

**GOVERNORS STATE UNIVERSITY FOUNDATION**

***FINANCIAL AUDIT***

**FOR THE YEAR ENDED JUNE 30, 2007**

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

**GOVERNORS STATE UNIVERSITY FOUNDATION  
FINANCIAL AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**

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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, 2007

**GOVERNORS STATE UNIVERSITY FOUNDATION  
FOR THE YEAR ENDED JUNE 30, 2007**

**AGENCY OFFICIALS**

|   |                     |
|---|---------------------|
| President                               | Mr. William Sanders |
| Interim CEO (7/16/07 until present)     | Dr. William Nowlin  |
| Chief Executive Officer (until 7/16/07) | Dr. James Britt     |
| Fiscal Officer                          | Ms. Karen Kissel    |

Agency offices are located at:

Governors State University  
University Park, IL 60466

**STATE OF ILLINOIS  
GOVERNORS STATE UNIVERSITY FOUNDATION  
FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of Governors State University Foundation was performed by Clifton Gunderson LLP.

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

## INDEPENDENT AUDITOR'S 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, 2007, 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, 2006, which were audited by other auditors who expressed an unqualified opinion on the basic financial statements in their report dated November 16, 2006.

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, 2007 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 6 through 9 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.

*Clifton Gunderson LLP*

CLIFTON GUNDERSON LLP  
Kankakee, Illinois

December 12, 2007

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2007**

**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 management's discussion and analysis, the 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.

The University performs the record keeping and accounting for the Foundation pursuant to the master contract between the University (GSU) and the Foundation. These services are included in the budget allocation from GSU on the Statement of Revenues, Expenses, and Changes in Net Assets.

**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>2007</u>         | <u>2006</u>         | <u>Change</u> |
|----------------------------|---------------------|---------------------|---------------|
| Cash and cash equivalents  | \$ 276,415          | \$ 952,904          | -71%          |
| Accounts receivable        | 21,721              | 39,743              | -45%          |
| Investments                | 766,295             | -                   |               |
| Capital assets             | 1,167,851           | 1,167,851           | -             |
| Total assets               | <u>2,232,282</u>    | <u>2,160,498</u>    | <u>3%</u>     |
| Current liabilities        | <u>7,241</u>        | <u>50,381</u>       | <u>-86%</u>   |
| <b>Net Assets</b>          |                     |                     |               |
| Invested in capital assets | 1,167,851           | 1,167,851           | -             |
| Restricted for:            |                     |                     |               |
| Nonexpendable              | 730,498             | 694,935             | 5%            |
| Expendable                 | 327,075             | 242,365             | 35%           |
| Unrestricted               | (383)               | 4,966               | -108%         |
| Net assets (equity)        | <u>\$ 2,225,041</u> | <u>\$ 2,110,117</u> | <u>5%</u>     |

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2007**

**Statement of Net Assets (continued)**

Assets

Cash decreased as the Foundation transferred their money market holding to a new investment manager in July 2006. Accounts receivable represent pledged funds and funds due from the University from day-to-day operations where funds received by the University for the Foundation exceed funds paid out on behalf of the Foundation.

Liabilities

Current liabilities represent outstanding monies due to vendors for Foundation expenses.

Net Assets

The restricted net assets increased by \$120,273. This primarily reflects a 167% increase in investment income as well as \$35,564 in additions to permanent endowments.

**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 expenses 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)

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 operating revenues must exclude contributions, the major source of Foundation revenue, management feels that the *Change in Net Assets* is a more realistic indicator of the Foundation's core activity.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2007**

**Statement of Revenues, Expenses, and Changes in Net Assets (continued)**

The changes in net assets for fiscal years 2007 and 2006 are shown below:

|   | <u>2007</u>         | <u>2006 *</u>       | <u>Change</u> |
|---|---------------------|---------------------|---------------|
| Operations                                |                     |                     |               |
| Revenues                                  |                     |                     |               |
| Grants and contracts                      | \$ 19,030           | \$ 18,370           | 4%            |
| Budget allocation from GSU (note 5)       | 80,743              | 83,861              | -4%           |
| Other operating revenues                  | 5,000               | 600                 | 733%          |
| Total operating revenues                  | <u>104,773</u>      | <u>102,831</u>      | <u>2%</u>     |
| Expenses                                  |                     |                     |               |
| Scholarships                              | 26,559              | 23,867              | 11%           |
| General and fundraising                   | 76,767              | 45,020              | 71%           |
| Collegial and University support          | 68,380              | 178,264             | -62%          |
| Budget allocation from GSU (note 5)       | 80,743              | 83,861              | -4%           |
| Performing Arts Center support            | 91,552              | 18,970              | 383%          |
|   | <u>344,001</u>      | <u>349,982</u>      | <u>-2%</u>    |
| Net operating loss                        | <u>(239,228)</u>    | <u>(247,151)</u>    | <u>-3%</u>    |
| Non-operating revenues and expenses       |                     |                     |               |
| Contributions                             | 209,313             | 170,377             | 23%           |
| Investment income                         | 109,275             | 40,883              | 167%          |
| Additions made to permanent endowments    | 35,564              | 27,100              | 31%           |
| Total non-operating revenues and expenses | <u>354,152</u>      | <u>238,360</u>      | <u>49%</u>    |
| Change in net assets                      | 114,924             | (8,791)             | -1407%        |
| Net assets - beginning of year            | <u>2,110,117</u>    | <u>2,118,908</u>    | <u>0%</u>     |
| Net assets - end of year                  | <u>\$ 2,225,041</u> | <u>\$ 2,110,117</u> | <u>5%</u>     |

(\* Certain 2006 amounts have been reclassified to agree to the current year presentation.)

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2007**

**Statement of Revenues, Expenses, and Changes in Net Assets (continued)**

Operating Revenue and Expenses

Operating revenues remained consistent between Fiscal years 2007 and 2006.

Operating expenses include scholarships, Foundation logistical and fundraising expenses, and support for University programs. In fiscal year 2005 the Alumni Association became exclusively membership driven and focused on activities for alumni, and the Foundation expanded its role in development and fundraising. General and fundraising costs increased due to this focus being changed.

Non-operating Revenue and Expenses

The increase in contributions comes about from renewed focus on fundraising and the substantial interest generated in donors. University employee gift giving increased with the payroll deduction program. Contributions to permanent endowments increased as development efforts began to generate new donors and increased giving. Overall, net Foundation assets remained consistent between Fiscal years 2007 and 2006.

**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:

| <u>Modified Statement of Cash Flows</u>          |                     |                   |               |
|--|---------------------|-------------------|---------------|
|  | <u>2007</u>         | <u>2006</u>       | <u>Change</u> |
| Cash flows from operating activities             | \$ (242,625)        | \$ (298,033)      | -19%          |
| Cash flows from non-capital financing activities | 223,156             | 197,477           | 13%           |
| Cash flows from investing activities             | (657,020)           | 791,389           | -183%         |
| Net cash increase (decrease)                     | <u>\$ (676,489)</u> | <u>\$ 690,833</u> | <u>-198%</u>  |

Foundation non-capital financing activities increased as a result of focused development activity initiated by the CEO. Net cash from investing activities decreased as cash equivalents were used to purchase investments after transferring to a new investment manager in July, 2006.

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
**STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2007**  
**With Comparative Totals as of June 30, 2006**

|  | <b>2007</b>  | <b>2006</b>  |
|--|--------------|--------------|
| <b>ASSETS</b>                                    |              |              |
| Current Assets                                   |              |              |
| Cash and cash equivalents (Notes 1 & 2)          | \$ 276,415   | \$ 952,904   |
| Accounts receivable (Note 1)                     | 21,721       | 39,743       |
| Total Current Assets                             | 298,136      | 992,647      |
| Non-current Assets                               |              |              |
| Investments (Notes 1, 2, & 4)                    | 766,295      | -            |
| Capital assets (Notes 1& 6)                      | 1,167,851    | 1,167,851    |
| Total Non-current Assets                         | 1,934,146    | 1,167,851    |
| Total Assets                                     | 2,232,282    | 2,160,498    |
| <br><b>LIABILITIES</b>                           |              |              |
| Current Liabilities                              |              |              |
| Accounts payable                                 | 7,241        | 50,381       |
| Total Current Liabilities                        | 7,241        | 50,381       |
| Total Liabilities                                | 7,241        | 50,381       |
| <br><b>NET ASSETS (Note 1)</b>                   |              |              |
| Invested in capital assets                       | 1,167,851    | 1,167,851    |
| Restricted for:                                  |              |              |
| Nonexpendable                                    | 730,498      | 694,935      |
| Expendable (scholarships and University support) | 327,075      | 242,365      |
| Unrestricted                                     | (383)        | 4,966        |
| Total Net Assets                                 | \$ 2,225,041 | \$ 2,110,117 |

These financial statements should only be read in connection with  
the accompanying notes to the financial statements.

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
**With Comparative Totals for the Year Ended June 30, 2006**

|   | 2007         | 2006         |
|---|--------------|--------------|
| <b>OPERATIONS</b>   |              |              |
| Revenues  |              |              |
| Other grants and contracts  | \$ 19,030    | \$ 18,370    |
| Budget allocation from GSU (Note 5)                                 | 80,743       | 83,861       |
| Other operating revenues  | 5,000        | 600          |
| Total operating revenues  | 104,773      | 102,831      |
| Expenses  |              |              |
| Scholarships  | 26,559       | 23,867       |
| General and fundraising expenses                                    | 76,767       | 45,020       |
| Collegial support   | 2,488        | 3,374        |
| Performing arts expense   | 91,552       | 18,970       |
| University support  | 65,892       | 174,890      |
| Budget allocation from GSU (Note 5)                                 | 80,743       | 83,861       |
| Total operating expenses  | 344,001      | 349,982      |
| Operating loss  | (239,228)    | (247,151)    |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>                            |              |              |
| Contributions   | 209,313      | 170,377      |
| Investment income   | 109,275      | 40,883       |
| Net non-operating revenues  | 318,588      | 211,260      |
| Gains (losses) before other revenues, expenses,<br>gains and losses | 79,360       | (35,891)     |
| Additions to permanent endowments - contributions                   | 35,564       | 27,100       |
| Total other revenues and expenses                                   | 35,564       | 27,100       |
| Change in net assets  | 114,924      | (8,791)      |
| Total net assets at beginning of year                               | 2,110,117    | 2,118,908    |
| Total net assets at end of year                                     | \$ 2,225,041 | \$ 2,110,117 |

These financial statements should only be read in connection with  
the accompanying notes to the financial statements.

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
**With Comparative Totals for the Year Ended June 30, 2006**

|  | 2007         | 2006         |
|--|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |              |              |
| Grants and contracts   | \$ 19,030    | \$ 18,370    |
| Operating revenues   | 5,000        | 600          |
| General and operating expenses   | (240,096)    | (293,136)    |
| Payments of scholarships   | (26,559)     | (23,867)     |
| Net cash used by operating activities  | (242,625)    | (298,033)    |
| <br><b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                             |              |              |
| Contributions  | 187,592      | 170,377      |
| Contributions for permanent endowments   | 35,564       | 27,100       |
| Net cash provided by noncapital financing activities                                   | 223,156      | 197,477      |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |              |              |
| Proceeds from sales and maturities of investment securities                            | 93,328       | 752,000      |
| Interest and dividend income   | 57,841       | 39,389       |
| Purchase of investment securities  | (808,189)    | -            |
| Net cash provided by (used in) investing activities                                    | (657,020)    | 791,389      |
| <br>Cash increase (decrease)   | (676,489)    | 690,833      |
| <br>Cash and cash equivalents - beginning of year                                      | 952,904      | 262,071      |
| <br>Cash and cash equivalents - end of year  | \$ 276,415   | \$ 952,904   |
| <br><b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>  |              |              |
| Operating loss   | \$ (239,228) | \$ (247,151) |
| Adjustments used to reconcile operating loss to net cash used by operating activities: |              |              |
| Changes in net assets  |              |              |
| Accounts receivable (net)  | 39,743       | (39,743)     |
| Accounts payable   | (43,140)     | (11,139)     |
| Net cash used by operating activities  | \$ (242,625) | \$ (298,033) |

These financial statements should only be read in connection with  
the accompanying notes to the financial statements.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**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.

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 has 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, 2007**

**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 a discrete item and classifies it as investments. There were no certificates of deposit as of June 30, 2007.

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. 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 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, 2007**

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

Accounts Receivable

The Foundation's accounts receivable include pledges from donors which are reported at their estimated net realizable value. Pledges receivable have been reported net of an allowance for doubtful accounts of \$4,165.

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.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**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.

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, 2006, from which the summarized comparative totals were derived.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

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

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

|                           |                   |             |                   |
|---------------------------|-------------------|-------------|-------------------|
| Cash and cash equivalents | <u>\$ 276,415</u> | Deposits    | \$ 243,755        |
|                           |                   | Investments | <u>32,660</u>     |
|                           |                   |             | <u>\$ 276,415</u> |

Deposits consist of the following at June 30, 2007:

| Deposits:    | <u>Carrying<br/>Amount</u> | <u>Bank<br/>Balance</u> |
|--------------|----------------------------|-------------------------|
| Cash in Bank | <u>\$ 243,755</u>          | <u>\$ 243,755</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 totaling \$100,000 at June 30, 2007. The remaining bank balances as of June 30, 2007, were collateralized through the University's agreement with the local bank. Depositories and brokers are chosen based on stability and longevity. Due to insurance and collateralization, the Foundation currently has no custodial credit risk.

The carrying value of the investment portfolio of the Foundation at June 30, 2007 is as follows:

| Investments:                     | <u>Carrying<br/>Amount</u> | <u>Fair<br/>Value</u> |
|----------------------------------|----------------------------|-----------------------|
| Money Market Funds               | \$ 32,660                  | \$ 32,660             |
| Mutual Funds investing in stocks | 388,456                    | 388,456               |
| Mutual Funds investing in bonds  | <u>377,839</u>             | <u>377,839</u>        |
| Total                            | <u>\$ 798,955</u>          | <u>\$ 798,955</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, 2007, investments consisted of money market funds and mutual funds. The money market funds were fully insured and \$500,000 of the mutual funds were fully insured by the Securities Investor Protection Corporation (SIPC). The remaining mutual fund balance was insured through brokers "excess coverage" insurance with Customer Asset Protection Company.

*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. The average duration of the mutual fund investing in bonds was 4.6 years.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**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 permits 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. The money market fund is invested in Centennial Money Market Trust and the fund only invests in investments that are rated in one of the two highest short-term rating categories of the two national rating organizations. The mutual fund investing in bonds had a credit rating of AAA.

**NOTE 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.

**NOTE 4 - ENDOWMENTS**

The endowment funds are generally invested in marketable securities which are valued at market as of the statement of net assets date. Income is allocated to various accounts based on anticipated scholarship commitments according to the endowment agreements and the approved spending plans.

If a donor has not provided specific instructions, state law permits the Foundation to authorize for expenditure the net appreciation (realized and unrealized) of the investments of the endowment funds. The Foundation has adopted a spending policy of 6.0% of a trailing twelve month average of the market value of the assets. The Foundation transfers available investment earnings to the related expendable accounts on an annual basis.

**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 accounting and other clerical services at no cost. University officials estimate the value of these services for the year ending June 30, 2007 at \$80,743 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 \$186,491 for the year ended June 30, 2007.

As of June 30, 2007, the \$81 is due from the University.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 6 - CAPITAL ASSETS**

Capital assets of the Foundation consist entirely of works of art and include the following pieces at June 30, 2007 and 2006:

|                                      | <u>Carrying<br/>Value</u> |
|--------------------------------------|---------------------------|
| "Large Planar Hybrid" - R. Hunt      | \$ 40,000                 |
| "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                    |
| "Calm and Free"                      | <u>26,000</u>             |
|                                      | <u>\$ 1,167,851</u>       |

This information is an integral part of the accompanying financial statements.

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 the Governors State University Foundation as of and for the year ended June 30, 2007, and have issued our report thereon dated December 12, 2007. 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 the 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 for the purpose of expressing an opinion on the effectiveness of the Governors State University Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Governors State University Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Governors State University Foundation's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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*.

We are currently conducting a State compliance examination of the Foundation as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

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.

*Clifton Gunderson LLP*

CLIFTON GUNDERSON LLP  
Kankakee, Illinois

December 12, 2007

**GOVERNORS STATE UNIVERSITY FOUNDATION  
PRIOR FINDINGS NOT REPEATED  
FOR THE YEAR ENDED JUNE 30, 2007**

**07-1 FINDING: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) NOT PROPERLY APPLIED**

Governors State University Foundation (Foundation) did not properly apply Government Accounting Standards Board (GASB) Statement No.33 *Accounting and Financial Reporting for Nonexchange Transactions*. (Finding Code No. 06-1)

Status – not repeated

Our sample testing did not identify any exceptions to GASB Statement No. 33 for the fiscal year 2007 financial statements.