

**GOVERNORS STATE UNIVERSITY FOUNDATION
UNIVERSITY PARK, ILLINOIS**

**FINANCIAL STATEMENTS
JUNE 30, 2022**

GOVERNORS STATE UNIVERSITY FOUNDATION
Financial Statements
For the Year Ended June 30, 2022

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
Management’s Discussion and Analysis	3 - 11
FINANCIAL STATEMENTS	
Statement of Net Position	12
Statement of Revenue, Expenses, and Changes in Net Position.....	13
Statement of Cash Flows.....	14 - 15
Notes to Financial Statements.....	16 - 26



Certified Public Accountants & Consultants

200 East Court Street • Suite 608 • Kankakee, IL 60901
815.933.1771 • fax: 815.933.1163

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Governors State University Foundation

Opinion

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 year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Governors State University Foundation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities of Governors State University Foundation, as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Governors State University Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Governors State University Foundation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement

when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Governors State University Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Governors State University Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

The financial statements of Governors State University Foundation as of and for the year ended June 30, 2021, were previously audited by other auditors who report thereon dated March 18, 2022, expressed an unmodified opinion on those financial statements. The summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Borschmann, Pelletier & Co.

Kankakee, Illinois
February 27, 2023

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis

For the Year Ended June 30, 2022

This document presents management's discussion and analysis of the financial performance of the Governors State University Foundation (Foundation) during the fiscal year ended June 30, 2022. 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, a not-for-profit corporation, is considered to be a component unit of the State of Illinois and Governors State University (University or GSU), 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
For the Year Ended June 30, 2022

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, capital financing and investing activities.

Financial Highlights

The Foundation's financial position decreased during the fiscal year ended June 30, 2022. Total net position decreased by \$724 thousand (7.96%) from June 30, 2021. This decrease is mostly attributable to a decrease in contributions, increase in expenses, and investment losses. Net investment in capital assets increased by \$68 thousand; nonexpendable restricted net position (permanent endowments) increased by \$496 thousand; expendable restricted net position decreased by \$1.18 million; and unrestricted net position decreased by \$105 thousand.

Condensed Statement of Net Position

	As of June 30,		
	2022	2021	Change
ASSETS			
Current assets	\$ 737,826	\$ 958,709	\$ (220,883)
Non-current assets	7,900,041	8,587,500	(687,459)
Total assets	8,637,867	9,546,209	(908,342)
LIABILITIES			
Total current liabilities	269,581	454,212	(184,631)
Total liabilities	269,581	454,212	(184,631)
NET POSITION			
Net investment in capital assets	2,374,196	2,306,449	67,747
<i>Restricted for</i>			
Nonexpendable	3,363,463	2,867,314	496,149
Expendable	2,122,788	3,305,754	(1,182,966)
Unrestricted	507,839	612,480	(104,641)
Net position	\$ 8,368,286	\$ 9,091,997	\$ (723,711)

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis
For the Year Ended June 30, 2022

Condensed Statement of Net Position *(continued)*

At June 30, 2022, total current assets of \$738 thousand mostly consisted of cash and cash equivalents; and total non-current assets of \$7.90 million consisted of \$5.50 million of investments, and \$2.40 million of net capital assets. The \$908 thousand decrease in total assets between 2022 and 2021 was mostly attributable to less contributions, increase in expenses, and investment losses, partially offset by the acquisition of works of art and computer software.

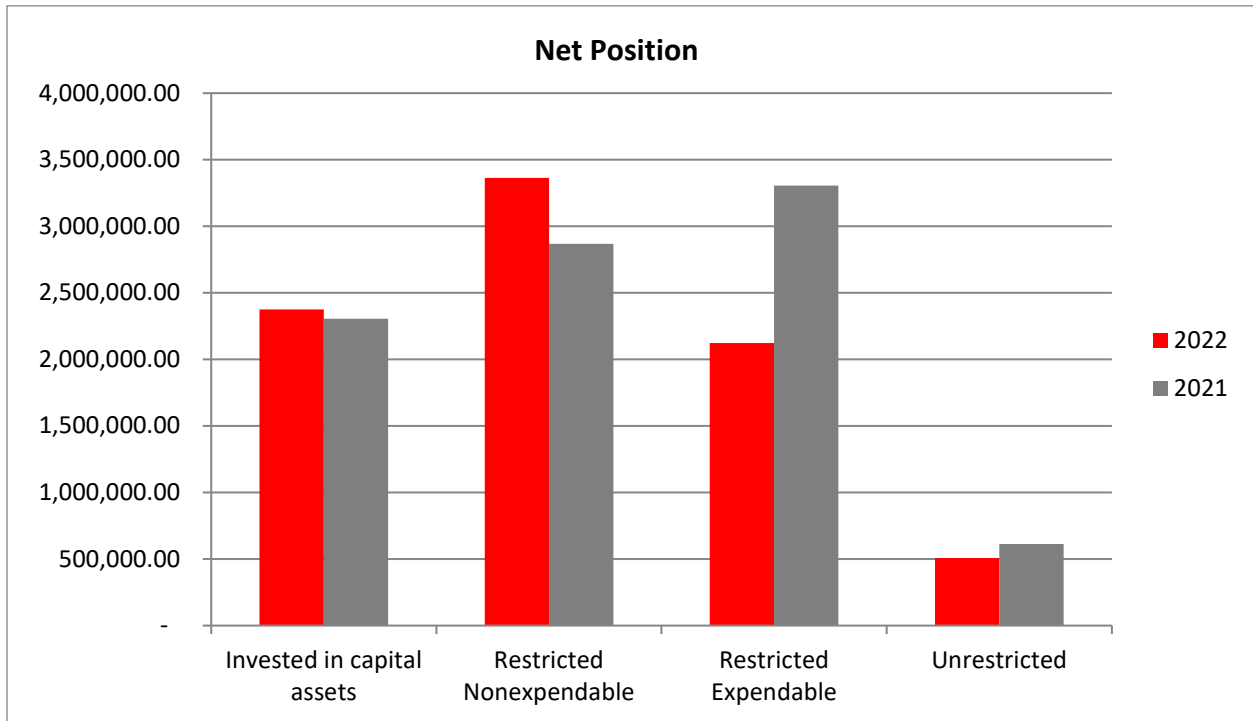
The Foundation's liabilities at June 30, 2022, total \$270 thousand owed to the University and vendors. The \$185 thousand decrease was mostly attributable to the timing of vendor payments, and timing of settlement of the amount due to the University.

The Foundation's current assets of \$738 thousand were sufficient to cover current liabilities of \$270 thousand. The ratio of current assets-to-current liabilities is \$2.74 in current assets for every \$1 in current liabilities for fiscal year 2022.

The Foundation's total net position at June 30, 2022, totaled approximately \$8.37 million, a \$724 thousand decrease over total net position at June 30, 2021. Net position classified as "net investment in capital assets", which represents the sculptures and works of art owned by the Foundation and other capital assets reduced by accumulated depreciation and outstanding debt attributable to the acquisition of those assets, increased by \$68 thousand due to acquisition of works of art and acquisition of computer software during fiscal year 2022. Net position classified as "restricted, nonexpendable (permanent endowments)" increased by \$496 thousand due to endowment gifts received during fiscal year 2022. Net position classified as "restricted, expendable" decreased by \$1.18 million due mostly to investment losses. Net position classified as "unrestricted" decreased by \$105 thousand mostly due to increases in expenditures as the Foundation normalized its operations during Fiscal Year 2022, coming from the COVID-19 pandemic situation in prior year where reduction of activities occurred.

GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis
For the Year Ended June 30, 2022

Condensed Statement of Net Position *(continued)*



GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (*continued*)
For the Year Ended June 30, 2022

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

	For the Years Ended June 30,		
	2022	2021	Changes
OPERATING REVENUES AND EXPENSES			
Operating revenues	\$ 458,300	\$ 385,178	\$ 73,122
Operating expenses	1,472,111	1,095,930	376,181
Operating loss	<u>(1,013,811)</u>	<u>(710,752)</u>	<u>(303,059)</u>
NON-OPERATING REVENUES			
Contributions	466,112	715,258	(249,146)
Investment income (loss)	(671,296)	1,377,966	(2,049,262)
Non-operating revenues (loss)	<u>(205,184)</u>	<u>2,093,224</u>	<u>2,298,408</u>
Income (loss) before other revenues	<u>(1,218,995)</u>	<u>1,382,472</u>	<u>(2,601,467)</u>
Additions to permanent endowments - contributions	<u>495,284</u>	<u>392,325</u>	<u>102,959</u>
Total other revenues	<u>495,284</u>	<u>392,325</u>	<u>102,959</u>
Change in net position	(723,711)	1,774,797	(2,498,508)
Total net position, beginning of year	<u>9,091,997</u>	<u>7,317,200</u>	<u>1,774,797</u>
Total net position, end of year	<u><u>\$ 8,368,286</u></u>	<u><u>\$ 9,091,997</u></u>	<u><u>\$ (723,711)</u></u>

Operating Revenues

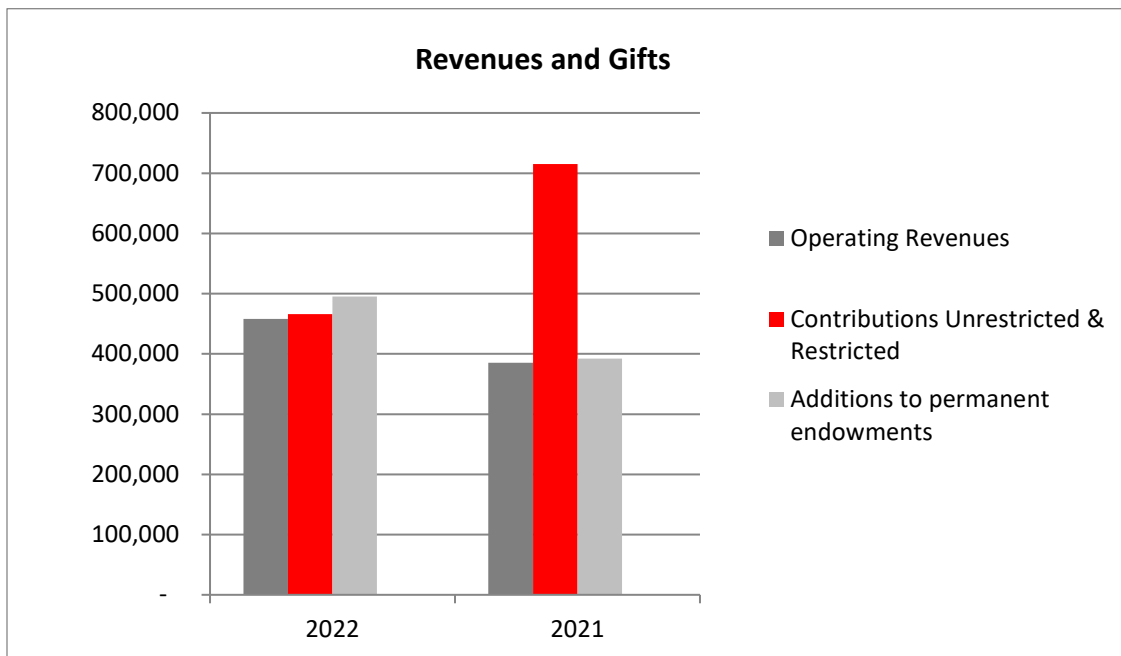
Total operating revenues were \$458 thousand and \$385 thousand for the years ended June 30, 2022 and 2021, respectively. The increase of \$73 thousand was mostly due to the increase in grants received by the Foundation during fiscal year 2022.

GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (*continued*)
For the Year Ended June 30, 2022

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.

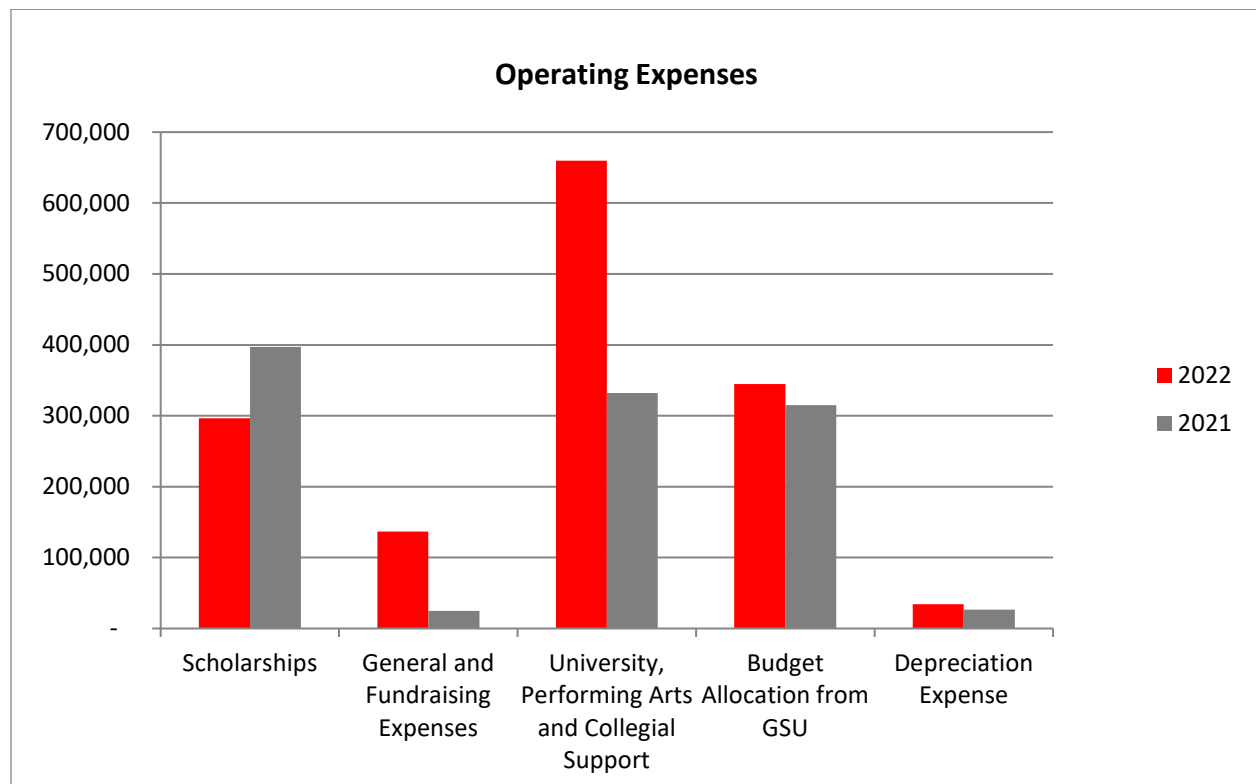
During fiscal year 2022 there was a total of \$466 thousand of unrestricted and restricted-expendable gifts and \$495 thousand of additions to permanent endowments.



GOVERNORS STATE UNIVERSITY FOUNDATION
 Management's Discussion and Analysis (*continued*)
 For the Year Ended June 30, 2022

Operating Expenses

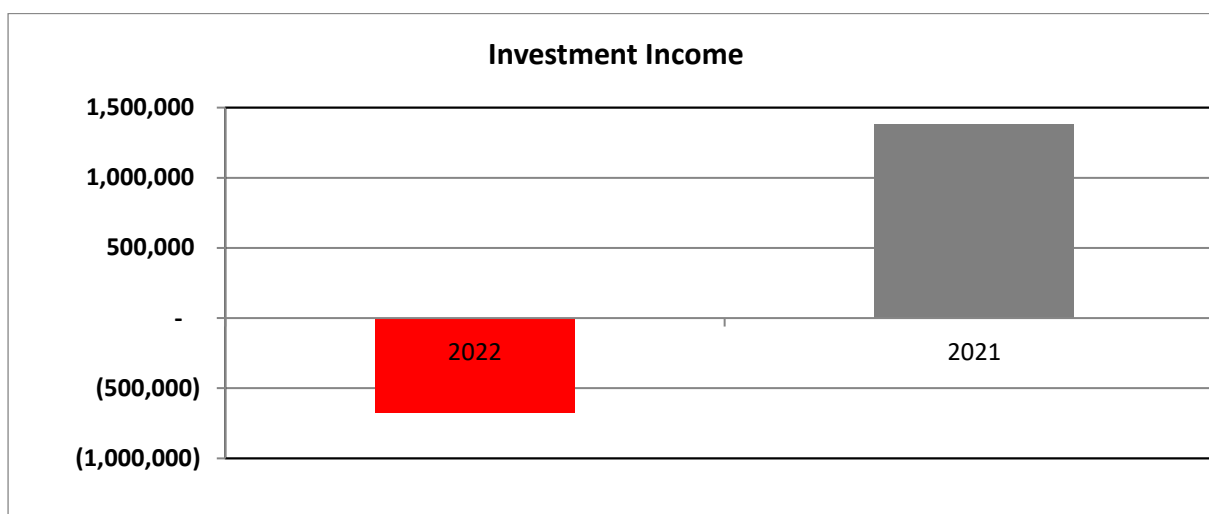
Total operating expenses for fiscal year 2022 totaled \$1.47 million. Of this amount, \$296 thousand, or 20.2%, was awarded in scholarships to students for tuition and fees, which includes COVID-19 related emergency funding; \$137 thousand, or 9.3%, was for general and fundraising expenses; \$660 thousand, or 44.8%, supported University functions; \$345 thousand, or 23.4%, was for in-kind expenses covered by the University; and \$34 thousand, or 2.3%, was for depreciation expense.



GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (*continued*)
For the Year Ended June 30, 2022

Other

Along with contributions, non-operating revenues include investment income (loss). During fiscal year 2022, the Foundation suffered investment losses, which caused the \$2.05 million decrease in investment income as compared to fiscal year 2021. The financial markets have concerns about higher inflation caused by the pandemic and war in Ukraine resulting in the unfavorable market conditions nationwide during fiscal year 2022.



Condensed Statement of Cash Flows

	For the Years Ended June 30,	
	2022	2021
Net cash used in operating activities	\$ (1,150,230)	\$ (601,355)
Cash provided by noncapital financing activities	961,396	1,107,583
Cash used in capital financing activities	(101,884)	(36,086)
Net cash provided by (used in) investing activities	69,413	(153,867)
Cash increase (decrease)	(221,305)	316,275
Cash - beginning of year	955,678	639,403
Cash - end of year	\$ 734,373	\$ 955,678

GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (*continued*)
For the Year Ended June 30, 2022

Condensed Statement of Cash Flows (*continued*)

For fiscal year 2022, the sources of funds included in operating activities are grants and contracts of \$101 thousand and operating revenues of \$13 thousand. The uses of funds included in operating activities are general and operating expenses of \$967 thousand and scholarships of \$297 thousand. The sources of funds included in noncapital financing activities are contributions. The uses of funds included in capital financing activities are purchases of capital assets. The sources of funds included in investing activities are proceeds from sales and maturities of investment securities of \$1.39 million and interest and dividend income of \$96 thousand. The uses of funds included in investing activities are investment management fees of \$66 thousand and purchase of investment securities of \$1.35 million.

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 alumni.
 - 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.
- Implementing a new Customer Relationship Management (CRM) system to enhance fundraising efforts and alumni engagement.
- In collaboration with GSU Office of Financial Aid, installing a new scholarship software that will enhance efficiency and awareness of scholarships available to GSU students.

As of January 31, 2023, the Foundation's investments have appreciated approximately \$366 thousand since June 30, 2022.

GOVERNORS STATE UNIVERSITY FOUNDATION

Statement of Net Position

As of June 30, 2022

(With Comparative Totals as of June 30, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 734,373	\$ 955,678
Accrued investment income	3,453	3,031
Total current assets	<u>737,826</u>	<u>958,709</u>
<i>Non-current assets</i>		
Investments	5,502,420	6,243,551
Capital assets	2,458,551	2,370,742
Accumulated depreciation	(60,930)	(26,793)
Total non-current assets	<u>7,900,041</u>	<u>8,587,500</u>
Total assets	<u>8,637,867</u>	<u>9,546,209</u>
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable	37,647	27,637
Intangible asset payable	23,425	37,500
Due to GSU	208,509	389,075
Total current liabilities	<u>269,581</u>	<u>454,212</u>
Total liabilities	<u>269,581</u>	<u>454,212</u>
NET POSITION		
Net investment in capital assets	2,374,196	2,306,449
<i>Restricted for</i>		
Nonexpendable	3,363,463	2,867,314
Expendable (scholarships and University support)	2,122,788	3,305,754
Unrestricted	507,839	612,480
Total net position	<u>\$ 8,368,286</u>	<u>\$ 9,091,997</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
OPERATIONS		
<i>Revenues</i>		
Grants and contracts	\$ 100,501	\$ 68,100
Budget allocation from GSU	344,591	315,085
Other operating revenues	<u>13,208</u>	<u>1,993</u>
Total operating revenues	<u>458,300</u>	<u>385,178</u>
<i>Expenses</i>		
Scholarships	296,649	397,118
General and fundraising expenses	136,890	24,830
Collegial support	1,100	2,350
Performing Arts Center support	-	34,500
University support	658,744	295,254
Budget allocation from GSU	344,591	315,085
Depreciation expense	<u>34,137</u>	<u>26,793</u>
Total operating expenses	<u>1,472,111</u>	<u>1,095,930</u>
Operating loss	<u>(1,013,811)</u>	<u>(710,752)</u>
NON-OPERATING REVENUES		
Contributions	466,112	715,258
Investment income (loss)	<u>(671,296)</u>	<u>1,377,966</u>
Net non-operating revenues (loss)	<u>(205,184)</u>	<u>2,093,224</u>
Income (loss) before other revenues, expenses, gains and losses	<u>(1,218,995)</u>	<u>1,382,472</u>
Additions to permanent endowments-contributions	<u>495,284</u>	<u>392,325</u>
Total other revenues, expenses, gains and losses	<u>495,284</u>	<u>392,325</u>
Change in net position	(723,711)	1,774,797
Total net position, beginning of year	<u>9,091,997</u>	<u>7,317,200</u>
Total net position, end of year	<u>\$ 8,368,286</u>	<u>\$ 9,091,997</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION
Statement of Cash Flows
For the Year Ended June 30, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 100,501	\$ 68,100
Operating revenues	13,208	1,993
General and operating expenses	(967,290)	(274,330)
Payments of scholarships	(296,649)	(397,118)
Net cash used in operating activities	<u>(1,150,230)</u>	<u>(601,355)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	466,112	715,258
Contributions from permanent endowments	495,284	392,325
Cash provided by noncapital financing activities	<u>961,396</u>	<u>1,107,583</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(101,884)	(36,086)
Cash used in capital financing activities	<u>(101,884)</u>	<u>(36,086)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	1,386,957	1,031,832
Interest and dividend income	95,710	81,316
Investment management fees	(66,020)	(57,229)
Purchase of investment securities	(1,347,234)	(1,209,786)
Net cash provided by (used in) investing activities	<u>69,413</u>	<u>(153,867)</u>
Cash and cash equivalents increase (decrease)	(221,305)	316,275
Cash and cash equivalents - beginning of year	955,678	639,403
Cash and cash equivalents - end of year	<u>\$ 734,373</u>	<u>\$ 955,678</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (1,013,811)	\$ (710,752)
<i>Adjustments used to reconcile operating loss to net cash used in operating activities:</i>		
Depreciation expense	34,137	26,793
Changes in assets and liabilities:		
Accounts payable	10,010	2,709
Due to GSU	(180,566)	79,895
Net cash used in operating activities	<u>\$ (1,150,230)</u>	<u>\$ (601,355)</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Statement of Cash Flows

For the Year Ended June 30, 2022

(With Comparative Totals for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES INCLUDED IN CHANGE IN NET POSITION		
Capital assets acquired with debt	<u>\$ 23,425</u>	<u>\$ 37,500</u>
Unrealized gain on investments	<u>\$ (992,596)</u>	<u>\$ 1,144,047</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Governors State University Foundation (Foundation) was incorporated as a not-for-profit organization in June 1969. The Foundation provides support services to Governors State University (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 an insignificant risk of changes in value because of changes in interest rates.

The Foundation generally considers all short-term, highly liquid investments to be cash equivalents. Funds invested through the Illinois Funds are considered cash equivalents.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

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

Cash Equivalents *(continued)*

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.

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, 2022.

Investments

Investments are recorded at fair 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, among unrestricted and restricted accounts. 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's 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, purchasing private placements, and purchasing individual junk bonds or any other low-grade security.

Investments purchased or received by gift are carried at fair 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.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

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

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 that are accessible at the date of measurement.

Level 2: Inputs other than those that are level 1 that are observable for an asset, either directly or indirectly.

Level 3: Unobservable inputs for an asset.

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 that are reported at their estimated net realizable value. The Foundation has determined that an allowance for doubtful accounts is not necessary. There were no pledges receivable reported on the statement of net position as of June 30, 2022.

Capital Assets

Capital assets are carried at cost (if purchased) or at estimated fair market value at the time of the donation if donated prior to July 1, 2015. After June 30, 2015, with the adoption of GASB Statement No. 72, *Fair Value Measurement and Application*, donated capital assets are carried at acquisition value. Foundation capital assets consist of artworks, a collection of environmental and other sculptures and a painting. The artworks are held for public exhibition rather than for financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from the sale of artworks to be used to acquire new artworks. No depreciation is recorded for the artworks. For intangible assets, the Foundation's capitalization policy includes all items with a unit cost of \$25,000 or more. Depreciation for the intangible assets is computed using the straight-line method over its estimated useful lives (three years).

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

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

Net Position

The Foundation's net position is 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 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 University students or support for University and Foundation programs.

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.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

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

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.

New Accounting Pronouncements

During the year ended June 30, 2022, the Foundation adopted new Governmental Accounting Standards Board (GASB) Statements. These statements did not have a material impact to the Foundation's financial statements.

Future Adoption of GASB Statements

The Foundation will adopt new GASB statements effective for the future years. The Foundation has not yet determined the impact of adopting these future pronouncements on its financial statements.

Reclassifications

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

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.

A reconciliation of cash and investments on the statement of net position to deposits and investments of the Foundation is as follows:

	<u>June 30, 2022</u>
STATEMENT OF NET POSITION	
Cash and cash equivalents	\$ 734,373
Investments	<u>5,502,420</u>
Total	<u>\$ 6,236,793</u>
DEPOSITS AND INVESTMENTS	
Cash in bank	\$ 241,325
Investments	<u>5,995,468</u>
Total	<u>\$ 6,236,793</u>

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

NOTE 2 DEPOSITS AND INVESTMENTS (continued)

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 (FDIC) insured bank balances up to \$250,000 at June 30, 2022. The bank balance of \$251,314 as of June 30, 2022 was fully insured by the FDIC or collateralized by pledged securities. 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:

	June 30, 2022	
	Cost	Fair Value
Stocks/Mutual funds investing in stocks	\$ 3,599,822	\$ 4,520,030
Mutual funds investing in bonds	856,351	790,517
Corporate bonds	200,901	191,873
Subtotal (investments)	4,657,074	5,502,420
Money market funds	414,195	414,195
Illinois Funds	78,853	78,853
Total	\$ 5,150,122	\$ 5,995,468

The valuation by levels at June 30, 2022, is as follows:

	Fair Value	Level 1	Level 2	Level 3
Money market funds	\$ 414,195	\$ 414,195	\$ -	\$ -
Illinois Funds	78,853	78,853	-	-
Stocks/mutual funds investing in stocks	4,520,030	4,520,030	-	-
Mutual funds investing in bonds	790,517	790,517	-	-
Corporate bonds	191,873	-	191,873	-
	\$ 5,995,468	\$ 5,803,595	\$ 191,873	\$ -

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, 2022, 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: 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.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

NOTE 2 DEPOSITS AND INVESTMENTS (continued)

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'.

The maturities of the debt securities investment portfolio (at fair value) of the Foundation at June 30, 2022, are as follows:

	Investment Maturity (in Years)				
	Fair Value	Less Than 1	1 – 5	5 – 10	10+
Corporate bonds	\$ 191,873	\$ 50,007	\$ 96,867	\$ 44,999	\$ -
Mutual funds investing in bonds	790,517	-	458,850	82,311	249,356
Total	\$ 982,390	\$ 50,007	\$ 555,717	\$ 127,310	\$ 249,356

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2022 are as follows:

<u>Credit Rating</u>	<u>Total Debt Securities</u>
No rating	\$ 790,517
'AA-'	98,722
'A+'	93,151
	\$ 982,390

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 Financial Statements

Year Ended June 30, 2022

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 fair value 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 (net of the fees) to the related expendable accounts on an annual basis. As of June 30, 2022, the Foundation had a total of \$2,097,006 net cumulative appreciation from investment of endowments available for expenditure. This amount has been reported as restricted-expendable net position in the statement of net position.

NOTE 5 TRANSACTIONS WITH THE 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 and 2020)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires the University 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, 2022 at \$344,591, including all direct payroll expenses and fringe benefits and is shown as budget allocations from the University on the statement of revenues, expenses, and changes in net position. The Foundation provided the University with support in the amount of \$1,020,877 for the year ended June 30, 2022.

As of June 30, 2022, \$208,509 is due to the University from the Foundation.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

NOTE 6 CAPITAL ASSETS

Capital assets activity for the Foundation for the year ended June 30, 2022 are summarized as follows:

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
Capital assets not being depreciated:				
Works of art	\$ 2,317,156	\$ 50,000	\$ -	\$ 2,367,156
Other capital assets:				
Intangible assets	53,586	37,809	-	91,395
Total capital assets	<u>2,370,742</u>	<u>87,809</u>	<u>-</u>	<u>2,458,551</u>
Accumulated depreciation:				
Intangible assets	<u>(26,793)</u>	<u>(34,137)</u>	<u>-</u>	<u>(60,930)</u>
Total accumulated depreciation	<u>(26,793)</u>	<u>(34,137)</u>	<u>-</u>	<u>(60,930)</u>
Total capital assets, net	<u>\$ 2,343,949</u>	<u>\$ 53,672</u>	<u>\$ -</u>	<u>\$ 2,397,621</u>

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

NOTE 6 CAPITAL ASSETS *(continued)*

The Foundation's works of art include the following pieces at June 30, 2022:

	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 Figure	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
"Stargazing with Contrails" - Terry Karpowicz	70,000
	<u>\$2,367,156</u>

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2022

NOTE 7 INTANGIBLE ASSET PAYABLE

The Foundation 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 agreement. The license agreement requires various payments over the term of the agreement. Implicit interest is considered immaterial. Future maturity at June 30, 2022 is as follows:

	<u>Amount</u>
Year ending June 30, 2023	<u>\$ 23,425</u>
Total	<u>\$ 23,425</u>