

**CHICAGO STATE FOUNDATION
INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

**BROOKS & ROBERTSON LLP
Certified Public Accountants**

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MEMBER
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Chicago State Foundation
9501 S. King Drive
Chicago, IL 60628

We have audited the accompanying statement of net position of Chicago State Foundation (Foundation) as of June 30, 2019, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and where applicable, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above are presented fairly, in all material respects, the net position of the Foundation, as of June 30, 2019, and the changes in its net positions and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated November 12, 2019 on our consideration of the Foundation's internal controls over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, grant 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* in considering Foundation's internal controls over financial reporting and compliance.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 5 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Brooks & Robertson LLP
Chicago, Illinois
November 12, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

The purpose of this analysis 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 attached Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to Financial Statements are required by GASB (Governmental Accounting Standards Board) Statement No 35 *Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities*. GASB Statement No 37 *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

These statements are presented in a "business-type activities" format that is a change from a "funds-group" format. The business-type activities format was developed to provide the reader with statements that could better indicate the available economic resources of the entity.

The Statement of Net Position, indicates assets available for current use (current assets) and those assets to be held (noncurrent assets). This statement also indicates which liabilities are due within one year (current liabilities) and those due in a year or more (noncurrent liabilities). Net Position, located at the bottom of the statement, is grouped by those assets available for unrestricted uses, assets restricted by the donor (or outside entity) for a certain purpose which can be used for current expenditures (expendable), or are to be held (nonexpendable. i.e., endowments), and those assets which are an investment in capital assets. During this period, the Chicago State Foundation (Foundation) had an increase in net position of \$128,640 as indicated on the Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Statement of Net Position as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets	\$ 691,780	\$ 1,475,687
Non-Current Assets	<u>6,068,215</u>	<u>5,263,068</u>
Total Assets	<u>\$ 6,759,995</u>	<u>\$ 6,738,755</u>
Liabilities & Net Position		
Current Liabilities	<u>\$ 17,566</u>	<u>\$ 124,966</u>
Total Liabilities	17,566	124,966
Net Position	<u>6,742,429</u>	<u>6,613,789</u>
Total Liabilities & Net Position	<u>\$ 6,759,995</u>	<u>\$ 6,738,755</u>

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

The Statement of Revenues, Expenses, and Changes in Net Position basically indicates the activity for the period and its net effect on net position. The activity from operations is shown first. As stated in the Notes to the financial statements, Operating Revenues include activities that have the characteristics of exchange transactions. In an exchange transaction both parties receive a material benefit from the transaction, such as the Foundation receiving contract payments for services. Since the primary purpose of the Foundation is to raise contributions and donations for the benefit of Chicago State University (University), most of its activity is reported in the Operating sections. Nonoperating revenues (expenses) are listed after Operating activities. Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Other nonoperating revenues are defined in GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement No. 34, such as investment revenues and capital expenditures. Other revenues, expenses, gains and losses are the last grouping of transactions. This grouping indicates contributions received for capital assets (such as equipment and buildings) and additions to permanent endowments as required by GASB Statement No. 34.

Condensed Statement of Revenues, Expenses and Changes in Net Position
for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total Operating revenues	\$ 406,115	\$ 813,520
Total Operating expenses	<u>690,996</u>	<u>1,138,830</u>
Operating Loss	(284,881)	(325,310)
Total Non-operating revenues	<u>363,521</u>	<u>428,828</u>
Income before other revenues, expenses, gains, and losses	78,640	103,518
Other revenues, (expenses), gains and (losses)	<u>50,000</u>	<u>600,000</u>
Increase in Net Position	128,640	703,518
Net Position, Beginning of year	<u>6,613,789</u>	<u>5,910,271</u>
Net Position, End of year	<u>\$ 6,742,429</u>	<u>\$ 6,613,789</u>

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019

During fiscal year 2019, the Foundation experienced a \$407,405 decrease in operating revenues compared to fiscal year 2018. Endowment contributions of \$100,000 were received in fiscal year 2019 and \$650,000 for fiscal year 2018. \$50,000 of fiscal year 2019 and \$50,000 of the fiscal year 2018 contributions were reported as part of non-operating revenues on the statement of revenues, expenses and changes in net position.

The Foundation had a reduction in professional fees as a result of personnel reorganization. The Foundation recognized \$97,493 for in-kind support and expenses from the University for the fiscal year ended June 30, 2019.

The Statement of Cash Flows primary purpose is to provide relevant information about the cash receipts and cash payments of the Foundation during the period. The Foundation is required to use the direct method presentation for this statement, which indicates the cash effects categorized, by operations, noncapital financing transactions, capital and related financing transactions, and investing transactions. For the period ended June 30, 2019, the Foundation had a decrease of cash and cash equivalents in the amount of \$673,039.

FACTS, DECISIONS OR CONDITIONS AFFECTING THE FUTURE

The Board of Trustees of the University and the Board of Directors of the Foundation have entered into a master contract formalizing cooperation between the entities and authorizing the Foundation to assist the University in achieving its education, research, and service goals and responsibilities. To assist the University, the Foundation has agreed to conduct fundraising activities and to solicit charitable gifts on behalf of the University. To assist the Foundation, the University has agreed to provide facilities, services, and resources in accordance with budgets approved from time to time by the University and the Foundation.

In July 2019, the Foundation finalized a grant agreement for one million dollars for capital support to the University for a Child Care Center. The University and the Foundation agreed to provide operational funds, respectively, payable over three fiscal years beginning July 1, 2019, \$400,000 in operational funds payable over FY 20, FY 21, and FY 22 from the University and \$300,000 in operational funds payable over FY 20, FY 21, and FY 22 from the Foundation.

The Foundation has established a spending policy whereas the Foundation will appropriate for spending 1.5 percent of the 12-quarter average market value of each endowment fund measured as of the previous December 31, of the current fiscal year. The amounts computed will represent funds transferable from the restricted expendable fund to the unrestricted fund net position.

In September 2019, the Chicago State University's president received confirmation from an endowment donor to restructure its donor endowment agreement, the restructured agreement will result in transferring funds from the nonexpendable net position to the restricted expendable net position in fiscal year 2020.

FINANCIAL STATEMENTS

**CHICAGO STATE FOUNDATION
STATEMENT OF NET POSITION
AS OF JUNE 30, 2019
With Comparative Totals as of June 30, 2018**

	2019	2018
ASSETS		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 96,766	\$ -
Cash and Cash Equivalents - Restricted	594,164	1,363,969
Grant Receivables	-	110,968
Other Receivables	850	750
Total Current Assets	691,780	1,475,687
<u>Non-Current Assets</u>		
Endowment Investments	6,068,215	5,263,068
Total Non-Current Assets	6,068,215	5,263,068
TOTAL ASSETS	\$ 6,759,995	\$ 6,738,755
LIABILITIES AND NET POSITION		
<u>Current Liabilities</u>		
Accounts Payable	\$ 17,566	\$ 124,966
Total Current Liabilities	17,566	124,966
Total Liabilities	17,566	124,966
<u>Net Position</u>		
Restricted for:		
Non-expendable:		
Scholarships, direct programs, and academic support	3,023,982	3,570,847
Expendable:		
Scholarships, direct programs and academic support	3,465,616	3,940,545
Unrestricted	252,831	(897,603)
Total Net Position	6,742,429	6,613,789
TOTAL LIABILITIES AND NET POSITION	\$ 6,759,995	\$ 6,738,755

The accompanying notes are an integral part of the financial statements

CHICAGO STATE FOUNDATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019
With Comparative Totals for the year ended June 30, 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Contributions - Unrestricted	\$ 1,009	\$ 5,460
Other operating revenue - Unrestricted	27,774	61,628
Contributions - Temporarily Restricted	143,559	344,730
Other operating revenue - Temporarily Restricted	136,280	401,702
CSU In-Kind Contribution	97,493	-
Total Operating Revenues	<u>406,115</u>	<u>813,520</u>
OPERATING EXPENSES		
Scholarships	110,006	90,951
Stipends	3,249	53,775
Professional Fees	149,655	458,428
Software Subscription & Maintenance	26,985	38,686
Insurance	1,354	8,850
Supplies	47,737	129,561
Dues	5,507	12,389
Printing	13,431	10,126
Travel Expenses	16,949	47,800
Conferences	7,219	22,894
Catering and Luncheons	29,944	40,293
Special Events	5,884	58,294
Management Fees	81,689	112,494
Other Expenses	93,894	54,289
CSU In-Kind Expense	97,493	-
Total Expenses	<u>690,996</u>	<u>1,138,830</u>
NON OPERATING REVENUE AND (EXPENSES)		
Investment income	<u>363,521</u>	<u>428,828</u>
Income before other revenues, expenses, gains, and losses	78,640	103,518
OTHER REVENUES, (EXPENSES), GAINS, and (LOSSES)		
Endowment contribution	50,000	600,000
CHANGE IN NET POSITION	<u>128,640</u>	<u>703,518</u>
BEGINNING NET POSITION	<u>6,613,789</u>	<u>5,910,271</u>
ENDING NET POSITION	<u><u>\$ 6,742,429</u></u>	<u><u>\$ 6,613,789</u></u>

CHICAGO STATE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
With Comparative Totals for the Year Ended June 30, 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Grants and donations	\$ 255,536	\$ 239,222
Event sales and other income	164,054	463,330
Payments to vendors, direct program expenses	(578,072)	(1,036,163)
Payments for scholarships	(122,831)	(84,126)
Advances to students	(100)	(750)
Net cash used by operating activities	<u>(281,413)</u>	<u>(418,487)</u>
Cash Flows from Noncapital Financing Activities:		
Endowment contributions	50,000	600,000
Net cash provided by noncapital financing activities	<u>50,000</u>	<u>600,000</u>
Cash Flows from Investing Activities:		
Interest and dividends on investments	100,011	92,700
Proceeds from sales and maturities of investments	4,210,121	2,484,764
Purchase of investments and other	(4,751,758)	(2,525,731)
Net cash (used) provided by investing activities	<u>(441,626)</u>	<u>51,733</u>
Net (decrease) increase in cash	(673,039)	233,246
Cash and cash equivalents - beginning of the year	1,363,969	1,130,723
Cash and cash equivalents - end of the year	<u>\$ 690,930</u>	<u>\$ 1,363,969</u>
Reconciliation of Net Operating Loss to		
Net Cash used by Operating Activities:		
Operating loss	\$ (284,881)	\$ (325,310)
Adjustments to reconcile net operating loss to net cash		
used by operating activities:		
Net change in assets and liabilities included in operating activities:		
Receivables	110,868	(111,718)
Accounts payable & other liabilities	(94,575)	5,716
Due to CSU	(12,825)	12,825
Net cash used by operating activities	<u>\$ (281,413)</u>	<u>\$ (418,487)</u>

NOTES TO THE FINANCIAL STATEMENTS

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Note 1 – Nature of Organization

The Chicago State Foundation, (Foundation) formerly The University Foundation at Chicago State, is an Illinois non-profit corporation, incorporated March 24, 2015 and was created for the principal purpose of aiding Chicago State University (University), State Entity 608, in achieving its instruction, research, extension, and public service objectives. The Foundation is a "University Related Organization" under University Guidelines adopted by the State of Illinois Legislative Audit Commission in 1982, as amended in 1997. Note 7 describe related party transactions between the Foundation and the University.

For financial reporting purposes, the Foundation is a component unit of the University, which is a component unit of the State of Illinois. The financial balances and activities included in these financial statements are also included in the University's financial statements and the State's Comprehensive Annual Financial Report. All funds of the Foundation are locally administered and are not subject to the State of Illinois appropriation process nor held in the State Treasury.

Note 2 – Significant Accounting Policies

Financial Statement Presentation

For financial reporting purposes the Foundation is considered a special-purpose government entity 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.

The Foundation prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*; GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statements Nos. 35, 37, and 38 provides a comprehensive perspective of the Foundation's assets, liabilities, net position, revenues, expenses, changes in net position, cash flows, and replaces the fund-group perspective previously required.

In accordance with GASB Statement No. 20, and amended by GASB Statement No. 62, the Foundation is required to follow all applicable GASB pronouncements. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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 the applicable date.

GASB Statement No. 40 *Deposit and Investment Risk Disclosures* were implemented in fiscal year 2005. In summary, GASB Statement No. 40 requires general disclosures by investment type with disclosures of the specific risks to which those investments are exposed. Investments exposed to credit risk, custodial credit risk, concentration of credit risk (5% of total net position), interest rate risk, and foreign currency risk must be disclosed, and the government reporting unit is required to describe their deposit or investment policies (or the lack of a policy) that relate to the risks stated above, if they are subject to them.

In June 2011, GASB Issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The provision of this Statement was effective for periods beginning after December 15, 2011. Additionally, Statement No. 63 renames the statement of net assets as the statement of net position. The statement of net position should report all assets deferred outflows of resources liabilities deferred Inflows of resources, and net position.

Net Position

Net position is comprised of three categories: (1) net position unrestricted, (2) net position restricted non expendable, and (3) net position restricted expendable. Each component of net position is reported separately on the statement of net position.

Net Position - Unrestricted

Net Position - Unrestricted includes resources (unrestricted gifts and investment earnings) that are expendable for any purpose in operating the Foundation. The Foundation's Board has designated certain resources for specific expenditure purposes.

Net Position - Restricted (Nonexpendable)

Net Position - Restricted (Nonexpendable) – represents endowments which contain assets that are subject to the restrictions of donors that require that the principal of such gifts be invested in perpetuity and that only the interest and dividends be utilized. Endowment funds earned interest and dividends required to be added to the principal balance is reported as a part of the net position restricted nonexpendable.

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Net Position - Restricted (Expendable)

Net Position - Restricted (Expendable) is used to account for resources that are restricted by parties outside the University for specific current operating purposes. The endowment funds' earned interest, dividends, and realized/unrealized gains or losses that are available for scholarships and academic support, are reported in the Net Position - Restricted (Expendable).

Revenue Recognition All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized as revenue when received or when a commitment is received.

Contributions and grants received are recorded as unrestricted, restricted (expendable) or restricted (nonexpendable) revenue depending on the existence and/or nature of any donor restrictions.

Revenues are classified as Operating Revenues if they have the characteristics of exchange transactions, such as contract revenue with the University. Typically, non-operating revenues include revenues that have the characteristics of non-exchange transactions as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and by GASB Statement No. 34 which would include grants classified as non-exchange transaction, contributions, and investment income.

The Foundation includes contribution revenue and grant revenue as operating revenue, as the Foundation's primary purpose is to secure contributions and donations on behalf of the University.

Fair Value Measurement

GASB Statement No. 72, Fair Value Measurement and Application, clarified the definition of fair value for financial reporting purposes and requires disclosures to be made about fair value measurements, the level of fair value hierarchy and valuation techniques. Disclosures required to be organized by type asset or liability reported at fair value.

Investments

The Foundation has estimated the fair values of its financial investments using available market information and other valuation methodologies in accordance with GASB Statement No. 72.

GASB Statement No. 72 defines a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that maybe used to measure fair value:

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2: Significant other observable inputs other than Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumption that market participants would use in pricing an asset or liability

Investments are stated at fair value in accordance with GASB Statement No. 31. Federal statutes authorize investment of excess federal funds in instruments guaranteed by the federal government. The Foundation has adopted this policy for all invested funds, whether or not they are federal funds.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that are both: readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes all demand deposits, saving accounts and certificates of deposits or short-term investments with a maturity date of three months or less. Restricted assets include cash legally restricted as to their use.

Fixed Assets

Furniture, fixtures, and equipment are recorded at cost at the date of acquisition or fair market value at the date of the donation. These purchases or donations are then transferred to the University at their fair market value and are included as In-kinds Chicago State University on the Statement of Revenues, Expenses and Changes in Net Position.

Use of Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Income Tax Status

The Foundation is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income. The Foundation had no unrelated business income during fiscal year 2019, and therefore, no provisions for federal or state income taxes have been made in the accompanying financial statements. Contributions made to the Foundation are deductible by donors as provided in Section 170 of the code.

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, 2018, from which the summarized comparative totals were derived.

Administrative Fees

The Foundation generally transfers from the Expendable Restricted Funds to the Unrestricted Fund a 10% administrative fee on the Expendable Restricted Fund monetary gifts as they are received. Such fees transferred during the fiscal year 2019 amounted to \$27,641.

Note 3 - Cash and Cash Equivalents

June 30, 2019, the Foundation had cash and cash equivalents totaling \$690,930. For deposit accounts, custodial credit risk is the risk that in the event of the failure of the bank, the Foundation will not be able to recover the value of its deposits. At June 30, 2019, the Foundation had a deposit account with a financial institution that exceeded FDIC coverage by \$413,727, none of which was collateralized.

The carrying amount and bank balance of the Foundation's deposits at June 30, 2019 were:

<u>Deposit Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash in Bank	<u>\$ 690,930</u>	<u>\$ 701,221</u>
Total Cash & Cash Equivalents	<u>\$ 690,930</u>	<u>\$ 701,221</u>

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Note 4 – Investments

The carrying value (and market value) of the investment portfolio of the Foundation at June 30, 2019 is as follows:

	Fair Value
Money Funds & Other	\$ 1,124,745
US Treasury & Agency Obligations	1,162,215
Common Stock	2,909,775
Corporate Debt Securities	871,480
Total Endowments	<u>\$ 6,068,215</u>

The following table presents trust investments measured and recorded at fair value on the Foundations Statement of Net Position as of June 30, 2019:

<u>Asset Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Funds & Other	\$ 1,124,745	\$ -	\$ -	\$ 1,124,745
Us Treasury & Agency Obligations	1,162,215	-	-	1,162,215
Common Stock	2,909,775	-	-	2,909,775
Corporate Debt Securities	-	871,480	-	871,480
Total Assets at Fair Value	<u>\$ 5,196,735</u>	<u>\$ 871,480</u>	<u>\$ -</u>	<u>\$ 6,068,215</u>

The fair value of equity securities are based on an observable unadjusted quoted market prices in an active market. Therefore these investments have been categorized as Level 1 in the fair value hierarchy. Concentration of credit risk is the risk of loss attributed to the magnitude of an agency's investment in a single issuer. All investments are insured or registered and held by the Foundation or its agent in the Foundation's name. The Foundation does not have a policy limiting its exposure to concentrations of credit risk.

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

The maturities of the debt security investment portfolio (market value) at June 30, 2019 were as follows:

<u>Debt Security</u>	Maturity				Total
	Less than 1 year	1 - 5 years	6 - 10 years	more than 10 years	
US Treasury Obligations	\$ 63,254	\$ 470,892	\$ 170,198	\$ -	\$ 704,344
US Agency/Guaranteed Obligations	198,315	199,177	60,379	-	457,871
Total US Treasury/Agency	261,569	670,069	230,577	-	1,162,215
Corporate	-	572,200	299,280	-	871,480
Total Debt Security Investments	\$ 261,569	\$ 1,242,269	\$ 529,857	\$ -	\$ 2,033,695

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligation. The Foundation's statement of investment objectives and guidelines states that

investments in non-convertible fixed-income securities other than short-term securities will be restricted to issues with a maximum fixed or expected average maturity of ten years and will be made primarily in (1) securities issued or guaranteed by the U.S government or its agencies (2) marketable issues of non-nuclear utility companies rated at the time of purchase within the three highest grades assigned by Moody's Investor Services, Inc. (Aaa, Aa or A) or by Standard & Poor's (AAA, AA or A) and (3) bond mutual funds which invest primarily in bonds with rating of A and higher.

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

The Standard & Poor's and Moody's Investors Service credit rating of the debt securities investment portfolio (at market value) of the Foundation at June 30, 2019 is as follows:

<u>Credit Rating</u>	<u>Total Debt Securities</u>
US Treasury - no rating	\$704,344
AAA	457,871
A1	49,867
A2	198,212
A3	201,101
A3(-)	46,865
AA1	49,485
AA3	46,079
BAA1	136,573
BAA2	95,311
BAA3	47,987
	<u>\$ 2,033,695</u>

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Foundation does not have a policy limiting its exposure to foreign currency risks. The Foundation has no exposure to foreign currency risk (valued in U.S. dollars).

Investment returns for the year ended June 30, 2019 were as follows:

Interest and dividends	\$ 99,987
Net realized and unrealized gains	<u>263,510</u>
	<u>\$363,497</u>

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Note 5- Endowment

The Foundation assumes responsibility on behalf of the University for private gifts for scholarships. As of June 30, 2019, \$6,068,215 of endowment trust funds were invested and managed by Morgan Stanley.

The Foundation Board resolved that endowments' dividend and interest income be used for scholarships and that a reasonable amount of dividends and interest be provided to the restricted expendable funds.

Gains or losses on sales of endowment investments are retained and reported as part of the net position restricted expendable. Although not required by law, it is the intent of the Foundation to maintain the corpus of both donor restricted endowment funds and endowment funds designated by the Foundation board.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the preservation of the historical value of donor restricted endowment gifts unless the donor stipulates otherwise. Nonexpendable restricted net position equal the original value of the gifts as permanent endowment.

The following is the composition of endowment trust investments at market value as of June 30, 2019:

Donor-Restricted Endowments:	
Nonexpendable	\$3,023,982
Expendable	2,392,309
Restricted Expendable	478,392
Unrestricted Expendable	<u>173,532</u>
Total	<u>\$6,068,215</u>

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

The following is a reconciliation of the endowment trust investments at June 30, 2019:

	<u>Nonexpendable</u>	<u>Expendable</u>
Beginning Balance:	\$3,570,847	\$1,692,221
Contributions	50,000	50,000
Investment income (loss)	3,135	360,362
Expenses	--	54,049
Transfers In (out)	<u>(600,000)</u>	<u>995,699</u>
Ending Balance:	<u>\$3,023,982</u>	<u>\$3,044,233</u>

For the period ended June 30, 2019, \$600,000 was transferred from nonexpendable to expendable net position due to a change in the donor's final signed agreement.

The endowment net assets composition by type as of June 30, 2019 is as follows:

	<u>Nonexpendable</u>	<u>Expendable</u>	<u>Total</u>
Endowment Funds			
Donor Restricted Endowment Funds	\$ 3,023,982	\$ 2,392,309	\$ 5,416,291
Restricted Funds	-	478,392	478,392
Unrestricted Funds	-	173,532	173,532
Total Funds	<u>3,023,982</u>	<u>3,044,233</u>	<u>6,068,215</u>
Changes in Endowment net assets for the year ended June 30, 2019			
Net assets at beginning of year	\$ 3,570,847	\$ 1,692,221	\$ 5,263,068
Contributions	50,000	50,000	100,000
Investment Income, net	3,135	306,313	309,448
Transfers in (out)	(600,000)	995,699	395,699
Net assets at end of year	<u>\$ 3,023,982</u>	<u>\$ 3,044,233</u>	<u>\$ 6,068,215</u>
Investment Return for the year ended June 30, 2019			<u>5%</u>

Revenue recognition in the GASB reporting model calls for pledges to endowments to be recognized when payments are received.

**CHICAGO STATE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Based on the Foundation's spending policy adopted in September 2019, the Foundation appropriated for spending 1.5 percent of the 12-quarter average market value of each endowment fund measured as of the previous December 31 of the current fiscal year.

A total of \$61,706 was appropriated for fiscal year ended June 30, 2019 to be spent in fiscal year 2020. No amounts were appropriated for the fiscal year ended June 30, 2018.

Note 6 – Accounts Payable

Accounts Payables totaled \$17,566 at June 30, 2019.

Note 7 – Related Parties

The University and Foundation under the term of the "Memorandum of Understanding" (MOU), effective May 14, 2019, specifies the relationship between the two organizations as required by the University Guidelines adopted on November 30 1982, as amended in 1997 by the Legislative Audit Commission. Under the terms of the MOU the Foundation is to be provided administrative support services by the University, such as maintenance, telephone, personnel and property control. The Foundation does not directly pay the University for these services that had a fair value of \$97,493 for the year ended June 30, 2019. The Foundation reciprocates by providing fund raising and other services benefiting the University. These services resulted in Foundation expenditures in the amount of \$534,357 for the year ended June 30, 2019. Included in that amount were scholarships and stipends benefiting the University and its students totaling \$113,255.

Note 8 – Non-Cash Transactions

Non-cash transactions have been excluded on the Statement of Cash Flows. During the year ended June 30, 2019, the Foundation's investments experienced a net unrealized gain of \$104,484. The Foundation also recognized \$97,493 for in-kind support from the University for the year ended June 30, 2019.

Note 9 – Reclassification

Certain reclassifications have been made to prior year amounts to conform to the fiscal year 2019 presentation.

Note 10 – Subsequent Events

Management has performed an analysis of activities and transactions subsequent to June 30, 2019, to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2019. Management has performed their analysis through November 12, 2019.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS**

BROOKS & ROBERTSON LLP

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER
ILLINOIS C.P.A.
SOCIETY

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

Board of Directors
Chicago State Foundation
Chicago, Illinois

We have audited the financial statements of Chicago State Foundation ("CSF") as of and for the year ended June 30, 2019 and have issued our report thereon dated November xx, 2019. 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 CSF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CSF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS
BASED UPON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether CSF's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brooks & Robertson LLP
Chicago, Illinois
November 12, 2019