

**GOVERNORS STATE UNIVERSITY
FOUNDATION
UNIVERSITY PARK, ILLINOIS

FINANCIAL STATEMENTS
JUNE 30, 2014**

GOVERNORS STATE UNIVERSITY FOUNDATION

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INDEPENDENT AUDITORS' 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, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Governors State University Foundation as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Governors State University Foundation's 2013 financial statements, and our report dated September 27, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

The Governors State University Foundation has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the financial statements is not affected by the missing information.

Borschneck, Pellet & Co.

October 14, 2014

GOVERNORS STATE UNIVERSITY FOUNDATION
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014
With Comparative Totals as of June 30, 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 1 & 2)	\$ 408,390	\$ 488,498
Due from GSU (Note 5)	-	211,917
Pledges receivable (Note 1)	39,924	7,168
Total Current Assets	448,314	707,583
Non-current Assets		
Investments (Notes 1, 2, & 4)	2,456,875	1,718,190
Capital assets (Notes 1 & 6)	2,233,156	2,203,156
Total Non-current Assets	4,690,031	3,921,346
Total Assets	5,138,345	4,628,929
LIABILITIES		
Current Liabilities		
Accounts payable	10,519	465
Due to GSU	42,396	-
Total Current Liabilities	52,915	465
Total Liabilities	52,915	465
NET POSITION (Notes 1 & 4)		
Invested in capital assets	2,233,156	2,203,156
Restricted for:		
Nonexpendable	1,683,098	1,554,037
Expendable (scholarships and University support)	1,094,849	838,621
Unrestricted	74,327	32,650
Total Net Position	\$ 5,085,430	\$ 4,628,464

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

GOVERNORS STATE UNIVERSITY FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014
With Comparative Totals for the Year Ended June 30, 2013

	2014	2013
OPERATIONS		
Revenues		
Grants and contracts	\$ 90,890	\$ 3,400
Budget allocation from GSU (Note 5)	297,165	315,613
Other operating revenues	54,355	29,566
Total operating revenues	442,410	348,579
Expenses		
Scholarships	104,020	91,597
General and fundraising expenses	50,491	38,575
Collegial support	13,866	15,249
Performing Arts Center support	91,430	106,162
University support	209,372	262,961
Budget allocation from GSU (Note 5)	297,165	315,613
Total operating expenses	766,344	830,157
Operating loss	(323,934)	(481,578)
NON-OPERATING REVENUES (EXPENSES)		
Contributions	333,557	398,028
Non-cash contributions	8,485	135,000
Investment income	250,923	108,443
Net non-operating revenues	592,965	641,471
Income before other revenues, expenses, gains and losses	269,031	159,893
Additions to permanent endowments - contributions	127,368	215,633
Capital asset contributions	60,567	485,800
Total other revenues and expenses	187,935	701,433
Change in net position	456,966	861,326
Total net position at beginning of year	4,628,464	3,767,138
Total net position at end of year	\$ 5,085,430	\$ 4,628,464

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

GOVERNORS STATE UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
With Comparative Totals for the Year Ended June 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 90,890	\$ 3,400
Operating revenues	54,355	29,566
General and operating expenses	(276,142)	(339,848)
Payments of scholarships	(104,020)	(91,597)
Net cash used by operating activities	(234,917)	(398,479)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	512,718	189,549
Contributions for permanent endowments	127,368	215,633
Net cash provided by noncapital financing activities	640,086	405,182
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	1,122,327	935,485
Interest and dividend income	46,539	31,969
Investment management fees	(21,441)	(17,614)
Purchase of investment securities	(1,632,702)	(1,057,200)
Net cash provided by (used in) investing activities	(485,277)	(107,360)
 Cash increase (decrease)	(80,108)	(100,657)
 Cash and cash equivalents - beginning of year	488,498	589,155
 Cash and cash equivalents - end of year	\$ 408,390	\$ 488,498
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (323,934)	\$ (481,578)
Adjustments used to reconcile operating loss to net cash used by operating activities:		
Non-cash University support included in operating loss	36,567	135,000
Changes in liabilities		
Accounts payable and due to GSU	52,450	(51,901)
Net cash used by operating activities	\$ (234,917)	\$ (398,479)
 NONCASH INVESTING AND FINANCING ACTIVITIES INCLUDED IN CHANGE IN NET POSITION:		
Unrealized gain (loss) on investments	\$ 190,920	\$ 46,569
Donations of capital assets	60,567	485,800
Other noncash contributions	8,485	135,000

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

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE1 - 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 (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, 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.

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 a discrete item and classifies it as investments. There were no certificates of deposit as of June 30, 2014.

GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 were netted against investment income. Investment income consisted of:

Interest and dividends	\$ 46,539
Investment fees	(21,441)
Realized gains (losses)	34,905
Unrealized gain	<u>190,920</u>
Total	<u>\$ 250,923</u>

Income Taxes

Governors State University Foundation is a non-profit organization, which has been granted tax-exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. The Governors State University 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 include 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 \$39,924 have been reported on the Statement of Net Position.

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

The only capital assets of the Foundation are its artworks, a collection of environmental and other sculptures and a painting. The artworks are being carried at cost (if purchased) or at estimated fair market value at the time of donation. 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.

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 THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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.

Comparative Totals

Comparative totals have been presented in the accompanying basic financial statements in order to provide an understanding of changes in the Foundation's financial position and operations. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2013, from which the summarized comparative totals were derived.

New Accounting Pronouncements

The Foundation adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 65, 66, and 70. These statements had little or no accounting impact on the Foundation. On July 1, 2014, the Foundation will adopt GASB Statements No. 68, 69 and 71. The Foundation has not yet evaluated the impact of these statements on its financial statements.

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 cash equivalents" presented on the statement of net position to deposits and investments are as follows:

Cash and cash equivalents	<u>\$ 408,390</u>	Deposits	\$ 291,967
		Investments	<u>116,423</u>
			<u>\$ 408,390</u>

Deposits consist of the following at June 30, 2014:

Deposits:	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in Bank	\$ 217,899	\$ 217,899
Illinois Funds Money Market	<u>74,068</u>	<u>74,068</u>
	<u>\$ 291,967</u>	<u>\$ 291,967</u>

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

The Illinois Funds Money Market had a credit rating of AAAM.

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, 2014. Depositories and brokers are chosen based on stability and longevity. The Foundation currently has no custodial credit risk related to its bank deposits.

The fair value of the investment portfolio of the Foundation at June 30, 2014 is as follows:

	<u>Fair Value</u>
Investments:	
Money Market Funds	\$ 116,423
Stocks / Mutual Funds investing in stocks	1,719,331
Mutual Funds investing in bonds	374,879
Corporate Bonds	261,522
US Treasury Obligations	<u>101,143</u>
Total	<u>\$ 2,573,298</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, 2014, investments consisted of money market funds, mutual funds, corporate bonds, US Treasury Obligations and US Agency Obligations. All investments were 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 maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2014 are as follows:

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
Corporate Bonds	\$ 261,522	\$ 57,501	\$ 152,362	\$ 51,659
US Treasury Obligations	101,143	50,465	50,678	-
Mutual Funds investing in Bonds	<u>374,879</u>	<u>374,879</u>	-	-
Total	<u>\$ 737,544</u>	<u>\$ 482,845</u>	<u>\$ 203,040</u>	<u>\$ 51,659</u>

The Standard & Poor's credit ratings of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2014 are as follows:

<u>Credit Rating</u>	<u>Total Debt Securities</u>
US Treasury Obligations	\$ 101,143
No Rating	164,965
AA	52,145
AA-	25,026
A	82,370
A-	76,541
BBB+	25,440
AAf	140,743
BBB+f	69,171
Total	<u>\$ 737,544</u>

Foreign Currency Risk: Foreign currency risk exists when there is a possibility that the exchange rate of foreign currencies against the US dollar may vary. The Foundation's policy is to limit its investments in foreign securities to 25%.

NOTE 3 - LOCALLY HELD FUNDS

The Foundation does not receive any appropriated funds from the University. Most funds received are initially deposited in the University's account with First Midwest Bank and settled up on a periodic basis.

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.

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – ENDOWMENTS (continued)

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 of not to exceed 6.0% of a trailing twelve month average of the market value of the assets as of April 1. The Foundation transfers available investment earnings to the related expendable accounts on an annual basis.

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 accounting and other clerical services at no cost. University officials estimate the value of these services for the year ending June 30, 2014 at \$297,165 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 \$418,688 for the year ended June 30, 2014.

As of June 30, 2014, \$42,396 is due to the University.

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 - CAPITAL ASSETS

Capital assets of the Foundation consist entirely of works of art and include the following pieces at June 30, 2014:

	<u>Carrying Value</u>
"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
"Shoulders" - M. Puryear (2 prints)	8,000
"Butte" – Barry Tinsley	<u>30,000</u>
	<u>\$ 2,233,156</u>

NOTE 7 – SUBSEQUENT EVENTS

Subsequent to June 30, 2014, financial markets as a whole have incurred significant declines in values. The Foundation's investment portfolio has also incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Foundation will recognize in its future financial statements, if any, can not be determined.