

GOVERNORS STATE UNIVERSITY FOUNDATION

**Financial Statements and Supplementary Information
For the Years Ended June 30, 2019 and 2018
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

GOVERNORS STATE UNIVERSITY FOUNDATION
Financial Statements
Years Ended June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Governors State University Foundation

We have audited the accompanying financial statements of the business-type activities of Governors State University Foundation, a component unit of Governors State University and the State of Illinois, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Governors State University Foundation'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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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MITCHELL TITUS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Governors State University Foundation as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 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.

Mitchell Titus, LLP

January 17, 2020

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis

This document presents management's discussion and analysis of the financial performance of the Foundation during the fiscal years ended June 30, 2019 and 2018. This discussion should be read in conjunction with the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of the Foundation's management.

Reporting Entity

The Governors State University Foundation is a not-for-profit corporation and is considered to be a component unit of the State of Illinois and Governors State University (the University), as defined by the Governmental Accounting Standards Board (GASB) Statement No. 39. This Statement defines component units as organizations where the "substance and significance of the relationship between the organization and the primary government (or its component units) would be such that the exclusion of that organization from the reporting entity's financial statements would render those statements misleading or incomplete." Accordingly, the Foundation is included in the University's financial statements as a discrete component unit.

The Governors State University Foundation was incorporated in 1969, under the laws of the State of Illinois, as a not-for-profit organization. The Foundation's purpose is to assist and support the University's educational and cultural mission through encouraging philanthropic gifts of money, property, works of art and other materials having educational, artistic or historical value. These gifts are to be administered with the primary objective of serving purposes other than those for which the State of Illinois ordinarily makes sufficient appropriations to the University.

Using the Annual Report

These financial statements are prepared in accordance with the guidance found in the statements issued by the GASB. These statements focus on the financial condition of the Foundation, the results of operations and cash flows of the Foundation as a whole.

As prescribed by GASB, the annual report includes three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The accompanying notes to the financial statements provide more detailed information regarding the items presented on the face of the financial statements. An explanation of the financial statement presentation follows.

The Statement of Net Position reflects the assets and liabilities of the Foundation using the accrual basis of accounting and presents the financial position of the Foundation at a specified point in time. The difference between total assets and total liabilities, known as net position, is one indicator of the current financial condition of the Foundation. The increase or decrease in net position that occurs over time indicates the improvement or erosion of the Foundation's financial condition.

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis (*continued*)

Using the Annual Report (*continued*)

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Revenues and expenses are reported as either operating or non-operating. Under this reporting model, certain grants, the GSU budget allocation (in-kind support) and other revenues are reported as operating revenue, and gifts to the Foundation and investment income are considered non-operating revenue.

Additionally, payments for scholarships, grants to the University and the GSU budget allocation (in-kind expense) are treated as operating expenses.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing and investing activities.

Financial Highlights

The Foundation's financial position increased during the fiscal year ended June 30, 2019. Total net position increased by \$90 thousand (1.33%) from June 30, 2018. This is attributable to contributions. Nonexpendable restricted net position (permanent endowments) increased by \$177 thousand; expendable restricted net position decreased by \$58 thousand; and unrestricted net position decreased by \$28 thousand.

Condensed Statement of Net Position

	As of June 30,		Change
	2019	2018	
ASSETS			
Current assets	\$ 1,038,938	\$ 470,529	\$ 568,409
Non-current assets	6,255,445	6,391,326	(135,881)
Total assets	7,294,383	6,861,855	432,528
LIABILITIES			
Total current liabilities	409,922	67,815	342,107
Total liabilities	409,922	67,815	342,107
Net position	\$ 6,884,461	\$ 6,794,040	\$ 90,421

At June 30, 2019, total current assets of \$1.0 million mostly consist of cash and cash equivalents. The \$568 thousand increase between 2019 and 2018 was due to additional contributions, timing of cash transfers into investments, and timing of settlement of the amount due to the University caused by the change in the Foundation's receipts process.

At June 30, 2019, total non-current assets of \$6.3 million consist of \$4.0 million of investments and \$2.3 million of capital assets. The \$136 thousand decrease in non-current assets between 2019 and 2018 was due to investment losses caused by the overall decline in the market.

GOVERNORS STATE UNIVERSITY FOUNDATION

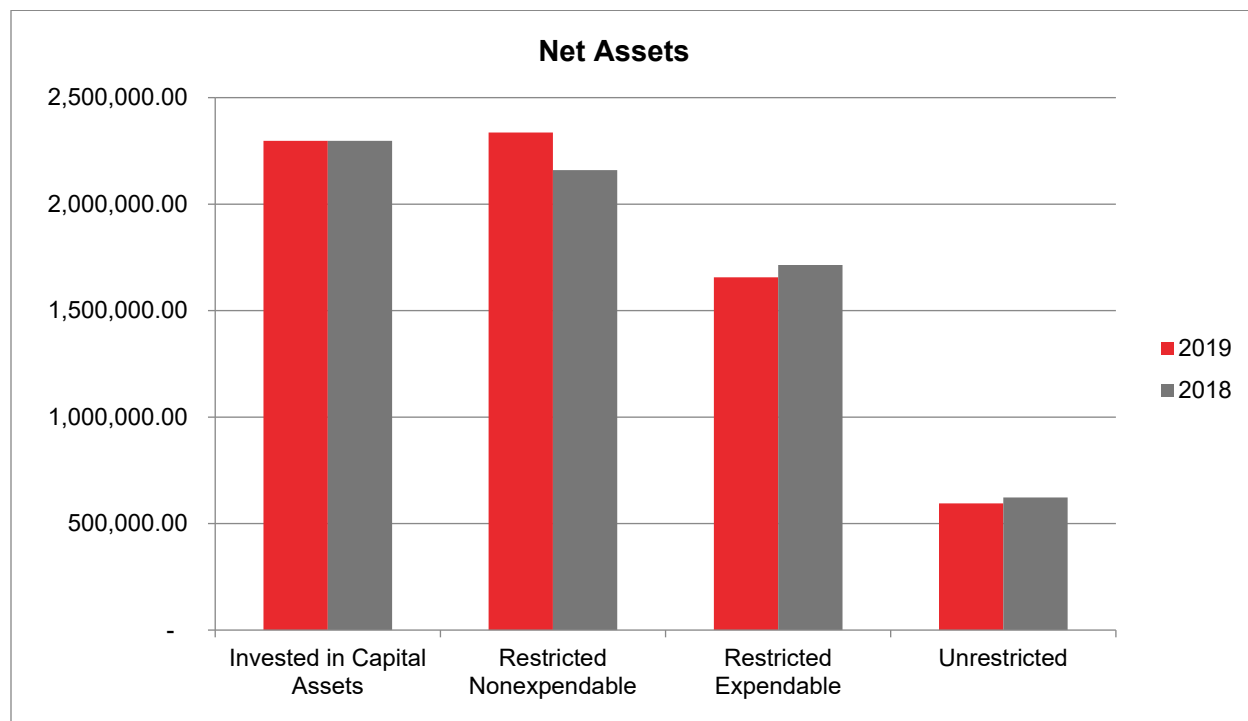
Management's Discussion and Analysis (*continued*)

Condensed Statement of Net Position (*continued*)

The Foundation's liabilities at June 30, 2019, total \$410 thousand owed to the University, vendors, and wages payable. The \$342 thousand increase was mostly attributable to the timing of vendor payments and timing of settlement of the amount due to the University caused by the change in the Foundation's receipts process. During fiscal year 2019, the Foundation cash receipts are now directly deposited into the Foundation's checking account. The Foundation is currently working on a process that will allow the Foundation to pay expenditures directly from their checking account.

The Foundation's current assets of \$1.0 million were sufficient to cover current liabilities of \$410 thousand. The ratio of current assets-to-current liabilities is \$2.53 in current assets for every \$1 in current liabilities for fiscal year 2019.

The Foundation's total net position at June 30, 2019, totaled approximately \$6.9 million, a \$90 thousand increase over total net position at June 30, 2018. Net position classified as "restricted, nonexpendable (permanent endowments)" increased by \$177 thousand due to endowment gifts received during fiscal year 2019. Net position classified as "restricted, expendable" and "unrestricted" decreased by \$58 thousand and \$28 thousand, respectively, due to investment losses caused by the overall decline in the market during fiscal year 2019.



GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (*continued*)

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	For the Years Ended June 30,	
	2019	2018
OPERATING REVENUES AND EXPENSES		
Operating revenues	\$ 361,013	\$ 417,978
Operating expenses	952,487	983,975
Operating loss	<u>(591,474)</u>	<u>(565,997)</u>
NON-OPERATING REVENUES		
Contributions	334,217	431,588
Investment income	170,934	300,422
Non-operating revenues	<u>505,151</u>	<u>732,010</u>
(Loss) income before other revenues	<u>(86,323)</u>	<u>166,013</u>
Additions to permanent endowments - contributions	176,744	57,447
Additions to capital assets - contributions	-	64,000
Total other revenues	<u>176,744</u>	<u>121,447</u>
Change in net position	90,421	287,460
Total net position, beginning of year	<u>6,794,040</u>	<u>6,506,580</u>
Total net position, end of year	<u><u>\$ 6,884,461</u></u>	<u><u>\$ 6,794,040</u></u>

Operating Revenues

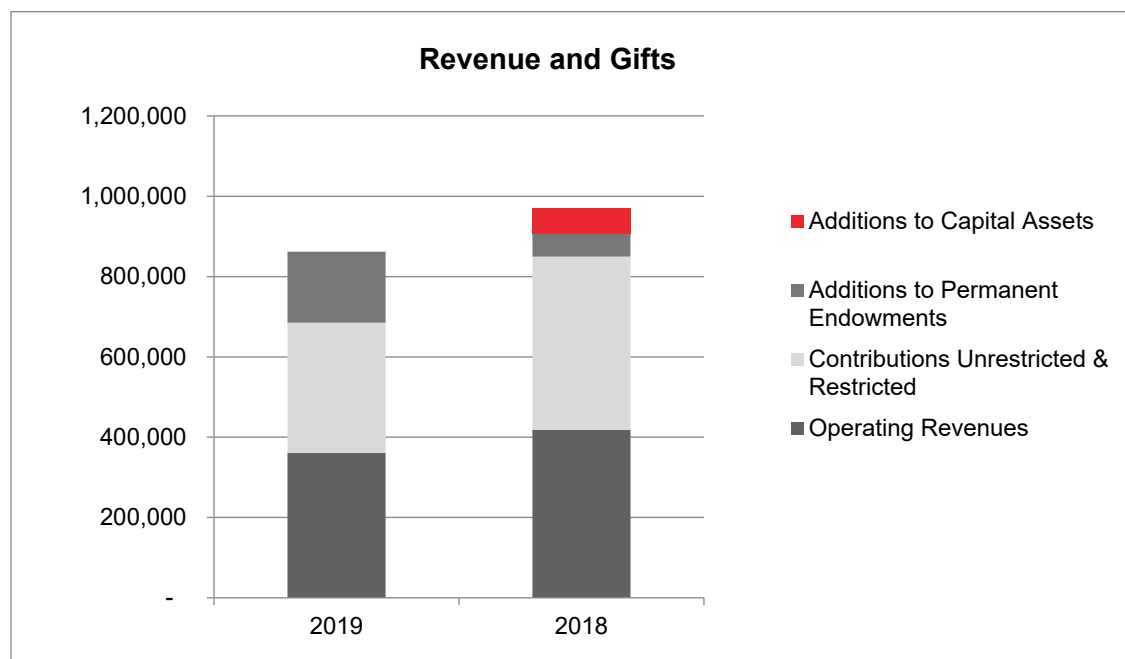
Total operating revenues were \$361 thousand and \$418 thousand for the years ended June 30, 2019 and 2018, respectively. The decrease of \$57 thousand was mostly due to the decrease in grants received by the Foundation during fiscal year 2019, and the decrease in budget allocations from the University due to open positions being filled only in the last quarter of fiscal year 2019.

GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (*continued*)

Gifts

The Foundation receives gifts from many sources and for different purposes. Gifts that are unrestricted or restricted-expendable for a specific purpose are reported as Contributions in the non-operating section of the financial statements. Additions to permanent endowments for scholarships or to support programs and departments are shown after the non-operating section of the statement as are any capital assets contributed.

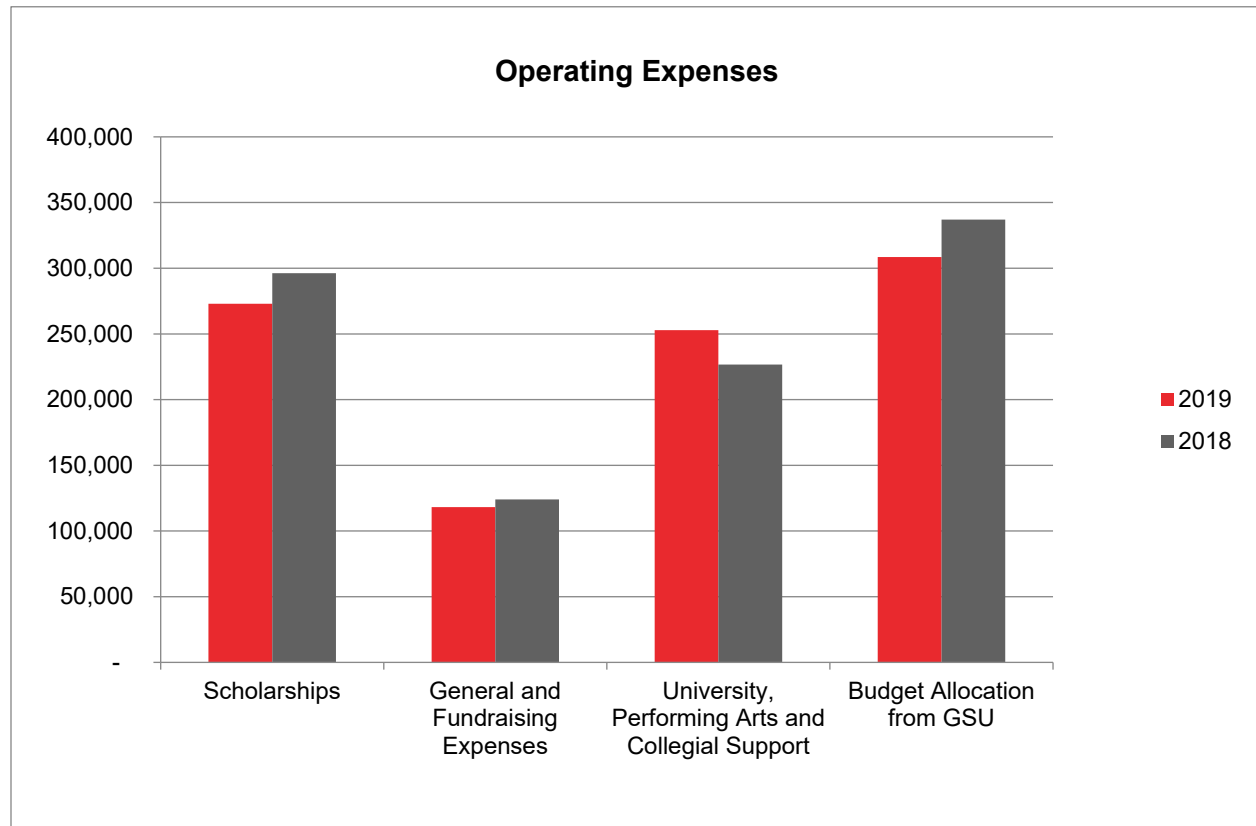
During fiscal year 2019, there was a total of \$334 thousand of unrestricted and restricted-expendable gifts, and \$177 thousand of additions to permanent endowments. There were no additions to capital assets during fiscal year 2019.



GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (*continued*)

Operating Expenses

Total operating expenses for fiscal year 2019 totaled \$952 thousand. Of this amount, \$273 thousand, or 28.7%, was awarded in scholarships to students for tuition and fees; \$118 thousand, or 12.4%, was for general and fundraising expenses; \$253 thousand, or 26.5%, supported University functions; and \$308 thousand, or 32.4%, was for in-kind expenses covered by the University.

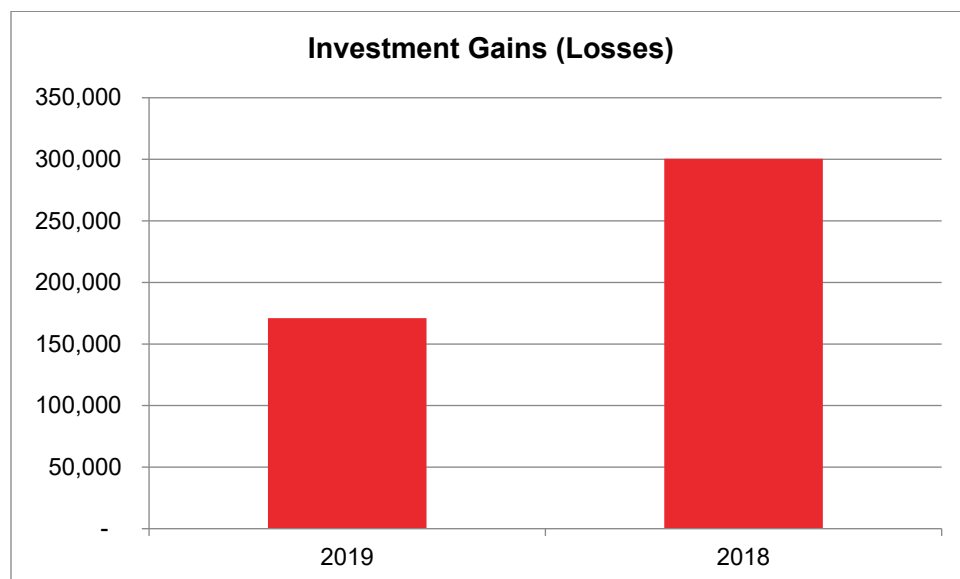


GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis (continued)

Other

Along with contributions, non-operating revenues include investment income. Investment income for fiscal year 2019 was \$171 thousand, a decrease of \$130 thousand from fiscal year 2018 mainly due to the overall decline in the market.



Condensed Statement of Cash Flows

	For the Years Ended June 30,	
	2019	2018
Net cash used in operating activities	\$ (275,567)	\$ (488,917)
Cash provided by noncapital financing activities	566,296	524,219
Net cash provided by investing activities	309,295	146,599
Cash increase	600,024	181,901
Cash - beginning of year	406,827	224,926
Cash - end of year	\$ 1,006,851	\$ 406,827

For fiscal year 2019, the sources of funds included in operating activities are operating revenues of \$26 thousand. The uses of funds included in operating activities are general and operating expenses of \$29 thousand and scholarships of \$273 thousand. The sources of funds included in noncapital financing activities are contributions. The sources of funds included in investing activities are proceeds from sales and maturities of investment securities of \$1.3 million and interest and dividend income of \$87 thousand. The uses of funds included in investing activities are investment management fees of \$44 thousand and purchase of investment securities of \$1.1 million.

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis (*continued*)

The Foundation's Future

The Foundation operates with the purpose of supporting the University's mission of providing high quality affordable education to a diverse population of students. This support includes scholarships to students and support of academic and cultural initiatives. To fulfill its purpose, the Foundation is pursuing a higher level of engagement with constituents at a greater frequency. The Foundation's strategy includes:

- Engaging alumni through personal and professional networks and workplace initiatives.
 - Engaging Faculty Emeriti to build faster relationships with alumni.
 - Establishing an Alumni Champion Society for our most successful alumnus.
 - Hosting receptions with the themes of College Programs to attract same-minded alumnus.
- Connecting with stakeholders via social media, such as Twitter, Facebook, and LinkedIn.
- Enhancing corporate and foundation partnerships.
- Cultivating current students as future alumni.
- Celebrating and engaging internal and external constituents in honor of the University's 50th anniversary.

GOVERNORS STATE UNIVERSITY FOUNDATION

Statements of Net Position

As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,006,851	\$ 406,827
Grants receivable	26,200	-
Pledges receivable	897	57,222
Accrued investment income	4,990	6,480
Total current assets	<u>1,038,938</u>	<u>470,529</u>
<i>Non-current assets</i>		
Investments	3,958,289	4,094,170
Capital assets	2,297,156	2,297,156
Total non-current assets	<u>6,255,445</u>	<u>6,391,326</u>
Total assets	<u>7,294,383</u>	<u>6,861,855</u>
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable	43,252	27,410
Wages payable	730	1,641
Due to GSU	365,940	38,764
Total current liabilities	<u>409,922</u>	<u>67,815</u>
Total liabilities	<u>409,922</u>	<u>67,815</u>
NET POSITION		
Invested in capital assets	2,297,156	2,297,156
<i>Restricted for</i>		
Nonexpendable	2,336,536	2,159,792
Expendable (scholarships and University support)	1,655,969	1,714,430
Unrestricted	594,800	622,662
Total net position	<u>\$ 6,884,461</u>	<u>\$ 6,794,040</u>

The accompanying notes are an integral part of these financial statements.

GOVERNORS STATE UNIVERSITY FOUNDATION
 Statements of Revenues, Expenses, and Changes in Net Position
 For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATIONS		
<i>Revenues</i>		
Grants and contracts	\$ 26,200	\$ 48,183
Budget allocation from GSU	308,481	337,000
Other operating revenues	<u>26,332</u>	<u>32,795</u>
Total operating revenues	<u>361,013</u>	<u>417,978</u>
<i>Expenses</i>		
Scholarships	272,971	296,239
General and fundraising expenses	118,183	124,072
Collegial support	2,286	2,229
Performing Arts Center support	391	483
University support	250,175	223,952
Budget allocation from GSU	<u>308,481</u>	<u>337,000</u>
Total operating expenses	<u>952,487</u>	<u>983,975</u>
Operating loss	<u>(591,474)</u>	<u>(565,997)</u>
NON-OPERATING REVENUES (EXPENSES)		
Contributions	333,227	429,585
Non-cash contributions	990	2,003
Investment income	<u>170,934</u>	<u>300,422</u>
Net non-operating revenues	<u>505,151</u>	<u>732,010</u>
(Loss) income before other revenues, expenses, gains and losses	<u>(86,323)</u>	<u>166,013</u>
Additions to permanent endowments-contributions	176,744	57,447
Additions to capital assets-contributions	<u>-</u>	<u>64,000</u>
Total other revenues, expenses, gains and losses	<u>176,744</u>	<u>121,447</u>
Change in net position	90,421	287,460
Total net position, beginning of year	<u>6,794,040</u>	<u>6,506,580</u>
Total net position, end of year	<u>\$ 6,884,461</u>	<u>\$ 6,794,040</u>

The accompanying notes are an integral part of these financial statements.

GOVERNORS STATE UNIVERSITY FOUNDATION

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ -	\$ 63,867
Operating revenues	26,332	32,795
General and operating expenses	(28,928)	(289,340)
Payments of scholarships	(272,971)	(296,239)
Net cash used in operating activities	<u>(275,567)</u>	<u>(488,917)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	389,552	466,772
Contributions from permanent endowments	176,744	57,447
Cash provided by noncapital financing activities	<u>566,296</u>	<u>524,219</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	1,313,961	1,313,996
Interest and dividend income	87,217	83,858
Investment management fees	(43,824)	(42,798)
Purchase of investment securities	(1,048,059)	(1,208,457)
Net cash provided by investing activities	<u>309,295</u>	<u>146,599</u>
Cash and cash equivalents increase	600,024	181,901
Cash and cash equivalents - beginning of year	406,827	224,926
Cash and cash equivalents - end of year	<u>\$ 1,006,851</u>	<u>\$ 406,827</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (591,474)	\$ (565,997)
<i>Adjustments used to reconcile operating loss to net cash used in operating activities</i>		
<i>Changes in assets and liabilities</i>		
Grants receivable	(26,200)	15,684
Accounts payable	15,842	21,815
Wages payable	(911)	817
Due to GSU	327,176	38,764
Net cash used by operating activities	<u>\$ (275,567)</u>	<u>\$ (488,917)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES INCLUDED IN CHANGE IN NET POSITION		
Unrealized (loss) gain on investments	<u>\$ (48,113)</u>	<u>\$ 104,718</u>
Donations of capital assets	<u>\$ -</u>	<u>\$ 64,000</u>
Other non-cash contributions	<u>\$ 990</u>	<u>\$ 2,003</u>

The accompanying notes are an integral part of these financial statements.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Governors State University Foundation (the Foundation) was incorporated as a not-for-profit organization in June, 1969. The Foundation provides support services to Governors State University (the University) to assist the University in achieving its educational, research, and service goals. During fiscal year 2011, the Governors State University Alumni Association's (Alumni Association) Board of Directors voted to terminate the Alumni Association as a separate charitable organization. The net assets and activities of the Alumni Association were transferred to and assumed by the Foundation.

The Foundation follows Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*. These GASB statements provided criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government. The Foundation is reported as a component unit of Governors State University, and is discretely presented on the University's financial statements. The Foundation is also a component unit of the State of Illinois and is included in the State of Illinois Comprehensive Annual Financial Report.

Basis of Accounting

For financial statement purposes, the Foundation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. When both restricted and unrestricted resources are available for use, it is the Foundation's policy to use restricted resources first, then unrestricted resources as needed.

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 were defined as short-term, highly liquid investments that are both:

- 1) Readily convertible to known amounts of cash.
- 2) So near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

While the Foundation's investment in mutual funds could be readily converted to cash, the Foundation considers these financial instruments to be investments and has classified them as such on the financial statements.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash Equivalents *(continued)*

Although certificates of deposit with original maturities of less than three months may be defined as cash equivalents, the Foundation displays certificates of deposit (if any) as discrete items and classifies them as investments. There were no certificates of deposit as of June 30, 2019 and 2018.

Investments

Investments are recorded at fair market value as determined by quoted market prices. 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. The investment policy states that assets are to be invested in a diversified portfolio of equity and fixed-income securities.

Non-fixed-income investments should generally represent 25%-75% of the Foundation invested assets. Fixed-income investments should also represent 25%-75% of the Foundation's invested assets and are 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. A maximum of 25% of the total portfolio may be invested in foreign securities. Prohibited transactions include purchasing securities on margin, purchase of private placements, and purchasing individual junk bonds or any other low-grade security.

Investments purchased or received by gift are carried at market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position. Investment earnings include dividends, interest, and capital appreciation (both realized and unrealized). Investment fees are netted against investment income.

Fair Value

The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three-tier hierarchy of inputs is summarized as follows:

- Level 1:* Inputs are quoted prices in active markets for identical assets in active markets that are accessible at the date of measurement.
- Level 2:* Inputs other than quoted prices that are observable for an asset, either directly or indirectly.
- Level 3:* Unobservable inputs for an asset.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Income Taxes

The Foundation is a not-for-profit organization, which has been granted tax-exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. The Foundation is required to pay federal and state income taxes only on its net unrelated business income (if any).

Pledges Receivable

The Foundation's pledges receivable includes pledges from donors which are reported at their estimated net realizable value. The Foundation has determined that an allowance for doubtful accounts is not necessary. Pledges receivable of \$897 and \$57,222 have been reported on the Statement of Net Position as of June 30, 2019 and 2018, respectively.

Capital Assets

The only capital assets of the Foundation are its artworks, a collection of environmental and other sculptures and a painting. Artworks acquired prior to June 30, 2015, are carried at cost (if purchased) or at estimated fair market value at the time of donation. After June 30, 2015, donated capital assets are carried at acquisition value. 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.

Net Position

The Foundation's net position is classified as follows:

Restricted Net Position - Expendable

Restricted expendable net position includes resources in which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted Net Position - Nonexpendable

Nonexpendable restricted net position consists of endowment funds. The endowment funds include those funds where donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be used as scholarships for Governors State University students or support for University and Foundation programs.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Net Position *(continued)*

Unrestricted Net Position

Unrestricted net position represents the assets available for current operating expenses of the Foundation. There are no restrictions by outside sources on the use of these assets.

Classification of Revenues

The Foundation has classified its revenues as either operating or non-operating according to the following criteria:

Operating Revenues

Operating revenues include activities that have characteristics of exchange transactions, such as payments for services.

Non-operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions such as gifts, contributions, and investment income.

Use of Estimates in Preparing Financial Statements

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 2 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.

	<u>2019</u>	<u>2018</u>
STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 1,006,851	\$ 406,827
Investments	<u>3,958,289</u>	<u>4,094,170</u>
Total	<u>\$ 4,965,140</u>	<u>\$ 4,500,997</u>

	<u>2019</u>	<u>2018</u>
DEPOSITS AND INVESTMENTS		
Cash in bank	\$ 246,224	\$ 70,495
Investments	<u>4,718,916</u>	<u>4,430,502</u>
Total	<u>\$ 4,965,140</u>	<u>\$ 4,500,997</u>

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation fully insured bank balances at June 30, 2019 and 2018. Depositories and brokers are chosen based on stability and longevity. The Foundation currently has no custodial credit risk related to its bank deposits.

The cost and fair value of the investment portfolio of the Foundation is as follows:

	<u>June 30, 2019</u>		<u>June 30, 2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks/Mutual funds investing in stocks	\$ 2,422,990	\$ 2,995,929	\$ 2,498,533	\$ 3,145,385
Mutual funds investing in bonds	753,185	760,090	765,410	752,693
Corporate bonds	<u>201,942</u>	<u>202,270</u>	<u>201,942</u>	<u>196,092</u>
Subtotal (investments)	3,378,117	3,958,289	3,465,885	4,094,170
Money market funds	683,278	683,278	260,720	260,720
Illinois funds	<u>77,349</u>	<u>77,349</u>	<u>75,612</u>	<u>75,612</u>
Total	<u>\$ 4,138,744</u>	<u>\$ 4,718,916</u>	<u>\$ 3,802,217</u>	<u>\$ 4,430,502</u>

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 2 DEPOSITS AND INVESTMENTS (continued)

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 683,278	\$ 683,278	\$ -	\$ -
Illinois funds	77,349	77,349	-	-
Stocks/mutual funds investing in stocks	2,995,929	2,995,929	-	-
Corporate bonds	202,270	-	202,270	-
Mutual funds investing in bonds	760,090	760,090	-	-
	<u>\$ 4,718,916</u>	<u>\$ 4,516,646</u>	<u>\$ 202,270</u>	<u>\$ -</u>

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 260,720	\$ 260,720	\$ -	\$ -
Illinois funds	75,612	75,612	-	-
Stocks/mutual funds investing in stocks	3,145,385	3,145,385	-	-
Corporate bonds	196,092	-	196,092	-
Mutual funds investing in bonds	752,693	752,693	-	-
	<u>\$ 4,430,502</u>	<u>\$ 4,234,410</u>	<u>\$ 196,092</u>	<u>\$ -</u>

Custodial Credit Risk - Investments: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2019 and 2018, 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.

Interest Rate Risk: 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: 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 have a maturity of <1 year and a credit rating of AAAM.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 2 DEPOSITS AND INVESTMENTS *(continued)*

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

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

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2018, are as follows:

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

The credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30 are as follows:

<u>Credit Rating</u>	<u>2019</u>	<u>2018</u>
	<u>Total Debt Securities</u>	<u>Total Debt Securities</u>
No rating	\$ 364,460	\$ 365,059
AA	25,870	25,689
AA-	50,279	48,261
A+	50,302	48,511
A	211,151	106,264
BBB+	50,421	49,222
BBB	176,828	272,347
B	33,049	33,432
	<u>\$ 962,360</u>	<u>\$ 948,785</u>

Foreign Currency Risk: 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%.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 3 LOCALLY HELD FUNDS

The Foundation does not receive any appropriated funds from the University. Prior to November 2018, most funds received were initially deposited in the University's account with First Midwest Bank and settled up on a periodic basis. Funds are now deposited directly into the Foundation's account.

NOTE 4 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. Then it is 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 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% fee to support Foundation operations, and the rate of inflation. The resulting rate will be applied to the endowment balance to determine amounts available for expenditure in the subsequent fiscal year. The Foundation transfers available investment earnings to the related unrestricted (related to the 1.5% fee) and expendable accounts on an annual basis. As of June 30, 2019 and 2018, the Foundation had a total of \$221,414 and \$780,902, respectively, net cumulative appreciation from investment of endowments available for expenditure. These amounts have been allocated between restricted-expendable net position and unrestricted net position in the Statements of Net Position.

NOTE 5 TRANSACTIONS WITH GOVERNORS STATE UNIVERSITY

The Foundation has an ongoing contract with the University which includes provisions requiring the Foundation to comply with Section VI of the "University Guidelines 1982 (as amended 1997)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires that the University provide the Foundation with personnel and operational services at no cost. University officials estimate the value of these services for the years ended June 30, 2019 and 2018, at \$308,481 and \$337,000, respectively, including all direct payroll expenses and fringe benefits and are shown as budget allocations from Governors State University on the Statement of Revenues, Expenses, and Changes in Net Position. The Foundation provided the University with support in the amount of \$525,823 and \$522,903 for the years ended June 30, 2019 and 2018, respectively.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Years Ended June 30, 2019 and 2018

NOTE 5 TRANSACTIONS WITH GOVERNORS STATE UNIVERSITY *(continued)*

As of June 30, 2019 and 2018, \$365,940 and \$38,764, respectively, is due to the University from the Foundation.

NOTE 6 CAPITAL ASSETS

Capital assets of the Foundation consist entirely of works of art and include the following pieces at June 30, 2019 and 2018:

	Carrying Value
"Large Planar Hybrid" - R. Hunt	\$ 40,000
"Spiral"	370,500
"Flying Saucer" - J. Highstein	24,903
"Untitled" - J. Shapiro	55,948
"For Lady Day" - M. Di Suvero	800,000
"Icarus" - C. Ginnever	55,000
"Falling Meteor" - J. Peart	60,000
"Passages" - James Brenner	40,000
"Art Arc" - T. Karpowicz	16,000
"Oscar's Inclination" - M. Dunbar	25,000
"Demeure No. 4, Lanleff" - E. Martin	25,000
IBO Ancestor Figure	9,000
Cameroon Helmet Mask	12,000
IBO MMWO Mask	6,500
New Guinea Asmat Figue	15,000
Three Taureg Poles	3,500
"A Rare Yaka Architectural Panel"	30,000
"Calm and Free"	26,000
African & Oceanic Art & Artifacts (64 pieces)	103,005
Pre-Columbian Art & Artifacts (67 pieces)	53,600
African Art Collection	47,200
"Wind Waves" - Y. Domenge	375,000
Vase - C. Lotton	2,000
"Sholders" - M. Puryear (2 prints)	8,000
"Butte" - Barry Tinsley	30,000
"Inscribe Firenze" - Abbott Pattison	64,000
	<hr/>
	\$ 2,297,156

