

**WASHINGTON, PITTMAN & McKEEVER, LLC**

*CERTIFIED PUBLIC ACCOUNTANTS AND  
MANAGEMENT CONSULTANTS*

819 South Wabash Avenue  
Suite 600  
Chicago, Illinois 60605-2184

Ph. (312) 786-0330  
Fax (312) 786-0323  
[www.wpmck.com](http://www.wpmck.com)

**GOVERNORS STATE UNIVERSITY FOUNDATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**GOVERNORS STATE UNIVERSITY FOUNDATION  
FINANCIAL STATEMENTS  
JUNE 30, 2017**

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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, 2017 and 2016, 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 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 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.

**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, 2017 and 2016, 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 5-11 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.

*Washington, Pittman & McKeever, LLC*  
WASHINGTON, PITTMAN & MCKEEVER, LLC

Chicago, Illinois  
December 8, 2017

## **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, 2017 and 2016. 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 non-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 Statement No. 39 *Determining Whether Certain Organizations are Component Units*. 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 Governmental Accounting Standards Board (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.

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.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Using the Annual Report (Continued)**

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, 2017. Total Net Position increased by \$611 thousand (10.4%) from June 30, 2016. This is attributable to various factors including contributions and investment earnings. Nonexpendable restricted net position (permanent endowments) increased by \$130 thousand, and expendable restricted net position increased by \$437 thousand.

**Condensed Statement of Net Position**

	<b>As of June 30,</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
<b>ASSETS</b>			
<b>Current Assets</b>	\$ 340,269	\$ 494,370	\$ (154,101)
<b>Non-current Assets</b>	6,172,730	5,489,454	683,276
<b>Total Assets</b>	<u>6,512,999</u>	<u>5,983,824</u>	<u>529,175</u>
<b>LIABILITIES</b>			
<b>Total Current Liabilities</b>	6,419	88,165	(81,746)
<b>Total Liabilities</b>	<u>6,419</u>	<u>88,165</u>	<u>(81,746)</u>
<b>NET POSITION</b>	<u>\$ 6,506,580</u>	<u>\$ 5,895,659</u>	<u>\$ 610,921</u>

At June 30, 2017, total current assets of \$340 thousand includes \$225 thousand of cash and cash equivalents and \$115 thousand of receivables. The approximate \$154 thousand decrease between 2017 and 2016 is mainly due to the timing of cash transfers into investments.

The Foundation's largest noncurrent assets for June 30, 2017 are its endowment investments of \$2.1 million and restricted long-term investments of \$1.7 million. The \$683 thousand increase in noncurrent investments between 2017 and 2016 can be mainly attributed to additional contributions and investment earnings.

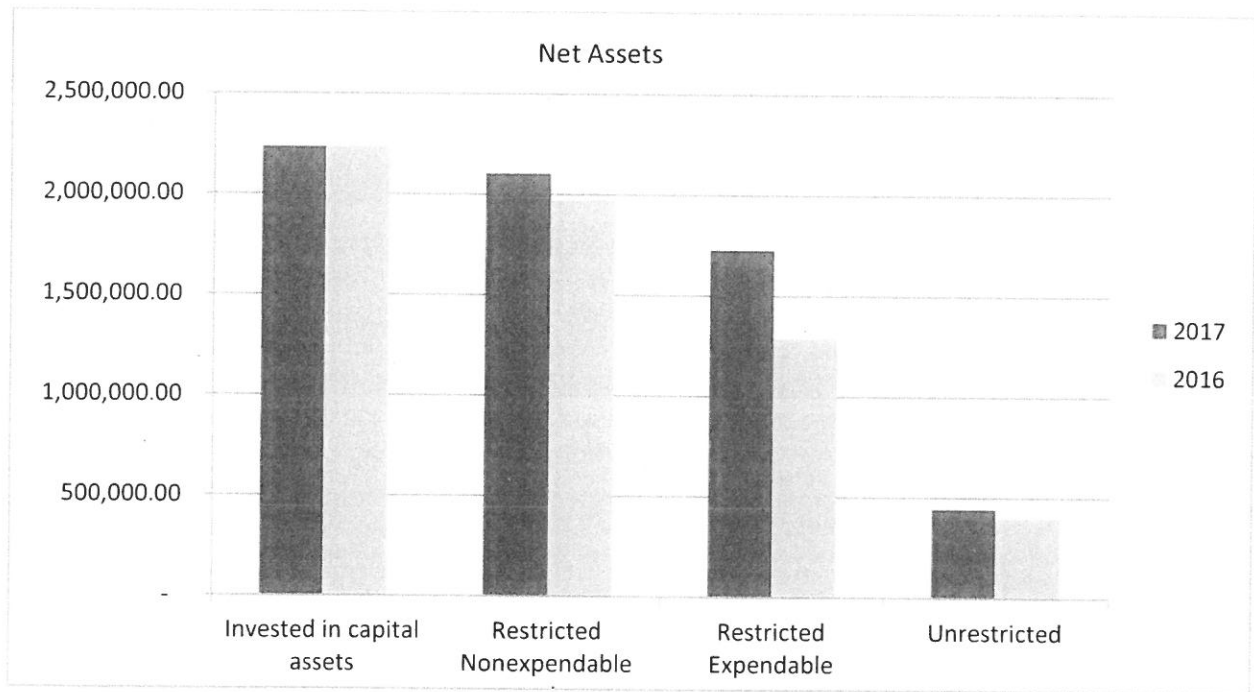
The Foundation's liabilities at June 30, 2017 total \$6 thousand owed to vendors and wages payable. The decrease from June 30, 2016 was due to the payment of liability to South Metropolitan Higher Education Consortium (SMHEC) for funds that were held by the Foundation at June 30, 2016. During fiscal year 2016 it was agreed that the University's partnership with SMHEC would be transferred to another institution of higher learning. The contributed funds that were held for SMHEC by the Foundation were part of the accounts payable balance at the end of fiscal year 2016 and were subsequently paid during fiscal year 2017.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Financial Highlights, continued**

The Foundation's current assets of \$340 thousand were sufficient to cover current liabilities of \$6 thousand. The ratio of current assets to current liabilities is \$53.01 in current assets for every \$1 in current liabilities for fiscal year 2017.

The Foundation's total net position at June 30, 2017 totaled approximately \$6.5 million, a \$611 thousand increase over total net position at June 30, 2016. Net position classified as "invested in capital assets" represents the sculptures and works of art owned by the Foundation and remained unchanged. Net position classified as "restricted, nonexpendable endowment" increased by \$130 thousand from 2016 to 2017 due to endowment gifts received during fiscal year 2017. Net Position classified as "restricted, expendable" increased by \$437 thousand from 2016 to 2017 due mainly to contributions and investment earnings. The increase of \$44 thousand in "unrestricted" net assets is a result of unrestricted gifts during the year.



**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

	<b>For the years ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>OPERATING REVENUES (EXPENSES)</b>		
Operating revenues	\$ 504,390	\$ 370,344
Operating expenses	(713,218)	(651,780)
<b>Operating loss</b>	<u>(208,828)</u>	<u>(281,436)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Contributions	368,056	373,975
Investment income	322,090	162,132
Other non-operating revenue	-	12,000
<b>Net non-operating revenues</b>	<u>690,146</u>	<u>548,107</u>
<b>Income before other revenues, expenses, gains and losses</b>	<u>481,318</u>	<u>266,671</u>
Additions to permanent endowments-contributions	129,603	98,203
<b>Total other revenues, expenses, gains and losses</b>	<u>129,603</u>	<u>98,203</u>
Change in net position	610,921	364,874
Total net position at beginning of year	<u>5,895,659</u>	<u>5,530,785</u>
<b>Total net position at end of year</b>	<u><u>\$ 6,506,580</u></u>	<u><u>\$ 5,895,659</u></u>

**Operating Revenues**

Total operating revenues were \$504 thousand and \$370 thousand for the years ended June 30, 2017 and 2016, respectively. The increase of \$134 thousand is mostly due to increase in grants and contracts. During fiscal year 2017, the Foundation received a grant for the Integrating Career Preparation and Liberal Arts program.

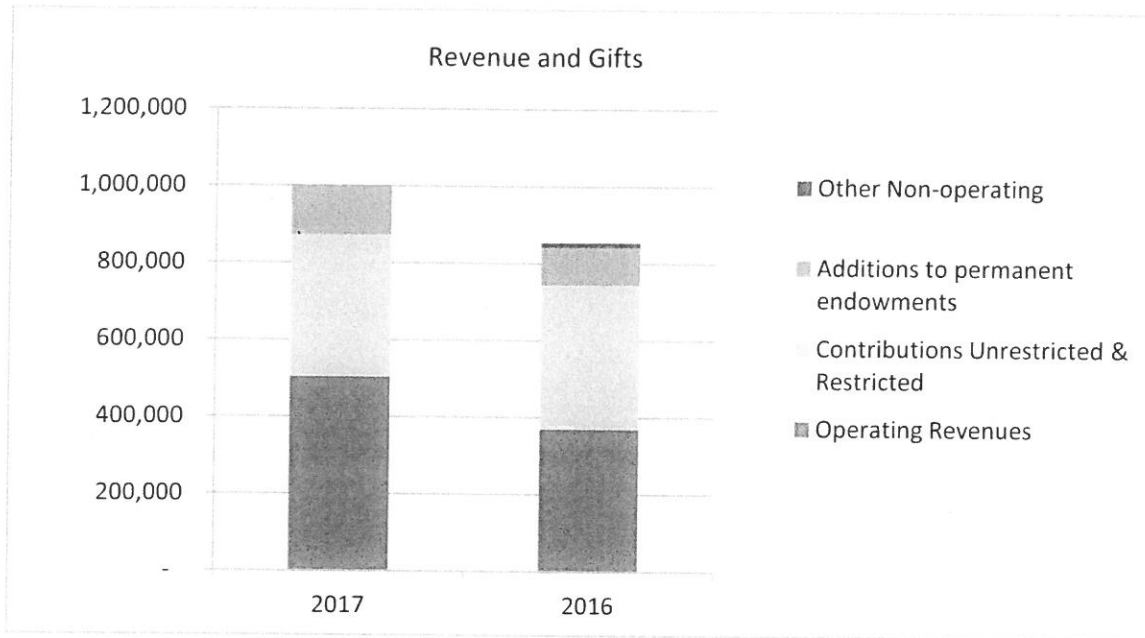
**Gifts**

The Foundation receives gifts from many sources and for different purposes. Gifts that are unrestricted or temporarily restricted 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 2017, there was a total of \$368 thousand of unrestricted and restricted gifts, and \$130 thousand of additions to permanent endowments.

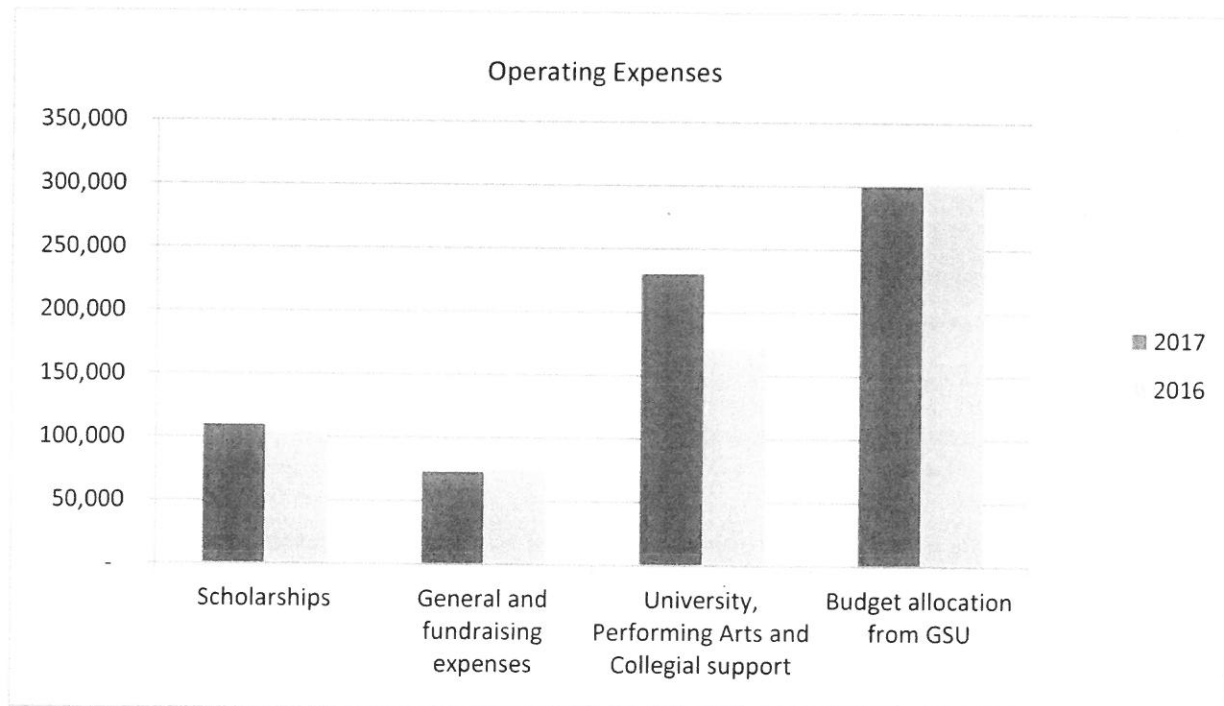


**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**



**Operating Expenses**

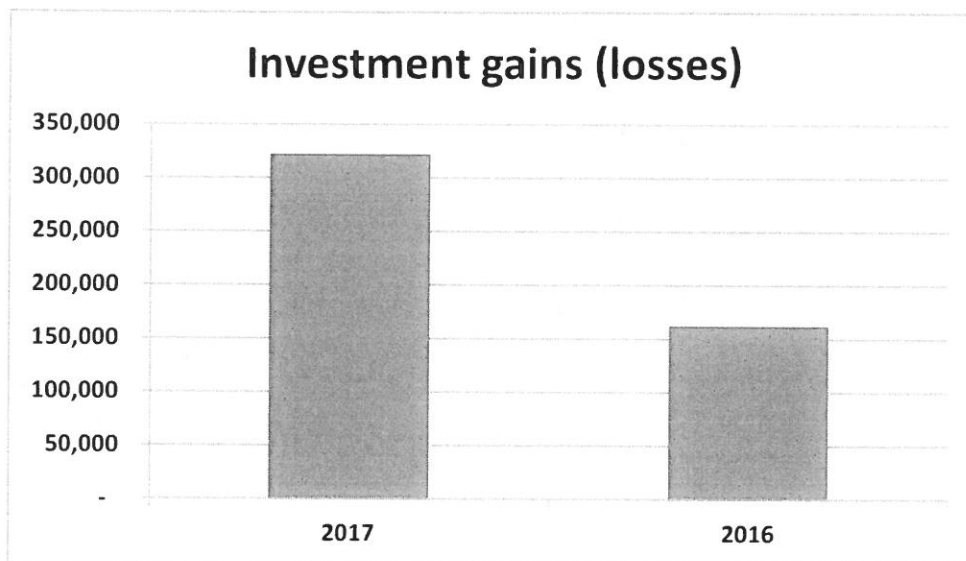
Total operating expenses for fiscal year 2017 totaled \$713 thousand. Of this amount, \$110 thousand or 15.4% was awarded in scholarships to students for tuition and fees, \$73 thousand or 10.2% was for general and fundraising expenses, \$230 thousand or 32.3% supported University functions, and \$300 thousand or 42.1% was for in-kind expenses covered by the University.



**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Other**

Along with contributions, non-operating revenues (expenses) include investment income. Investment income for fiscal year 2017 was \$322 thousand, a \$160 thousand increase from fiscal year 2016. This increase is due to more favorable market conditions during 2017.



**Condensed Statement of Cash Flows**

	<b>For the years ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Net cash used by operating activities	\$ (281,047)	\$ (223,316)
Net cash provided by noncapital financing activities	343,342	483,316
Net cash used by investing activities	(289,902)	(143,862)
Cash increase (decrease)	(227,607)	116,138
Cash - beginning of year	452,533	336,395
Cash - end of year	<u>\$ 224,926</u>	<u>\$ 452,533</u>

For fiscal year 2017, the major uses of funds included in operating activities are scholarships of \$110 thousand and general operating expenses of \$360 thousand. The major source of funds included in noncapital financing activities is contributions. The major use of funds included in investing activities in 2017 is the net purchase of investments of \$1.0 million, an increase of \$79 thousand from 2016.

## **GOVERNORS STATE UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **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.

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30,**

<b>ASSETS</b>	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 224,926	\$ 452,533
Due from GSU	84,275	-
Grants receivable	15,684	-
Pledges receivable	10,134	38,467
Accrued investment income	<u>5,250</u>	<u>3,370</u>
Total Current Assets	<u>340,269</u>	<u>494,370</u>
Non-current Assets		
Investments	3,939,574	3,256,298
Capital assets	<u>2,233,156</u>	<u>2,233,156</u>
Total Non-current Assets	<u>6,172,730</u>	<u>5,489,454</u>
Total Assets	<u>6,512,999</u>	<u>5,983,824</u>
 <b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	5,595	62,954
Wages payable	824	-
Due to GSU	<u>-</u>	<u>25,211</u>
Total Current Liabilities	<u>6,419</u>	<u>88,165</u>
Total Liabilities	<u>6,419</u>	<u>88,165</u>
 <b>NET POSITION</b>		
Invested in capital assets	2,233,156	2,233,156
Restricted for:		
Nonexpendable	2,102,345	1,972,742
Expendable (scholarships and University support)	1,727,511	1,289,955
Unrestricted	<u>443,568</u>	<u>399,806</u>
Total Net Position	<u>\$ 6,506,580</u>	<u>\$ 5,895,659</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 YEARS ENDED JUNE 30,**

<b>OPERATIONS</b>	<u>2017</u>	<u>2016</u>
Revenues		
Grants and contracts	\$ 170,500	\$ 25,000
Budget allocation from GSU	300,115	301,627
Other operating revenues	<u>33,775</u>	<u>43,717</u>
Total operating revenues	<u>504,390</u>	<u>370,344</u>
Expenses		
Scholarships	109,697	103,748
General and fundraising expenses	73,251	74,823
Collegial support	3,850	2,300
Performing Arts Center support	64,528	15,426
University support	161,777	153,856
Budget allocation from GSU	<u>300,115</u>	<u>301,627</u>
Total operating expenses	<u>713,218</u>	<u>651,780</u>
Operating loss	<u>(208,828)</u>	<u>(281,436)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Contributions	294,892	371,910
Non-cash contributions	73,164	2,065
Investment income	322,090	162,132
Other non-operating revenue	<u>-</u>	<u>12,000</u>
Net non-operating revenues	<u>690,146</u>	<u>548,107</u>
Income before other revenues, expenses, gains and losses	481,318	266,671
Additions to permanent endowments-contributions	<u>129,603</u>	<u>98,203</u>
Total other revenues, expenses, gains and losses	<u>129,603</u>	<u>98,203</u>
Change in net position	610,921	364,874
Total net position at beginning of year	<u>5,895,659</u>	<u>5,530,785</u>
Total net position at end of year	<u>\$ 6,506,580</u>	<u>\$ 5,895,659</u>

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

**GOVERNORS STATE UNIVERSITY FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2017</b>	<b>2016</b>
Grants and contracts	\$ 154,816	\$ 25,000
Operating revenues	33,775	43,717
General and operating expenses	(359,941)	(188,285)
Payments of scholarships	<u>(109,697)</u>	<u>(103,748)</u>
Net cash used by operating activities	<u>(281,047)</u>	<u>(223,316)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions	213,739	373,113
Contributions from permanent endowments	129,603	98,203
Other non-operating income	<u>-</u>	<u>12,000</u>
Net cash provided by noncapital financing activities	<u>343,342</u>	<u>483,316</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investment securities	709,643	777,116
Interest and dividend income	75,281	69,910
Investment management fees	(37,551)	(32,450)
Purchase of investment securities	<u>(1,037,275)</u>	<u>(958,438)</u>
Net cash used by investing activities	<u>(289,902)</u>	<u>(143,862)</u>
Cash increase (decrease)	(227,607)	116,138
Cash and cash equivalents - beginning of year	<u>452,533</u>	<u>336,395</u>
Cash and cash equivalents - end of year	<u><u>\$ 224,926</u></u>	<u><u>\$ 452,533</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	(208,828)	(281,436)
Adjustments used to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities		
Grants receivable	(15,684)	-
Accounts payable	(57,359)	58,120
Wages payable	<u>824</u>	<u>-</u>
Net cash used by operating activities	<u>(281,047)</u>	<u>(223,316)</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES INCLUDED IN CHANGE IN NET POSITION:</b>		
Unrealized gain on investments	<u>\$ 213,950</u>	<u>\$ 73,915</u>
Other non-cash contributions	<u>\$ 73,164</u>	<u>\$ 2,065</u>

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

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**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 (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.

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, 2017.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

**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 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 and asset, either directly or indirectly.

Level 3 - unobservable inputs for an asset.



**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2017**

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

Income Taxes

Governors State University 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 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 \$10,134 and \$38,467 have been reported on the Statement of Net Position for the years ended June 30, 2017 and 2016, 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.

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.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2017**

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

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.

**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>Statement of Net Position</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 224,926	\$ 452,533
Investments	<u>3,939,574</u>	<u>3,256,298</u>
<b>Total</b>	<b><u>\$ 4,164,500</u></b>	<b><u>\$ 3,708,831</u></b>
<u>Deposits and Investments</u>	<u>2017</u>	<u>2016</u>
Cash in bank	\$ 35,194	\$ 197,900
Investments	<u>4,129,306</u>	<u>3,510,931</u>
<b>Total</b>	<b><u>\$ 4,164,500</u></b>	<b><u>\$ 3,708,831</u></b>

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2017**

**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 fully insured bank balances at June 30, 2017 and 2016. 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, 2017</u>		<u>June 30, 2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks/Mutual Funds Investing in Stocks	\$ 2,376,966	\$ 2,898,195	\$ 2,170,022	\$ 2,458,828
Mutual Funds Investing in Bonds	887,319	889,135	624,937	642,572
Corporate Bonds	151,721	152,244	151,721	154,898
Sub-total (Investments)	<u>3,416,006</u>	<u>3,939,574</u>	<u>2,946,680</u>	<u>3,256,298</u>
Money Market Funds	115,105	115,105	180,431	180,431
Illinois Funds	<u>74,627</u>	<u>74,627</u>	<u>74,202</u>	<u>74,202</u>
<b>Total</b>	<u><u>\$ 3,605,738</u></u>	<u><u>\$ 4,129,306</u></u>	<u><u>\$ 3,201,313</u></u>	<u><u>\$ 3,510,931</u></u>

The valuation by levels at June 30, 2017 is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Funds	\$ 115,105	\$ 115,105	\$ -	\$ -
Illinois Funds	74,627	74,627	-	-
Stocks/Mutual Funds Investing in Stocks	2,898,195	2,898,195	-	-
Corporate Bonds	152,244	-	152,244	-
Mutual Funds Investing in Bonds	889,135	889,135	-	-
	<u><u>\$ 4,129,306</u></u>	<u><u>\$ 3,977,062</u></u>	<u><u>\$ 152,244</u></u>	<u><u>\$ -</u></u>

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS (continued)**

*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, 2017 and 2016, investments consisted of money market funds, mutual funds, corporate bonds, US Treasury Obligations and US Agency Obligations. 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.

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2017 are as follows:

	<b>Investment Maturity (in Years)</b>				
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 5</b>	<b>5 - 10</b>	<b>10 or More</b>
Corporate Bonds	\$ 152,244	\$ -	\$ 49,947	\$ 102,297	\$ -
Mutual Funds Investing in Bonds	889,135	-	732,132	114,462	42,541
<b>Total</b>	<b>\$ 1,041,379</b>	<b>\$ -</b>	<b>\$ 782,079</b>	<b>\$ 216,759</b>	<b>\$ 42,541</b>

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2016 are as follows:

	<b>Investment Maturity (in Years)</b>				
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 5</b>	<b>5 - 10</b>	<b>10 or More</b>
Corporate Bonds	\$ 154,898	\$ -	\$ 50,182	\$ 104,716	\$ -
Mutual Funds Investing in Bonds	642,572	38,445	374,094	125,355	104,678
<b>Total</b>	<b>\$ 797,470</b>	<b>\$ 38,445</b>	<b>\$ 424,276</b>	<b>\$ 230,071</b>	<b>\$ 104,678</b>

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS (continued)**

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

<b>Credit Rating</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
	<b><u>Total Debt</u></b>	<b><u>Total Debt</u></b>
	<b><u>Securities</u></b>	<b><u>Securities</u></b>
No Rating	\$ 889,135	\$ 455,991
AA	26,615	27,585
A	100,518	101,818
A-	-	25,495
BBB+	25,111	-
AAf	-	117,367
BBB+f	-	42,957
B-f	-	26,257
	<b><u>\$ 1,041,379</u></b>	<b><u>\$ 797,470</u></b>

*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.

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% and the rate of inflation. The resulting rate will be applied to the endowment balance to determine amounts will be available for expenditure in the subsequent fiscal year. The Foundation transfers available investment earnings to the related expendable accounts on an annual basis. As of June 30, 2017, net appreciation of endowments of \$251,474 have been reported as Restricted Net Position - Expendable. As of June 30, 2016, depreciation of endowments of \$30,351 have been reported as Restricted Net Position - Expendable.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2017**

**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 ending June 30, 2017 and 2016 at \$300,115 and \$301,627, 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 \$339,852 and \$275,330 for the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, \$84,275 is due from the University to the Foundation. As of June 30, 2016, \$25,211 is due from the Foundation to the University.

**NOTE 6 - CAPITAL ASSETS**

Capital assets of the Foundation consist entirely of works of art and include the following pieces at June 30, 2017:

	<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 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
	<u>\$ 2,233,156</u>