

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
*FINANCIAL AUDIT*  
**FOR THE YEAR ENDED JUNE 30, 2006**

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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, 2006

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**GOVERNORS STATE UNIVERSITY FOUNDATION  
FOR THE YEAR ENDED JUNE 30, 2006**

**AGENCY OFFICIALS**

President

Mr. David Barr

Chief Executive Officer

Dr. James Britt

Fiscal Officer (7/1/05 until 4/7/06)

Ms. Tammy Rust

Fiscal Officer (4/10/06 until present)

Ms. Karen Kissel

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, 2006, 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, 2005, on which we expressed an unqualified opinion on the basic financial statements in our report 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. 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, 2006 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 9 through 13 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

November 16, 2006

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, 2006, and have issued our report thereon 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.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Governors State University Foundation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 06-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

## 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*.

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

November 16, 2006



**GOVERNORS STATE UNIVERSITY FOUNDATION  
SCHEDULE OF FINDINGS**

**FOR THE YEAR ENDED JUNE 30, 2006**

**06-1 FINDING: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) NOT PROPERLY APPLIED**

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

During our review of the Foundation board minutes, we noted that the Foundation had pledges. Upon further inquiry, we found evidence that the Foundation does a phone-a-thon and receives pledges and does not record these amounts in the financial statements. Although the amounts uncollected as of June 30 are typically immaterial, it is possible that significant revenues could be unrecorded in any particular year.

Generally accepted accounting principles (GAAP) for governmental entities is promulgated by GASB. GASB Statement No. 33 requires revenue and receivable recognition (net of estimated uncollectible amounts) for voluntary nonexchange transactions when all applicable eligibility requirements have been met, provided that the pledge is verifiable and the resources are measurable and probable of collection.

Foundation management indicated that they believed they were not required to record the pledges because the amounts uncollected are not enforceable and are immaterial at year end.

Failure to record and maintain accounting records in accordance with GAAP, could result in a material error in the financial statements. (Finding Code No. 06-1)

**RECOMMENDATION**

We recommend the Foundation record all transactions in accordance with GAAP.

**FOUNDATION RESPONSE**

The Foundation accepts the recommendation and will establish a year-end procedure to record total pledges and an allowance for their uncollectibility.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

**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 the 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>2006</u>	<u>2005</u>	<u>Change</u>
Cash and cash equivalents	\$ 952,904	\$ 262,071	264%
Certificates of deposit	-	750,506	-100%
Accounts receivable	39,743	-	
Capital Assets	<u>1,167,851</u>	<u>1,167,851</u>	-
Total assets	<u>2,160,498</u>	<u>2,180,428</u>	-1%
Current liabilities	<u>50,381</u>	<u>61,520</u>	-18%
Net Assets			
Invested in capital assets	1,167,851	1,167,851	-
Restricted for:			
Nonexpendable	694,935	667,835	4%
Expendable	242,365	322,437	-25%
Unrestricted	<u>4,966</u>	<u>(39,215)</u>	-113%
Net assets (equity)	<u>\$ 2,110,117</u>	<u>\$ 2,118,908</u>	-

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

**STATEMENT OF NET ASSETS (continued)**

Assets

Cash increased as the Foundation liquidated all their securities and certificates of deposit to prepare for transition of monies to a new investment manager that will be implemented during fiscal year 2007. Accounts receivable represent 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 nonexpendable net assets increased by \$27,100. This reflects additions to endowed scholarship principal as well as a new endowed scholarship. Last year, the Board established an endowment policy which defined minimum funding requirements for endowed accounts. During fiscal year 2006, a review of the restricted accounts was undertaken. The original donors of endowed accounts under the minimum funding requirements were contacted explaining the new funding requirements. Where possible, accounts have been increased to reflect the new minimum. This review will continue throughout the remainder of the new fiscal year until all accounts are either compliant with the current endowment policy or otherwise reclassified as an expendable restricted scholarship.

**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)

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.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

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

The changes in net assets for fiscal years 2006 and 2005 are shown below:

	<u>2006</u>	<u>2005*</u>	<u>Change</u>
Operations			
Revenues			
Grants and contracts	\$ -	\$ 40,000	-100%
Budget allocation from GSU	83,861	75,333	11%
Other operating revenues	600	815	-26%
Total operating revenues	<u>84,461</u>	<u>116,148</u>	<u>-27%</u>
Expenses			
Scholarships	23,867	60,455	-61%
General and fundraising	45,020	16,628	171%
Collegial and University support	178,264	95,338	87%
Budget allocation from GSU	83,861	75,333	11%
Performing Arts Center support	18,970	43,112	-56%
Other expenses	-	14,915	-100%
Total operating expenses	<u>349,982</u>	<u>305,781</u>	<u>14%</u>
Net operating loss	<u>(265,521)</u>	<u>(189,633)</u>	<u>40%</u>
Non-operating revenues and expenses			
Contributions	188,747	207,749	-9%
Investment income	40,883	24,553	67%
Additions made to permanent endowments	27,100	26,993	-
Refunds made from permanent endowments	-	(1,000)	100%
Total non-operating revenues and expenses	<u>256,730</u>	<u>258,295</u>	<u>-1%</u>
Change in net assets	<u>(8,791)</u>	<u>68,662</u>	<u>-113%</u>
Net assets – beginning of year	<u>2,118,908</u>	<u>2,050,246</u>	<u>3%</u>
Net assets – end of year	<u>\$ 2,110,117</u>	<u>\$ 2,118,908</u>	<u>-</u>

(\* Certain 2005 amounts have been reclassified to agree to the current year presentation.)

**Operating Revenue and Expenses**

Operating revenues decreased by 27% as the public services grant that was received in Fiscal Year 2005 was not continued in Fiscal Year 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. In fiscal year 2006, scholarships and awards given to students were decreased to more closely coincide with reduced revenues available for scholarships.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

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

General and fundraising expenses increased by approximately \$28,000 due to the main annual fundraising event, Jazz in the Park. Additionally, Collegial and University support increased by approximately \$83,000 to reflect increased spending related to the public service scholarship.

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, Foundation net assets remained consistent between fiscal years 2006 and 2005.

**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>2006</u>	<u>2005</u>	<u>Change</u>
Net cash used by operating activities	\$ (316,403)	\$ (183,389)	72%
Cash flows from noncapital financing activities	215,847	183,742	17%
Net cash provided by (used in) investing activities	<u>791,389</u>	<u>(126,148)</u>	<u>727%</u>
Net cash increase (decrease)	<u>\$ 690,833</u>	<u>\$ (125,795)</u>	<u>649%</u>

As can be seen from the above schedule, net cash used by operating activities increased. This is due in large part to an increase in general and fundraising expenses for the main fundraising event, Jazz in the Park, as well as for the University and collegial support expenses for the public services scholarship. Foundation noncapital financing activities increased as a result of focused development activity initiated by the CEO. Net cash from investing activities increased as monies were transferred from certificates of deposit to prepare for transition to a new investment manager in fiscal year 2007.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

**FACTORS AFFECTING THE FUTURE**

During FY 2006, the GSU Foundation continued its aggressive efforts to expand its membership, community visibility, and effectiveness. Three new members were added to the Board, bringing additional expertise, resources and spheres of influence. The Foundation sponsored in partnership with 14 other not-for-profit organizations in the region the first annual *Jazz in the Park for Charity* which brought over 1,000 people to Governors State University, which raised GSU awareness in the entire south suburban Chicagoland area. The Foundation also hosted the grand reopening of the GSU sculpture park which brought art enthusiasts from around the country. The Board's committee structure became much more active and effective, especially the Development Committee, Finance Committee and Membership Committee. The Finance Committee, for example, engaged in a competitive search for a new investment firm and successfully concluded the process with the selection of A.G. Edwards. A new investment policy was developed and approved which will now be implemented by A.G. Edwards to substantially improve earnings on the investment portfolio. In fiscal year 2007, the GSU Foundation is well positioned to build on the positive operational changes and new initiatives introduced in 2006. Greater positive impact on the University and its mission is therefore expected.

**GOVERNORS STATE UNIVERSITY FOUNDATION**  
**STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2006**  
**With Comparative Totals as of June 30, 2005**

	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Notes 1 & 2)	\$ 952,904	\$ 262,071
Certificates of deposit (Note 1)	-	750,506
Accounts receivable (Note 5)	<u>39,743</u>	<u>-</u>
Total Current Assets	<u>992,647</u>	<u>1,012,577</u>
Non-current Assets		
Capital assets (Notes 1 & 6)	<u>1,167,851</u>	<u>1,167,851</u>
Total Non-current Assets	<u>1,167,851</u>	<u>1,167,851</u>
Total Assets	<u>2,160,498</u>	<u>2,180,428</u>
 <b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	<u>50,381</u>	<u>61,520</u>
Total Current Liabilities	<u>50,381</u>	<u>61,520</u>
Total Liabilities	<u>50,381</u>	<u>61,520</u>
 <b>NET ASSETS</b>		
Invested in capital assets	1,167,851	1,167,851
Restricted for:		
Nonexpendable	694,935	667,835
Expendable (scholarships and University support)	242,365	322,437
Unrestricted	<u>4,966</u>	<u>(39,215)</u>
Total Net Assets	<u>\$ 2,110,117</u>	<u>\$ 2,118,908</u>

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, 2006**  
**With Comparative Totals for the Year Ended June 30, 2005**

	2006	2005
<b>OPERATIONS</b>		
Revenues		
Other grants and contracts	\$ -	\$ 40,000
Budget allocation from GSU (Note 5)	83,861	75,333
Other operating revenues	600	815
Total operating revenues	84,461	116,148
Expenses		
Scholarships	23,867	60,455
General and fundraising expenses	45,020	16,628
Collegial support	3,374	1,277
Performing arts expense	18,970	43,112
University support	174,890	94,061
Budget allocation from GSU (Note 5)	83,861	75,333
Other expense	-	14,915
Total operating expenses	349,982	305,781
Operating loss	(265,521)	(189,633)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Contributions	188,747	207,749
Investment income	40,883	24,553
Net non-operating revenues	229,630	232,302
Gains (losses) before other revenues, expenses, gains and losses	(35,891)	42,669
Additions to permanent endowments - contributions	27,100	26,993
Less: Refunds made from permanent endowments	-	(1,000)
Total other revenues and expenses	27,100	25,993
Change in net assets	(8,791)	68,662
Total net assets at beginning of year	2,118,908	2,050,246
Total net assets at end of year	\$ 2,110,117	\$ 2,118,908

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, 2006**  
**With Comparative Totals for the Year Ended June 30, 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ -	\$ 40,000
Operating revenues	600	815
General and operating expenses	(293,136)	(163,749)
Payments of scholarships	(23,867)	(60,455)
Net cash used by operating activities	(316,403)	(183,389)
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions	188,747	157,749
Contributions for permanent endowments	27,100	26,993
Refunds of permanent endowments	-	(1,000)
Net cash provided by noncapital financing activities	215,847	183,742
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investment securities	752,000	804,623
Interest and dividend income	39,389	21,008
Purchase of investment securities	-	(961,858)
Investment fee refund	-	21,963
Investment fees	-	(11,884)
Net cash provided by (used in) investing activities	791,389	(126,148)
Cash decrease	690,833	(125,795)
Cash and cash equivalents - beginning of year	262,071	387,866
Cash and cash equivalents - end of year	\$ 952,904	\$ 262,071

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

Operating loss	\$ (265,521)	\$ (189,633)
Adjustments used to reconcile operating loss to net cash used by operating activities:		
Changes in net assets		
Accounts receivable (net)	(39,743)	-
Accounts payable	(11,139)	6,244
Net cash used by operating activities	\$ (316,403)	\$ (183,389)

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

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

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, 2006**

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 is addressed 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, 2006**

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 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.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2005, 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.

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:

Cash and cash equivalents	<u>\$ 952,904</u>	Deposits	\$ 166,354
		Investments	786,550
		Total	<u>\$ 952,904</u>

Deposits consist of the following at June 30, 2006:

Deposits:	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in Bank	\$ 68,951	\$ 68,951
Illinois Funds	97,403	97,403
	<u>\$ 166,354</u>	<u>\$ 166,354</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 fully insured the cash in the bank, leaving no uninsured deposits as of June 30, 2006. The Illinois Funds are arranged and contracted by the Treasurer of

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

2. DEPOSITS AND INVESTMENTS (continued)

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, 2006 is as follows:

Investments:	<u>Carrying Amount</u>	<u>Fair Value</u>
Money Market Funds	<u>\$ 786,550</u>	<u>\$ 786,550</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, 2006, investments consisted solely of a money market mutual fund. The money market account was fully insured by the Securities Investor Protection Corporation (SIPC) and the broker’s “excess coverage” insurance.

*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, 2006, the Foundation had all of the Money Market Funds invested in the Morgan Stanley Liquid Asset Fund. The Foundation had no exposure to interest rate risk and credit risk. At June 30, 2006, all funds were unrated and did not contain any withdrawal restrictions.

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.

**GOVERNORS STATE UNIVERSITY FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

4. ENDOWMENT INVESTMENTS

All of the endowment funds and a portion of endowed scholarship funds are generally invested in marketable securities which are valued at market as of the statement of net assets date. However, at June 30, 2006, these funds were held in a brokerage account money market fund pending transfer to a new investment manager. 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.

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, 2006 at \$83,861 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 \$221,101 for the year ended June 30, 2006.

As of June 30, 2006, the \$39,743 accounts receivable was due entirely from the University.

6. CAPITAL ASSETS

Capital assets of the Foundation consist entirely of works of art and include the following pieces at June 30, 2006 and 2005:

	<u>Carrying 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"	26,000
	<u>\$ 1,167,851</u>