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
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FINANCIAL AUDIT

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TABLE OF CONTENTS

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
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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

Number of	Current Report	Prior Report
Findings	1	1
Repeated findings	1	0
Prior recommendations implemented or not repeated	0	0

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

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.

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

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Governors State University (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

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.

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%

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*

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.

<u>Current Liabilities</u>
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.

<u>Noncurrent Liabilities</u>
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.

<u>Deferred inflows of resources</u>
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.

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%

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	$ 126,995	$ 97,887	$ 29,108	30%

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.

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	$ 126,995	$ 97,887	$ 29,108	30%

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.

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	10,120	3,947	6,173	156%
Net increase (decrease) in cash and cash equivalents	13,846	(56)	13,902	-24,825%
Cash and cash equivalents - beginning of year	55,941	55,997	(56)	0%
Cash and cash equivalents - end of year	$ 69,787	$ 55,941	$ 13,846	25%

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.

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:

- 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.

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
A Component Unit of the State of Illinois
STATEMENT OF NET POSITION
JUNE 30, 2021

	University	Component Unit
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	81,380,791	958,709
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	113,615,465	8,587,500
Total assets	194,996,256	9,546,209
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	493,103	-
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 postemployement benefits (Note 7)	153,059	-
Total current liabilities	15,762,401	454,212
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 postemployement benefits (Note 7)	6,415,636	-
Total noncurrent liabilities	50,964,224	-
Total liabilities	66,726,625	454,212
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from other postemployment benefits (Notes 2 and 7)	4,423,891	-
Total deferred inflows of resources	4,423,891	-
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	$ 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 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 resouces 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

Management's Discussion and Analysis

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

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

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

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

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

Notes to the Basic Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near to their maturities that they present insignificant risk of changes in value because of changes in interest rates. The University generally considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the Illinois Funds are considered cash equivalents.

Accounts, Grants, 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	(7,383,100)
Net accounts, grants, student loans, and State appropriation receivable	$10,948,871

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

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

Allowance for Uncollectible Accounts

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

Prepaid Debt Service Insurance

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Capital Assets

Capital assets are carried at cost (if purchased) or at estimated fair market value at the time of the donation if donated prior to July 1, 2015. After June 30, 2015, with the adoption of GASB Statement No. 72, *Fair Value Measurement and Application*, donated capital assets are carried at acquisition value. Foundation capital assets 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.

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.

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).

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.

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

During the year ended June 30, 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.

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.

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.

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

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).

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.

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:

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

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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).

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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:

	Fair Value
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	283,338
Total	$ 6,667,308

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

	Fair Value	Level 1	Level 2	Level 3
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	283,338	-	283,338	-
Total	$ 6,667,308	$ 6,383,970	$ 283,338	$ -

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 laddered portfolio with maturities occurring at regular intervals.

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

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2021 are as follows:

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

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:

Credit Rating	Total Debt Securities
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	219,489
Total	$ 1,049,833

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

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).

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.

NOTE 5 - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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:

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%

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:

1% Decrease 5.49%	Rate Assumption 6.49%	1% Increase 7.49%
$ 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

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.

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

SEGIA, as amended, authorizes SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these OPEB. The eligibility provisions for SURS are defined within 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.

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.

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

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

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		153,059
Total deferred outflows of resources	$	369,740
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		3,693,499
Total deferred inflows of resources	$	4,423,891

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:

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

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.

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.

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.

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:

	Retirement age experience study[1]	Mortality[2]
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.

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

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

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

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:	June 30, 2020	June 30, 2019*
State of Illinois' OPEB liability related to the University under the Special Funding Situation	$165,703,048	$175,571,582
University's OPEB liability	$6,568,695	$8,997,280
Total OPEB liability associated with the University	$172,271,743	$184,568,862
SEGIP total OPEB liability	$42,366,626,302	$43,889,169,017
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.

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	$ 6,769,900	$ 4,153,007	$ -	$ (836,246)	$ 10,086,661
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	192,984,297	1,343,487	(267,846)	836,246	194,896,184
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	(88,457,456)	(4,702,200)	264,188	-	(92,895,468)
Other capital assets, net	$104,526,841	$ (3,358,713)	$ (3,658)	$ 836,246	$102,000,716
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	(88,457,456)	(4,702,200)	264,188	-	(92,895,468)
Total capital assets, net	$111,296,741	$ 794,294	$ (3,658)	$ -	$112,087,377

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

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:

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

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

Year Ending June 30	Principal	Interest	Total
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	1,245,000	51,872	1,296,872
	$ 3,955,000	$ 588,252	$ 4,543,252

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:

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

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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

Year Ending June 30	Principal	Interest	Total
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	2,375,000	111,716	2,486,716
	$17,315,000	$10,019,187	$27,334,187

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:

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

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:

Year Ending June 30	Principal	Interest	Total
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	2,070,000	139,356	2,209,356
	$ 6,740,000	$ 1,171,550	$ 7,911,550

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:

Year Ending June 30	Principal	Interest	Total
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	6,130,000	557,000	6,687,000
	$11,875,000	$ 2,854,875	$14,729,875

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:

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

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:

Year Ending June 30	Amount
2022	$ 37,500
	$ 37,500

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:

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

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:

	Foundation	
University	Due to University	Operating Revenue
Due from Foundation	$ 389,075	$ -
Operating Expenses	-	315,085
Total	$ 389,075	$ 315,085

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.

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:

Year Ending June 30	Base Rent
2022	$ 9,499
2023	9,499
2024	9,499
2025	9,499
2026	4,749
	$ 42,745

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

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

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

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 percetage 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.

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 form the MP-2014 to the MP-2017 scale.
- Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.

GOVERNORS STATE UNIVERSITY
A Component Unit of the State of Illinois
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 (1)	FY 2018 (1)	FY 2017 (1)	FY 2016 (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	$ 172,271,743	$ 184,568,862	$ 183,972,301	$ 293,198,907	$ 352,839,476
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.

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)

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	$ 254,821	$ 340,910
Cash and cash equivilents, restricted	24	24
Accounts receivable, net of allowance	239,122	278,581
Prepaid debt service insurance - current	940	940
Total Current Assets	494,907	620,455
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	24,070,033	24,747,222
Total Assets	24,564,940	25,367,677
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	1,684,588	1,669,211
Noncurrent Liabilities		
Revenue bonds payable	20,272,094	21,262,948
Total Noncurrent Liabilities	20,272,094	21,262,948
Total Liabilities	21,956,682	22,932,159
NET POSITION		
Invested in capital assets, net of related debt	2,801,916	2,522,311
Unrestricted	(193,658)	(86,793)
Total Net Position	$ 2,608,258	$ 2,435,518

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	5,606,968	5,833,750
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	4,507,588	4,390,228
Operating Income	1,099,380	1,443,522
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(926,640)	(959,525)
Net Nonoperating Revenues (Expenses)	(926,640)	(959,525)
Increase (decrease) in net position	172,740	483,997
NET POSITION		
Net position - beginning of the year	2,435,518	1,951,521
Net position - end of the year	$ 2,608,258	$ 2,435,518

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	1,995,269	2,169,165
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	(2,081,358)	(1,893,175)
NET INCREASE (DECREASE) IN CASH	(86,089)	275,990
Cash - beginning of year	340,934	64,944
Cash - end of year	$ 254,845	$ 340,934
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	$ 1,995,269	$ 2,169,165

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											Total Operating Expenses
	University's Expenses					State of Illinois' Expenses						
	Salaries[1]	Benefits[2]	OPEB[3]	Pension	Sub-Total	Benefits[2]	OPEB[3]	Pension	Sub-Total	Total	Other Expenses	
Instruction	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)

	Total Enrollment	Full-Time Equivalent
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:

	Per Credit Hour	
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.

	Per Term	
Parking	$	38

Schedule of Insurance In Force (Unaudited)

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

Fire and extended coverage (buildings, EDP and contents, business interruption) (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

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

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Governors State University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities 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

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.

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,

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.

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.