

GOVERNORS STATE UNIVERSITY FOUNDATION

**Financial Statements and Supplementary Information
For the Year Ended June 30, 2021
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

GOVERNORS STATE UNIVERSITY FOUNDATION
Financial Statements and Supplementary Information
Year Ended June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Governors State University Foundation

Opinion

We have audited the financial statements 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, 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Governors State University Foundation as of June 30, 2021, and the 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 (GAAS). 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

Governors State University Foundation's 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 one year after the date that the financial statements are issued.

141 West Jackson Blvd.
Chicago, IL 60604

T: +1 312 332 4964

F: +1 312 332 0181

mitchelltitus.com



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 GAAS 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 GAAS, 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

We have previously audited Governors State University Foundation's 2020 financial statements, and we expressed an unmodified opinion on the respective financial statements in our report dated February 4, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



MITCHELL TITUS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-12 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.

Mitchell Titus, LLP

March 18, 2022

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis

This document presents management's discussion and analysis of the financial performance of the Governors State University Foundation (the Foundation) during the fiscal year ended June 30, 2021. 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 Foundation, a not-for-profit corporation, is considered to be a component unit of the State of Illinois and Governors State University (the 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 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 Revenue, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The accompanying notes to the financial statements provide more detailed information regarding the items presented on the face of the financial statements. An explanation of the financial statement presentation follows.

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis (*continued*)

Using the Annual Report (*continued*)

The Statement of Revenue, Expenses, and Changes in Net Position presents the revenue earned and expenses incurred during the fiscal year. Revenue 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 increased during the fiscal year ended June 30, 2021. Total net position increased by \$1.77 million (24.26%) from June 30, 2020. This increase is mostly attributable to contributions and investment earnings. Net investment in capital assets increased by \$9 thousand; nonexpendable restricted net position (permanent endowments) increased by \$428 thousand; expendable restricted net position increased by \$1.37 million; and unrestricted net position decreased by \$38 thousand.

Condensed Statement of Net Position

	As of June 30,		
	2021	2020*	Change
ASSETS			
Current assets	\$ 958,709	\$ 643,625	\$ 315,084
Non-current assets	8,587,500	7,007,683	1,579,817
Total assets	9,546,209	7,651,308	1,894,901
LIABILITIES			
Total current liabilities	454,212	334,108	120,104
Total liabilities	454,212	334,108	120,104
NET POSITION			
Net investment in capital assets	2,306,449	2,297,156	9,293
Restricted for			
Nonexpendable	2,867,314	2,438,931	428,383
Expendable	3,305,754	1,930,762	1,374,992
Unrestricted	612,480	650,351	(37,871)
Net position	\$ 9,091,997	\$ 7,317,200	\$ 1,774,797

*Certain reclassifications have been made to the Foundation's 2020 amounts to conform to the 2021 presentation.

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis *(continued)*

Condensed Statement of Net Position *(continued)*

At June 30, 2021, total current assets of \$959 thousand mostly consisted of cash and cash equivalents; and total non-current assets of \$8.58 million consisted of \$6.24 million of investments and \$2.34 million of net capital assets. The \$1.89 million increase in total assets between 2021 and 2020 was mostly attributable to contributions, additional investment earnings, acquisition of works of art, and acquisition of computer software.

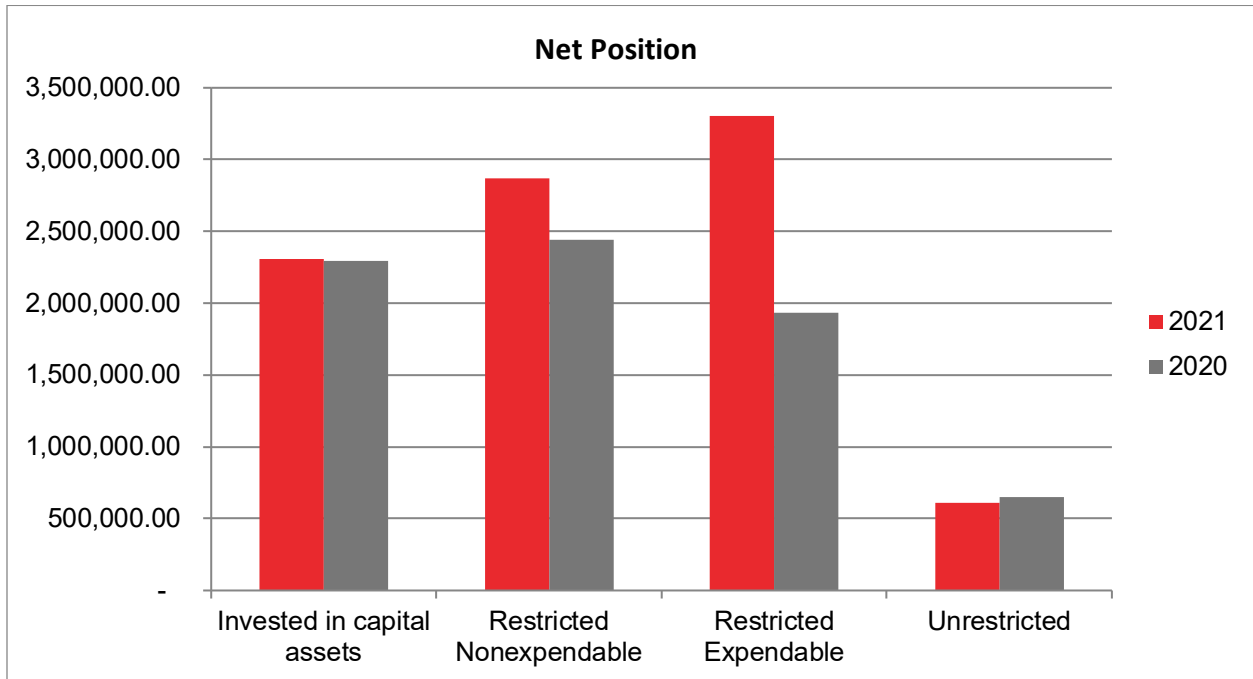
The Foundation's liabilities at June 30, 2021, total \$454 thousand owed to the University, vendors, and wages payable. The \$120 thousand increase was mostly attributable to the Foundation's recognition of intangible asset payable related to its acquisition of computer software through multi-year licensing agreement; timing of vendor payments; and timing of settlement of the amount due to the University. During fiscal year 2019, the Foundation started depositing its cash receipts directly into the Foundation's checking account. The Foundation is working on completing the process that will allow the Foundation to pay expenditures directly from their checking account.

The Foundation's current assets of \$959 thousand were sufficient to cover current liabilities of \$454 thousand. The ratio of current assets-to-current liabilities is \$2.11 in current assets for every \$1 in current liabilities for fiscal year 2021.

The Foundation's total net position at June 30, 2021, totaled approximately \$9.09 million, a \$1.77 million increase over total net position at June 30, 2020. 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 \$9 thousand due to acquisition of works of art and acquisition of computer software during fiscal year 2021. Net position classified as "restricted, nonexpendable (permanent endowments)" increased by \$428 thousand due to endowment gifts received during fiscal year 2021. Net position classified as "restricted, expendable" increased by \$1.37 million due to contributions and investment earnings. Net position classified as "unrestricted" decreased by \$38 thousand mostly due to decrease in fundraising related revenues as there were no in-person fundraising events during fiscal year 2021 due to the coronavirus (COVID-19) pandemic and increase in University support.

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

Condensed Statement of Net Position (*continued*)



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

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

	For the Years Ended June 30,	
	2021	2020
OPERATING REVENUE AND EXPENSES		
Operating revenue	\$ 385,178	\$ 418,293
Operating expense	1,095,930	820,848
Total operating loss	<u>(710,752)</u>	<u>(402,555)</u>
NON-OPERATING REVENUE		
Contributions	715,258	509,340
Investment income	1,377,966	266,734
Total non-operating revenue	<u>2,093,224</u>	<u>776,074</u>
Income before other revenue	<u>1,382,472</u>	<u>373,519</u>
Additions to permanent endowments - contributions	<u>392,325</u>	<u>59,220</u>
Total other revenue	<u>392,325</u>	<u>59,220</u>
Change in net position	1,774,797	432,739
Total net position, beginning of year	<u>7,317,200</u>	<u>6,884,461</u>
Total net position, end of year	<u><u>\$ 9,091,997</u></u>	<u><u>\$ 7,317,200</u></u>

Operating Revenue

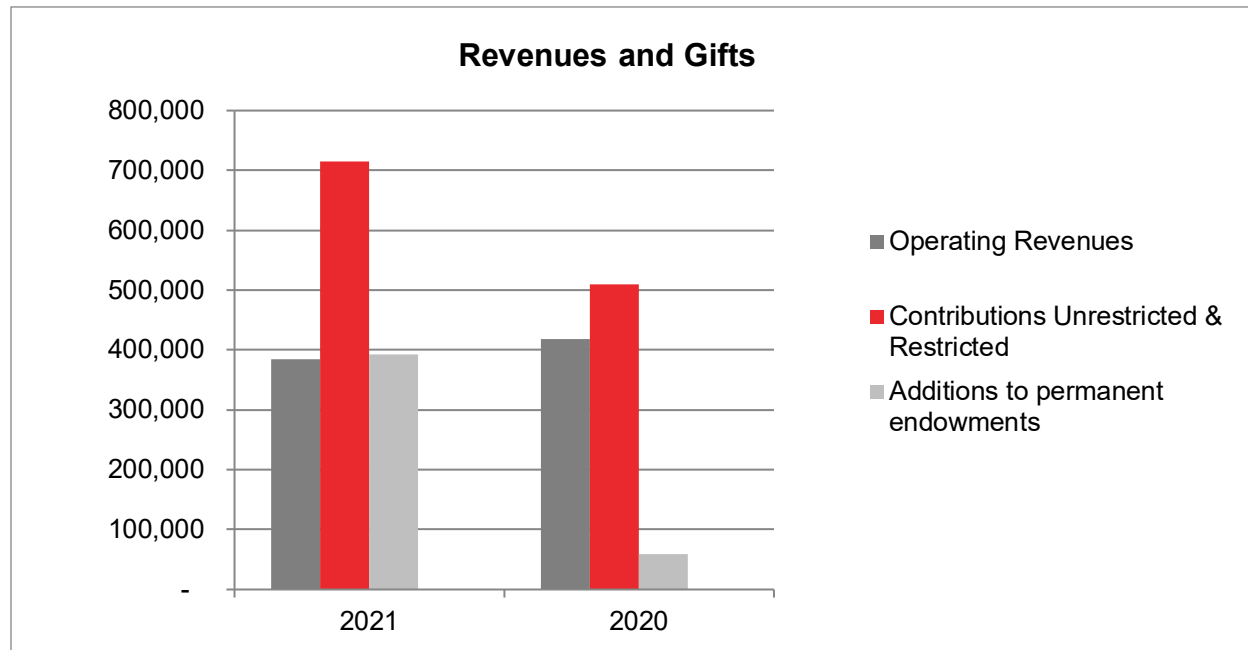
Total operating revenue were \$385 thousand and \$418 thousand for the years ended June 30, 2021 and 2020, respectively. The decrease of \$33 thousand was mostly due to the decrease in grants received by the Foundation during fiscal year 2021, and the decrease in fundraising related revenues as there were no in-person fundraising events during fiscal year 2021 due to the coronavirus (COVID-19) pandemic.

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

Gifts

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

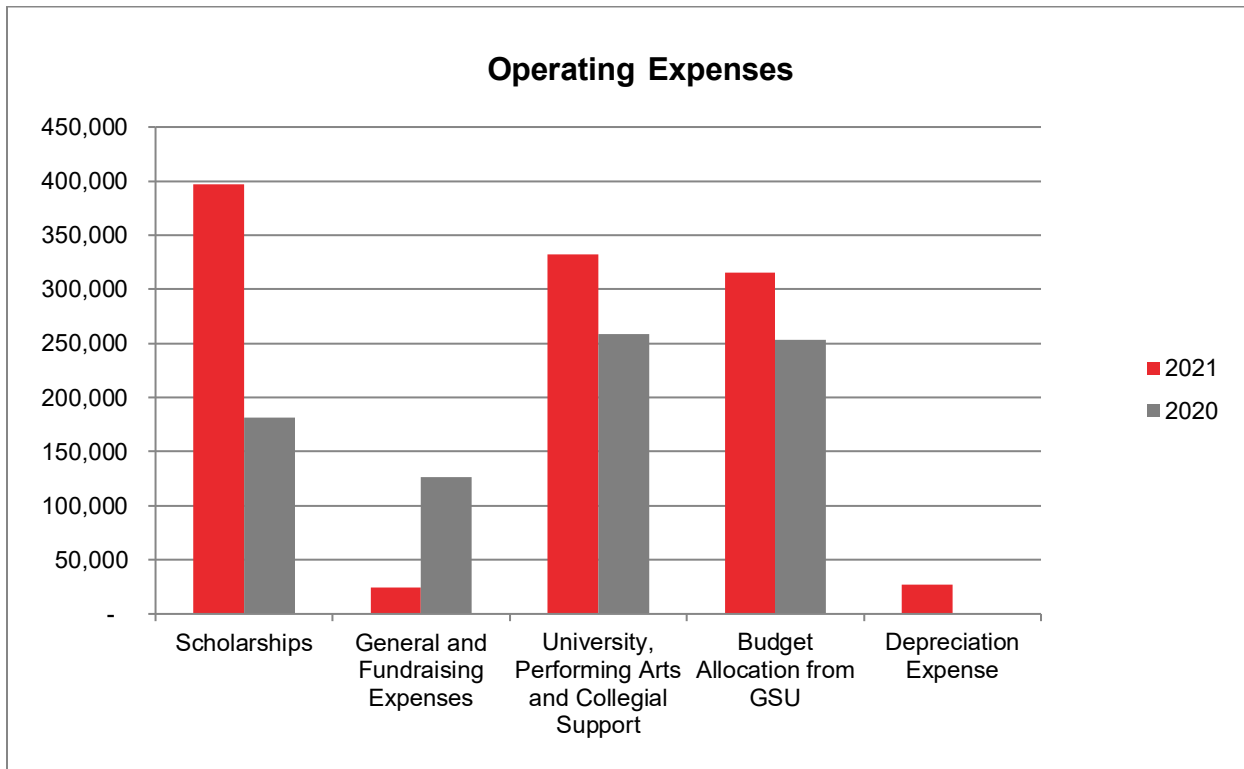
During fiscal year 2021, there was a total of \$715 thousand of unrestricted and restricted-expendable gifts and \$392 thousand of additions to permanent endowments.



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

Operating Expenses

Total operating expenses for fiscal year 2021 totaled \$1.1 million. Of this amount, \$397 thousand, or 36.2%, was awarded in scholarships to students for tuition and fees, which includes COVID-19-related emergency funding; \$25 thousand, or 2.3%, was for general and fundraising expenses; \$332 thousand, or 30.3%, supported University functions; \$315 thousand, or 28.8%, was for in-kind expenses covered by the University; and \$27 thousand, or 2.4%, was for depreciation expense.

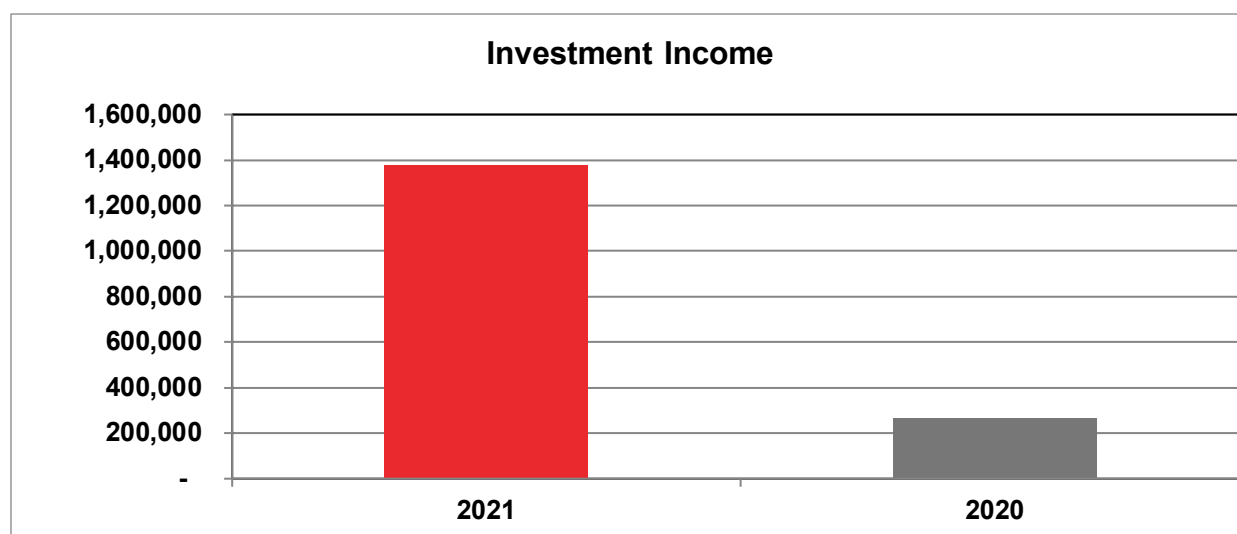


GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis (continued)

Other

Along with contributions, non-operating revenue includes investment income. Investment income for fiscal year 2021 was \$1.38 million, an increase of \$1.11 million from fiscal year 2020. This increase was mainly due to additional funds invested as a result of increases in contributions and endowments, coupled with favorable market conditions during 2021.



Condensed Statement of Cash Flows

	For the Years Ended June 30,	
	2021	2020
Net cash used in operating activities	\$ (601,355)	\$ (452,169)
Cash provided by noncapital financing activities	1,107,583	569,457
Cash used in capital financing activities	(36,086)	-
Net cash used in investing activities	(153,867)	(484,736)
Cash increase (decrease)	316,275	(367,448)
Cash - beginning of year	639,403	1,006,851
Cash - end of year	\$ 955,678	\$ 639,403

For fiscal year 2021, the sources of funds included in operating activities are grants and contracts of \$68 thousand and operating revenue of \$2 thousand. The uses of funds included in operating activities are general and operating expenses of \$274 thousand and scholarships of \$397 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 \$1.03 million and interest and dividend income of \$81 thousand. The uses of funds included in investing activities are investment management fees of \$57 thousand and purchase of investment securities of \$1.21 million.

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis (*continued*)

The Foundation's Future

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

- Engaging alumni through personal and professional networks and workplace initiatives.
 - Engaging Faculty Emeriti to build faster relationships with alumni.
 - Establishing an Alumni Champion Society for our most successful alumni.
 - Hosting receptions with the themes of College Programs to attract same-minded alumni.
- 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 the GSU Office of Financial Aid, installing a new scholarship software that will enhance efficiency and awareness of scholarships available to GSU students.

GOVERNORS STATE UNIVERSITY FOUNDATION

Statement of Net Position

As of June 30, 2021

(With Comparative Totals as of June 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 955,678	\$ 639,403
Accrued investment income	3,031	4,222
Total current assets	<u>958,709</u>	<u>643,625</u>
<i>Non-current assets</i>		
Investments	6,243,551	4,710,527
Capital assets	2,370,742	2,297,156
Less: Accumulated depreciation	<u>(26,793)</u>	<u>-</u>
Total non-current assets	<u>8,587,500</u>	<u>7,007,683</u>
Total assets	<u>9,546,209</u>	<u>7,651,308</u>
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable	26,192	23,502
Wages payable	1,445	1,426
Intangible asset payable	37,500	-
Due to GSU	<u>389,075</u>	<u>309,180</u>
Total current liabilities	<u>454,212</u>	<u>334,108</u>
Total liabilities	<u>454,212</u>	<u>334,108</u>
NET POSITION		
Net investment in capital assets	2,306,449	2,297,156
<i>Restricted for</i>		
Nonexpendable	2,867,314	2,438,931
Expendable (scholarships and University support)	3,305,754	1,930,762
Unrestricted	<u>612,480</u>	<u>650,351</u>
Total net position	<u>\$ 9,091,997</u>	<u>\$ 7,317,200</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION
Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
OPERATIONS		
<i>Revenue</i>		
Grants and contracts	\$ 68,100	\$ 113,711
Budget allocation from GSU	315,085	253,481
Other operating revenue	1,993	51,101
Total operating revenue	<u>385,178</u>	<u>418,293</u>
<i>Expenses</i>		
Scholarships	397,118	181,844
General and fundraising expenses	24,830	126,668
Collegial support	2,350	2,444
Performing Arts Center support	34,500	-
University support	295,254	256,411
Budget allocation from GSU	315,085	253,481
Depreciation expense	26,793	-
Total operating expenses	<u>1,095,930</u>	<u>820,848</u>
Operating loss	<u>(710,752)</u>	<u>(402,555)</u>
NON-OPERATING REVENUE (EXPENSES)		
Contributions	715,258	509,340
Investment income	1,377,966	266,734
Net non-operating revenue	<u>2,093,224</u>	<u>776,074</u>
Income before other revenue, expenses, gains and losses	<u>1,382,472</u>	<u>373,519</u>
Additions to permanent endowments-contributions	<u>392,325</u>	<u>59,220</u>
Total other revenue, expenses, gains and losses	<u>392,325</u>	<u>59,220</u>
Change in net position	1,774,797	432,739
Total net position, beginning of year	<u>7,317,200</u>	<u>6,884,461</u>
Total net position, end of year	<u><u>\$ 9,091,997</u></u>	<u><u>\$ 7,317,200</u></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, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 68,100	\$ 139,911
Operating revenue	1,993	51,101
General and operating expenses	(274,330)	(461,337)
Payments of scholarships	(397,118)	(181,844)
Net cash used in operating activities	<u>(601,355)</u>	<u>(452,169)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	715,258	510,237
Contributions from permanent endowments	392,325	59,220
Cash provided by noncapital financing activities	<u>1,107,583</u>	<u>569,457</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(36,086)	-
Cash used in capital financing activities	<u>(36,086)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	1,031,832	1,507,886
Interest and dividend income	81,316	91,530
Investment management fees	(57,229)	(48,344)
Purchase of investment securities	(1,209,786)	(2,035,808)
Net cash used in investing activities	<u>(153,867)</u>	<u>(484,736)</u>
Cash and cash equivalents increase (decrease)	316,275	(367,448)
Cash and cash equivalents - beginning of year	639,403	1,006,851
Cash and cash equivalents - end of year	<u>\$ 955,678</u>	<u>\$ 639,403</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (710,752)	\$ (402,555)
<i>Adjustments used to reconcile operating loss to net cash used in operating activities</i>		
Depreciation expense	26,793	-
<i>Changes in assets and liabilities</i>		
Grants receivable	-	26,200
Accounts payable	2,690	(19,750)
Wages payable	19	696
Due to GSU	79,895	(56,760)
Net cash used in operating activities	<u>\$ (601,355)</u>	<u>\$ (452,169)</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Statement of Cash Flows *(continued)*

For the Year Ended June 30, 2021

(With Comparative Totals for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES INCLUDED IN CHANGE IN NET POSITION		
Capital assets acquired with debt	\$ 37,500	\$ -
Unrealized gain on investments	\$ 1,144,047	\$ 113,722

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Year Ended June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Basis of Accounting

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

Cash Equivalents

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, cash equivalents were defined as short-term, highly liquid investments that are both:

- 1) Readily convertible to known amounts of cash.
- 2) So near to their maturity that they present 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 the Financial Statements

Year Ended June 30, 2021

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, 2021.

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 revenue, 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 the Financial Statements

Year Ended June 30, 2021

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, 2021.

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 (two to five years).

GOVERNORS STATE UNIVERSITY FOUNDATION
Notes to the Financial Statements
Year Ended June 30, 2021

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 Revenue

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

Operating Revenue

Operating revenue includes activities that have characteristics of exchange transactions, such as payments for services.

Non-operating Revenue

Non-operating revenue includes 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

Year Ended June 30, 2021

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 (U.S. GAAP) 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.

Prior-Year Information

The basic financial statements include certain prior-year partial comparative information. Such information does not include full comparative footnote disclosures required for a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2020, from which the partial information was derived.

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:

	June 30, 2021
STATEMENT OF NET POSITION	
Cash and cash equivalents	\$ 955,678
Investments	6,243,551
Total	<u>\$ 7,199,229</u>

GOVERNORS STATE UNIVERSITY FOUNDATION
Notes to the Financial Statements
Year Ended June 30, 2021

NOTE 2 DEPOSITS AND INVESTMENTS (continued)

	<u>June 30, 2021</u>
DEPOSITS AND INVESTMENTS	
Cash in bank	\$ 531,921
Investments	<u>6,667,308</u>
Total	<u>\$ 7,199,229</u>

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure deposits may not be returned. The Federal Deposit Insurance Corporation insured bank balances up to \$250,000 at June 30, 2021. The remaining bank balance at June 30, 2021 was fully collateralized. 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, 2021</u>	
	<u>Cost</u>	<u>Fair Value</u>
Stocks/Mutual funds investing in stocks	\$ 3,380,795	\$ 5,193,718
Mutual funds investing in bonds	747,842	766,495
Corporate bonds	<u>276,972</u>	<u>283,338</u>
Subtotal (investments)	4,405,609	6,243,551
Money market funds	345,102	345,102
Illinois funds	<u>78,655</u>	<u>78,655</u>
Total	<u>\$ 4,829,366</u>	<u>\$ 6,667,308</u>

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 345,102	\$ 345,102	\$ -	\$ -
Illinois funds	78,655	78,655	-	-
Stocks/Mutual funds investing in stocks	5,193,718	5,193,718	-	-
Corporate bonds	283,338	-	283,338	-
Mutual funds investing in bonds	<u>766,495</u>	<u>766,495</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,667,308</u>	<u>\$ 6,383,970</u>	<u>\$ 283,338</u>	<u>\$ -</u>

Custodial Credit Risk - Investments: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2021, investments consisted of money market funds, stocks, mutual funds, and corporate bonds. All investments other than Illinois funds are being held by the First Midwest Bank Trust Division, in the name of the Foundation.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Year Ended June 30, 2021

NOTE 2 DEPOSITS AND INVESTMENTS (continued)

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 fair value) of the Foundation at June 30, 2021, are as follows:

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

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

Credit Rating	Total Debt Securities
No rating	\$ 60,840
'AAA'	61,493
'AA'	25,107
'AA-'	103,150
'A+'	104,239
'A'	372,235
'A-'	50,843
'BBB'	52,437
'BB'	219,489
	<u>\$ 1,049,833</u>

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Year Ended June 30, 2021

NOTE 2 DEPOSITS AND INVESTMENTS *(continued)*

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%.

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 to the related unrestricted (related to the 1.5% fee) and expendable accounts on an annual basis. As of June 30, 2021, the Foundation had a total of \$1,691,083 net cumulative appreciation from investment of endowments available for expenditure. This amount has been allocated between restricted-expendable net position and unrestricted net position in the statement of net position.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to the Financial Statements

Year Ended June 30, 2021

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)" 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 year ended June 30, 2021 at \$315,085, including all direct payroll expenses and fringe benefits and is shown as budget allocations from the University on the statement of revenue, expenses, and changes in net position. The Foundation provided the University with support in the amount of \$765,308 for the year ended June 30, 2021.

As of June 30, 2021, \$389,075 is due to the University from the Foundation.

NOTE 6 CAPITAL ASSETS

Capital assets activity for the Foundation for the year ended June 30, 2021 are summarized as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
<i>Capital assets not being depreciated</i>				
Works of art	\$ 2,297,156	\$ 20,000	\$ -	\$ 2,317,156
<i>Other capital assets</i>				
Intangible assets	-	53,586	-	53,586
Total capital assets	<u>2,297,156</u>	<u>73,586</u>	<u>-</u>	<u>2,370,742</u>
<i>Accumulated depreciation</i>				
Intangible assets	-	(26,793)	-	(26,793)
Total accumulated depreciation	<u>-</u>	<u>(26,793)</u>	<u>-</u>	<u>(26,793)</u>
Total capital assets, net	<u>\$ 2,297,156</u>	<u>\$ 46,793</u>	<u>\$ -</u>	<u>\$ 2,343,949</u>

GOVERNORS STATE UNIVERSITY FOUNDATION
Notes to the Financial Statements
Year Ended June 30, 2021

NOTE 6 CAPITAL ASSETS (continued)

The Foundation's works of art include the following pieces at June 30, 2021:

	<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
"Inscribe Firenze" - Abbott Pattison	64,000
Stargazing with Contrails - Terry Karpowicz	20,000
	<u>\$ 2,317,156</u>

NOTE 7 INTANGIBLE ASSET PAYABLE

The Foundation acquired computer software through a multi-year licensing agreement. In accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, the Foundation has recorded a liability representing its obligation to make annual payments over the life of the agreement. The license agreement is for two years and requires two equal payments over the term of the agreement. Implicit interest is considered immaterial. Future maturity at June 30, 2021 is as follows:

	<u>Amount</u>
Year ending June 30, 2022	\$ 37,500
Total	<u>\$ 37,500</u>

