

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
***FINANCIAL AUDIT***  
**FOR THE YEAR ENDED JUNE 30, 2005**

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**PERFORMED AS SPECIAL ASSISTANT AUDITORS  
FOR THE AUDITOR GENERAL,  
STATE OF ILLINOIS**

GOVERNORS STATE UNIVERSITY FOUNDATION  
FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

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The following report has been issued under separate cover:

Governors State University Foundation Compliance Examination for the Two Years Ended  
June 30, 2005

**GOVERNORS STATE UNIVERSITY FOUNDATION  
FOR THE YEAR ENDED JUNE 30, 2005**

**AGENCY OFFICIALS**

President

Mr. David Barr

Chief Executive Officer

Dr. James Britt

Fiscal Officer

Ms. Tammy Rust

Agency offices are located at:

Governors State University  
University Park, IL 60466

**GOVERNORS STATE UNIVERSITY FOUNDATION  
FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of Governors State University Foundation was performed by Nykiel, Carlin & Co., Ltd.

Based on their audit, the auditors expressed an unqualified opinion on the Foundation's basic financial statements.

## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, 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, 2005, which collectively comprise the Governors State University Foundation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Governors State University Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Governors State University Foundation's basic financial statements as of and for the year ended June 30, 2004, on which we expressed an unqualified opinion on the basic financial statements in our report dated October 15, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Governors State University Foundation, as of June 30, 2005 and the respective changes in net assets and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 8 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards* we have also issued a report on our consideration of the Governors State University Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Nykiel, Carlin & Co., Ltd.*

NYKIEL, CARLIN & CO., LTD.  
Kankakee, Illinois

October 25, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Governors State University Foundation a component unit of Governors State University and the State of Illinois, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Governors State University Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Governors State University Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other matters which we have reported to management of the Governors State University Foundation in a separate letter dated October 25, 2005.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and management of the Foundation and is not intended to be and should not be used by anyone other than these specified parties.

*Nykiel, Carlin & Co., Ltd.*

NYKIEL, CARLIN & CO., LTD.  
Kankakee, Illinois

October 25, 2005



**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005**

**PURPOSE**

This analysis is an integral part of the financial statements whose purpose is to provide an objective and easy-to-read analysis of the Foundation's financial activities based on currently known facts, decisions, and/or conditions.

The following discussion and analysis provides an overview of the Foundation's financial activities.

The annual report consists of three basic financial statements and notes to the financial statements that provide information on the Foundation as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. Each of these statements is discussed below.

**STATEMENT OF NET ASSETS**

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets represent the Foundation's equity and are a way to measure the financial health of an entity.

Modified Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Cash and cash equivalents	\$ 262,071	\$ 387,866	-32%
Certificates of deposit	750,506	-	
Investments	-	599,805	-100%
Capital Assets	<u>1,167,851</u>	<u>1,117,851</u>	<u>4%</u>
Total assets	<u>2,180,428</u>	<u>2,105,522</u>	<u>4%</u>
Current liabilities	<u>61,520</u>	<u>55,276</u>	<u>11%</u>
Net Assets			
Invested in capital assets	1,167,851	1,117,851	4%
Restricted for:			
Nonexpendable	667,835	681,842	-2%
Expendable	322,437	256,135	26%
Unrestricted	<u>(39,215)</u>	<u>(5,582)</u>	<u>-603%</u>
Net assets (equity)	<u>\$ 2,118,908</u>	<u>\$ 2,050,246</u>	<u>3%</u>

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005**

**STATEMENT OF NET ASSETS (continued)**

Cash decreased as expenses in the unrestricted fund exceeded the revenue and other funds were invested in certificates of deposit. Securities were completely liquidated and replaced with certificates of deposit. The Foundation is in the process of procuring asset management services and as such, transitioned the portfolio to certificates of deposit pending the adoption of a modified investment strategy. Capital assets increased by \$50,000 due to the gift of two sculptures. The total capital assets represent sculptures and a painting donated to the Foundation.

Current liabilities represent mostly funds due to the University during the normal operating processes. The University performs the record keeping and accounting for the Foundation. From time to time, the amount of funds paid out on behalf of the Foundation exceeds the amount of funds received and held by the University.

The restricted nonexpendable net assets represent the corpus of accounts labeled as endowments by the Foundation where the principal is kept intact for perpetuity and the earnings are held and expended for scholarships to University students. This year, the Board established an endowment policy which includes minimum funding requirements. Substantial review of each account has begun with the intent of creating an action plan that will bring these accounts into compliance with the current endowment policy. Over the next year, all endowed accounts will be reviewed and either formalized as endowments by contract or otherwise classified. These funds decreased in FY 05 as the Foundation returned corpus for two accounts to the restricted funds. Both amounts are available for use and their classification as restricted reflects their current status. In addition, an unallocated revenue account was established in the restricted fund. This is a modification due the change in the investment portfolio and it reflects the change in the Board adopted spending policy. Income derived from interest, dividends, gains and losses on sales, etc. will be deposited into the reserve account. Allocation of income will be made from this account to other expendable and non-expendable accounts based on the contractually defined obligations and the annual spending plan adopted by the Board. All of the previously established quasi-endowments and accounts with endowment earnings were transferred to this unallocated reserve upon the sale of the investment instruments.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) display the fiscal activity for the period and its effect on net assets. The statement is divided into two basic sections:

- Operating revenue and expense and
- Non-operating revenue and expense (includes contributions, investment income/losses, additions to permanent endowments, contributions of capital assets and other non-operating income and expense)

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**(continued)**

Operating revenues are the result of "exchange" transactions where both parties to the transaction each receive a material benefit. Non-operating revenue occurs when only one party benefits as in the case of contributions or where the revenue is passive in nature as with earnings from investments. Operating expenses include all expenses incurred to provide services. Non-operating expenses include all other expenses.

Since the SRECNA statement must exclude *contributions*, the major source of Foundation revenue, from "Operating income (loss)", management feels that the "Change in net assets" is a more realistic indicator of the Foundation's core activity.

The changes in net assets for fiscal years 2005 and 2004 are shown below:

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Operations			
Revenues			
Grants and contracts	\$ 40,000	\$ 2	1,999,900%
Budget allocation from GSU	75,333	33,712	123%
Other operating revenues	30,815	3,617	752%
Total operating revenues	<u>146,148</u>	<u>37,331</u>	<u>291%</u>
Expenses			
Scholarships	60,455	65,933	-8%
General and fundraising	16,628	4,566	264%
Collegial and University support	85,338	26,031	228%
Budget allocation from GSU	75,333	33,712	123%
Performing Arts Center support	43,112	80,150	-46%
Other expenses	14,915	32,245	-54%
Total operating expenses	<u>295,781</u>	<u>242,637</u>	<u>22%</u>
Net operating loss	<u>(149,633)</u>	<u>(205,306)</u>	<u>-27%</u>
Non-operating revenues and expenses			
Contributions	167,749	118,938	41%
Investment income	24,553	57,572	-57%
Additions made to permanent endowments	26,993	18,688	44%
Refunds made from permanent endowments	(1,000)	(1,975)	-49%
Total nonoperating revenues and expenses	<u>218,295</u>	<u>193,223</u>	<u>13%</u>
Change in net assets	68,662	(12,083)	668%
Net assets – beginning of year	2,050,246	2,062,329	-1%
Net assets – end of year	<u>\$ 2,118,908</u>	<u>\$ 2,050,246</u>	<u>3%</u>

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**(continued)**

Operating revenues increased as grant revenue increased. Grant revenues are recognized in accordance with Governmental Accounting Standards Board Statement No. 33 and are generally recognized when all of the eligibility requirements have been met.

Operating expenses include scholarships, Foundation logistical and fundraising expenses, and support for University programs. Types of expenditures changed this year as the Foundation began substantially defining the activities of the Foundation versus the Alumni association. The Alumni Association became exclusively membership driven as the Foundation expanded its role in development and fundraising. General and fundraising costs increased due to this focus. Collegial and university support increased substantially as the Foundation initiated a payroll deduction plan for University employees. Performing Arts Center support reduced as the focus of events was no longer primarily theatre related. Scholarships reduced slightly due to lack of income generation in the investments market.

The increase in contributions comes about from increased focus on fundraising and the substantial interest generated in donors. University employee gift giving increased with the payroll deduction program. Investment income, including realized and unrealized gains and losses, lagged behind last year. Contributions to permanent endowments increased as development efforts began to generate new donors and increased giving. Overall, the change in net assets was positive for FY 05 compared to a decline in FY 04. Net assets at the end of the year were up 3%.

**STATEMENT OF CASH FLOWS**

The Statement of Cash Flows provides information about cash receipt and cash payment activity during the year. This statement also helps users assess the Foundation's ability to generate net cash flows and to meet its obligations as they come due, as well as its need for external financing.

A modified, comparative statement of cash flows is shown below:

Modified Statement of Cash Flows			
	<u>2005</u>	<u>2004</u>	<u>Change</u>
Net cash used by operating activities	\$ (143,389)	\$ (151,399)	5%
Cash flows from noncapital financing activities	143,742	135,651	6%
Net cash used in investing activities	(126,148)	(11,675)	-980%
Net cash decrease	\$ (125,795)	\$ (27,423)	-359%

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005**

**STATEMENT OF CASH FLOWS (continued)**

As can be seen from the above schedule, Foundation non-capital financing activities increased slightly as a result of focused development activity initiated by the new CEO. Net cash from investing activities decreased as additional funds were placed in certificates of deposit. Overall, the net cash decreased substantially as assets were fully employed for earnings potential.

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
**STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2005**  
**With Comparative Totals as of June 30, 2004**

	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Notes 1 & 2)	\$ 262,071	\$ 387,866
Certificates of deposit (Notes 1 & 2)	750,506	-
Total Current Assets	1,012,577	387,866
Non-current Assets		
Endowment investments (Note 4)	-	599,805
Capital assets (Notes 1&7)	1,167,851	1,117,851
Total Non-current Assets	1,167,851	1,717,656
Total Assets	2,180,428	2,105,522
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	61,520	55,276
Total Current Liabilities	61,520	55,276
Total Liabilities	61,520	55,276
<b>NET ASSETS</b>		
Invested in capital assets	1,167,851	1,117,851
Restricted for:		
Nonexpendable	667,835	681,842
Expendable (scholarships and University support)	322,437	256,135
Unrestricted	(39,215)	(5,582)
Total Net Assets	\$ 2,118,908	\$ 2,050,246

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

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2005**  
**With Comparative Totals for the Year Ended June 30, 2004**

	2005	2004
<b>OPERATIONS</b>		
Revenues		
Other grants and contracts	\$ 40,000	\$ 2
Budget allocation from GSU (Note 5)	75,333	33,712
Other operating revenues	30,815	3,617
Total operating revenues	146,148	37,331
Expenses		
Scholarships	60,455	65,933
General and fundraising expenses	16,628	4,566
Collegial support	1,277	4,127
Performing arts expense	43,112	80,150
University support	84,061	21,904
Budget allocation from GSU (Note 5)	75,333	33,712
Other expense	14,915	32,245
Total operating expenses	295,781	242,637
Operating income (loss)	(149,633)	(205,306)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Contributions	167,749	118,938
Investment income	24,553	57,572
Net non-operating revenues	192,302	176,510
Gains (losses) before other revenues, expenses, gains and losses	42,669	(28,796)
Additions to permanent endowments - contributions	26,993	18,688
Less: Refunds made from permanent endowments	(1,000)	(1,975)
Total other revenues and expenses	25,993	16,713
Change in net assets	68,662	(12,083)
Total net assets at beginning of year	2,050,246	2,062,329
Total net assets at end of year	\$ 2,118,908	\$ 2,050,246

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

**GOVERNORS STATE UNIVERSITY FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005  
With Comparative Totals for the Year Ended June 30, 2004**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 40,000	\$ 2
Operating revenues	30,815	3,617
General and operating expenses	(153,749)	(89,085)
Payments of scholarships	(60,455)	(65,933)
Net cash used by operating activities	(143,389)	(151,399)
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions	117,749	118,938
Contributions for permanent endowments	26,993	18,688
Refunds of permanent endowments	(1,000)	(1,975)
Net cash provided by noncapital financing activities	143,742	135,651
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investment securities	804,623	268,830
Interest and dividend income	21,008	15,052
Purchase of investment securities	(961,858)	(283,343)
Investment fee refund	21,963	-
Investment fees	(11,884)	(12,214)
Net cash provided by (used in) investing activities	(126,148)	(11,675)
 Cash decrease	(125,795)	(27,423)
 Cash - beginning of year	387,866	415,289
 Cash - end of year	\$ 262,071	\$ 387,866

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH  
USED BY OPERATING ACTIVITIES:**

Operating loss	\$ (149,633)	\$ (205,306)
 Adjustments used to reconcile operating loss to net cash used by operating activities:		
Changes in net assets		
Accounts receivable (net)	-	3,274
Accounts payable	6,244	50,633
Net cash used by operating activities	\$ (143,389)	\$ (151,399)

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



**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

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.

The Foundation follows Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This GASB statement 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.

Basis of Presentation

In accordance with GASB Statement No. 20, the Foundation is required to follow all applicable GASB pronouncements. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Foundation elected not to apply FASB pronouncements issued after November 30, 1989.

Cash Equivalents

In accordance with GASB Statement No. 9, cash equivalents are 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

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Equivalents (continued)

Although generally certificates of deposit with original maturities of less than three months may be defined as cash equivalents, the Foundation displays certificates of deposit as a discrete item and classifies it as investments.

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 for growth and income production at a rate greater than a Blended Rate of Return of 50/50 stock to bonds, based upon generally accepted indices. Liquidity risk will be address by planned withdrawals and all assets selected for a portfolio must have a readily ascertainable market value and must be promptly marketable. No investment shall be made that will cause the total investment in equities or fixed income securities issued or guaranteed by any one person, firm, or corporation to exceed five percent of the then-market value of the portfolio. This restriction shall not apply to either well diversified mutual funds, pooled funds, unit trusts, or the like, or direct obligations of the U.S. Government and its fully guaranteed agencies.

Equities should generally represent a majority of Foundation Assets up to a desired 65% of the total. Fixed income investments are to be made in securities, including mutual funds, rated within the four highest grades (generally referred to as investment grade) assigned by Moody's Investor Service, Inc. or Standard & Poor's Corporation or, if unrated, deemed by the investment manager to be of comparable quality. A maximum of 15 percent of the total portfolio may be invested in foreign securities. Prohibited transactions include purchasing hedge funds, purchasing and selling, commodities or commodity contracts, selling securities short, purchasing securities on margin, writing, purchasing or selling options, purchase of private placements and direct ownership of real estate, and purchasing individual junk bonds or any other low-grade security.

Income Taxes

Governors State University Foundation is a non-profit organization, which has been granted tax-exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. The Governors State University Foundation is required to pay federal and state income taxes only on its net unrelated business income (if any).

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

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

Net Assets

The Foundation's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt

This represents the Foundation's total investment in capital assets reduced by any outstanding debt obligations related to the capital assets.

Restricted Net Assets – Expendable

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

Restricted Net Assets – Nonexpendable

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

Unrestricted Net Assets

Unrestricted net assets represent 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 nonoperating according to the following criteria:

Operating Revenues

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

Nonoperating Revenues

Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as gifts, contributions, and investment income.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates in Preparing Financial Statements

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

Comparative Totals

Comparative totals have been presented in the accompanying basic financial statements in order to provide an understanding of changes in the Foundation's financial position and operations. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2004, from which the summarized comparative totals were derived.

2. DEPOSITS AND INVESTMENTS

GASB Statement No. 40 *Deposit and Investment Risk Disclosures* was implemented in fiscal year 2005. In summary GASB Statement No. 40, requires general disclosures by investment type with disclosures of the specific risks those investments are exposed to.

A reconciliation of "cash and cash equivalents" and "certificates of deposit" presented on the statement of net assets to deposits and investments is as follows:

Cash and cash equivalents	\$ 262,071	Deposits	\$ 258,560
Certificates of deposit	750,506	Investments	754,017
Total	<u>\$ 1,012,577</u>	Total	<u>\$ 1,012,577</u>

Deposits consist of the following at June 30, 2005:

Deposits:	Carrying Amount	Bank Balance
Cash in Bank	\$ 165,000	\$ 165,000
Illinois Funds	93,560	93,560
	<u>\$ 258,560</u>	<u>\$ 258,560</u>

*Custodial Credit Risk* – Deposits: Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned. The Federal Deposit Insurance Corporation insured bank balances of \$100,000 at June 30, 2005. The remaining bank balance as of June 30, 2005, was collateralized through the University's

**GOVERNORS STATE UNIVERSITY FOUNDATION  
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2. DEPOSITS AND INVESTMENTS (continued)

agreement with the local bank. The Foundation places deposits through the University and all deposits are required to be either insured or collateralized. The Illinois Funds are arranged and contracted by the Treasurer of the State of Illinois and collateralized as required by that contract. Depositories and brokers are chosen based on stability and longevity, and due to insurance and collateralization, the Foundation currently has no custodial risk.

The carrying value of the investment portfolio of the Foundation at June 30, 2005 is as follows:

Investments:	Carrying Amount	Fair Value
Negotiable Certificates of Deposit	\$ 750,506	\$ 750,506
Money Market Funds	3,511	3,511
	\$ 754,017	\$ 754,017

*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, 2005, investments consisted of a money market mutual fund and negotiable certificates of deposit. The Federal Deposit Insurance Corporation fully insured the certificates of deposit and the money market account was fully insured by the Securities Investor Protection Corporation (SIPC).

*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.

*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 permits fixed income investments in securities rated within the four highest grades assigned by Moody's Investor Service, Inc. or Standard & Poor's Corporation or, if unrated, deemed by the investment manager to be of comparable quality.

As of June 30, 2005 the Foundation had no exposure to interest rate risk and credit risk. At June 30, 2005, all funds were carried in depository instruments rather than U.S. government securities and common stocks.

3. LOCALLY HELD FUNDS

The Foundation does not receive any appropriated funds from the University. All funds received are initially deposited with the Heritage Bank, Chicago Heights, Illinois.

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4. ENDOWMENT INVESTMENTS

All of the endowment funds and a portion of endowed scholarship funds are invested in marketable securities. These securities are valued at market as of the statement of net assets date. Investment earnings include dividends, interest, and capital appreciation (both realized and unrealized) and are initially 100% assigned to the unallocated reserve in the restricted fund. Income is then allocated to various accounts based on the endowment agreement and the approved spending plan. Currently, all funds are held in insured certificates of deposit or other depository accounts.

5. TRANSACTIONS WITH GOVERNORS STATE UNIVERSITY

The Foundation enters into an annual contract with the University which includes provisions requiring the Foundation to comply with Section VI of the "University Guidelines 1982 (as amended 1997)" as adopted by the State of Illinois Legislative Audit Commission. The contract requires that the University provide the Foundation with accounting and other clerical services at no cost. University officials estimate the value of these services for the year ending June 30, 2005 at \$75,333 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 Assets. The Foundation provided the University with support in the amount of \$146,843 for the year ended June 30, 2005.

As of June 30, 2005, \$53,512 of the Foundation's accounts payable were payable to the University.

6. NON-CASH TRANSACTIONS

Non-cash transactions have been excluded on the Statement of Cash Flows. During the year ended June 30, 2005, the Foundation received donations of two works of art with an estimated value of \$50,000.

7. CAPITAL ASSETS

A summary of the changes in capital assets is as follows:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>June 30, 2005</u>
Works of art	<u>\$1,117,851</u>	<u>\$ 50,000</u>	<u>\$ 1,167,851</u>