

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

**FINANCIAL STATEMENTS
JUNE 30, 2023**

GOVERNORS STATE UNIVERSITY FOUNDATION
Financial Statements
For the Year Ended June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Governors State University Foundation

Opinion

We have audited the accompanying financial statements of the business-type activities of Governors State University Foundation, a component unit of Governors State University and the State of Illinois, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Governors State University Foundation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities of Governors State University Foundation, as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Governors State University Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Governors State University Foundation's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Governors State University Foundation's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated February 27, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Kankakee, Illinois
February 3, 2024

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis

For the Year Ended June 30, 2023

This document presents management's discussion and analysis of the financial performance of the Governors State University Foundation (Foundation) during the Fiscal Year Ended June 30, 2023. This discussion should be read in conjunction with the financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of the Foundation's management.

Reporting Entity

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

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

Using the Annual Report

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

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

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis
For the Year Ended June 30, 2023

Using the Annual Report (*continued*)

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

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

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

Financial Highlights

The Foundation's financial position decreased during the Fiscal Year Ended June 30, 2023. Total net position decreased by \$109 thousand (1.30%) from June 30, 2022. This decrease was mostly attributable to a decrease in contributions and increase in expenses, partially offset by the favorable market returns on investments. Net investment in capital assets decreased by \$19 thousand; nonexpendable restricted net position (permanent endowments) increased by \$276 thousand; expendable restricted net position decreased by \$120 thousand; and unrestricted net position decreased by \$246 thousand.

Condensed Statement of Net Position

	As of June 30,		
	2023	2022	Change
ASSETS			
Current assets	\$ 404,327	\$ 737,826	\$ (333,499)
Non-current assets	8,411,262	7,900,041	511,221
Total assets	8,815,589	8,637,867	177,722
LIABILITIES			
Current liabilities	313,894	269,581	44,313
Non-current liabilities	241,975	-	241,975
Total liabilities	555,869	269,581	286,288
NET POSITION			
Net investment in capital assets	2,355,054	2,374,196	(19,142)
<i>Restricted for</i>			
Nonexpendable	3,639,709	3,363,463	276,246
Expendable	2,003,110	2,122,788	(119,678)
Unrestricted	261,847	507,839	(245,992)
Net position	<u>\$8,259,720</u>	<u>\$8,368,286</u>	<u>\$ (108,566)</u>

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis
For the Year Ended June 30, 2023

Condensed Statement of Net Position *(continued)*

At June 30, 2023, total current assets of \$404 thousand consisted of cash and cash equivalents, and total non-current assets of \$8.41 million consisted of \$5.72 million of investments and \$2.69 million of net capital assets. The \$178 thousand increase in total assets between 2023 and 2022 was mostly attributable to the (a) \$298 thousand increase in net capital assets as the Foundation recognized subscription assets resulting from its implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as discussed further under Notes 1 and 7 to the Financial Statements; and (b) \$213 thousand increase in investments mostly due to the favorable market returns on investments. These increases were partially offset by the \$333 thousand decrease in cash and cash equivalents mostly due to timing of vendor payments, timing of settlement of amounts due to the University for scholarships, and the overall decrease in net position.

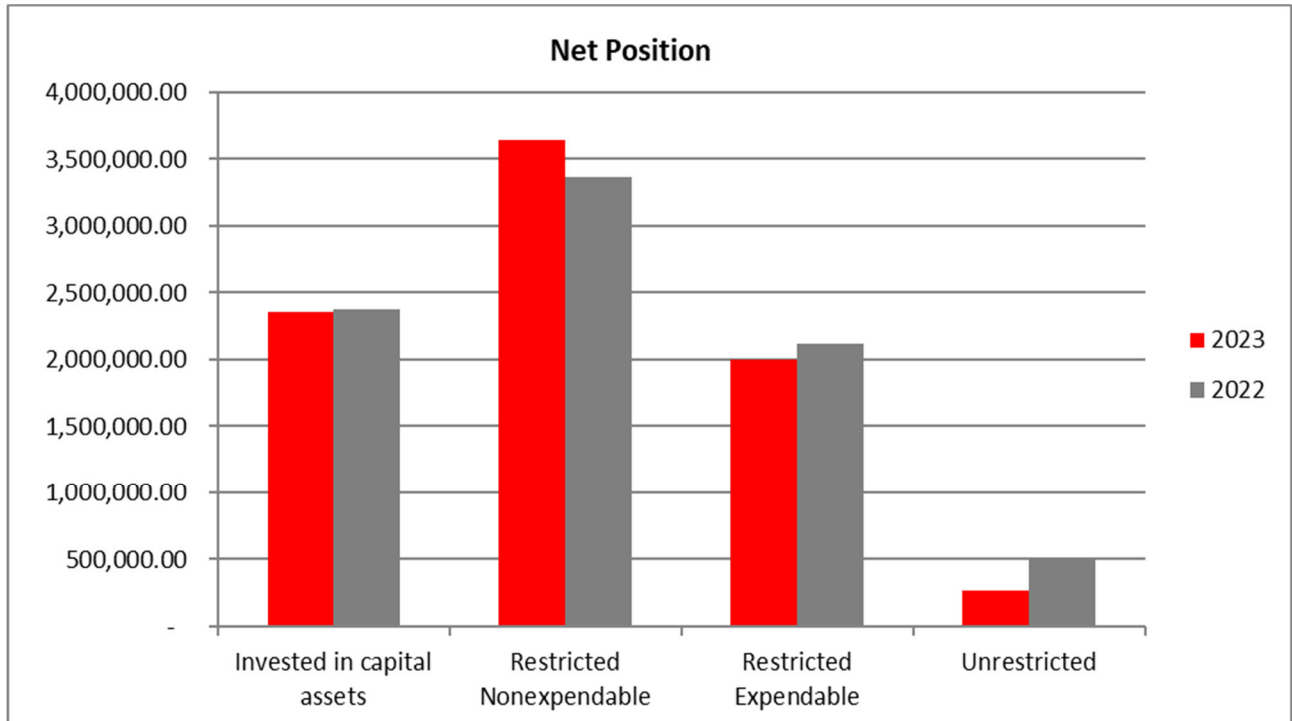
The Foundation's liabilities at June 30, 2023 total \$556 thousand owed to the University and vendors. The \$286 thousand increase was mostly attributable to the Foundation's recognition of subscriptions payable resulting from its implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as discussed further under Notes 1 and 7 to the Financial Statements.

The Foundation's current assets of \$404 thousand were sufficient to cover current liabilities of \$314 thousand. The ratio of current assets-to-current liabilities is \$1.29 in current assets for every \$1 in current liabilities as of June 30, 2023.

The Foundation's total net position at June 30, 2023 totaled approximately \$8.26 million, a \$109 thousand decrease over total net position at June 30, 2022. 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, decreased by \$19 thousand due to the increase in outstanding debt attributable to the subscription-based information technology arrangements, partially offset by the increase in the related subscription assets net of depreciation expense. Net position classified as "restricted, nonexpendable (permanent endowments)" increased by \$276 thousand due to endowment gifts received during Fiscal Year 2023. Net position classified as "restricted, expendable" decreased by \$120 thousand due mostly to increased expenses for University support and scholarships. Net position classified as "unrestricted" decreased by \$246 thousand mostly due to decreased unrestricted contributions and fewer fundraising events during Fiscal Year 2023.

GOVERNORS STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis
For the Year Ended June 30, 2023

Condensed Statement of Net Position *(continued)*



GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis

For the Year Ended June 30, 2023

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

	For the Years Ended June 30,		Changes
	2023	2022	
OPERATING REVENUES AND EXPENSES			
Operating revenues	\$ 540,653	\$ 458,300	\$ 82,353
Operating expenses	1,825,024	1,472,111	352,913
Operating loss	(1,284,371)	(1,013,811)	(270,560)
NON-OPERATING REVENUES			
Contributions	401,955	466,112	(64,157)
Investment income (loss)	513,581	(671,296)	1,184,877
Interest expense	(15,977)	-	(15,977)
Non-operating revenues (loss)	899,559	(205,184)	1,104,743
Income (loss) before other revenues	(384,812)	(1,218,995)	834,183
Additions to permanent endowments - contributions	276,246	495,284	(219,038)
Total other revenues	276,246	495,284	(219,038)
Change in net position	(108,566)	(723,711)	615,145
Total net position, beginning of year	8,368,286	9,091,997	(723,711)
Total net position, end of year	\$ 8,259,720	\$ 8,368,286	\$ (108,566)

Operating Revenues

Total operating revenues were \$541 thousand and \$458 thousand for the years ended June 30, 2023 and 2022, respectively. The increase of \$82 thousand was mostly due to the increase in grants received by the Foundation during Fiscal Year 2023.

GOVERNORS STATE UNIVERSITY FOUNDATION

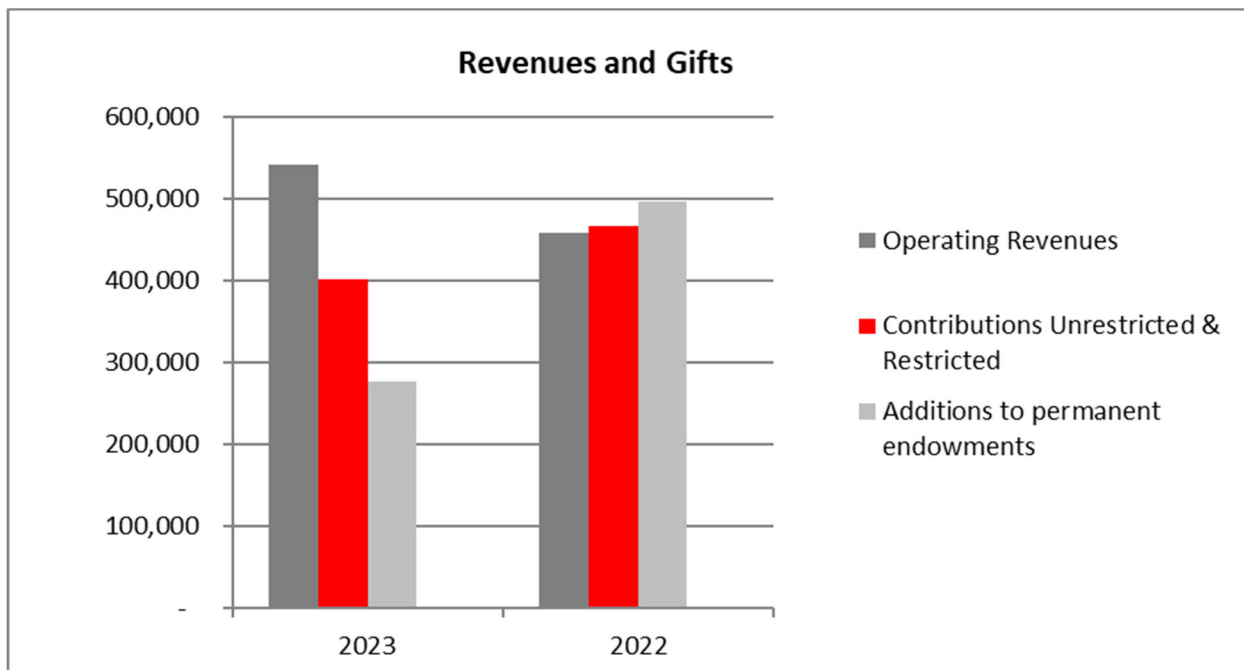
Management's Discussion and Analysis

For the Year Ended June 30, 2023

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 2023 there was a total of \$402 thousand of unrestricted and restricted-expendable gifts and \$276 thousand of additions to permanent endowments.



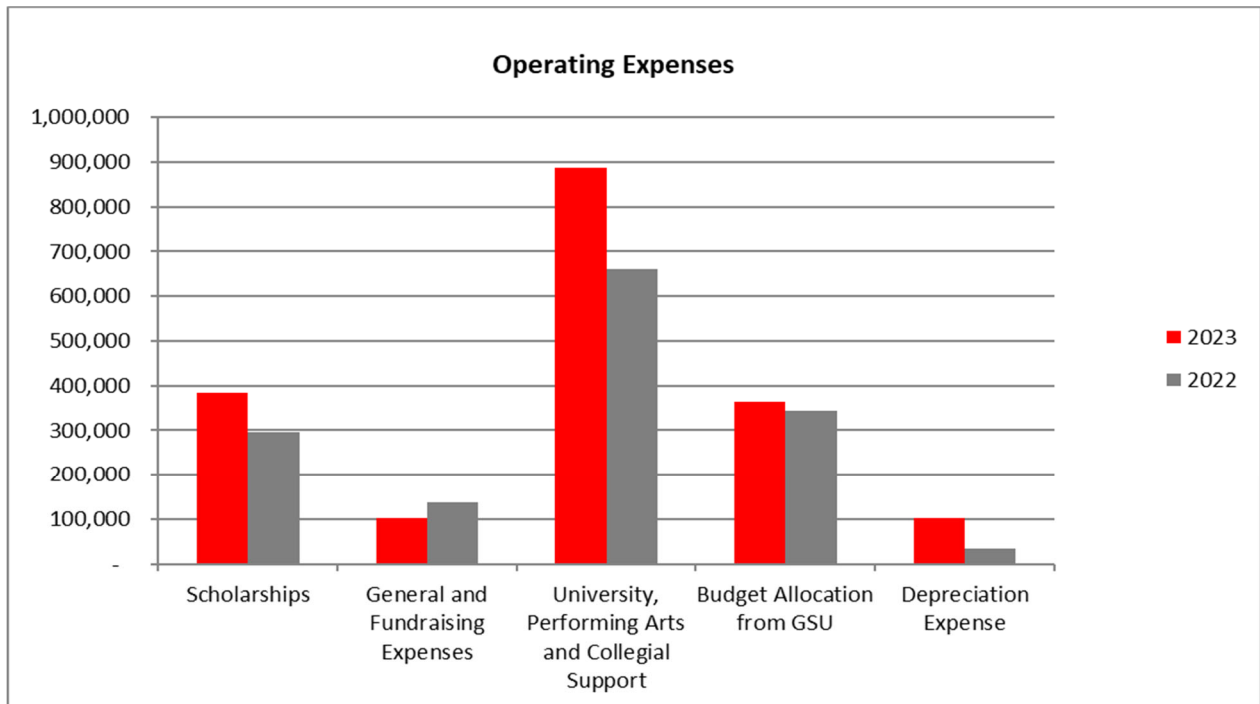
GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis

For the Year Ended June 30, 2023

Operating Expenses

Total operating expenses for Fiscal Year 2023 totaled \$1.82 million. Of this amount, \$384 thousand, or 21.1%, was awarded in scholarships to students for tuition and fees; \$102 thousand, or 5.6%, was for general and fundraising expenses; \$872 thousand, or 47.8%, supported University functions; \$364 thousand, or 19.9%, was for in-kind expenses covered by the University; and \$103 thousand, or 5.6%, was for depreciation expense.

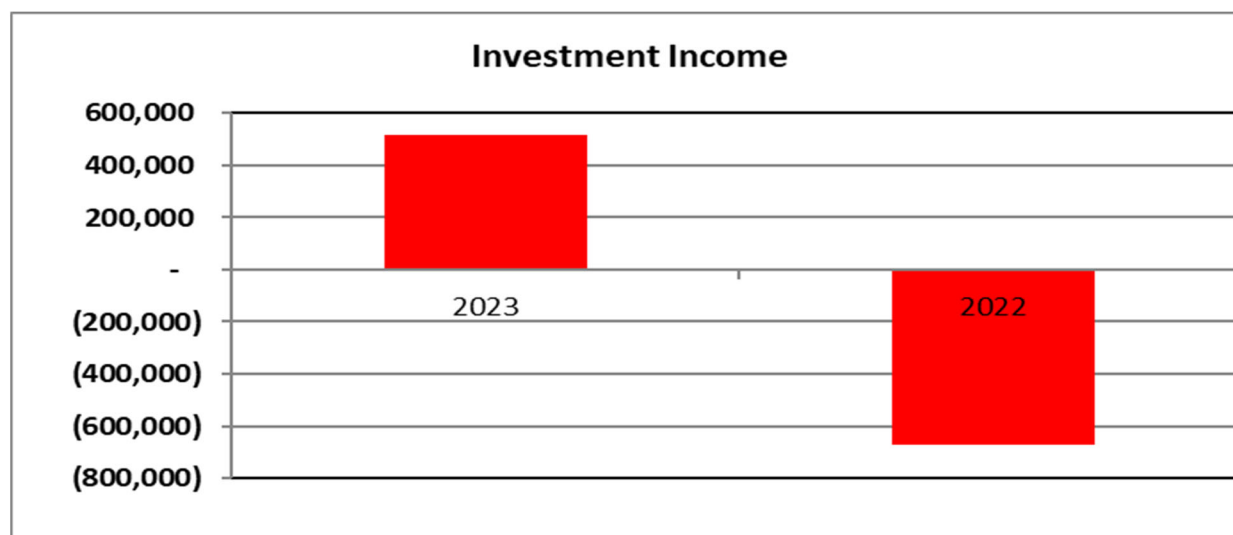


GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis
For the Year Ended June 30, 2023

Other

Along with contributions, non-operating revenues include investment income (loss). Investment income for Fiscal Year 2023 was \$514 thousand, a significant increase of \$1.2 million from investment losses of \$671 thousand in Fiscal Year 2022. This increase was mainly attributable to the favorable market conditions during Fiscal Year 2023.



During Fiscal Year 2023, the Foundation also recognized interest expense resulting from its implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, as discussed further under Notes 1 and 7 to the Financial Statements.

Condensed Statement of Cash Flows

	For the Years Ended June 30,	
	2023	2022
Net cash used in operating activities	\$(1,217,910)	\$(1,150,230)
Cash provided by noncapital financing activities	678,201	961,396
Cash used in capital financing activities	(94,059)	(101,884)
Net cash provided by investing activities	303,722	69,413
Cash decrease	(330,046)	(221,305)
Cash - beginning of year	734,373	955,678
Cash - end of year	\$ 404,327	\$ 734,373

GOVERNORS STATE UNIVERSITY FOUNDATION

Management's Discussion and Analysis
For the Year Ended June 30, 2023

Condensed Statement of Cash Flows *(continued)*

For Fiscal Year 2023, the sources of funds included in operating activities are grants and contracts of \$167 thousand and operating revenues of \$10 thousand. The uses of funds included in operating activities are general and operating expenses of \$1.01 million and scholarships of \$384 thousand. The sources of funds included in noncapital financing activities are contributions. The uses of funds included in capital financing activities are principal and interest payments on subscriptions payable of \$84 thousand and \$10 thousand, respectively. The sources of funds included in investing activities are proceeds from sales and maturities of investment securities of \$2.99 million and interest and dividend income of \$141 thousand. The uses of funds included in investing activities are investment management fees of \$60 thousand and purchase of investment securities of \$2.76 million.

The Foundation's Future

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

- Engaging alumni through personal and professional networks and workplace initiatives.
 - Engaging Faculty Emeriti to build faster relationships with alumni.
 - Establishing an Alumni Champion Society for our most successful alumni.
 - Hosting receptions with the themes of College Programs to attract same-minded alumnus.
- Connecting with stakeholders via social media, such as Twitter, Facebook, and LinkedIn.
- Enhancing corporate and foundation partnerships.
- Cultivating current students as future alumni.
- Implementation of a new Customer Relationship Management (CRM) system to enhance fundraising efforts and alumni engagement.
- In collaboration with the GSU Office of Financial Aid, installation of 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, 2023

(With Comparative Totals as of June 30, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 404,327	\$ 734,373
Accrued investment income	-	3,453
Total current assets	<u>404,327</u>	<u>737,826</u>
<i>Non-current assets</i>		
Investments	5,715,732	5,502,420
Capital assets	2,859,540	2,458,551
Accumulated depreciation	<u>(164,010)</u>	<u>(60,930)</u>
Total non-current assets	<u>8,411,262</u>	<u>7,900,041</u>
Total assets	<u>8,815,589</u>	<u>8,637,867</u>
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable	79,356	37,647
Intangible asset payable	-	23,425
Subscriptions payable	98,501	-
Due to GSU	<u>136,037</u>	<u>208,509</u>
Total current liabilities	<u>313,894</u>	<u>269,581</u>
<i>Non-current liabilities</i>		
Subscriptions payable	<u>241,975</u>	<u>-</u>
Total non-current liabilities	<u>241,975</u>	<u>-</u>
Total liabilities	<u>555,869</u>	<u>269,581</u>
NET POSITION		
Net investment in capital assets	2,355,054	2,374,196
<i>Restricted for</i>		
Nonexpendable	3,639,709	3,363,463
Expendable (scholarships and University support)	2,003,110	2,122,788
Unrestricted	<u>261,847</u>	<u>507,839</u>
Total net position	<u>\$ 8,259,720</u>	<u>\$ 8,368,286</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	<u>2023</u>	<u>2022</u>
OPERATIONS		
<i>Revenues</i>		
Grants and contracts	\$ 166,999	\$ 100,501
Budget allocation from GSU	363,882	344,591
Other operating revenues	<u>9,772</u>	<u>13,208</u>
Total operating revenues	<u>540,653</u>	<u>458,300</u>
<i>Expenses</i>		
Scholarships	384,545	296,649
General and fundraising expenses	101,557	136,890
Collegial support	1,800	1,100
University support	870,160	658,744
Budget allocation from GSU	363,882	344,591
Depreciation expense	<u>103,080</u>	<u>34,137</u>
Total operating expenses	<u>1,825,024</u>	<u>1,472,111</u>
Operating loss	<u>(1,284,371)</u>	<u>(1,013,811)</u>
NON-OPERATING REVENUES		
Contributions	401,955	466,112
Investment income (loss)	513,581	(671,296)
Interest expense	<u>(15,977)</u>	<u>-</u>
Net non-operating revenues (loss)	<u>899,559</u>	<u>(205,184)</u>
Loss before other revenues, expenses, gains and losses	<u>(384,812)</u>	<u>(1,218,995)</u>
OTHER REVENUES, EXPENSES, GAINS AND LOSSES		
Additions to permanent endowments-contributions	<u>276,246</u>	<u>495,284</u>
Total other revenues, expenses, gains and losses	<u>276,246</u>	<u>495,284</u>
Change in net position	(108,566)	(723,711)
Total net position, beginning of year	<u>8,368,286</u>	<u>9,091,997</u>
Total net position, end of year	<u><u>\$ 8,259,720</u></u>	<u><u>\$ 8,368,286</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, 2023

(With Comparative Totals for the Year Ended June 30, 2022)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 166,999	\$ 100,501
Operating revenues	9,772	13,208
General and operating expenses	(1,010,136)	(967,290)
Payments of scholarships	(384,545)	(296,649)
Net cash used in operating activities	<u>(1,217,910)</u>	<u>(1,150,230)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	401,955	466,112
Contributions for permanent endowments	276,246	495,284
Cash provided by noncapital financing activities	<u>678,201</u>	<u>961,396</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	-	(101,884)
Principal payments on subscription payable	(83,937)	-
Interest payments on subscription payable	(10,122)	-
Cash used in capital financing activities	<u>(94,059)</u>	<u>(101,884)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	2,986,336	1,386,957
Interest and dividend income	140,861	95,710
Investment management fees	(60,249)	(66,020)
Purchase of investment securities	(2,763,226)	(1,347,234)
Net cash provided by investing activities	<u>303,722</u>	<u>69,413</u>
Cash and cash equivalents decrease	(330,046)	(221,305)
Cash and cash equivalents - beginning of year	734,373	955,678
Cash and cash equivalents - end of year	<u>\$ 404,327</u>	<u>\$ 734,373</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$(1,284,371)	\$(1,013,811)
<i>Adjustments used to reconcile operating loss to net cash used in operating activities:</i>		
Depreciation expense	103,080	34,137
Changes in assets and liabilities:		
Accounts payable	35,853	10,010
Due to GSU	(72,472)	(180,566)
Net cash used in operating activities	<u>\$(1,217,910)</u>	<u>\$(1,150,230)</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, 2023
(With Comparative Totals for the Year Ended June 30, 2022)

	<u>2023</u>	<u>2022</u>
NONCASH CAPITAL FINANCING AND INVESTING ACTIVITIES INCLUDED IN CHANGE IN NET POSITION		
Capital assets acquired with debt	<u>\$ 400,989</u>	<u>\$ 23,425</u>
Unrealized loss on investments	<u>\$ (85,869)</u>	<u>\$ (992,596)</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Basis of Accounting

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

Cash Equivalents

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

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

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

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, 2023.

Investments

Investments are recorded at fair value as determined by quoted market prices. Investments are pooled for the purposes of allocating realized gains and losses, unrealized gains and losses and ordinary income, net of investment fees, among unrestricted and restricted accounts. Allocation to specific accounts is based on contractual obligations and the Foundation's investment policy. The investment policy states that assets are to be invested in a diversified portfolio of equity and fixed-income securities.

Non-fixed-income investments should generally represent 25%-75% of the Foundation's invested assets. Fixed-income investments should also represent 25%-75% of the Foundation's invested assets and are to focus on high-quality bonds, maintaining an average credit quality of 'AA', to achieve an attractive risk-adjusted total return over the long run. A maximum of 25% of the total portfolio may be invested in foreign securities. Prohibited transactions include purchasing securities on margin, purchasing private placements, and purchasing individual junk bonds or any other low-grade security.

Investments purchased or received by gift are carried at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position. Investment earnings include dividends, interest, and capital appreciation (both realized and unrealized). Investment fees are netted against investment income.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

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, 2023.

Subscription-Based Information Technology Arrangements

A subscription-based information technology arrangement (SBITA) with an initial noncancellable term greater than twelve months and an individual value of \$25,000 or more is recognized as a right-to-use subscription asset (subscription asset) and a subscription liability. A SBITA with a maximum possible term of 12 months or less at commencement is recognized as an expense. The subscription liability is measured at the present value of subscription payments expected to be made over the SBITA term. The subscription asset is initially measured as the initial measurement of the subscription liability, adjusted for payments associated with the SBITA contract made to the vendor at the commencement of the subscription term, plus any capitalizable initial implementation costs, less any vendor incentives received at the commencement of the subscription term. The Foundation uses the interest rate charged by the vendor or its estimated incremental borrowing rate as the discount rate. Subscription assets are reported as part of the capital assets and subscription liabilities are reported as current and noncurrent liabilities in the Statement of Net Position.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

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

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 and subscription 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 their estimated useful lives (three years). Depreciation for the subscription assets is computed using the straight-line method over the shorter of the term or the estimated useful lives of the assets (three to five years).

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.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

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

Net Position *(continued)*

Unrestricted Net Position

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

Classification of Revenues

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

Operating Revenues

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

Non-operating Revenues

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

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

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

New Accounting Pronouncements

During Fiscal Year 2023, the Foundation adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. During Fiscal Year 2023, the Foundation has recognized subscription assets, which are reported as part of capital assets, and subscriptions payable, which are reported as current and noncurrent liabilities, in the Statement of Net Position as a result of adopting this Statement. See Note 6 and Note 7 for further information.

The Foundation has also adopted other new GASB statements during Fiscal Year 2023. These other statements did not have a material impact on the Foundation's financial statements.

Future Adoption of GASB Statements

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

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

NOTE 2 DEPOSITS AND INVESTMENTS

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires general disclosures by investment type with disclosures of the specific risks those investments are exposed to.

A reconciliation of cash and investments on the Statement of Net Position to deposits and investments of the Foundation is as follows:

	<u>June 30, 2023</u>
STATEMENT OF NET POSITION	
Cash and cash equivalents	\$ 404,327
Investments	<u>5,715,732</u>
Total	<u>\$ 6,120,059</u>
DEPOSITS AND INVESTMENTS	
Cash in bank	\$ 322,445
Investments	<u>5,797,614</u>
Total	<u>\$ 6,120,059</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 (FDIC) insured bank balances up to \$250,000 at June 30, 2023. The bank balance of \$305,182 as of June 30, 2023 was fully insured by the FDIC or collateralized by pledged securities. Depositories and brokers are chosen based on stability and longevity. The Foundation currently has no custodial credit risk related to its bank deposits.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

NOTE 2 DEPOSITS AND INVESTMENTS (continued)

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

	June 30, 2023	
	Cost	Fair Value
Stocks/Mutual funds investing in stocks	\$ 3,576,791	\$ 4,362,819
Mutual funds investing in bonds	1,131,211	1,116,763
Corporate and government bonds	<u>248,254</u>	<u>236,150</u>
Subtotal (investments)	4,956,256	5,715,732
Illinois Funds	<u>81,882</u>	<u>81,882</u>
Total	<u>\$ 5,038,138</u>	<u>\$ 5,797,614</u>

The valuation by levels at June 30, 2023, is as follows:

	Fair Value	Level 1	Level 2	Level 3
Illinois Funds	\$ 81,882	\$ 81,882	\$ -	\$ -
Stocks/mutual funds investing in stocks	4,362,819	4,362,819	-	-
Mutual funds investing in bonds	1,116,763	1,116,763	-	-
Corporate and government bonds	<u>236,150</u>	<u>-</u>	<u>236,150</u>	<u>-</u>
	<u>\$ 5,797,614</u>	<u>\$ 5,561,464</u>	<u>\$ 236,150</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, 2023, investments consisted of Illinois Funds, stocks, mutual funds, and corporate and government bonds. All investments other than Illinois Funds are being held by the Old National Bank Trust Division, in the name of the Foundation.

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Foundation's investment policy addresses the overall diversification of the portfolio with consideration for liquidity. It does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, but encourages a laddered portfolio with maturities occurring at regular intervals.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

NOTE 2 DEPOSITS AND INVESTMENTS (continued)

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy encourages the investment manager to focus on high-quality bonds, maintaining an average credit quality of 'AA', to achieve an attractive risk-adjusted total return over the long run. The Illinois Funds has a maturity of < 1 year and a credit rating of AAmmf by Fitch.

The maturities of the debt securities investment portfolio (at fair value) of the Foundation at June 30, 2023, are as follows:

	<u>Investment Maturity (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>5 – 10</u>	<u>10+</u>
Corporate and government bonds	\$ 236,150	\$ 97,170	\$ 95,362	\$ 43,618	\$ -
Mutual funds investing in bonds	<u>1,116,763</u>	<u>-</u>	<u>431,280</u>	<u>685,483</u>	<u>-</u>
Total	<u>\$ 1,352,913</u>	<u>\$ 97,170</u>	<u>\$ 526,642</u>	<u>\$ 729,101</u>	<u>\$ -</u>

The Standard & Poor's credit ratings of the debt securities investment portfolio (at fair value) of the Foundation at June 30, 2023 are as follows:

<u>Credit Rating</u>	<u>Total Debt Securities</u>
AA-	\$ 48,200
A+	43,618
A-	47,162
No Rating	<u>1,213,933</u>
Total	<u>\$ 1,352,913</u>

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

As of June 30, 2023, the Foundation had \$372,574 in U.S. dollar balances of stocks and international mutual fund investments exposed to foreign currency risk.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

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 bank account 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 a 1.5% fee to support Foundation operations, and the rate of inflation. The resulting rate will be applied to the endowment balance as of the end of the calendar year to determine amounts available for expenditure in the subsequent fiscal year. The Foundation transfers available investment earnings (net of the fees) to the related expendable accounts on an annual basis. As of June 30, 2023, the Foundation had a total of \$788,779 net cumulative appreciation from investment of endowments available for expenditure. This amount has been reported as restricted-expendable net position in the Statement of Net Position.

NOTE 5 TRANSACTIONS WITH THE UNIVERSITY

The Foundation has an ongoing contract with the University which includes provisions requiring the Foundation to comply with Section VI of the "University Guidelines 1982 (as amended 1997, 2020, and 2023)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires the University provide the Foundation with personnel and operational services at no cost. University officials estimate the value of these services for the year ended June 30, 2023 at \$363,882, including all direct payroll expenses and fringe benefits and is shown as budget allocations from the University on the Statement of Revenues, Expenses, and Changes in Net Position. The Foundation provided the University with support in the amount of \$1,356,418 for the year ended June 30, 2023.

As of June 30, 2023, \$136,037 is due to the University from the Foundation.

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

NOTE 6 CAPITAL ASSETS

Capital assets activity for the Foundation for the year ended June 30, 2023 are summarized as follows:

	Balance June 30, 2022	Additions	Deletions/ Transfers	Balance June 30, 2023
Capital assets not being depreciated:				
Works of art	\$ 2,367,156	\$ -	\$ -	\$ 2,367,156
Other capital assets:				
Intangible assets	91,395	-	(91,395)	-
Subscription assets	-	400,989	91,395	492,384
Total capital assets	<u>2,458,551</u>	<u>400,989</u>	<u>-</u>	<u>2,859,540</u>
Accumulated depreciation:				
Intangible assets	(60,930)	(7,040)	67,970	-
Subscription assets	-	(96,040)	(67,970)	(164,010)
Total accumulated depreciation	<u>(60,930)</u>	<u>(103,080)</u>	<u>-</u>	<u>(164,010)</u>
Total capital assets, net	<u>\$ 2,397,621</u>	<u>\$ 297,909</u>	<u>\$ -</u>	<u>\$ 2,695,530</u>

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

NOTE 6 CAPITAL ASSETS *(continued)*

The Foundation's works of art include the following pieces at June 30, 2023:

	Carrying Value
"Large Planar Hybrid" - R. Hunt	\$ 40,000
"Spiral"	370,500
"Flying Saucer" - J. Highstein	24,903
"Untitled" - J. Shapiro	55,948
"For Lady Day" - M. Di Suvero	800,000
"Icarus" - C. Ginnever	55,000
"Falling Meteor" - J. Peart	60,000
"Passages" - James Brenner	40,000
"Art Arc" - T. Karpowicz	16,000
"Oscar's Inclination" - M. Dunbar	25,000
"Demeure No. 4, Lanleff" - E. Martin	25,000
IBO Ancestor Figure	9,000
Cameroon Helmet Mask	12,000
IBO MMWO Mask	6,500
New Guinea Asmat Figure	15,000
Three Taureg Poles	3,500
"A Rare Yaka Architectural Panel"	30,000
"Calm and Free"	26,000
African & Oceanic Art & Artifacts (64 pieces)	103,005
Pre-Columbian Art & Artifacts (67 pieces)	53,600
African Art Collection	47,200
"Wind Waves" - Y. Domenge	375,000
"Vase" - C. Lotton	2,000
"Sholders" - M. Puryear (2 prints)	8,000
"Butte" - Barry Tinsley	30,000
"Inscribe Firenze" - Abbott Pattison	64,000
"Stargazing with Contrails" - Terry Karpowicz	70,000
	<u>\$2,367,156</u>

GOVERNORS STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Year Ended June 30, 2023

NOTE 7 SUBSCRIPTION PAYABLE

The Foundation has entered into various multi-year subscription-based information technology arrangements (SBITAs) for the right-to-use or access vendors' information technology software (the underlying subscription assets). In accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, the Foundation has recorded a liability representing its obligation to make payments over the life of the agreement. These arrangements have remaining terms ranging from three to five years and require payments in advance over the term. The renewal and termination options are not included in the subscription assets or subscription payable balance until they are reasonably certain of exercise.

As of July 1, 2022, the present value of the payments totaled \$424,413 with an estimated incremental borrowing rate of 4.35%.

Future minimum commitments for the Foundation's non-cancellable subscriptions as of June 30, 2023, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 98,501	\$ 11,098	\$ 109,599
2025	99,790	9,809	109,599
2026	69,563	5,437	75,000
2027	<u>72,622</u>	<u>2,378</u>	<u>75,000</u>
Total	<u>\$ 340,476</u>	<u>\$ 28,722</u>	<u>\$ 369,198</u>

The total interest expense recognized for the subscriptions was \$15,977 for the year ended June 30, 2023.

NOTE 8 INTANGIBLE ASSET PAYABLE

The Foundation acquired computer software through multi-year licensing agreements. In accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, the University has recorded a liability representing its obligation to make annual payments over the life of the agreement. The license agreement requires various payments over the term of the agreement. Implicit interest is considered immaterial.

With the implementation of the GASB Statement No. 96, intangible assets, that were subscription-based information technology arrangements, and corresponding liabilities were transferred to subscription assets and subscriptions payable. There was no intangible asset payable at June 30, 2023.