

WASHINGTON, PITTMAN & McKEEVER, LLC

*CERTIFIED PUBLIC ACCOUNTANTS AND
MANAGEMENT CONSULTANTS*

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

Ph. (312) 786-0330
Fax (312) 786-0323
www.wpmck.com

GOVERNORS STATE UNIVERSITY FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2016

**GOVERNORS STATE UNIVERSITY FOUNDATION
FINANCIAL STATEMENTS
JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Governors State University Foundation

We have audited the accompanying financial statements of the business-type activities of Governors State University Foundation, a component unit of Governors State University and the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Governors State University Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of Governors State University Foundation, as of June 30, 2016, 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.

Prior Period Financial Statements

The financial statements of Governors State University Foundation as of June 30, 2015, were audited by other auditors whose report dated November 2, 2015, expressed an unmodified opinion on those financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Washington, Pittman & McKeever, LLC
WASHINGTON, PITTMAN & McKEEVER, LLC

Chicago, Illinois
November 22, 2016

GOVERNORS STATE UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

This document presents management's discussion and analysis of the financial performance of the Foundation during the fiscal years ended June 30, 2016 and 2015. This discussion should be read in conjunction with the financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of the Foundation's management.

Reporting Entity

The Governors State University Foundation is a non-for-profit corporation and is considered to be a component unit of the State of Illinois and Governors State University (the University), as defined by the Governmental Accounting Standards Board Statement No. 39. This statement defines component units as organizations where the "substance and significance of the relationship between the organization and the primary government (or its component units) would be such that the exclusion of that organization from the reporting entity's financial statements would render those statements misleading or incomplete." Accordingly, the Foundation is included in the University's financial statements as a discrete component unit.

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

Using the Annual Report

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

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

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

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

Using the Annual Report, continued

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

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

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

Financial Highlights

The Foundation's financial position increased during the fiscal year ended June 30, 2016. Total Net Position increased by \$365 thousand (6.6%) from June 30, 2015. This is attributable to various factors including contributions and investment earnings. Nonexpendable net position (permanent endowments) increased by \$98 thousand, and expendable restricted net position increased by \$200 thousand.

Condensed Statement of Net Position

	As of June 30,		Change
	2016	2015	
ASSETS			
Current Assets	\$ 494,370	\$ 358,343	\$ 136,027
Non-current Assets	5,489,454	5,177,276	312,178
Total Assets	<u>5,983,824</u>	<u>5,535,619</u>	448,205
LIABILITIES			
Total Current Liabilities	88,165	4,834	83,331
Total Liabilities	<u>88,165</u>	<u>4,834</u>	83,331
NET POSITION	<u>\$ 5,895,659</u>	<u>\$ 5,530,785</u>	<u>\$ 364,874</u>

At June 30, 2016, total current assets of \$494 thousand included \$453 thousand of cash and cash equivalents and \$42 thousand of receivables. The approximate \$136 thousand increase between 2016 and 2015 is mainly due to the timing of cash transfers into investments.

The Foundation's largest noncurrent assets for June 30, 2016 are its endowment investments of \$2 million and restricted long-term investments of \$1.3 million. The \$312 thousand increase in noncurrent investments between 2016 and 2015 can be mainly attributed to additional contributions and investment earnings.

The Foundation's liabilities at June 30, 2016 total \$88 thousand owed to vendors and other organizations. The significant increase from June 30, 2015 is due to a large liability that was recognized for the balance of South Metropolitan Higher Education Consortium (SMHEC) funds that were held by the Foundation at June 30, 2016. During FY16 it was agreed that the Universities partnership with South Metropolitan Higher Education Consortium (SMHEC) would be transferred to another institution of higher learning. The contributed funds that were held for SMHEC by the Foundation were part of the accounts payable balance at year end and were subsequently paid.

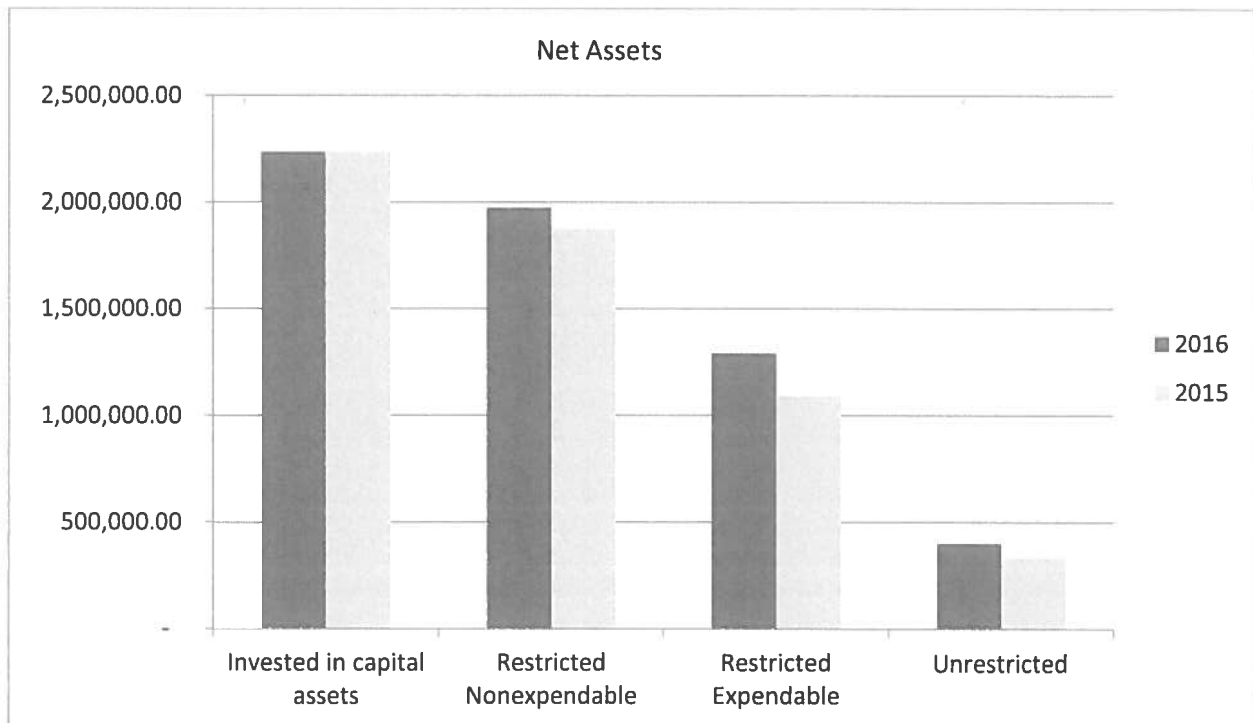
Financial Highlights, continued

The Foundation's current assets of \$494 thousand were sufficient to cover current liabilities of \$88 thousand. The ratio of current assets to current liabilities is \$5.61 in current assets for every \$1 in current liabilities for fiscal year 2016.

The Foundation's total net position at June 30, 2016 totaled approximately \$5.9 million, a \$365 thousand

GOVERNORS STATE UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

increase over total net position at June 30, 2015. Net position classified as "invested in capital assets" represents the sculptures and works of art owned by the Foundation and remained unchanged. Net position classified as "restricted, nonexpendable endowment" increased by \$98 thousand from 2015 to 2016 due to endowment gifts received during fiscal year 2016. Net Position classified as "restricted, expendable" increased by \$200 thousand from 2015 to 2016 due mainly to contributions and investment earnings. The increase of \$66 thousand in "unrestricted" net assets is a result of unrestricted gifts during the year. The balance of "unrestricted" includes a \$300K estate gift that has been designated by Foundation leadership to help endow the GSU Promise Scholarship.



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

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

	For the years ended June 30,	
	2016	2015
OPERATING REVENUES (EXPENSES)		
Operating revenues	\$ 370,344	\$ 471,420
Operating expenses	651,750	756,634
Operating income (loss)	<u>(281,436)</u>	<u>(285,214)</u>
NON-OPERATING REVENUES (EXPENSES)		
Contributions	373,975	575,053
Investment income	162,132	22,739
Other non-operating revenue	12,000	-
Net non-operating revenues	<u>548,107</u>	<u>597,792</u>
Income (loss) before other revenues	<u>266,671</u>	<u>312,578</u>
Additions to permanent endowments – contributions	98,203	132,777
Total other revenues	<u>98,203</u>	<u>132,777</u>
Change in Net Position	364,874	445,355
Total net position at beginning of year	<u>5,530,785</u>	<u>5,085,430</u>
Total net position at end of year	<u><u>\$ 5,895,659</u></u>	<u><u>\$ 5,530,785</u></u>

Operating Revenues

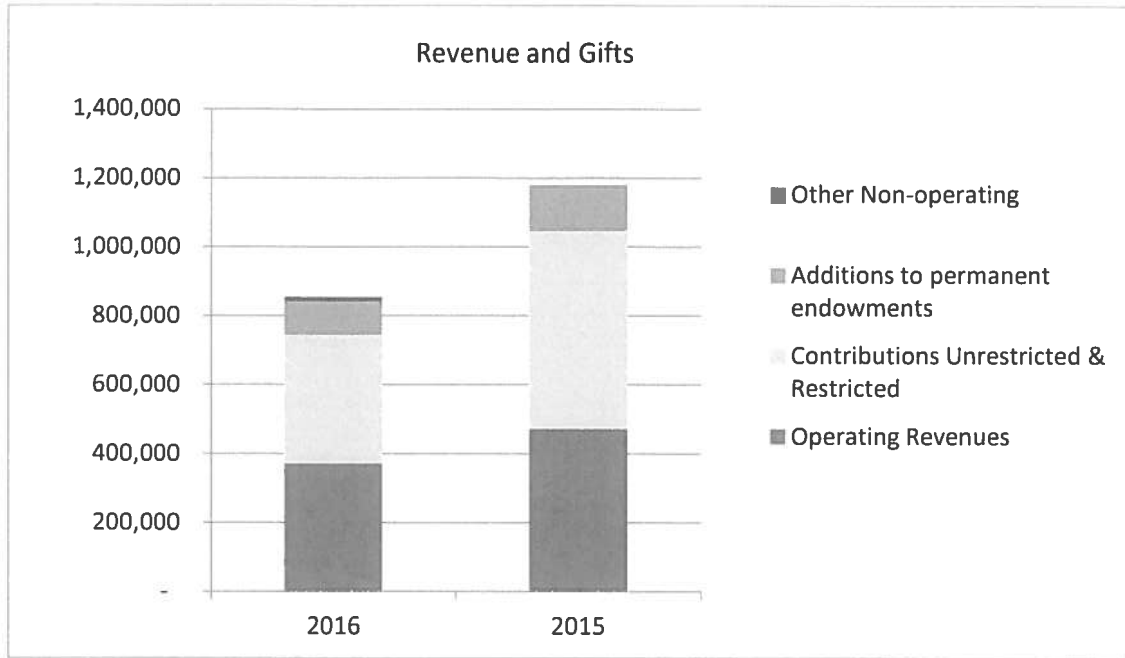
Total operating revenues were \$370,344 and \$471,420 for the years ended June 30, 2016 and 2015, respectively. The decrease of \$101,076 is mainly due to a decrease in the budget allocation from GSU and a decrease in grants and contracts. Some grants that previously came to the Foundation for the benefit of the University now go directly to the University.

Gifts

The Foundation receives gifts from many sources and for different purposes. Gifts that are unrestricted or temporarily restricted for a specific purpose are reported as Contributions in the Non-operating section for the financial statement. 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.

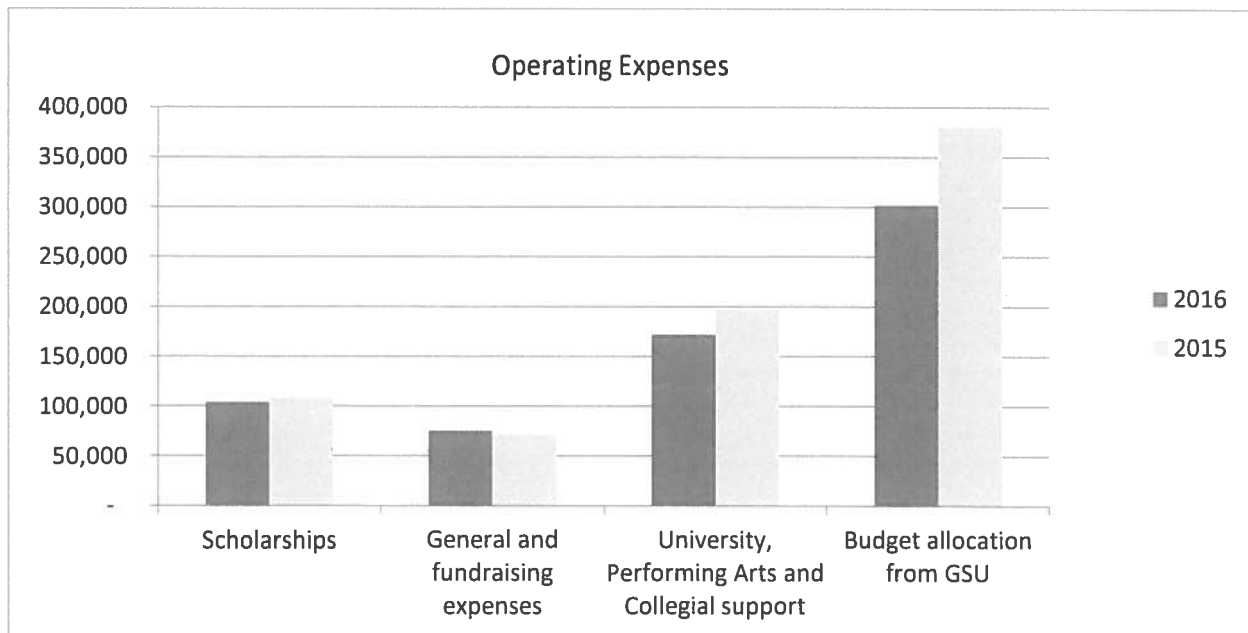
During fiscal year 2016, there was a total of \$374 thousand of unrestricted and restricted gifts, and \$98 thousand of additions to permanent endowments.

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



Operating Expenses

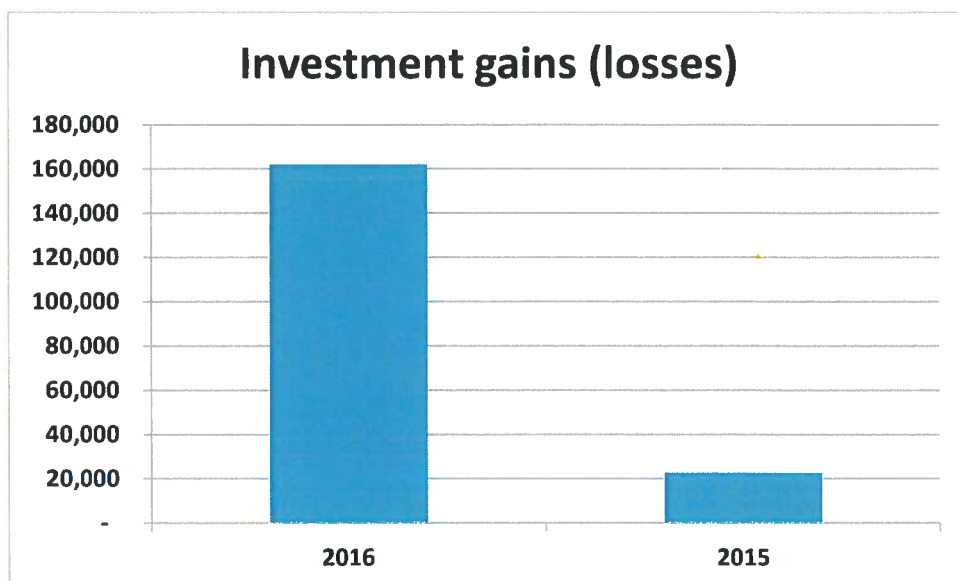
Total operating expenses for fiscal year 2016 totaled \$651,780. Of this amount, \$103,748 or 15.9% was awarded in scholarships to students for tuition and fees, \$74,823 or 11.5% was for general and fundraising expenses, \$171,582 or 26.3% supported University functions, and \$301,627 or 46.3% was for in-kind expenses covered by the University.



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

Other

Along with contributions, Non-operating revenues (expenses) include investment income. Investment income for fiscal year 2016 was \$162,132, a \$139 thousand increase from fiscal year 2015. This increase is due to more favorable market conditions during 2016.



Condensed Statement of Cash Flows

	For the years ended June 30,	
	2016	2015
Net cash used by operating activities	\$ (223,316)	\$ (333,295)
Net cash provided by noncapital financing activities	483,316	733,295
Net cash used by investing activities	(143,862)	(471,995)
Cash increase (decrease)	116,138	(71,995)
Cash - beginning of year	336,395	408,390
Cash - end of year	<u>\$ 452,533</u>	<u>\$ 336,395</u>

For fiscal year 2016, the major uses of funds included in operating activities are scholarships of \$104 thousand and general operating expenses of \$246 thousand. The major source of funds included in noncapital financing activities is contributions. The major use of funds included in investing activities in 2016 is the net purchase of investments of \$181 thousand, a decrease of \$319 thousand from 2015.

GOVERNORS STATE UNIVERSITY FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS

The Foundation's Future

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

- Engaging alumni through personal and professional networks and workplace initiatives
 - Engaging Faculty Emeriti to build faster relationships with alumni
 - Establishing an Alumni Champion Society for our most successful alumnus
 - Hosting receptions with the themes of College Programs to attract same minded alumnus
- Connecting with stakeholders via social media such as Twitter, FaceBook and LinkedIn
- Enhancing corporate and foundation partnerships, and
- Cultivating current students as future alumni.

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

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 452,533	\$ 336,395
Due from GSU	-	4,144
Pledges receivable	38,467	10,315
Accrued investment income	<u>3,370</u>	<u>7,489</u>
Total Current Assets	<u>494,370</u>	<u>358,343</u>
Non-current Assets		
Investments	3,256,298	2,944,120
Capital assets	<u>2,233,156</u>	<u>2,233,156</u>
Total Non-current Assets	<u>5,489,454</u>	<u>5,177,276</u>
Total Assets	<u>5,983,824</u>	<u>5,535,619</u>
 LIABILITIES		
Current Liabilities		
Accounts payable	62,954	4,834
Due to GSU	<u>25,211</u>	<u>-</u>
Total Current Liabilities	<u>88,165</u>	<u>4,834</u>
Total Liabilities	<u>88,165</u>	<u>4,834</u>
 NET POSITION		
Invested in capital assets	2,233,156	2,233,156
Restricted for:		
Nonexpendable	1,972,742	1,874,539
Expendable (scholarships and University support)	1,289,955	1,089,675
Unrestricted	<u>399,806</u>	<u>333,415</u>
Total Net Position	<u>\$ 5,895,659</u>	<u>\$ 5,530,785</u>

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

GOVERNORS STATE UNIVERSITY FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30,

OPERATIONS	<u>2016</u>	<u>2015</u>
Revenues		
Grants and contracts	\$ 25,000	\$ 65,050
Budget allocation from GSU	301,627	380,269
Other operating revenues	<u>43,717</u>	<u>26,101</u>
Total operating revenues	<u>370,344</u>	<u>471,420</u>
Expenses		
Scholarships	103,748	107,695
General and fundraising expenses	74,823	71,151
Collegial support	2,300	5,331
Performing Arts Center support	15,426	105,030
University support	153,856	87,158
Budget allocation from GSU	<u>301,627</u>	<u>380,269</u>
Total operating expenses	<u>651,780</u>	<u>756,634</u>
Operating loss	<u>(281,436)</u>	<u>(285,214)</u>
NON-OPERATING REVENUES (EXPENSES)		
Contributions	371,910	575,053
Non-cash contributions	2,065	-
Investment income	162,132	22,739
Other non-operating revenue (expense)	<u>12,000</u>	<u>-</u>
Net non-operating revenues	<u>548,107</u>	<u>597,792</u>
Income before other revenues, expenses, gains and losses	266,671	312,578
Additions to permanent endowments-contributions	<u>98,203</u>	<u>132,777</u>
Total other revenues and expenses	<u>98,203</u>	<u>132,777</u>
Change in net position	364,874	445,355
Total net position at beginning of year	<u>5,530,785</u>	<u>5,085,430</u>
Total net position at end of year	<u>\$ 5,895,659</u>	<u>\$ 5,530,785</u>

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	2016	2015
Grants and contracts	25,000	65,050
Operating revenues	43,717	26,101
General and operating expenses	(188,285)	(316,751)
Payments of scholarships	<u>(103,748)</u>	<u>(107,695)</u>
Net cash used by operating activities	<u>(223,316)</u>	<u>(333,295)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	373,113	600,518
Contributions from permanent endowments	98,203	132,777
Other non-operating income	<u>12,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>483,316</u>	<u>733,295</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities	777,116	524,122
Interest and dividend income	69,910	55,391
Investment management fees	(32,450)	(27,092)
Purchase of investment securities	<u>(958,438)</u>	<u>(1,024,416)</u>
Net cash used by investing activities	<u>(143,862)</u>	<u>(471,995)</u>
Cash Increase (Decrease)	116,138	(71,995)
Cash and Cash Equivalents - Beginning of Year	<u>336,395</u>	<u>408,390</u>
Cash and Cash Equivalents - End of Year	<u>\$ 452,533</u>	<u>\$ 336,395</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	(281,436)	(285,214)
Adjustments used to reconcile operating loss to net cash used by operating activities:		
Changes in liabilities		
Accounts payable	<u>58,120</u>	<u>(48,081)</u>
Net cash used by operating activities	<u>(223,316)</u>	<u>(333,295)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES INCLUDED IN CHANGE IN NET POSITION:		
Unrealized gain (loss) on investments	<u>\$ 73,915</u>	<u>\$ (41,167)</u>
Other noncash contributions	<u>\$ 2,065</u>	<u>\$ -</u>

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

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Basis of Accounting

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

Cash Equivalents

In accordance with GASB Statement No. 9, cash equivalents were defined as short-term, highly liquid investments that are both:

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

While the Foundation's investment in mutual funds could be readily converted to cash, the Foundation considers these financial instruments to be investments and has classified them as such on the financial statements.

Although certificates of deposit with original maturities of less than three months may be defined as cash equivalents, the Foundation displays certificates of deposit (if any) as discrete items and classifies them as investments. There were no certificates of deposit as of June 30, 2016.

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

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

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

Investments purchased or received by gift are carried at market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net position. Investment earnings include dividends, interest, and capital appreciation (both realized and unrealized). Investment fees are netted against investment income. Investment income consisted of the following at June 30:

	2016	2015
Interest and dividends	\$ 65,793	\$ 55,848
Investment fees	(32,451)	(27,092)
Realized gains (losses)	54,875	35,150
Unrealized loss	73,915	(41,167)
TOTAL	\$ 162,132	\$ 22,739

Fair Value

The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three-tier hierarchy of inputs is summarized as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets in active markets that are accessible at the date of measurement.
- Level 2 - inputs other than quoted prices that are observable for an asset, either directly or indirectly.
- Level 3 - unobservable inputs for an asset.

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Governors State University Foundation is a not-for-profit organization, which has been granted tax-exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. The Governors State University Foundation is required to pay federal and state income taxes only on its net unrelated business income (if any).

Pledges Receivable

The Foundation's pledges receivable include pledges from donors which are reported at their estimated net realizable value. The Foundation has determined that an allowance for doubtful accounts is not necessary. Pledges receivable of \$38,467 and \$10,315 have been reported on the Statement of Net Position for the years ended June 30, 2016 and 2015, respectively.

Capital Assets

The only capital assets of the Foundation are its artworks, a collection of environmental and other sculptures and a painting. Artworks acquired prior to June 30, 2015 are carried at cost (if purchased) or at estimated fair market value at the time of donation. After June 30, 2015, donated capital assets are carried at acquisition value. The artworks are held for public exhibition rather than for financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from the sale of artworks to be used to acquire new artworks. No depreciation is recorded for the artworks.

Net Position

The Foundation's net position is classified as follows:

Restricted Net Position — Expendable

Restricted expendable net position includes resources in which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted Net Position — Nonexpendable

Nonexpendable restricted net position consists of endowment funds. The endowment funds include those funds where donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be used as scholarships for Governors State University students or support for University and Foundation programs.

Unrestricted Net Position

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

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Revenues

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

Operating Revenues

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

Non-operating Revenues

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

Use of Estimates in Preparing Financial Statements

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

New Accounting Pronouncements

The Foundation adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 72. These statements had little or no accounting impact on the Foundation. In addition, the Foundation will be required to implement additional GASB Statements in future fiscal years. The Foundation has not yet evaluated the impact of these statements on its financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

<u>Statement of Net Position</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 452,533	\$ 336,395
Investments	<u>3,256,298</u>	<u>2,944,120</u>
Total	<u>\$ 3,708,831</u>	<u>\$ 3,280,515</u>
 <u>Deposits and Investments</u>		
Cash in bank	197,900	67,899
Investments	<u>3,510,931</u>	<u>3,212,616</u>
Total	<u>\$ 3,708,831</u>	<u>\$ 3,280,515</u>

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk — Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation fully insured bank balances at June 30, 2016 and 2015. 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, 2016</u>		<u>June 30, 2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks/Mutual Funds Investing in Stocks	\$ 2,170,022	\$ 2,458,828	\$ 1,874,078	\$ 2,107,473
Mutual Funds Investing in Bonds	624,937	642,572	583,296	584,968
Corporate Bonds	151,721	154,898	201,458	201,530
US Treasury Obligations	-	-	49,587	50,149
Sub-total (Investments)	<u>2,946,680</u>	<u>3,256,298</u>	<u>2,708,419</u>	<u>2,944,120</u>
Money Market Funds	180,431	180,431	194,416	194,416
Illinois Funds	<u>74,202</u>	<u>74,202</u>	<u>74,080</u>	<u>74,080</u>
Total	<u><u>\$ 3,201,313</u></u>	<u><u>\$ 3,510,931</u></u>	<u><u>\$ 2,976,915</u></u>	<u><u>\$ 3,212,616</u></u>

The valuation by levels at June 30, 2016 is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Funds	\$ 180,431	\$ 180,431	\$ -	\$ -
Illinois Funds	74,202	74,202	-	-
Stocks/Mutual Funds Investing in Stocks	2,458,828	2,458,828	-	-
Corporate Bonds	154,898	-	154,898	-
Mutual Funds Investing in Bonds	<u>642,572</u>	<u>642,572</u>	-	-
	<u><u>\$ 3,510,931</u></u>	<u><u>\$ 3,356,033</u></u>	<u><u>\$ 154,898</u></u>	<u><u>\$ -</u></u>

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk — Investments: Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2016 and 2015, investments consisted of money market funds, mutual funds, corporate bonds, US Treasury Obligations and US Agency Obligations. All investments other than Illinois Funds are being held by the First Midwest Bank Trust Division.

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

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Foundation's investment policy encourages the investment manager to focus on high quality bonds, maintaining an average credit quality of AA, to achieve an attractive risk-adjusted total return over the long run. The money market fund was invested in Northern Trust Institutional U.S. Government Select Portfolio which has a maturity of <1 year and a credit rating of AAAm. The Illinois Funds have a maturity of <1 year and a credit rating of AAm.

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

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

The maturities of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2015 are as follows:

	Investment Maturity (in Years)				
	Fair Value	Less Than 1	1 - 5	5 - 10	10 or More
Corporate Bonds	201,530	100,438	49,827	51,265	-
Mutual Funds Investing in Bonds	584,968	584,968	-	-	-
US Treasury Obligations	50,149	50,149	-	-	-
Total	\$ 836,647	\$ 735,555	\$ 49,827	\$ 51,265	\$ -

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2016**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

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

Credit Rating	2016	2015
	Total Debt Securities	Total Debt Securities
No Rating	\$ 455,991	\$ 316,637
AA	27,585	51,937
A	101,818	49,827
A-	25,495	50,280
BBB+	-	49,485
AAf	117,367	132,393
BBB+f	42,957	67,118
B-f	26,257	68,820
	<u>\$ 797,470</u>	<u>\$ 786,497</u>

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

NOTE 3 - LOCALLY HELD FUNDS

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

NOTE 4 – ENDOWMENTS

The Foundation's endowment funds are generally invested in marketable securities which are valued at market as of the statement of net position date. Investment income is initially assigned to the unallocated reserve in the restricted fund. Then it is allocated to various accounts based on the endowment agreements and the approved spending plans.

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% and the rate of inflation. The resulting rate will be applied to the endowment balance to determine amounts will be available for expenditure in the subsequent fiscal year. The Foundation transfers available investment earnings to the related expendable accounts on an annual basis. As of June 30, 2016 depreciation of endowments of \$30,351 have been reported as Restricted Net Position - Expendable. As of June 30, 2015, net appreciation of \$188,825 endowments available for expenditure of have been reported as Restricted Net Position - Expendable.

**GOVERNORS STATE UNIVERSITY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)
JUNE 30, 2016**

NOTE 5 - TRANSACTIONS WITH GOVERNORS STATE UNIVERSITY

The Foundation has an ongoing contract with the University which includes provisions requiring the Foundation to comply with Section VI of the "University Guidelines 1982 (as amended 1997)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires that the University provide the Foundation with personnel and operational services at no cost. University officials estimate the value of these services for the years ending June 30, 2016 and 2015 at \$301,627 and \$380,269, respectively, including all direct payroll expenses and fringe benefits and are shown as budget allocations from Governors State University on the Statement of Revenues, Expenses, and Changes in Net Position. The Foundation provided the University with support in the amount of \$275,330 and \$305,214 for the years ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, \$25,211 is due to the University to the Foundation. As of June 30, 2015, \$4,144 is due from the University to the Foundation.

NOTE 6 - CAPITAL ASSETS

Capital assets of the Foundation consist entirely of works of art and include the following pieces at June 30, 2016:

	<u>Carrying Value</u>
"Large Planar Hybrid" - R. Hunt	\$ 40,000
"Spiral"	370,500
"Flying Saucer" - J. Highstein	24,903
"Untitled" - J. Shapiro	55,948
"For Lady Day" - M. Di Suvero	800,000
"Icarus" - C. Ginnever	55,000
"Falling Meteor" - J. Peart	60,000
"Passages" - James Brenner	40,000
"Art Arc" - T. Karpowicz	16,000
"Oscar's Inclination" - M. Dunbar	25,000
"Demeure No. 4, Lanleff" - E. Martin	25,000
IBO Ancestor Figure	9,000
Cameroon Helmet Mask	12,000
IBO MMWO Mask	6,500
New Guinea Asmat Figue	15,000
Three Taureg Poles	3,500
"A Rare Yaka Architectural Panel"	30,000
"Calm and Free"	26,000
African & Oceanic Art & Artifacts (64 pieces)	103,005
Pre-Columbian Art & Artifacts (67 pieces)	53,600
African Art Collection	47,200
"Wind Waves" - Y. Domenge	375,000
Vase - C. Lotton	2,000
"Sholders" - M. Puryear (2 prints)	8,000
"Butte" - Barry Tinsley	30,000
	<u>\$ 2,233,156</u>