vehicular/Pedestrian/Parking Lot Renovations: North/West Campus	\$5,400,000	\$5,400,000	
TBD	Vehicular/Pedestrian/Parking Lot Renovations: South/East Campus	\$3,600,000	\$3,600,000	
TBD	Building Envelope (Including Window Systems) Phase I	\$5,100,800	\$5,100,800	
FY2023 CAPITAL RENEWAL				
TBD	Building Envelope Phase II	\$2,010,000	\$2,010,000	
FY2019 / 2021 EMERGENCY CAPITAL: Projects Currently In Progress with CDB				
2021	Emergency Capital for Roof Replacement	\$3,244,940	\$3,244,940	
2022	Emergency Capital for Deteriorating Piping	\$7,700,000	\$7,700,000	
SUPPLY CHAIN INNOVATION CENTER: Project Currently in Design with CDB				
2022	GSU SCICBI (Hantack House) Renovation	\$650,000	\$400,000	
GSU COP2018: Projects Currently In Progress				
2020	HVAC Replacement & Upgrade	\$4,273,630		\$4,273,630
2022	Fire Suppression & Communication Replacement	\$2,275,000		\$2,275,000
2019	Roof Replacement	\$125,000		\$125,000
2022	Parking & Roadway Repair	\$80,000		\$80,000

<u>Projected Fiscal Year</u>	<u>PROJECT NAME</u>	<u>TOTAL Planning Amount</u>	<u>State Appropriation</u>	<u>GSU Debt COP2018</u>
GSU COP2018: Projects Completed				
Complete	Pathway Lighting (Vehicular/Pedestrian Circulation Renovation)	\$836,246		\$836,246
Complete	Athletic Field Renovation/Reconstruction	\$256,724		\$256,724
Complete	Cafeteria - Equipment/Infrastructure Replacement	\$4,546,838		\$4,546,838
CAPITAL RENEWAL: Projects Proposed				
2023	Cafeteria - Access / Entrance (D Dock)	\$670,000		
2023	Social Justice Building	\$1,000,000		
2023	Athletic Soccer Field	\$2,000,000		\$1,300,000
2023	Biology Environmental Field Station	\$650,000		
2023	Central Receiving Drainage Improvements	\$200,000		
2023	Marketing Deferred Maintenance	\$150,000		
2023	Financial Services Deferred Maintenance	\$350,000		
2023	Library Services Deferred Maintenance	\$450,000		
2023	Outdoor Campus Beautification	\$90,000		
2023	Parking West Lot 2	\$300,000		
2023	Main Road Lighting	\$150,000		
NOTE: GSU DEFERRED MAINTENANCE BALANCE		\$56,361,000		

Projected Fiscal Year	PROJECT NAME	TOTAL Planning Amount
TECHNOLOGY: Projects Proposed		
2023	GSU WEB (External URL & Internal Portal) Rebuild	TBD
2023	WIFI Access (Latest Standards, Security & Speed)	\$665,000
OTHER Funding Sources Summary		
A	Historical Operating Surplus	\$2,535,000
B	Facility Fees	\$950,000
C	Parking & Walkway Fees	\$540,000
D	Farm Revenues	\$850,000
E	External Fundraising	\$700,000

NEW CAPITAL INVESTMENT

Center for Health Equity Building (Health Sciences Building) \$26,323,000

The Center for Health Equity Building will support our capacity to conduct instructional, clinical, and collaborative activities central to addressing the physical, mental, and social health of communities in the Southland. As a substantial contributor to the health and human services workforce in the region, we seek to provide state-of-the-art models of care and practice, and instill the values of equity and inclusivity. This innovative interdisciplinary space will unite multiple disciplines under one roof, including: Occupational Therapy; Physical Therapy; Speech-Language Pathology; Social Work; Psychology and Counseling; Nursing; and Health Administration and Health Informatics. It will present new opportunities for teaching and practicing, and for engaging the community in health- and wellness-promoting activities. We envision approximately 45,800 square feet providing laboratories, meeting rooms, offices, and clinical spaces, which will allow our

Building C Addition for Student Security & Safety \$2,850,000

GSU's safety and security needs have increased substantially since GSU became a 24/7 campus with student housing in FY15. Our Department of Public Safety is greatly in need of an area that would hold vehicles and allow for transfer of any persons subjected to personal assault or in custody without going through the public areas of the main building and HR waiting area. Additionally, we currently utilize small internal spaces like utility and storage closets for holding areas, fingerprinting, and interviews. This space would allow for the use of these internal spaces as their intended purpose.

students and faculty to provide services and conduct research designed to enhance health equity in the region.

NEW CAPITAL INVESTMENT (continued)

Library & Learning Commons

\$38,755,000

The Library & Learning Commons is a blend of a modern 21st century library and a vibrant academic support center. In this innovative academic hub, services would include the University Library, Academic Resource Center, Disability Services, Undergraduate Advising Center, TRiO Support Services, and the Writing Center. The current University Library at GSU is a 50,000 square foot portion of the second floor of the University's main building, which wraps around a main staircase and an elevator. The library is open to a classroom complex on the third floor. During the periods immediately before and after classes noise generated by students filters down to the Library, producing an environment not conducive to collaboration, study, or research. Interior renovations to the Library over the years have produced seminar rooms, classroom facilities, and a public bank of computer stations, as well as an enhanced entryway.

Future renovations to the existing space, however, cannot increase the Library's capacity nor facilitate a universal design. GSU is in need of a new University facility, accessible to everyone, to provide adequate space for student support services including places for quiet studying and research and rooms for small group interactions while also housing its collections.

We envision a free-standing building of approximately 70,000 square feet located near the heart of campus. Our request for "Budget Year" funding is 10% of the total for planning and design costs. During the late summer and early fall of 2012, we engaged the architecture/design firm of STR Partners LLC to develop a vision statement for the proposed University Library. Like the vision statement for the Center for Instruction & Innovation, that document provides general guidance for the project proposed here. It is on file with IBHE.

NEW CAPITAL INVESTMENT (continued)

Center for Instruction & Innovation

\$29,865,000

We request capital investment for a new building on the GSU University Park campus to develop the Center for Instruction and Innovation through capital funds that have been lacking over the last decade. Our request for "Budget Year" funding is 10% of the total for planning and design costs. The Center for Instruction and Innovation will address the lack of classroom spaces that can hold more than 60 students and facilitate active learning environments, forum lectures, breakout spaces, and open collaboration areas. Currently, the lack of these spaces is limiting growth opportunities including potential enrollment and degree program growth. This center is planned to provide fully equipped, state-of-the-art instructional space including technology equipped multimedia classrooms preparing students for their future.

Governors State University is the only Illinois public university without a Student Union. Accordingly, our current facilities must incorporate space for student-centered activities normally held in a student union. A new classroom building will free up more usable space in other buildings to support those activities.

Student Success Center

\$35,250,000

Academic and Social Support Student Services and Life spaces at GSU are currently placed throughout the campus. After meeting with several Student Support Focus Groups, there is an overwhelming desire for a consolidated Student Success Center on campus offering a comprehensive one-stop-shop for instructional and academic support services on campus.

- Create a new “front door” for the campus that is dynamic, welcoming, engaging, easily recognizable, and assists students to navigate the wide range of available academic resources and support services;
- The Student Success Center will be designed as a high-impact, dynamic center that will aid students in fulfilling their academic potential by providing intentional and developmentally appropriate guidance and direction.

REBUILD ILLINOIS PROJECTS: Need Appropriated Funds Released \$32,990,000

Public Act 101-0029 appropriates \$32,725,000 in funding from the Capital Development Fund to CDB for GSU for the construction of an expansion of academic Building E, and other capital improvements. Additionally, \$265,000 was re-appropriated from previous residual funds. \$4,264,000 has been released for the emergency project HVAC Replacement and Upgrade. The balance of the funding needs to be released so the projects can be effectively coordinated to avoid additional costs / reconstruction. It is critical that these funds be released as soon as possible in order to provide state of the art resources and learning environments and to contribute to student success inclusive of more student services as well as places for study, research and collaborative group interactions. Use of Rebuild Illinois funds will enable Governors State University to recruit and serve more first generation and Illinois students and grow enrollment according to university strategic planning.

REBUILD ILLINOIS PROJECTS: New Capital (Need Appropriated Funds Released)

Academic Building E Extension

\$3,530,000

FY2020 HB62 SFA 1 NEW CAPITAL MONEY: CDB has allocated \$3,530,000 for the renovation and extension of Building E. This project will incorporate and develop further the Spagnolo Enterprises, LTD Mechanical Systems Evaluation report for the Art Studio areas, the renovation of Sherman Hall, and additional space build out to accommodate new programs and teaching spaces.

REBUILD ILLINOIS PROJECTS: Capital Renewal (In Progress)

HVAC Replacement & Upgrade

\$4,264,200

Several university boilers, HVAC equipment, and RTU (Roof-top Units) have ongoing issues because of poor design, improper ductwork, air distribution, and the age of the equipment. Because most of GSU's buildings are connected into one large facility, an urgent situation in one place affects many other areas. Replacements are necessary to bring our facility up to current code, as well as creating greater safety and efficiency.

REBUILD ILLINOIS PROJECTS: Capital Renewal (Need Appropriated Funds Released)

Building E (Sherman Hall & Art Studio Annex) Renovation

\$2,245,000

CBD has allocated \$3,530,000 for the renovation and extension of Building E. this project will incorporate and develop further the Spagnolo Enterprises, LTD Mechanical Systems Evaluation report for the Art Studio areas, the renovation of Sherman Hall, and additional space build out to accommodate new programs and teaching spaces.

REBUILD ILLINOIS PROJECTS: Capital Renewal (continued)

Renovation / Replacement Library: Library Area \$4,050,000

The University Library area requires repairs of both a safety and space utilization concerns including reinforcement of public accessible counters, shelves, and media storage. Additionally, to remain a Library of the future, with universal design and accessibility by everyone, innovative technologies need to be implemented.

Renovation / Replacement Library: Student Space \$4,800,000

The Student Space within the University Library requires modifications to allow for the different new trends of student group study, research, and participation. Creating break out rooms and ability to use such spaces in a controlled environment when the Library is closed would allow students to have more flexibility to completing their work in a safe productive setting. For safety concerns, there is dire need in developing a connecting public corridor through the current library student space such that the entire second floor is connected.

Vehicular/Pedestrian/Parking Lot Renovations: North/West Campus \$5,400,000

With (1) the addition of a 300-bed student residence facility in the fall of 2014, (2) the first fielding of intercollegiate athletic teams during 2014-15, and (3) the expansion of outreach activities at the Center for Performing Arts, the Nathan Manilow Sculpture Park and the GSU Visual Arts Gallery, GSU has added notably to the volume of pedestrian traffic on its campus and to the variety of the entries and exits that those pedestrians seek. The walkways which circulate through the campus and provide the primary means of access to the building for students, faculty and staff need significant repair; new walkways are needed to accommodate the circulation patterns of resident students and visitors between buildings; and the provision of lighting along these paths (both the renovated and the newly constructed) is a high-priority safety concern. The vehicular circulation for people with disabilities and K-12 school busses to the Center of Performing Arts creates difficulties that can be addressed by developing an alternate way to reduce vehicular/pedestrian conflicts.

Vehicular/Pedestrian/Parking Lot Renovations: South/East Campus \$3,600,000

The Eastern Entrance Roadway was originally planned to circumvent the parking lots by going behind them, and only a small service road used by limited traffic would be between the parking lots and campus buildings. This was not completed; thus, a large volume of traffic uses this small service road, which has awkward turns and a high volume of pedestrian vehicle conflicts, which have caused numerous accidents. The project requested here would help to resolve these issues and, in doing so, make the GSU campus more inviting and more easily navigated. More importantly, it would substantially increase the safety of all those using it - pedestrians and drivers alike.

REBUILD ILLINOIS PROJECTS: Capital Renewal (continued)

Building Envelope Phase I **\$5,100,800**

The building envelope i.e., building enclosure is all the elements of the outer shell that maintain a dry, heated, or cooled indoor environment and facilitate climate control. The University has many leaks (water and air) throughout its 50+ year old buildings. Reparations are needed to the outer doors, windows where single pane glazing in steel frames have deteriorated beyond repair, building soffits where flashing heights are not aligned where wall systems meet roofs, masonry tuck pointing, and other areas of exposed concrete.

FY2023 CAPITAL RENEWAL

Building Envelope Phase II **\$2,010,000**

The building envelope i.e., building enclosure is all the elements of the outer shell that maintain a dry, heated, or cooled indoor environment and facilitate climate control. The University has many leaks (water and air) throughout its 50+ year old buildings. Reparations are needed to the outer doors, windows where single pane glazing in steel frames have deteriorated beyond repair, building soffits where flashing heights are not aligned where wall systems meet roofs, masonry tuck pointing, and other areas of exposed concrete.

FY2019 / 2021 EMERGENCY CAPITAL: Projects Currently in Progress with CDB

Roof Replacement/Safety Upgrading **\$4,950,000**

Roofs on wings A, B, C, E & the CPA are 95% complete.

Deteriorating Piping **\$7,700,000**

GSU and CDB are currently coordinating this project along with LCM Architects of Chicago, IL. The project is planned for a phased approach with \$3.8M contracts currently awarded, estimated to take three years to complete.

GSU SUPPLY CHAIN INNOVATION CENTER: Project Currently in Design with CDB

GSU SCICBI (Hantack House) Renovation **\$650,000**

\$500M was appropriated from the Build Illinois Bond Fund to the CDB to fund the Illinois Innovation Network system and their initiatives. Of that, \$400,000 was designated to GSU for renovations needed for Hantack House, future home of SCICBI (Supply Chain Innovation Center and Business Incubator) including basement water treatment, HVAC replacement, air quality assessment, parking lot pavement, lighting, signage, security cameras, gutters, downspouts, etc.

GSU COP 2018

As a result of the lack of State funding of a capital budget, the University's deferred maintenance backlog has become critical. GSU estimated \$13.9 million was needed to address the most pressing of the deferred maintenance, and pursued borrowing through Certificates of Participation or Revenue Bonds. On August 15, 2018, Governor State University's (GSU) Certificates of Participation Series 2018 (COP 2018) was priced at an all-in interest cost of 4.586% over 10 years to fund a list of improvements, prioritization from the list below is currently in progress. Design, bidding and contract award phases will follow.

In FY18, Facility Fee revenue of \$2.6M was utilized for the payment of debt service COP 2008 and 2009 in the amount of \$1.7M with an additional \$500,000 utilized to fund interim repairs and renewal until the deferred maintenance projects could be fully funded. A facility fee increase of \$15 per credit hour was implemented in FY19, resulting in revenues of \$3.8M to fund the combined debt service with residual funds available for continued facility maintenance, repairs and renewal projects.

COP PROJECTS IN PROGRESS:

HVAC Replacement & Upgrade \$4,273,630

HVAC problems frequently close numerous classrooms. And, it must be said, GSU has a scarcity of instructional spaces to begin with. In January 2018, HVAC problems closed the Family Development Center, forcing us to send babies, toddlers, and preschoolers home. Several university boilers, HVAC equipment, and RTU (Roof-top Units) have ongoing issues because of poor design, improper ductwork, air distribution, and the age of the equipment. These issues were compounded in the 1980's, when Governors State transitioned from the initial open floor plan to more traditional classroom designs. Because most of GSU's buildings are connected into one large facility, an urgent situation in one place affects many other areas. Renovations are necessary to bring our facility up to current code, as well as creating greater safety and efficiency.

Fire Suppression & Communications Replacement \$2,530,000

GSU's system has reached 50-year expiration. Project to replace Main building wings A – F with the latest NFPA Requirements. Additionally, replace the fire communications system, currently operated with twisted copper wire, to that with fiber optic cable and configure a logical interconnect based on current safety protocols.

Roof Replacement/Safety Upgrading \$125,000

Coordination with CDB: roofs on wings A, B, C, E & the CPA are 95% complete.

Parking & Roadway Repair \$80,000

GSU COP 2018 (continued)

GSU COP 2018 PROJECTS COMPLETED:

Pathway Lighting (Vehicular/Pedestrian Circulation Renovations)	\$836,246
Athletic Field Renovation/Reconstruction	\$256,724
Cafeteria - Equipment/Infrastructure Replacement	\$4,540,656

CAPITAL RENEWAL PROPOSED

Cafeteria - Access / Entrance (D Dock)	\$670,000
Social Justice Building	\$1,000,000
Athletic Soccer Field	\$2,000,000
Biology Environmental Field Station	\$650,000
Central Receiving Drainage Improvements	\$200,000
Marketing Deferred Maintenance	\$150,000
Financial Services Deferred Maintenance	\$350,000
Library Services Deferred Maintenance	\$450,000
Outdoor Campus Beautification	\$90,000
Parking West Lot 2	\$300,000
Main Road Lighting	\$150,000

GSU DEFERRED MAINTENANCE

The University adopted a new Campus Facilities Master Plan approved by the GSU Board of Trustees August 2022. This critical strategic document is the culmination of input from students, faculty, and staff from all areas of the University and will be used to support the University Mission and supporting Strategic Plan by anticipating and preparing for the future, extending the useful life of the campus buildings, and minimizing disruption from unforeseen industry change. The Facility Condition Assessment (FCA) provides detailed information associated with each building, including overall condition describing the current conditions and highlighting major deficiencies.

Based on the FCA, the current Deferred Maintenance Balance is \$56,361,000 with the highest proportion attributable to age and condition of our heating, ventilation, air conditioning (HVAC) systems. The four most critical deferred maintenance projects are in process.

TAB 11

EXECUTIVE SUMMARY**Resolution 23-XX*****Resolution for the Approval of Investment Policy***

I. ACTION ITEMS: Proposed revisions to Board of Trustees of Governors State University Regulations Section V to:

- incorporate a Governors State University Investment Policy (the “Investment Policy,” which is attached to the accompanying proposed Resolution as Exhibit A) as Regulations Section V.M; and
- remove Regulations Section V.G.1 (Depositories), Section V.G.2 (Collateral), and Section V.G.3 (Investment of Funds) as duplicative because these items are included in the proposed Investment Policy.

II. BACKGROUND AND ANALYSIS: As required by the Public Funds Investment Act (30 ILCS 235) (the “Act”), investment of public funds by a public agency shall be governed by a written investment policy adopted by the governing body of the public agency.

Governors State University (the “University”) has been operating its investments without a complete investment policy adopted by the University Board of Trustees (“Board”). To comply with the Act, a complete written investment policy must be adopted by the Board.

The University Investment Policy will provide the guiding principles for the University to effectively supervise, monitor, and evaluate the investment of its funds. The University’s investment objectives are to manage its cash and investments in a manner that will preserve principal (safety), meet operating cash flow needs (liquidity), and produce a yield that would be described in the current marketplace as acceptable by conservative investment managers (return on investments). In accordance with the investment policy requirements of the Act, the University Investment Policy also includes a listing of authorized investments, and addresses diversification and allocation, bank deposit collateralization, selection of investment managers, standards of care, and sustainable investing, among other requirements.

On June 10, 2022, President Cheryl Green and Vice President for Administration and Finance Corey S. Bradford, Sr., recommended to the Board that the Board adopt a resolution approving to waive the first reading of, and direct the publication of, the proposed Regulation regarding a new Investment Policy. The Board accepted that recommendation as reflected in Resolution 22-42.

In accordance with Resolution 22-42,

- A true, accurate, and complete copy of the full text of the Investment Policy was posted for viewing by the University community on the University’s myGSU portal;

- An email was sent out notifying members of the University community where on the myGSU portal the Investment Policy could be found;
- In that same email, and in a notice posted with the copy of the Investment Policy on the myGSU portal, the University community was informed that those members wishing to submit their views and comments on the Investment Policy should do so in writing by June 28, 2022, either (1) through the comments feature on the myGSU portal page where the Investment Policy was posted, or (2) by submitting them to the Office of the General Counsel; and
- A true, accurate, and complete copy of the full text of the Investment Policy was distributed to the presidents of the University Civil Service Senate, University Faculty Senate, and the University Student Senate for distribution to their respective members.

No comments on the Investment Policy were received from the University community by June 28, 2022 or since. Accordingly, President Green and Vice President Bradford recommend that the proposed revisions to Board of Trustees of Governors State University Regulations Section V to incorporate a Governors State University Investment Policy as Regulations Section V.M. be adopted without any change to the language thereof and that prior regulations regarding investments be deleted as duplicative.

Resource/Contact: Corey S. Bradford, Sr., Ph.D., Vice President for Administration and Finance; cbradford2@govst.edu; 708.235.7421, and Villalyn Baluga, Associate VP for Finance; vbaluga@govst.edu; 708.534.4039.

Committee Approval

CHAIR: _____ DATE: _____

CONSIDERED VOTE: _____

Resolution No. 23-XX
Approval of Investment Policy

WHEREAS, The Board of Trustees of Governors State University (the “Board”) was created on January 1, 1996, by Public Act 89-4 to operate, manage, control, and maintain Governors State University in accordance with the rights, powers, and duties vested by law in the Board; and

WHEREAS, The Board is comprised of eight members, seven of whom are appointed by the Governor of Illinois with the advice and consent of the Senate, and one whom is a Governors State University student selected by student peers; and

WHEREAS, Article I(C)(1) of the Board’s Regulations provides that Board Regulations may be adopted, amended, or repealed at any regular meeting by a majority vote of the Board ; and

WHEREAS, Article I(C)(2) of the Board’s Regulations provides that action on regulation shall not be taken earlier than the next regular meeting after which it is read and an opportunity for public comment has been given; and

WHEREAS, The Public Funds Investment Act requires that public agencies, such as Governors State University, develop and adopt a written investment policy, 30 ILCS 235/2.5; and

WHEREAS, Current Board regulations regarding investment of funds do not meet the statutory requirements for investment policies; and

WHEREAS, On June 10, 2022, President Cheryl Green and Vice President for Administration and Finance Corey S. Bradford, Sr., recommended to the Board of Trustees that the Board adopt a resolution approving to waive the first reading of, and direct the publication of, the

adoption of a new regulation regarding a new Investment Policy and the repeal of former Regulation Section V(G)(1)-(3), which the Board accepted as reflected in Resolution 22-42; and

WHEREAS, the Investment Policy, in the form attached hereto as Exhibit A, was presented to the Budget, Finance and Audit Committee (the “Committee”) for consideration at a meeting held on October 7, 2022; and

WHEREAS, the Committee voted to recommend adoption of the Investment Policy and repeal of prior related policies by the full Board; and

WHEREAS, No public comments have been received; therefore

Resolved, that the Board adopts the Committee’s recommendation for adoption of the Investment Policy in the form attached hereto as Exhibit A and the repeal of prior related policies as reflected in the redlined version of Article V attached hereto as Exhibit B.

Resolved, that that Article V shall be amended to reflect all the foregoing changes as stated in the form attached hereto as Exhibit B.

Resolved, that the Board directs the President to take all reasonable and necessary steps to effectuate this Resolution, including but not limited to timely publishing revised Article V.

Approved October 21, 2022

Angela Sebastian, Chair
Board of Trustees

James Kvedaras, Secretary
Board of Trustees

**GOVERNORS STATE UNIVERSITY
BOARD OF TRUSTEES**

REGULATIONS

Issued July 12, 1996

With Amendments adopted by the Board on June 12, 1998; October 14, 2011; June 10, 2022; and [DATE].

SECTION V. FINANCIAL AND ADMINISTRATIVE AFFAIRS

A. Budget and Appropriations Process

1. Budget Requests

The President shall establish guidelines and procedures for preparation of operating and capital budget requests for the University. The President shall review and make recommendations concerning the requests and submit them to the Board for approval. The President shall submit budget requests approved by the Board to the Board of Higher Education and shall take such actions on the Board's behalf as are necessary and appropriate during the Board of Higher Education budget review process.

2. Appropriations Requests

The President shall prepare the University's requests for operating and capital appropriations. The President shall introduce appropriations requests based upon budget requests approved by the Board in the appropriate house of the General Assembly and shall take such actions on the Board's behalf as are necessary and appropriate during the appropriations process.

3. Financial Plans and Reports

- a. The President, after consultation with the Committee on Finance and Budget, shall establish guidelines and procedures for the preparation of an annual financial plan for appropriated and non-appropriated funds which shall be submitted to the Board for review.

- b. The President, after consultation with the Committee on Finance and Budget, shall establish guidelines and procedures for the preparation of financial reports for the Board.

4. Line Item Transfers

The President, subject to the provisions of State law, may approve appropriation line item transfer requests and shall present a report at each regular meeting of the Board on appropriation line item transfers approved since the preceding regular Board meeting.

B. Purchases

Purchases consist of contracts, purchase orders, or other agreements (collectively referred to in this Subsection B. as “contracts”) for the receipt of services or the acquisition of real or personal property which obligate financial resources of the Board. The financial resources of the Board include all funds received by or belonging to the Board and the University, including income received and retained in accordance with 30 ILCS 105/6a-1e. All purchasing transactions shall be conducted in accordance with applicable State and Federal statutes and regulations and applicable regulations adopted by the Board. Procurement activity of the University is governed by many statutes, including, but not limited to the Illinois Procurement Code 30 ILCS 500/1-1 *et seq.* As stewards of public funds, it is essential that University employees receive and follow clear guidance on purchasing decisions.

1. Approval

Approval of purchases shall be obtained, prior to the obligation of financial resources of the Board, as follows:

- a. All transactions involving the acquisition of real property or purchases of \$250,000 or more (except as specified in Section V.B.1.d hereof) shall require approval by the Board.
- b. Authority for approval of purchases other than those referred to in Section V.B.1.a hereof is delegated to the President, who may delegate such authority to University administrators within his or her discretion. Such delegations of authority shall be in writing.

- c. In the event of an emergency, the President may grant an exception to the requirement of Board approval of a contract if, in the opinion of the President: (i) immediate action is required; (ii) a reasonable effort has been made by the President to consult individually with members of the Board or of the Executive Committee; and (iii) there is insufficient time to obtain approval by the Board or the Executive Committee before action must be taken. The President shall present an informational report on exceptions granted under this provision at the next regular meeting of the Board.
- d. Approval by the Board under paragraph Section V.B.1.a hereof is not required for the following purchases: natural gas; utility services; fire protection; library books, electronic resources, and periodicals; textbooks; food products; entertainment services paid for with student fees and/or ticket sales receipts; resale items; postal charges; Procurement Code Exempt purchases and purchases made from vendors approved by the Illinois Public Higher Education Cooperative, State of Illinois Joint Contract awards, and other cooperatives where GSU is a member and a public solicitation is awarded for the product or service purchased.

2. Reports

At each regular meeting of the Board, the President shall present an informational report on purchases of at least \$100,000 but less than \$250,000 (other than purchases excepted under Section V.A.1.d hereof) made since the preceding regular Board meeting.

3. Contract Preparation and Signature

- a. The Board of Trustees of Governors State University, constituted a body corporate and politic, is the contracting entity for all contracts involving the Board and the University.
- b. Except as otherwise provided herein, the President is authorized to sign all contracts for the University and may delegate such authority to University administrators within his or her discretion. Such delegations of authority shall be in writing.

4. Letters of Intent

A letter of intent (or similar document) may be signed by the President when in her or his judgment a letter of intent is necessary to ensure receipt of an advantageous price

or delivery date for goods or services and approval of the purchase by the Board as required by Section V.B.1 hereof cannot be timely obtained. Such letters of intent shall provide that the purchase may be terminated without any cost, liability, or obligation if approval of the Board as required by Section V.B.1 is not obtained by a specific date and shall contain such other conditions as may be considered appropriate by the person signing the letter of intent.

5. Internal Management Guidelines

The President shall establish and publish internal management guidelines (via policy, procedure, or otherwise) concerning purchases, which shall include the following provisions and such other provisions as are necessary and appropriate. Such guidelines shall take effect upon approval by the President.

- a. Provisions intended to ensure the fair and equitable treatment of all persons who provide goods or services to the Board.
- b. Provisions intended to foster competitive bidding and economical procurement to the greatest extent possible.
- c. Provisions intended to encourage the economical utilization and replacement of vehicles.
- d. Provisions to encourage the use of diverse suppliers, including but not limited to, small businesses and businesses owned by minorities, women, veterans, and persons with disabilities. Such provisions shall ensure compliance with applicable law.

6. Change Orders

- a. The President (or the President's delegee) is authorized to approve and sign change orders or amendments relating to contracts (collectively, "amendments") on behalf of the University.
- b. A change order or series of change orders which authorizes or necessitates an increase or decrease in either the cost of a contract by a total of \$10,000 or more or the time of completion by a total of 30 days or more shall not be approved unless it is first determined in writing by the President that the circumstances necessitating the change were not reasonably foreseeable at the time the contract was signed, the change is germane to the original contract as signed, or the change order or

series of change orders is in the best interest of the University and is authorized by law. Such written determination and the written change order resulting from that determination shall be preserved in the contract's permanent file, which shall be open to the public for inspection consistent with applicable law governing public records.

- c. In accordance with Section I.E of these Regulations, the President shall further delegate the authority granted to her or him in the preceding paragraphs so that the same individual does not both approve a change order under Section V.B.6.a and make a determination in writing that the change order is justified under Section V.B.6.b.
- d. Except in emergency situations meeting the requirements of Section V.A.1.c hereof above and except as relating to those contracts described in Section V.B.1.d hereof, prior Board approval shall be required for any amendment that (i) increases a contract to \$250,000 or more; (ii) exceeds a contingency previously approved by the Board; or (iii) increases a contract previously approved by the Board without a contingency. The President shall present a report on emergency exceptions granted under this provision at the next regular meeting of the Board.

C. Income-Producing Contracts

Income-producing contracts include, without limitation, grants or contracts with public or private agencies for instruction, research, or service, as well as concession contracts and contracts for the conveyance, lease, license, encumbrance, or other disposition of real or personal property of the Board.

1. Approval

- a. Income-producing contracts shall require Board approval when the acceptance of any such contract results in changes to academic programs that would require subsequent approval by the Board of Higher Education.
- b. All contracts for the conveyance, lease, or encumbrance of real property shall require Board approval. For the avoidance of doubt, this provision shall not apply to the practice of temporary space use rental agreements or license agreements.
- c. Authority for approval of income-producing contracts, other than those requiring Board approval in accordance with Section V.C.1.a and b hereof, is delegated to

the President. Except as otherwise provided herein, the President may sign all such contracts upon approval.

2. Reports

A quarterly report to the Board shall be presented by the President on income-producing contracts of \$100,000 or more received by the University.

D. Travel

Travel regulations issued by the Illinois Higher Education Travel Control Board, as may be amended from time to time, shall govern the reimbursement of travel expenses incurred by employees and members of the Board from all fund sources, except appropriately restricted funds donated to University foundations. The President shall establish and publish a policy concerning the reimbursement of travel expenses not otherwise provided for herein, and such policy shall take effect when approved by the President.

E. Business Expenses

The President shall establish and publish a policy concerning the reimbursement from any University funds for any reason, including expenses incurred in connection with the conduct of official business for individuals, organizations, or situations not covered by regulations of the Higher Education Travel Control Board. The policy shall be consistent with regulations issued by the Higher Education Travel Control Board to the extent possible and shall take effect when approved by the President. The policy shall include the following provisions and such other provisions as are necessary and appropriate.

1. Provisions concerning the reimbursement of expenses for transportation, meals, and living expenses.
2. Provisions concerning the reimbursement of expenses for institutional advancement and development efforts.
3. Provisions concerning the reimbursement of expenses for candidates for positions.
4. Provisions concerning the source of funds for reimbursement of business expenses.

F. Moving and Relocation Expenses

1. The term “employee,” as used herein, includes all full-time faculty and selected administrative and civil service employees hired from outside the commuting area of Governors State University. The President shall define the administrative and civil service positions in each university that are eligible for reimbursement for moving and relocation expenses.
2. Moving or relocation expenses associated with the appointment of the President shall be limited to reasonable and actual expenses and shall be subject to approval by the Board. Moving or relocation expenses associated with the appointment of other employees shall be limited to reasonable and actual expenses and shall be limited to the maximum established by the President unless an exception thereto is granted by the President. The President shall inform the Board of the maximum reimbursement levels established by the President under these Regulations, and thereafter, of any change to such maxima.
3. If two or more individuals occupying the same household who qualify for reimbursement for moving and relocation expenses are hired with commencement dates not more than 30 calendar days apart, they shall be eligible for a single reimbursement for that household to be divided equally between or among such individuals.

G. Non-Appropriated Funds

30 ILCS 105/6a-1e provides that certain non-appropriated funds may be retained by the University for use in the manner and for the purposes set forth therein. This regulation is issued to establish uniform procedures relating to the use and handling of such funds as receipts from revenue bond operations, auxiliary enterprise operations, and other self-supporting activities; governmental and private gifts, grants, and contracts; a working cash fund; unrestricted institutional funds; tuition; student fees; and such other funds as may from time to time be approved by the Board. The University’s policy on the investment of non-appropriated funds is set forth in Section V(M) below.

1. Reports

The President shall submit an annual report to the Board on the deposit and investment of non-appropriated funds during the preceding year.

2. Records and Audits

The University shall maintain detailed financial records of operations and prepare formal financial reports in accordance with generally accepted principles and standards of accounting as are necessary for sound financial management and adequate disclosure. Each year, the University shall provide a copy of its annual financial report and audit by the Auditor General to the Board.

3. Bond Resolutions

In the event of a conflict between the provisions of these Regulations and the requirements of specific bond resolutions adopted by the Board, the latter shall govern.

4. Reserves

Board approval shall be required to establish or change non-instructional facilities reserves or other reserves authorized by the University Guidelines 1982 issued by the Legislative Audit Commission.

H. University-Related Organizations

1. General

University-related organizations include foundations, alumni associations, athletic associations, and other not-for-profit organizations established for the purpose of assisting the Board and the University in the accomplishment of their educational objectives.

2. Audit Commission Guidelines

The relationship between University-related organizations and the University shall be governed by the University Guidelines 1982 issued by the Legislative Audit Commission. The University shall develop a written contract describing this relationship with each of its University-related organizations. Each contract shall be subject to approval by the Board.

3. Establishment of University-Related Organizations

Proposals to create a new University-related organization shall be submitted by the President for review by the Board before the organization is established.

4. Contributions

A proposal shall be submitted by the President describing any significant commitment of University resources to or for the benefit of, or contribution to or for the benefit of, any University-related organization. Approval of the Board shall be required before such a commitment is made.

5. Reports

- a. A quarterly report to the Board shall be presented by the President on contributions to University-related organizations.
- b. The President shall submit copies of the annual audits of each University-related organization to the Board.

I. Contributions

1. General

The Board is charged by statute to succeed to and administer all trusts, trust property, and gifts belonging or pertaining to the University. Contributions may be accepted on behalf of the Board by authorized University officials.

2. Definition

For the purpose of this Regulation, contributions are defined to include gifts, endowments, trusts, bequests, devises, and other donations made to the University.

3. Authority to Accept

The President is authorized to accept contributions to the University. Board approval shall be required prior to acceptance in the case of contributions that involve a significant commitment of resources for the operation, maintenance, or administration of the contribution.

4. Reports

A quarterly report to the Board shall be presented by the President on contributions to the University of \$25,000 or more.

J. Mandatory Fees

1. Definition

Mandatory fees are defined as tuition and other fees established by the Board, which all students are assessed as a prerequisite for registration unless a waiver or other exemption has been authorized by the Board or by statute.

2. Tuition

The University shall develop a long-range plan for tuition as required by the Illinois Board of Higher Education. Board approval shall be required to change tuition rates.

3. Other Mandatory Fees

Any proposal to establish or change the amount of any other mandatory fee shall be subject to a student referendum. Board approval shall be required to establish or change the amount of any mandatory fee. In addition to tuition, mandatory fees that may be established at the University include, but are not limited to, the following:

- a. Activity fee
- b. Revenue Bond fee
- c. Health Care fee
- d. Insurance fee
- e. Athletic fee
- f. University Center fee

4. Waivers

The approval of the President is required to waive mandatory fees, except when a waiver is required by statute, authorized by Board regulation, or has been established as part of the University's financial aid policy.

5. Collections

All registration fees must be collected prior to or during the academic term to which they apply. The University may offer a plan which would permit students to pay their tuition and fees in two or more installments during the academic term. A service charge may be added for students who elect to pay in more than one installment in accordance with the approved University plan. Unless

an exception is granted by the President by policy or on an ad hoc basis, all persons must meet all financial obligations to the University to maintain their status as enrolled students.

6. Refunds

The University shall develop policies that govern the refund of mandatory fees. These policies and any changes shall become effective when approved by the President. The term “refund” as used in this Regulation may mean the cancellation of an unpaid obligation as well as an actual refund of amounts previously paid.

7. Activity Fee

- a. Student activity fees, upon collection by the University, become State funds and are subject to statutes, regulations, and University policies and procedures applicable to State funds generally.
- b. The University shall develop policies concerning the administration of student activity fees. The policies and any changes shall become effective when approved by the President.

The policies shall contain the following provisions and such other provisions as are necessary and appropriate:

- i. Provisions for collection of all student activity fees at regular intervals.
- ii. Provisions for allocation by a body which includes representation of appropriate student organizations and of students generally.

K. Special Fees and Charges

1. Special Fees

Special fees are defined as all fees other than mandatory fees and include, but are not limited to, the following:

- a. Room and Board fee
- b. Program Change fee

- c. Graduation fee
- d. Late Registration and/or Late Payment fee
- e. Service fee for Installment Payments
- f. Transcript fee

The President's approval shall be required to establish or change the amount of any special fee.

2. Charges

Charges are defined as program- or activity-specific assessments, and may include but are not limited to, the following:

- a. Laboratory, Material, or Other Course-Related charge
- b. Locker and Towel charge
- c. Late Examination charge
- d. Duplicate Schedule charge
- e. Library Fine charge
- f. Lost Identification or Activity Card charge
- g. Test charge
- h. Parking charge

Approval of the President is required to establish or change the amount of any charge.

3. Waivers and Refunds

Special fees and charges may be waived or refunded in accordance with University policy or by specific approval of the President.

L. Internal Offset Procedures

The University shall develop procedures whereby University initiated payments to its debtors may be offset in accordance with State law and the rules of the State Comptroller. The procedures and any changes shall become effective when approved by the President.

M. Investment Policy

1. Purpose

The Investment Policy provides the guiding principles for the University to effectively supervise, monitor, and evaluate the investment of its funds.

2. Philosophy

The University shall manage its cash and investments in a manner that will preserve principal, meet operating cash flow needs, and produce a yield which would be described in the current marketplace as acceptable by conservative investment managers.

Investment strategies will evolve over time as market conditions, interest rates, and operational needs change. Such strategies must comply with applicable State and Federal laws and regulations, and bond/debt indentures.

3. Responsibility and Authority

a. University Board of Trustees

- The Board has fiduciary responsibility for the University's invested funds.
- The Board fulfills its fiduciary responsibility for the management of all invested funds through the adoption of the University's investment policy.
- The Board may retain such professionals, including investment managers, consultants, fund custodians, and legal and accounting specialists as may be required to achieve the purposes of the investment policy. The Board reserves the right to terminate such professionals as a result of performance assessment in accordance with this investment policy.

b. Budget and Finance Committee of the Board

- Has oversight responsibilities over the University's investment program.
- Sets forth recommendations to the Board regarding investment policy.
- Reviews the University's investment policy on a periodic basis.
- Reviews investment asset allocation, portfolio, and performance on a quarterly basis.
- Reports investment activities and performance to the Board on an annual basis.
- Approves the selection and assesses the performance of professionals, including consultants, investment managers, fund custodians, and legal and

accounting specialists as may be required to achieve the purposes of the investment policy.

c. Vice President for Administration and Finance/Chief Financial Officer

- Chief custodian of all funds held in the name of the University.
- Execution of the investment policy, which includes the establishment of financial relationships, such as banking relationships, investment managers, consultants, custodians, and other vendors directly related to the provision of investment management services, for the holding or management of the University's invested funds.
- Recommends, as necessary, changes to investment allocation and investment policy.
- Provides a quarterly report of investment activities and performance to the Budget and Finance Committee of the Board.

d. Office of Financial Services and Comptroller

- Manages the University invested funds consistent with the investment policy under the direction of the Vice President for Administration and Finance/Chief Financial Officer.
- Directs and manages the day-to-day transactions with external investment managers.
- Establishes internal controls and written operational procedures for the operation of the investment program.

e. Investment Managers

- Manage the University invested funds under their supervision in accordance with the University investment policy.
- Exercise full investment discretion with regard to buying, managing, and selling assets held in the portfolios.
- Accorded full discretion, within the limits set forth in this investment policy, to select individual securities, adjust the maturity mix, where applicable, and (3) diversify their portfolios so as to limit the impact of large losses in individual investments on the total portfolio.
- Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity would in the management of their own affairs, not in regard to

speculation, but in regard to the stewardship of their funds considering the probable income, risk, and preservation of capital.

- Provide the University with monthly and quarterly reports of investment activities, fund holdings and performance.

4. Policy

a. University Funds Available for Investments

- *Operating Funds*: Represents all funds available for current use in support of the University's academic programs and support functions. These operating funds are pooled to provide the University continuity of mission, investment flexibility, and efficient administration.
- *Debt Funds*: Proceeds from debt issuance, which can be temporarily invested pending expenditure for the related University's projects.

b. Investment Objectives

University investments shall be managed with prudent judgment and care. The investment portfolio shall be managed with the intention of obtaining the highest possible net return, balancing reasonable growth and yield with acceptable risk. In addition, the portfolio shall exhibit diversity with respect to instrument type and duration. The achievement of these objectives shall be accomplished in the manner described below:

- *Safety*: The safety of principal is the foremost objective of the investment program. The University funds shall be invested in a manner which seeks to ensure the preservation of capital.
- *Liquidity*: The University's investment portfolio will be structured in such a manner that securities mature at the same time as cash is needed to meet anticipated operational cash flow needs. Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.
- *Return on Investments*: Investment returns on the University's investment portfolio is a priority after the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

c. Authorized Investments

University funds should be invested in accordance with the State of Illinois Public Funds Investment Act (30 ILCS 235), which authorized the University to invest in the following:

- Bonds, notes, certificates of indebtedness, treasury bills, or other securities guaranteed by full faith and credit of the United States of America as to principal and interest.
- Bonds, notes, debentures, or other similar obligations of the United States of America, its agencies, and its instrumentalities. Agencies of the United States of America includes:
 - federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 (12 U.S.C. 2001 et seq.) and Acts amendatory thereto;
 - federal home loan banks and federal home loan mortgage corporation;
 - any other agency created by Act of Congress.
- Interest-bearing savings accounts, interest-bearing certificates of deposits, interest-bearing time deposits, or any other investment that constitutes direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5).
- Short-term obligations of corporations organized in the United States with assets exceeding \$500M, if:
 - such obligations are rated at the time of purchase at 1 of the 3 highest classifications established by at least 2 standard rating services;
 - the maturity is not later than 270 days from the date of purchase, or the maturity is more than 270 days but less than 3 years from the date of purchase;
 - such purchases do not exceed 10% of the corporation's outstanding obligations;
 - no more than one-third of the University's funds may be invested in short-term obligations of corporations.
- Money market mutual funds registered under the Investment Company Act of 1940.

- Short-term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities legally issuable by savings and loan associations which are incorporated under the laws of Illinois or any other state or under the laws of the United States.
 - Investments may be made only in those savings and loan associations which are insured by the Federal Savings and Loan Insurance Corporation.
 - Securities may be purchased at the offering or market price at the time of purchase.
 - Securities shall mature or be redeemable on a date or dates prior to the time when invested funds will be required for expenditure by the University.
- Dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union chartered under the laws of the State of Illinois or the laws of the United States, provided the principal office of the credit union must be located within the State of Illinois and the investments must be in accounts which are insured by applicable law.
- The Illinois Funds Money Market Funds.
- Repurchase agreements that meet certain instrument and transaction requirements.

d. Diversification and Allocation

The University will diversify its investments by security type, issue and maturity in order to reduce overall portfolio risks while striving to obtain the highest possible net return. The University's investment portfolio will be structured to provide that sufficient funds from investments are available every month to meet the University's anticipated cash needs. Subject to the safety objectives outlined above, the choice in investment instruments and maturities will be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends, and specific market opportunities.

e. Bank Deposit Collateralization Requirements

In accordance with the State Finance Act (30 ILCS 105/6a-1e), whenever funds retained by the University in its own treasury are deposited with a bank or savings and loan association and the amount of the deposit exceeds the amount of federal deposit insurance coverage, a bond or pledged securities shall be obtained. Only the types of securities which the State Treasurer may, in his discretion, accept for

amounts not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation under Section 11 of the Deposit of State Moneys Act (15 ILCS 520/11) may be accepted as pledged securities. The market value of the bond or pledged securities shall at all times be equal to or greater than the uninsured portion of the deposit.

f. Selection of Investment Managers

Selection of investment managers will be based on prudent due diligence procedures as informed by the Illinois Procurement Code. Investment managers who manage University funds must be registered with the Securities and Exchange Commission, carry adequate levels of insurance, and have sufficient documented investment history and experience, personnel, organizational and fee structure, and client service capabilities to meet University needs.

g. Standards of Care

- *Prudent Person Rule:* The standard of prudence to be used by the officers, employees, and agents, including, but not limited to, investment managers, involved in the investment process shall be the “prudent person rule” and shall be applied in the context of managing an overall investment portfolio.
- *Ethics and Conflicts of Interest:* Officers, employees, and agents, including, but not limited to, investment managers, involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program, or impairs their ability to make impartial investment decisions. They shall comply with the Board policies and regulations, University policies and procedures, and all the applicable Federal and State laws and regulations governing ethics and conflicts of interest. This includes, but is not limited to, the Illinois Governmental Ethics Act (5 ILCS 420), and the State Officials and Employees Ethics Act (5 ILCS 430), which set forth guidelines for professional conduct by those acting on behalf of the University. Any material interest in financial institutions with which the University conducts business shall be reported to the University Ethics Officer.
- *Internal Controls:* The University is responsible for establishing, maintaining, and evaluating internal control systems designed to ensure compliance with applicable laws and regulations; recording transactions properly; and protecting assets from loss that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees.

h. Sustainable Investing

In accordance with the Illinois Sustainable Investing Act (30 ILCS 238), officers, employees, and agents, including, but not limited to, investment managers, involved in the investment process will strive, within the bounds of financial and fiduciary prudence, to regularly consider material, relevant, and decision-useful sustainability factors in evaluating investment decisions. Factors to be considered may include, but are not limited to: (i) corporate governance and leadership factors, (ii) environmental factors, (iii) social capital factors, (iv) human capital factors, and (v) business model and innovation factors.

GOVERNORS STATE UNIVERSITY
BOARD OF TRUSTEES

REGULATIONS

Issued July 12, 1996

With Amendments adopted by the Board on June 12, 1998; October 14, 2011; and June 10, 2022, and [DATE].

SECTION V. FINANCIAL AND ADMINISTRATIVE AFFAIRS

A. Budget and Appropriations Process

1. Budget Requests

The President shall establish guidelines and procedures for preparation of operating and capital budget requests for the University. The President shall review and make recommendations concerning the requests and submit them to the Board for approval. The President shall submit budget requests approved by the Board to the Board of Higher Education and shall take such actions on the Board's behalf as are necessary and appropriate during the Board of Higher Education budget review process.

2. Appropriations Requests

The President shall prepare the University's requests for operating and capital appropriations. The President shall introduce appropriations requests based upon budget requests approved by the Board in the appropriate house of the General Assembly and shall take such actions on the Board's behalf as are necessary and appropriate during the appropriations process.

3. Financial Plans and Reports

- a. The President, after consultation with the Committee on Budget, Finance, and Budget Audit, shall establish guidelines and procedures for the preparation of an annual financial plan for appropriated and non-appropriated funds which shall be submitted to the Board for review.

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- b. The President, after consultation with the Committee on Budget, Finance, and Budget Audit, shall establish guidelines and procedures for the preparation of financial reports for the Board.

4. Line Item Transfers

The President, subject to the provisions of State law, may approve appropriation line item transfer requests and shall present a report at each regular meeting of the Board on appropriation line item transfers approved since the preceding regular Board meeting.

B. Purchases

Purchases consist of contracts, purchase orders, or other agreements (collectively referred to in this Subsection B. as "contracts") for the receipt of services or the acquisition of real or personal property which obligate financial resources of the Board. The financial resources of the Board include all funds received by or belonging to the Board and the University, including income received and retained in accordance with 30 ILCS 105/6a-1e. All purchasing transactions shall be conducted in accordance with applicable State and Federal statutes and regulations and applicable regulations adopted by the Board. Procurement activity of the University is governed by many statutes, including, but not limited to the Illinois Procurement Code, 30 ILCS 500/1-1 *et seq.* As stewards of public funds, it is essential that University employees receive and follow clear guidance on purchasing decisions.

1. Approval

Approval of purchases shall be obtained, prior to the obligation of financial resources of the Board, as follows:

- a. All transactions involving the acquisition of real property or purchases of \$250,000 or more (except as specified in ~~paragraph~~ Section V.B.1.d hereof) shall require approval by the Board.
- b. Authority for approval of purchases other than those referred to in Section V.B.1.a hereof is delegated to the President, who may delegate such authority to University administrators within his or her discretion. Such delegations of authority shall be in writing.

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c. In the event of an emergency, the President may grant an exception to the requirement of Board approval of a contract if, in the opinion of the President: (i.) immediate action is required; (ii.) a reasonable effort has been made by the President to consult individually with members of the Board or of the Executive Committee; and (iii.) there is insufficient time to obtain approval by the Board or the Executive Committee before action must be taken. The President shall present an informational report on exceptions granted under this provision at the next regular meeting of the Board.

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d. Approval by the Board under paragraph Section V.B.1.a hereof is not required for the following purchases: natural gas; utility services; fire protection; library books, electronic resources, and periodicals; textbooks; food products; entertainment services paid for with student fees and/or ticket sales receipts; resale items; postal charges; Procurement Code Exempt purchases; and purchases made from vendors approved by the Illinois Public Higher Education Cooperative, State of Illinois Joint Contract awards, and other cooperatives where the UniversityGSU is a member and a public solicitation is awarded for the product or service purchased.

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2. Reports

At each regular meeting of the Board, the President shall present an informational report on purchases of at least \$100,000 but less than \$250,000 (other than purchases excepted under Section V.A.1.d. hereof) made since the preceding regular Board meeting.

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3. Contract Preparation and Signature

a. The Board of Trustees of Governors State University, constituted a body corporate and politic, is the contracting entity for all contracts involving the Board and the University.

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b. Except as otherwise provided herein, the President is authorized to sign all contracts for the University and may delegate such authority to University administrators within his or her discretion. Such delegations of authority shall be in writing.

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4. Letters of Intent

A letter of intent (or similar document) may be signed by the President when in her or his judgment a letter of intent is necessary to ensure receipt of an advantageous price

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or delivery date for goods or services and approval of the purchase by the Board as required by Section V.B.1 hereof cannot be timely obtained. Such letters of intent shall provide that the purchase may be terminated without any cost, liability, or obligation if approval of the Board as required by Section V.B.1 is not obtained by a specific date and shall contain such other conditions as may be considered appropriate by the person signing the letter of intent.

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5. Internal Management Guidelines

The President shall establish and publish internal management guidelines (via policy, procedure, or otherwise) concerning purchases, which shall include the following provisions and such other provisions as are necessary and appropriate. Such guidelines shall take effect upon approval by the President.

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a. Provisions intended to ensure the fair and equitable treatment of all persons who provide goods or services to the Board.

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b. Provisions intended to foster competitive bidding and economical procurement to the greatest extent possible.

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c. Provisions intended to encourage the economical utilization and replacement of vehicles.

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d. Provisions to encourage the use of diverse suppliers, including but not limited to, small businesses and businesses owned by minorities, women, veterans, and persons with disabilities. Such provisions shall ensure compliance with applicable law.

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6. Change Orders

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a. The President (or the President's ~~designee~~ ~~delegee~~) is authorized to approve and sign change orders or amendments relating to contracts (collectively, "amendments") on behalf of the University.

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b. A change order or series of change orders which authorizes or necessitates an increase or decrease in either the cost of a contract by a total of \$10,000 or more or the time of completion by a total of 30 days or more shall not be approved unless it is first determined in writing by the President that the circumstances necessitating the change were not reasonably foreseeable at the time the contract was signed, the change is germane to the original contract as signed, or the change order or

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series of change orders is in the best interest of the University and is authorized by law. Such written determination and the written change order resulting from that determination shall be preserved in the contract's permanent file, which shall be open to the public for inspection consistent with applicable law governing public records.

- c. In accordance with Section I.E. of these Regulations, the President shall further delegate the authority granted to her or him in the preceding paragraphs so that the same individual does not both approve a change order under Section V.B.6.a and make a determination in writing that the change order is justified under Section V.B.6.b.

- d. ~~d.~~ Except in emergency situations meeting the requirements of Section V.A.1.c hereof above and except as relating to those contracts described in Section V.B.1.d hereof, prior Board approval shall be required for any amendment that (i-) increases a contract to \$250,000 or more; (ii-) exceeds a contingency previously approved by the Board; or (iii-) increases a contract previously approved by the Board without a contingency. The President shall present a report on emergency exceptions granted under this provision at the next regular meeting of the Board.

C. Income-Producing Contracts

Income-producing contracts include, without limitation, grants or contracts with public or private agencies for instruction, research, or service, as well as concession contracts and contracts for the conveyance, lease, license, encumbrance, or other disposition of real or personal property of the Board.

1. ~~4.~~ Approval

- a. Income-producing contracts shall require Board approval when the acceptance of any such contract results in changes to academic programs that would require subsequent approval by the Board of Higher Education.
- b. All contracts for the conveyance, lease, or encumbrance of real property shall require Board approval. For the avoidance of doubt, this provision shall not apply to the practice of temporary space use rental agreements or license agreements.
- c. Authority for approval of income-producing contracts, other than those requiring Board approval in accordance with ~~Sections~~ Section V.C.1.a and ~~V.C.1.~~ b hereof, is

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delegated to the President. Except as otherwise provided herein, the President may sign all such contracts upon approval.

2. Reports

A quarterly report to the Board shall be presented by the President on income-producing contracts of \$100,000 or more received by the University.

D. Travel

Travel regulations issued by the Illinois Higher Education Travel Control Board, as may be amended from time to time, shall govern the reimbursement of travel expenses incurred by employees and members of the Board from all fund sources, except appropriately restricted funds donated to University foundations. The President shall establish and publish a policy concerning the reimbursement of travel expenses not otherwise provided for herein, and such policy shall take effect when approved by the President.

E. Business Expenses

The President shall establish and publish a policy concerning the reimbursement from any University funds for any reason, including expenses incurred in connection with the conduct of official business for individuals, organizations, or situations not covered by regulations of the Higher Education Travel Control Board. The policy shall be consistent with regulations issued by the Higher Education Travel Control Board to the extent possible and shall take effect when approved by the President. The policy shall include the following provisions and such other provisions as are necessary and appropriate.

1. Provisions concerning the reimbursement of expenses for transportation, meals, and living expenses.
2. Provisions concerning the reimbursement of expenses for institutional advancement and development efforts.
3. Provisions concerning the reimbursement of expenses for candidates for positions.
4. Provisions concerning the source of funds for reimbursement of business expenses.

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F. Moving and Relocation Expenses

1. The term "employee," as used herein, includes all full-time faculty and selected administrative and civil service employees hired from outside the commuting area of Governors State University. The President shall define the administrative and civil service positions in each university that are eligible for reimbursement for moving and relocation expenses.
2. Moving or relocation expenses associated with the appointment of the President shall be limited to reasonable and actual expenses and shall be subject to approval by the Board. Moving or relocation expenses associated with the appointment of other employees shall be limited to reasonable and actual expenses and shall be limited to the maximum established by the President unless an exception thereto is granted by the President. The President shall inform the Board of the maximum reimbursement levels established by the President under these Regulations, and thereafter, of any change to such maxima.
3. If two or more individuals occupying the same household who qualify for reimbursement for moving and relocation expenses are hired with commencement dates not more than 30 calendar days apart, they shall be eligible for a single reimbursement for that household to be divided equally between or among such individuals.

G. Non-Appropriated Funds

30 ILCS 105/6a-1e provides that certain non-appropriated funds may be retained by the University for use in the manner and for the purposes set forth therein. This regulation is issued to establish uniform procedures relating to the use and handling of such funds as receipts from revenue bond operations, auxiliary enterprise operations, and other self-supporting activities; governmental and private gifts, grants, and contracts; a working cash fund; unrestricted institutional funds; tuition; student fees; and such other funds as may from time to time be approved by the Board. The University's policy on the investment of non-appropriated funds is set forth in Section V(M) below.

4. Depositories

~~Non-appropriated funds may only be deposited in depositories approved by the Board. The only financial institutions eligible for consideration as depositories are (a.) banks located in Illinois and insured by FDIC, or (b.) savings and loan associations located in Illinois and insured by FSLIC.~~

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2. Collateral

As a general rule, all deposits at a depository in excess of the amount insured by FDIC or FSLIC shall be secured by the pledge of (a.) United States government securities, (b.) securities guaranteed by the full faith and credit of the United States government, or (c.) any other security permitted by law and approved by the Board. The requirement for securing uninsured deposits may be wholly or partially waived by the Board if an economic advantage may be gained thereby or conditions otherwise warrant such waiver.

3. Investment of Funds

Non-appropriated funds that are not secured in accordance with Section V.G.2 hereof shall, unless otherwise provided by terms of a bond resolution or unless needed for operational expenses, be invested through approved depositories or through other means authorized by the Board in (a.) United States government securities, (b.) securities guaranteed by the full faith and credit of the United States government, or (d.) any other investment permitted by law and approved by the Board. Several funds of the same general category or classification may be combined in a single account; however, the books and records of the University shall reflect the amount in each fund and the charges against each fund.

4.1. Reports

The President shall submit an annual report to the Board on the deposit and investment of non-appropriated funds during the preceding year.

5.2. Records and Audits

The University shall maintain detailed financial records of operations and prepare formal financial reports in accordance with generally accepted principles and standards of accounting as are necessary for sound financial management and adequate disclosure. Each year, the University shall provide a copy of its annual financial report and audit by the Auditor General to the Board.

6.3. Bond Resolutions

In the event of a conflict between the provisions of these Regulations and the requirements of specific bond resolutions adopted by the Board, the latter shall govern.

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7.4. Reserves

Board approval shall be required to establish or change non-instructional facilities reserves or other reserves authorized by the University Guidelines 1982 issued by the Legislative Audit Commission.

H. University-Related Organizations

1. General

University-related organizations include foundations, alumni associations, athletic associations, and other not-for-profit organizations established for the purpose of assisting the Board and the University in the accomplishment of their educational objectives.

2. Audit Commission Guidelines

The relationship between University-related organizations and the University shall be governed by the University Guidelines 1982 issued by the Legislative Audit Commission. The University shall develop a written contract describing this relationship with each of its University-related organizations. Each contract shall be subject to approval by the Board.

3. Establishment of University-Related Organizations

Proposals to create a new University-related organization shall be submitted by the President for review by the Board before the organization is established.

4. Contributions

A proposal shall be submitted by the President describing any significant commitment of University resources to or for the benefit of, or contribution to or for the benefit of, any University-related organization. Approval of the Board shall be required before such a commitment is made.

5. Reports

a. A quarterly report to the Board shall be presented by the President on contributions to University-related organizations.

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- b. The President shall submit copies of the annual audits of each University-related organization to the Board.

I. Contributions

1. General

The Board is charged by statute to succeed to and administer all trusts, trust property, and gifts belonging or pertaining to the University. Contributions may be accepted on behalf of the Board by authorized University officials.

2. Definition

For the purpose of this Regulation, contributions are defined to include gifts, endowments, trusts, bequests, devises, and other donations made to the University.

3. Authority to Accept

The President is authorized to accept contributions to the University. Board approval shall be required prior to acceptance in the case of contributions that involve a significant commitment of resources for the operation, maintenance, or administration of the contribution.

4. Reports

A quarterly report to the Board shall be presented by the President on contributions to the University of \$25,000 or more.

J. Mandatory Fees

1. Definition

Mandatory fees are defined as tuition and other fees established by the Board, which all students are assessed as a prerequisite for registration unless a waiver or other exemption has been authorized by the Board or by statute.

2. Tuition

The University shall develop a long-range plan for tuition as required by the Illinois Board of Higher Education. Board approval shall be required to change tuition rates.

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3. **Other Mandatory Fees**

Any proposal to establish or change the amount of any other mandatory fee shall be subject to a student referendum. Board approval shall be required to establish or change the amount of any mandatory fee. In addition to tuition, mandatory fees that may be established at the University include, but are not limited to, the following:

- a. Activity fee
- b. Revenue Bond fee
- c. Health Care fee
- d. Insurance fee
- e. Athletic fee
- f. University Center fee

4. **Waivers**

The approval of the President is required to waive mandatory fees, except when a waiver is required by statute, authorized by Board regulation, or has been established as part of the University's financial aid policy.

5. **Collections**

All registration fees must be collected prior to or during the academic term to which they apply. The University may offer a plan which would permit students to pay their tuition and fees in two or more installments during the academic term. A service charge may be added for students who elect to pay in more than one installment in accordance with the approved University plan. Unless an exception is granted by the President by policy or on an ad hoc basis, all persons must meet all financial obligations to the University to maintain their status as enrolled students.

6. **Refunds**

The University shall develop policies that govern the refund of mandatory fees. These policies and any changes shall become effective when approved by the President. The term "refund" as used in this Regulation may mean the cancellation of an unpaid obligation as well as an actual refund of amounts previously paid.

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7. Activity Fee

- a. Student activity fees, upon collection by the University, become State funds and are subject to statutes, regulations, and University policies and procedures applicable to State funds generally.
- b. The University shall develop policies concerning the administration of student activity fees. The policies and any changes shall become effective when approved by the President.

The policies shall contain the following provisions and such other provisions as are necessary and appropriate:

- i. Provisions for collection of all student activity fees at regular intervals.
- ii. Provisions for allocation by a body which includes representation of appropriate student organizations and of students generally.

K. Special Fees and Charges

1. Special Fees

Special fees are defined as all fees other than mandatory fees and include, but are not limited to, the following:

- a. Room and Board fee
- b. Program Change fee
- c. Graduation fee
- d. Late Registration and/or Late Payment fee
- e. Service fee for Installment Payments
- f. Transcript fee

~~Approval of the President~~The President's approval shall be required to establish or change the amount of any special fee.

2. Charges

Charges are defined as program- or activity-specific assessments, and may include but are not limited to, the following:

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- a. Laboratory, Material, or Other Course-Related charge
- b. Locker and Towel charge
- c. Late Examination charge
- d. Duplicate Schedule charge
- e. Library Fine charge
- f. Lost Identification or Activity Card charge
- g. Test charge
- h. Parking charge

Approval of the President is required to establish or change the amount of any charge.

3. **Waivers and Refunds**

Special fees and charges may be waived or refunded in accordance with University policy or by specific approval of the President.

L. **Internal Offset Procedures**

The University shall develop procedures whereby University initiated payments to its debtors may be offset in accordance with State law and the rules of the State Comptroller. The procedures and any changes shall become effective when approved by the President.

M. Investment Policy

1. Purpose

The Investment Policy provides the guiding principles for the University to effectively supervise, monitor, and evaluate the investment of its funds.

2. Philosophy

The University shall manage its cash and investments in a manner that will preserve principal, meet operating cash flow needs, and produce a yield which would be described in the current marketplace as acceptable by conservative investment managers.

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Investment strategies will evolve over time as market conditions, interest rates, and operational needs change. Such strategies must comply with applicable State and Federal laws and regulations, and bond/debt indentures.

3. Responsibility and Authority

a. University Board of Trustees

- The Board has fiduciary responsibility for the University's invested funds.
- The Board fulfills its fiduciary responsibility for the management of all invested funds through the adoption of the University's investment policy.
- The Board may retain such professionals, including investment managers, consultants, fund custodians, and legal and accounting specialists as may be required to achieve the purposes of the investment policy. The Board reserves the right to terminate such professionals as a result of performance assessment in accordance with this investment policy.

b. Budget, Finance, and Audit Committee of the Board

- Has oversight responsibilities over the University's investment program.
- Sets forth recommendations to the Board regarding investment policy.
- Reviews the University's investment policy on a periodic basis.
- Reviews investment asset allocation, portfolio, and performance on a quarterly basis.
- Reports investment activities and performance to the Board on an annual basis.
- Approves the selection and assesses the performance of professionals, including consultants, investment managers, fund custodians, and legal and accounting specialists as may be required to achieve the purposes of the investment policy.

c. Vice President for Administration and Finance/Chief Financial Officer

- Chief custodian of all funds held in the name of the University.
- Execution of the investment policy, which includes the establishment of financial relationships, such as banking relationships, investment managers, consultants, custodians, and other vendors directly related to the provision of

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investment management services, for the holding or management of the University's invested funds.

- Recommends, as necessary, changes to investment allocation and investment policy.
- Provides a quarterly report of investment activities and performance to the Budget, Finance, and Audit Committee of the Board.

d. Office of Financial Services and Comptroller

- Manages the University invested funds consistent with the investment policy under the direction of the Vice President for Administration and Finance/Chief Financial Officer.
- Directs and manages the day-to-day transactions with external investment managers.
- Establishes internal controls and written operational procedures for the operation of the investment program.

e. Investment Managers

- Manages the University invested funds under their supervision in accordance with the University investment policy.
- Exercises full investment discretion with regard to buying, managing, and selling assets held in the portfolios.
- Accorded full discretion, within the limits set forth in this investment policy, to select individual securities, adjust the maturity mix, where applicable, and diversify their portfolios so as to limit the impact of large losses in individual investments on the total portfolio.
- Uses the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity would in the management of their own affairs, not in regard to speculation, but in regard to the stewardship of their funds considering the probable income, risk, and preservation of capital.
- Provides the University with monthly and quarterly reports of investment activities, fund holdings and performance.

4. Policy

a. University Funds Available for Investments

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- Operating Funds: Represents all funds available for current use in support of the University's academic programs and support functions. These operating funds are pooled to provide the University continuity of mission, investment flexibility, and efficient administration.
- Debt Funds: Proceeds from debt issuance, which can be temporarily invested pending expenditure for the related University's projects.

b. Investment Objectives

University investments shall be managed with prudent judgment and care. The investment portfolio shall be managed with the intention of obtaining the highest possible net return, balancing reasonable growth and yield with acceptable risk. In addition, the portfolio shall exhibit diversity with respect to instrument type and duration. The achievement of these objectives shall be accomplished in the manner described below:

- Safety: The safety of principal is the foremost objective of the investment program. The University funds shall be invested in a manner which seeks to ensure the preservation of capital.
- Liquidity: The University's investment portfolio will be structured in such a manner that securities mature at the same time as cash is needed to meet anticipated operational cash flow needs. Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.
- Return on Investments: Investment returns on the University's investment portfolio is a priority after the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

c. Authorized Investments

University funds should be invested in accordance with the State of Illinois Public Funds Investment Act (30 ILCS 235), which authorized the University to invest in the following:

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- Bonds, notes, certificates of indebtedness, treasury bills, or other securities guaranteed by full faith and credit of the United States of America as to principal and interest.
- Bonds, notes, debentures, or other similar obligations of the United States of America, its agencies, and its instrumentalities. Agencies of the United States of America includes:
 - federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 (12 U.S.C. 2001 et seq.) and Acts amendatory thereto;
 - federal home loan banks and federal home loan mortgage corporation;
 - any other agency created by Act of Congress.
- Interest-bearing savings accounts, interest-bearing certificates of deposits, interest-bearing time deposits, or any other investment that constitutes direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5).
- Short-term obligations of corporations organized in the United States with assets exceeding \$500M, if:
 - such obligations are rated at the time of purchase at 1 of the 3 highest classifications established by at least 2 standard rating services;
 - the maturity is not later than 270 days from the date of purchase, or the maturity is more than 270 days but less than 3 years from the date of purchase;
 - such purchases do not exceed 10% of the corporation's outstanding obligations;
 - no more than one-third of the University's funds may be invested in short-term obligations of corporations.
- Money market mutual funds registered under the Investment Company Act of 1940.
- Short-term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities legally issuable by savings and loan associations which are incorporated under the laws of Illinois or any other state or under the laws of the United States.
 - Investments may be made only in those savings and loan associations which are insured by the Federal Savings and Loan Insurance Corporation.

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- Securities may be purchased at the offering or market price at the time of purchase.
- Securities shall mature or be redeemable on a date or dates prior to the time when invested funds will be required for expenditure by the University.
- Dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union chartered under the laws of the State of Illinois or the laws of the United States, provided the principal office of the credit union must be located within the State of Illinois and the investments must be in accounts which are insured by applicable law.
- The Illinois Funds Money Market Funds.
- Repurchase agreements that meet certain instrument and transaction requirements.

d. Diversification and Allocation

The University will diversify its investments by security type, issue and maturity in order to reduce overall portfolio risks while striving to obtain the highest possible net return. The University's investment portfolio will be structured to provide that sufficient funds from investments are available every month to meet the University's anticipated cash needs. Subject to the safety objectives outlined above, the choice in investment instruments and maturities will be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends, and specific market opportunities.

e. Bank Deposit Collateralization Requirements

In accordance with the State Finance Act (30 ILCS 105/6a-1e), whenever funds retained by the University in its own treasury are deposited with a bank or savings and loan association and the amount of the deposit exceeds the amount of federal deposit insurance coverage, a bond or pledged securities shall be obtained. Only the types of securities which the State Treasurer may, in his discretion, accept for amounts not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation under Section 11 of the Deposit of State Moneys Act (15 ILCS 520/11) may be accepted as pledged securities. The market value of the bond or pledged securities shall at all times be equal to or greater than the uninsured portion of the deposit.

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f. Selection of Investment Managers

Selection of investment managers will be based on prudent due diligence procedures as informed by the Illinois Procurement Code. Investment managers who manage University funds must be registered with the Securities and Exchange Commission, carry adequate levels of insurance, and have sufficient documented investment history and experience, personnel, organizational and fee structure, and client service capabilities to meet University needs.

g. Standards of Care

- *Prudent Person Rule:* The standard of prudence to be used by the officers, employees, and agents, including, but not limited to, investment managers, involved in the investment process shall be the "prudent person rule" and shall be applied in the context of managing an overall investment portfolio.
- *Ethics and Conflicts of Interest:* Officers, employees, and agents, including, but not limited to, investment managers, involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program, or impairs their ability to make impartial investment decisions. They shall comply with the Board policies and regulations, University policies and procedures, and all the applicable Federal and State laws and regulations governing ethics and conflicts of interest. This includes, but is not limited to, the Illinois Governmental Ethics Act (5 ILCS 420), and the State Officials and Employees Ethics Act (5 ILCS 430), which set forth guidelines for professional conduct by those acting on behalf of the University. Any material interest in financial institutions with which the University conducts business shall be reported to the University Ethics Officer.
- *Internal Controls:* The University is responsible for establishing, maintaining, and evaluating internal control systems designed to ensure compliance with applicable laws and regulations; recording transactions properly; and protecting assets from loss that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees.

h. Sustainable Investing

In accordance with the Illinois Sustainable Investing Act (30 ILCS 238), officers, employees, and agents, including, but not limited to, investment managers, involved in the investment process will strive, within the bounds of financial and

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fiduciary prudence, to regularly consider material, relevant, and decision-useful sustainability factors in evaluating investment decisions. Factors to be considered may include, but are not limited to: (i) corporate governance and leadership factors, (ii) environmental factors, (iii) social capital factors, (iv) human capital factors, and (v) business model and innovation factors.

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