

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2007**

**Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois**

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY**

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**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY**

**AGENCY OFFICIALS**

John G. Peters	President
Raymond W. Alden III	Executive Vice President and Provost
Eddie R. Williams	Executive Vice President, Business and Finance, and Chief of Operations
Anne C. Kaplan	Vice President, Administration
Mike Malone	Vice President, Development and University Relations
Kathryn Buettner	Vice President, External Affairs
Kenneth Davidson	Vice President and General Counsel
Sharon Downen	Director of Internal Audit
<u>Financial Staff</u>	
Robert Albanese	Associate Vice President, Finance and Facilities
Keith Jackson	Controller
Linda Timm	Assistant Controller
Julie Weber	Director of Grants, Fiscal Administration
Tamara Farley	Director of Treasury Operations
Kinga Mauger	Bursar

**NIU Office is located at:**

300 Altgeld Hall  
DeKalb, Illinois 60115

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY**

**FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying financial statements of Northern Illinois University (University) was performed by Clifton Gunderson LLP.

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

## Independent Auditor's Report

Honorable William G. Holland  
Auditor General  
State of Illinois

and

Marc J. Strauss, Honorable Chair of the  
Legislative, Audit, and External Affairs  
Committee of the Board of Trustees

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Northern Illinois University (University) and its aggregate discretely presented component units, which collectively comprise a component unit of the State of Illinois, as of and for the year ended June 30, 2007. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2006 financial statements and, in our report dated November 1, 2006, we expressed an unqualified opinion on those financial statements.

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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois University and its aggregate discretely presented component units as of June 30, 2007, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated March 7, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 15 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.

*Clifton Gunderson LLP*

Peoria, Illinois  
March 7, 2008

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**INTRODUCTION**

The following management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Northern Illinois University (the "University") for the year ending June 30, 2007 with comparative information for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with more than 25,000 students and approximately 1,250 faculty members, which contributes to the region, state, and nation through its instructional, basic and applied research, and public service programs. The University is located in DeKalb, Illinois, with regional centers in Hoffman Estates, Naperville, and Rockford, and the Lorado Taft Field Campus in Oregon, Illinois. The University offers more than 50 undergraduate and over 70 graduate degree programs, including 10 Ph.D. and 6 Ed.D. programs, and the Juris Doctorate. These programs are administered in 40 departments and schools in the Colleges of Business, Education, Engineering and Engineering Technology, Health and Human Sciences, Law, Liberal Arts and Sciences, and Visual and Performing Arts. The University also offers more than 50 certificates of graduate study, 4 interdisciplinary concentrations, a limited number of undergraduate certificates, and more than 60 study abroad programs worldwide.

The University's interdisciplinary research and public service centers include the Center for Biochemical and Biophysical Studies, the Center for Burma Studies, the Regional Development Institute, the Plant Molecular Biology Center, and the Center for Southeast Asian Studies, which has been accorded status as an undergraduate National Resource Center by the U.S. Department of Education, one of seven in the United States. The University Libraries house the Digitization Project, which includes the Abraham Lincoln Digitization Project and a number of other digital projects which place the events of history, both in the United States and internationally, in cultural and social context. The Northern Illinois University Press, one of three at Illinois public universities, publishes on a variety of topics in the humanities, arts, and sciences; books on Russian studies, railroad history, and the history of Chicago and the Midwest are areas of special focus.

The University is accredited by the Higher Learning Commission and is a member of the North Central Association. It is also accredited by the National Council for Accreditation of Teacher Education to offer teacher preparation programs, which are approved by the Illinois State Board of Education. The College of Business is accredited by the Association to Advance Collegiate Schools of Business (AACSB - International), the College of Engineering and Engineering Technology is accredited by the Engineering Accreditation Commission of the Accreditation Board for Engineering and Technology (ABET), and the College of Law is accredited by the American Bar Association (ABA). All degree programs eligible for accreditation are accredited by their respective professional accrediting bodies. The University is included in the Doctoral/Research Universities - Extensive category of the Carnegie Foundation for the Advancement of Teaching, and is a member of the National Association of State Universities and Land-Grant Colleges and the Universities Research Association.

### **FINANCIAL HIGHLIGHTS**

The University's financial position remained strong at June 30, 2007 in spite of state reductions in general revenue appropriations and increased costs of health care. Changes in net assets represent the operating activity of the University, which results from revenues, expenses, gains and losses, and are summarized for the year ended June 30, 2007 and 2006 as follows:

(in thousands)

	2007	2006
Total revenues	\$ 443,988	\$ 433,626
Total expenses	433,016	420,800
Increase in net assets	\$ 10,972	\$ 12,826

### **USING THE FINANCIAL STATEMENTS**

The University's financial report includes three financial statements: The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole. The financial statements include the University and its discretely presented component units. Information regarding the component units is summarized in Note 22 to the financial statements. This MD&A focuses on the University excluding the discretely presented component units. MD&A for the component units is included in their separately issued financial statements.



## STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities - net assets - is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A summary of the University's assets, liabilities and net assets at June 30, 2007 and 2006 is as follows:

(in thousands)

	2007	2006
Current assets	\$ 66,864	\$ 66,009
Noncurrent assets:		
Investments	54,266	40,827
Capital assets, net	313,449	298,150
Other	15,780	15,149
Total assets	<u>\$ 450,359</u>	<u>\$ 420,135</u>
Current liabilities	42,665	38,281
Noncurrent liabilities	194,039	179,171
Total liabilities	<u>236,704</u>	<u>217,452</u>
Net assets	<u>\$ 213,655</u>	<u>\$ 202,683</u>

A review of the University's Statement of Net Assets at June 30, 2007 shows that the University continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, management of its endowment, conservative utilization of debt and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash, short-term investments and interest receivable, which total \$48.8 million at June 30, 2007. This amount represents approximately 1.7 months of total expenses (excluding depreciation and fringe benefit expense covered by supplemental state appropriations). Accounts receivable totaled \$14.6 million at June 30, 2007.

The increase in current assets during the fiscal year is offset by an increase in current liabilities, with the major increase in accounts payable and accrued liabilities.

Current accounts payable and accrued liabilities, which total \$31.2 million at June 30, 2007, consist primarily of trade accounts payable and the current portion of performance contracts payable, bonds payable, leases payable, and notes payable. Current liabilities also include accrued compensated absences and deferred revenue. Total current liabilities are \$42.7 million at June 30, 2007.

## CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic programs and student life is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize older classroom and research facilities, balanced with new construction.

Capital additions totaled \$38.6 million in 2007. Capital additions primarily include renovation and new construction of academic, research and student service facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were funded with capital appropriations, grants from the State of Illinois and federal government, debt proceeds, gifts, and unrestricted net assets which were designated for capital purposes. The University depreciates its capital assets on a straight-line basis, using estimated lives ranging from five to forty years.

During fiscal year 2007, the University entered an agreement with CHF - DeKalb, L.L.C. to develop, finance, design, construct, equip and operate an approximately 240 bed student housing facility. The Northern View Community is scheduled to open in the fall replacing the existing University Family Apartments. The facility will be owned by CHF, but managed by NIU Housing and Dining. The agreement required no capital outlay from the University but Generally Accepted Accounting Principles require the University to report the transaction as a capital lease. The facility and offsetting capital lease are recorded at \$19.4 million.

During Fiscal 2006, the University received from the Foundation the 37,000 square foot Barsema Alumni & Visitor Center. The building opened for use in October of 2005. The building was funded by donor gifts, Foundation financing and a payment from the University. The University recognized a gift from the Foundation in excess of \$5.5 million.

The University has availed itself of Public Act 90-0486 to supplant funds available for use in capital projects. Public Act 90-0486 allows state universities to negotiate multi-year contracts for the evaluation, design and implementation of facility improvements that will be wholly funded by the energy or operational savings of the project. Additionally, the provider of the services to the University fully guarantees the savings over the life of the contract. The effect is that the University upgrades its facilities at no cost, and at no risk. Currently the University has eight separate performance contracts outstanding, totaling \$13.3 million. Performance guarantees are in place for each contract. The projects include upgrading of lighting and heating/air conditioning affecting approximately 70 buildings on campus. The University expects to continue to use performance contracts in the future.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. In August 2001, the Moody's Investors Service upgraded the University credit rating to A2. Bonds payable, excluding the amount currently due, totaled \$103.7 million at June 30, 2007. These bonds have been issued to finance construction of new non-academic facilities and improvements.

Certificates of participation payable total \$5.3 million at June 30, 2007. They have been used to finance the acquisition of several academic and administrative facilities. Capitalized leases payable totaled \$36.6 million at June 30, 2007, and are considered to be installment purchases.

The following table summarizes the University's bonds payable, leases payable and notes payable outstanding on June 30, 2007 and 2006:

(in thousands)

	<u>2007</u>	<u>2006</u>
Revenue bonds payable	\$ 109,596	\$ 113,725
Leases payable	36,649	17,878
Notes payable	5,265	5,754

### NET ASSETS

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2007 and 2006 are summarized as follows:

(in thousands)

	<u>2007</u>	<u>2006</u>
Invested in capital assets, net of related debt	\$ 148,648	\$ 150,259
Restricted:		
Expendable	7,694	7,280
Unrestricted	<u>57,313</u>	<u>45,144</u>
Total net assets	<u>\$ 213,655</u>	<u>\$ 202,683</u>

The University's net assets increased by \$11.0 million during fiscal year 2007.

Net assets invested in capital assets, net of related debt represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted expendable net assets are subject to externally imposed restrictions governing their use.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic, research and public service programs and initiatives, as well as capital projects. Additionally, legislative restrictions exist on these funds as outlined in the University Guidelines 1982, as amended in 1997.

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

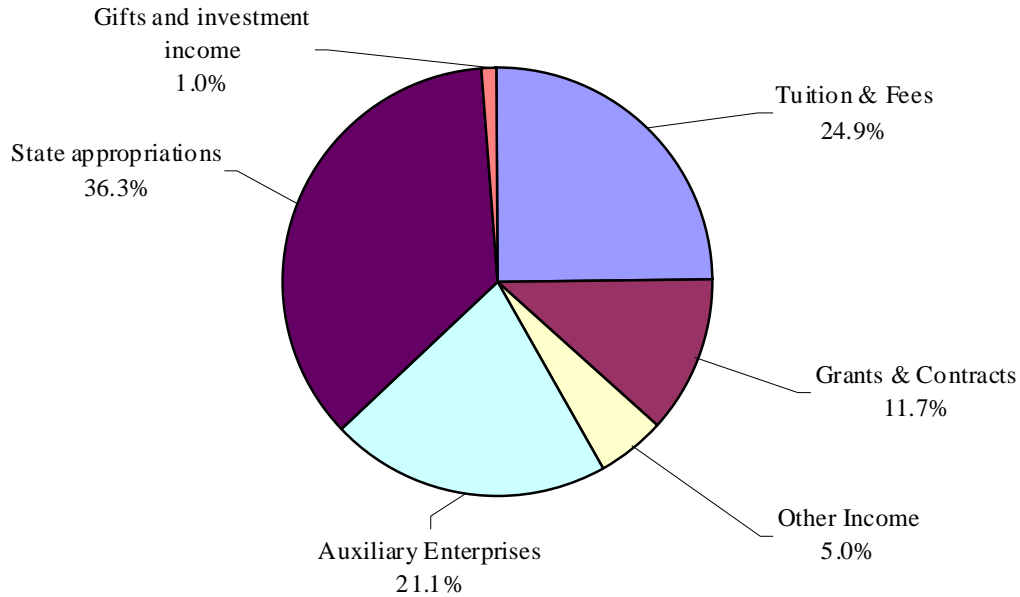
The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35. These significant nonoperating sources include state appropriations, gifts, and investment income. A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2007 and 2006 is as follows:

(in thousands)

	2007	2006
Operating revenues:		
Student tuition and fees	\$ 135,750	\$ 125,005
Less: scholarship allowances	(25,485)	(24,373)
Net student tuition and fees	110,265	100,632
Sponsored programs	51,890	55,075
Auxiliary enterprises	93,746	87,643
Other	22,258	24,549
	278,159	267,899
Operating expenses	(424,309)	(412,610)
Operating loss	(146,150)	(144,711)
Nonoperating revenues (expenses):		
State appropriations:		
General	103,939	102,985
Supplemental	55,122	50,283
Capital	2,119	4,246
Gifts		5,549
Net investment income	4,649	2,664
Interest expense and other, net	(8,707)	(8,190)
Net nonoperating revenues	157,122	157,537
Increase in net assets	10,972	12,826
Net assets, beginning of year	202,683	189,857
Net assets, end of year	\$ 213,655	\$ 202,683

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the University's operating activities for the year ended June 30, 2007. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35.

## Revenues



Dollars in millions

\$ 110.3	Revenue from charges for tuition and fees, net of scholarship allowance of \$25.5.
\$ 93.7	Revenue from the operation of self-supporting activities such as residence halls, student union, stadium, and recreation center; intercollegiate athletics; parking; and university press.
\$ 51.9	Revenue from federal, state, and private grants and contracts covering research, public service, educational services, financial aid.
\$ 22.3	Miscellaneous revenue consists primarily of income from sales and services of educational activities that include conferences and seminars.
<u>\$ 278.2</u>	Total operating
\$ 161.2	Appropriations from State of Illinois general revenues for the current operations of the university and on-behalf payments for fringe benefits including insurance programs and retirement. Also includes appropriations for capital projects.
\$ 4.6	Investment income, and change in fair value of investments.
<u>\$ 165.8</u>	Total non-operating
<u>\$ 444.0</u>	Total revenues

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, was \$110.3 million in 2007, an increase of \$9.6 million. The increase is the result of an increase in tuition necessitated by the continued decrease in state appropriations and the requirements imposed upon the University by Truth in Tuition legislation that requires the University to guarantee tuition rates over a four year span. General state appropriations were \$103.9 million in 2007, an increase of \$.9 million from 2006, but still below the FY 2002 level of \$116.8 million.

Revenues for sponsored programs were \$51.9 million in 2007, a decrease of \$3.2 million from 2006. The University receives revenues for sponsored programs from government and private sources, which normally provide for the recovery of direct and indirect costs.

Net investment income for the year ended June 30, 2007 and 2006 consisted of the following components:

(in thousands)

	<u>2007</u>	<u>2006</u>
Income, net	\$ 4,373	\$ 3,014
Net change in the fair value of investments	276	(350)
	<u>\$ 4,649</u>	<u>\$ 2,664</u>

Investment income has increased as a result of the increase in market rates available.

Capital appropriations received from the State in 2007 totaling \$2.1 million, a decrease of \$2.1 million from 2006, funded a portion of projects including the laboratory space in the Engineering Building.

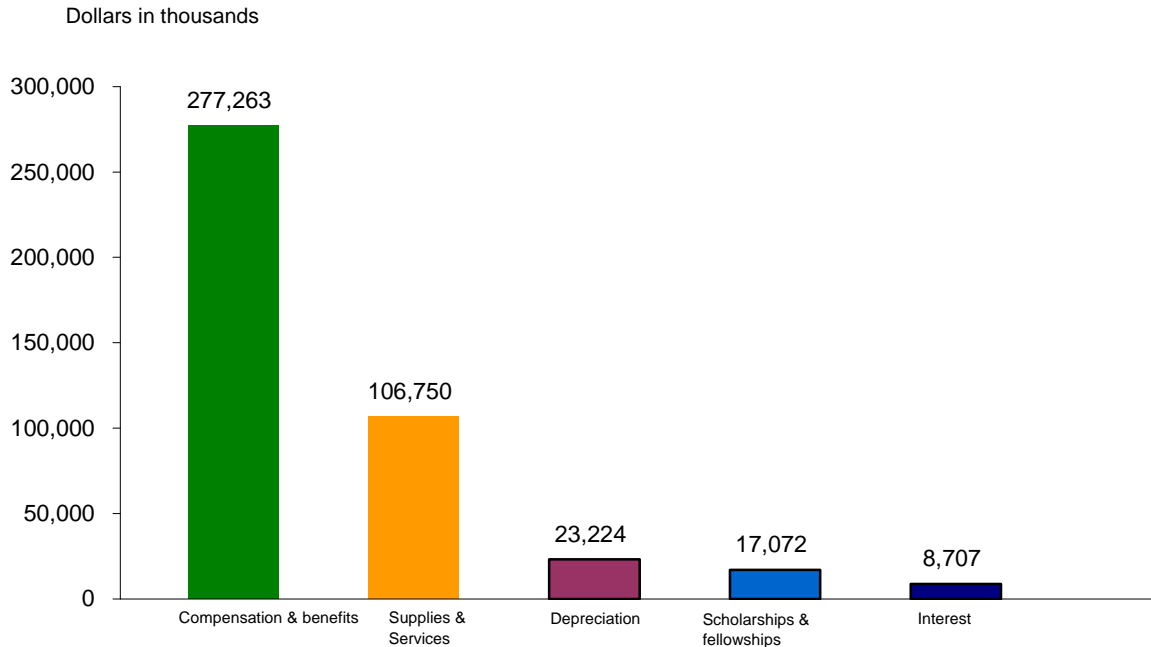
A summary of the University's expenses for the year ended June 30, 2007 and 2006 is:

(in thousands)

	<u>2007</u>	<u>2006</u>
Operating:		
Compensation and benefits	\$ 277,263	\$ 263,969
Supplies and services	106,750	107,035
Depreciation	23,224	27,134
Scholarships and fellowships	17,072	14,472
	<u>424,309</u>	<u>412,610</u>
Nonoperating:		
Interest and other	8,707	8,190
Total expenses	<u>\$ 433,016</u>	<u>\$ 420,800</u>

Included in the operating expenses are on-behalf payments made by the State of Illinois for employees of the University for contributions made into the State Universities Retirement System and Central Management Services Group Insurance. These contributions are recorded as staff benefits and are included in the compensation and benefits total in the above summary.

The following is a graphic illustration of total expenses for fiscal year 2007 by object:



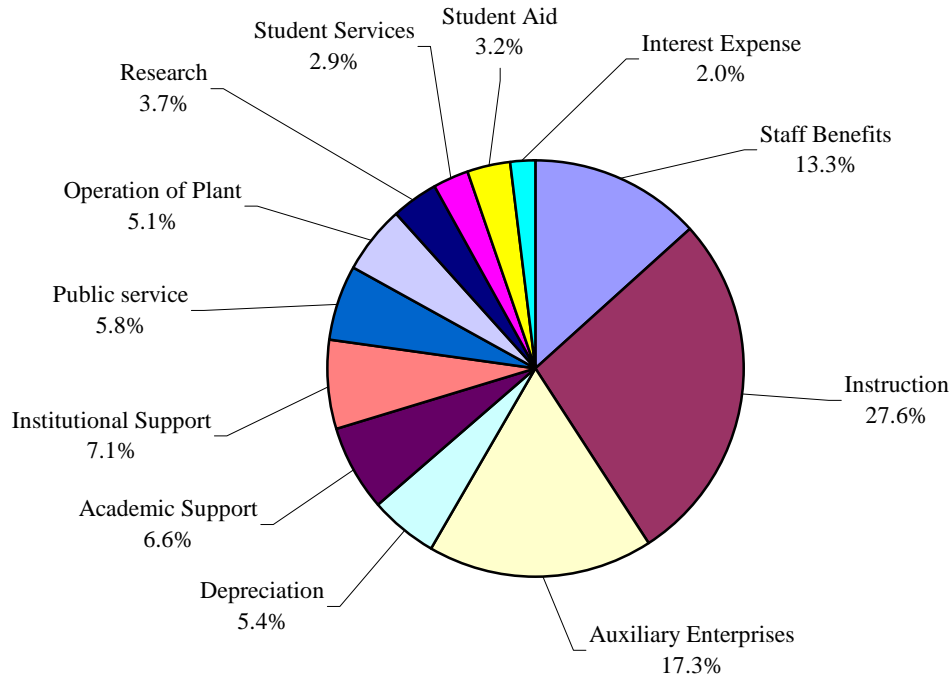
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the years ended June 30, 2007 and 2006 is as follows:

(in thousands)

	2007	2006
Operating:		
Instruction	\$ 119,477	\$ 114,033
Research	16,054	15,941
Public service	25,101	27,210
Academic support	28,606	28,923
Student services	12,692	12,600
Auxiliary enterprises	74,961	68,102
Operations and maintenance of plant	22,247	24,509
Depreciation	23,224	27,134
Institutional support	30,674	30,718
Staff benefits	57,672	52,619
Student aid	13,601	10,821
Total operating expenses	<u>424,309</u>	<u>412,610</u>
Nonoperating:		
Interest expense	8,707	8,190
Total expenses	<u>\$ 433,016</u>	<u>\$ 420,800</u>

The following graphic illustrations present total expenses for fiscal year 2007 by function:

## Expenses By Function



## STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results, by reporting the major sources and uses of cash. A summary of the statement of cash flows for the years ended June 30, 2007 and 2006 is as follows:

(in thousands)

	2007	2006
Cash received from operations	\$ 281,290	\$ 274,562
Cash expended for operations	(345,432)	(335,186)
Net cash used in operating activities	(64,142)	(60,624)
Net cash used in investing activities	(7,591)	(5,313)
Net cash used in capital and related financing activities	(28,705)	(33,643)
Net cash provided by noncapital financing activities	104,562	104,553
Net increase (decrease) in cash and cash equivalents	4,124	4,973
Cash and cash equivalents, beginning of year	12,073	7,100
Cash and cash equivalents, end of year	<u>\$ 16,197</u>	<u>\$ 12,073</u>



The University's cash and cash equivalents increased \$4.1 million. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations and private gifts used to fund operating activities, for which cash received totaled \$104.6 million in fiscal 2007.

### **THE UNIVERSITY'S ECONOMIC OUTLOOK**

State appropriations represent operating support provided by the Governor and General Assembly for University programs. The State also appropriates funds to Central Management Services (CMS) and the State Universities Retirement System to pay the cost of health insurance and retirement for University employees. Due to State budget constraints, in fiscal years 2003 through 2007, the State required the University to supplement the funds appropriated to CMS. The net result of these payments and other reductions to the State budget is an overall reduction in direct State support compared to fiscal year 2002. FY 2007 budgeted state support is below the fiscal year 2002 level, and modestly above the fiscal year 2006 level.

To mitigate the impact of the decrease in state support, the University raised tuition rates 1.8% for continuing students (registered prior to Fall 2004), and 10.8% for new students covered by Truth-in-Tuition. Enrollment projections continue to be strong.

The University's institutional funds include revenues from sponsored projects to fund indirect administrative and facilities costs. The University anticipates that this revenue will increase slightly from fiscal year 2007 to fiscal year 2008 based on sponsored projects awarded.

Private gifts are an important source of funding for university operations, capital acquisition and construction, and a significant factor in expanding our academic units. With State support representing a diminishing percentage of the University's budget, private gifts are an important supplement to the University budget. With the help of the Northern Illinois University Foundation, the University continues to see growth in private support.

The University is continuing to pursue supplemental sources of revenue to continue its outstanding academic reputation. The University will be challenged but the Board of Trustees and management have committed to continuing the University's strong financial position and to uphold our mission of instruction, research, and public service.

**STATE OF ILLINOIS**  
**NORTHERN ILLINOIS UNIVERSITY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2007 (in thousands)**  
(with Comparative Totals for 2006)

	University		Component Units	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 16,197	\$ 12,073	\$ 495	\$ 4,727
Investments and marketable securities	31,879	33,183	-	-
Accrued interest receivable	760	655	-	-
Accounts receivable - net	14,596	15,623	1,638	2,026
Appropriations receivable from state	74	696	-	-
Inventories	3,219	3,629	-	-
Other assets	139	150	3	17
<b>Total current assets</b>	<b>66,864</b>	<b>66,009</b>	<b>2,136</b>	<b>6,770</b>
Noncurrent assets				
Investments and marketable securities	54,266	40,827	62,344	49,158
Student loans receivable - net	9,693	9,673	-	-
Due from component units	3,733	2,952	-	-
Unamortized debt discount	2,354	2,524	216	-
Other	-	-	13,988	2,951
Capital assets, net of accumulated depreciation	313,449	298,150	4,937	4,259
<b>Total noncurrent assets</b>	<b>383,495</b>	<b>354,126</b>	<b>81,485</b>	<b>56,368</b>
<b>TOTAL ASSETS</b>	<b>450,359</b>	<b>420,135</b>	<b>83,621</b>	<b>63,138</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	31,242	27,578	3,944	1,112
Accrued compensated absences	2,660	1,957	-	-
Students' deposits	15	36	-	-
Deferred tuition and fees	8,110	8,218	-	-
Agency	638	492	-	-
<b>Total current liabilities</b>	<b>42,665</b>	<b>38,281</b>	<b>3,944</b>	<b>1,112</b>
Noncurrent liabilities				
Accounts payable and accrued liabilities	-	-	735	206
Due to NIU	-	-	3,733	2,952
Performance contracts payable	11,872	9,392	-	-
Accrued compensated absences	20,810	21,687	-	-
Deferred revenue and grants	8,347	8,909	-	-
Government loan fund advances	8,657	8,659	-	-
Revenue bonds payable	103,651	107,885	7,419	-
Leases payable	35,782	17,269	-	-
Notes payable	4,920	5,370	975	1,410
<b>Total noncurrent liabilities</b>	<b>194,039</b>	<b>179,171</b>	<b>12,862</b>	<b>4,568</b>
<b>TOTAL LIABILITIES</b>	<b>236,704</b>	<b>217,452</b>	<b>16,806</b>	<b>5,680</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	148,648	150,259	4,937	4,259
Restricted:				
Nonexpendable	-	-	35,185	30,022
Expendable	7,694	7,280	19,237	15,881
Unrestricted	57,313	45,144	7,456	7,296
<b>TOTAL NET ASSETS</b>	<b>\$ 213,655</b>	<b>\$ 202,683</b>	<b>\$ 66,815</b>	<b>\$ 57,458</b>

See accompanying notes to financial statements.

**STATE OF ILLINOIS**  
**NORTHERN ILLINOIS UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the year ended June 30, 2007 (in thousands)**  
(with Comparative Totals for 2006)

	<u>University</u>		<u>Component Units</u>	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>REVENUES</b>				
Operating revenues				
Tuition and fees, net	\$ 110,265	\$ 100,632	\$ -	\$ -
Federal and state grants and other contracts	48,836	52,208	-	-
Private gifts, grants, and contracts	3,054	2,867	9,120	12,450
Sales and service of educational activities	19,048	22,344	-	-
Other sources	3,210	2,205	8,361	4,484
Auxiliary enterprises	93,746	87,643	-	-
Total operating revenues	<u>278,159</u>	<u>267,899</u>	<u>17,481</u>	<u>16,934</u>
<b>EXPENSES</b>				
Operating expenses				
Instruction	119,477	114,033	3,029	5,153
Research	16,054	15,941	82	41
Public service	25,101	27,210	625	583
Academic support	28,606	28,923	105	42
Student services	12,692	12,600	1,013	894
Operation and maintenance of plant	22,247	24,509	62	132
Depreciation	23,224	27,134	-	-
Institutional support	30,674	30,718	3,768	2,780
Staff benefits	57,672	52,619	-	-
Student aid	13,601	10,821	1,174	783
Auxiliary enterprises	74,961	68,102	-	-
Total operating expenses	<u>424,309</u>	<u>412,610</u>	<u>9,858</u>	<u>10,408</u>
Net operating income (loss)	<u>(146,150)</u>	<u>(144,711)</u>	<u>7,623</u>	<u>6,526</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations - general	103,939	102,985	-	-
State appropriations - on-behalf payments	55,122	50,283	-	-
Investment income	4,373	3,014	408	235
Net increase (decrease) in fair value of investments	276	(350)	-	-
Interest expense	(8,707)	(8,190)	-	-
Net nonoperating revenues	<u>155,003</u>	<u>147,742</u>	<u>408</u>	<u>235</u>
Income before other revenues, expenses, gains, or losses	8,853	3,031	8,031	6,761
Capital appropriations	2,119	4,246	-	-
Capital gifts	-	5,549	1,326	(4,059)
<b>INCREASE IN NET ASSETS</b>	<u>10,972</u>	<u>12,826</u>	<u>9,357</u>	<u>2,702</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>202,683</u>	<u>189,857</u>	<u>57,458</u>	<u>54,756</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 213,655</u>	<u>\$ 202,683</u>	<u>\$ 66,815</u>	<u>\$ 57,458</u>

See accompanying notes to financial statements.

**STATE OF ILLINOIS**  
**NORTHERN ILLINOIS UNIVERSITY**  
**STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2007 (in thousands)**  
(with Comparative Totals for 2006)

	<u>University</u>		<u>Component Units</u>	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>Cash flows from operating activities</b>				
Student tuition and fees	\$ 110,171	\$ 101,625	\$ -	\$ -
Federal and state grants and other contracts	48,274	55,922	-	-
Private gifts, grants, and contracts	3,054	2,867	6,874	8,074
Sales and service of educational activities	20,113	20,971	-	-
Auxiliary enterprises	93,675	87,547	-	-
Payment to suppliers	(101,506)	(105,301)	(3,454)	(2,013)
Payment to employees	(224,185)	(212,117)	-	-
Payments for scholarships	(17,072)	(14,472)	(3,971)	(3,801)
Loans to students and employees	(2,669)	3,372	-	-
Collection of loans to students and employees	2,647	(3,296)	-	-
Other receipts, net	3,356	2,258	1,087	692
Net cash (used in) provided by operating activities	<u>(64,142)</u>	<u>(60,624)</u>	<u>536</u>	<u>2,952</u>
<b>Cash flows from noncapital financing activities</b>				
State appropriations	104,562	104,553	-	-
Private gifts	-	-	1,326	1,470
Proceeds from issuance of debt	-	-	8,968	-
Payments on debt	-	-	(765)	-
Payments for construction of building for NIU	-	-	(9,068)	(5,394)
Other	-	-	597	3,013
Net cash (used in) provided by noncapital financing activities	<u>104,562</u>	<u>104,553</u>	<u>1,058</u>	<u>(911)</u>
<b>Cash flows from capital and related financing activities</b>				
Proceeds from issuance of debt	23,278	2,522	-	-
State appropriations	1,504	3,792	-	-
Purchase of capital assets	(38,581)	(18,240)	(725)	(38)
Principal payments on capital debt	(6,369)	(15,534)	-	-
Interest payments on capital debt	(8,537)	(6,183)	-	-
Net cash (used in) provided by capital and related financing activities	<u>(28,705)</u>	<u>(33,643)</u>	<u>(725)</u>	<u>(38)</u>
<b>Cash flows from investing activities</b>				
Interest income on investments, net	4,544	2,214	98	(293)
Proceeds from sales and maturities of investments	385,253	473,370	30,637	8,996
Purchase of investments	(397,388)	(480,897)	(35,836)	(7,868)
Net cash (used in) provided by investing activities	<u>(7,591)</u>	<u>(5,313)</u>	<u>(5,101)</u>	<u>835</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	4,124	4,973	(4,232)	2,838
<b>Cash and cash equivalents, beginning of the year</b>	<u>12,073</u>	<u>7,100</u>	<u>4,727</u>	<u>1,889</u>
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 16,197</u>	<u>\$ 12,073</u>	<u>\$ 495</u>	<u>\$ 4,727</u>

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY  
STATEMENT OF CASH FLOWS, CONTINUED  
For the year ended June 30, 2007 (in thousands)  
(with Comparative Totals for 2006)**

	<u>University</u>		<u>Component Units</u>	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:</b>				
Operating income (loss)	\$ (146,150)	\$ (144,711)	\$ 7,623	\$ 6,526
<b>Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:</b>				
Depreciation expense	23,224	27,134	12	11
(Gain) loss on disposal of capital assets	58	133	-	-
On behalf payments for fringe benefits	55,122	50,283	-	-
State expenses for non-capitalized CDB projects	615	454	-	-
Investment income	-	-	(7,039)	-
Interest expense	-	-	84	-
Non cash gifts	-	-	34	-
<b>Changes in assets and liabilities</b>				
Accounts receivable	1,027	(1,574)	(656)	(47)
Inventories	410	(286)	-	-
Student loans receivable	(20)	51	-	-
Investments and other assets	(770)	248	78	(3,565)
Accounts payable and accrued liabilities	3,064	2,971	400	27
Accrued compensated absences	(176)	(219)	-	-
Students' deposits	(20)	(179)	-	-
Deferred revenue and grants	(670)	4,993	-	-
Government loan fund advances	(2)	25	-	-
Agency	146	53	-	-
<b>Net cash (used in) provided by operating activities</b>	<u>\$ (64,142)</u>	<u>\$ (60,624)</u>	<u>\$ 536</u>	<u>\$ 2,952</u>
<b>Noncash investing, capital, and financing activities</b>				
On-behalf payments for fringe benefits	\$ 55,122	\$ 50,283	\$ -	\$ -
Accretion	1,712	1,834	-	-
Transfer of capital assets from Foundation	-	5,549	-	(5,549)
Gifts of equipment and software	-	-	1,847	3,984
Building construction in accounts payable	-	-	1,728	651
Construction period interest capitalized	-	-	390	-
State expenses for non-capitalized CDB projects	615	454	-	-
<b>Total noncash activities</b>	<u>\$ 57,449</u>	<u>\$ 58,120</u>	<u>\$ 3,965</u>	<u>\$ (914)</u>

See accompanying notes to financial statements.

**State of Illinois  
Northern Illinois University  
Notes to the Basic Financial Statements  
June 30, 2007**

**1. Summary of Significant Accounting Policies**

The significant accounting policies followed by Northern Illinois University (the “University” or “NIU”) are presented below to assist the reader in evaluating the financial statements and accompanying notes.

The University is a component unit of the State of Illinois for financial reporting purposes. These financial statements include all funds and departments over which the University exercises oversight responsibility. Oversight responsibility is defined as including the following considerations: selection of governing authority, ability to significantly influence operations, accountability for fiscal matters, the scope of public services and/or special financing relationship. The financial balances and activities included in these financial statements are included in the State’s comprehensive annual financial report.

The Northern Illinois University Foundation (the “Foundation”) and the Northern Illinois University Alumni Association (the “Association”) are Illinois nonprofit corporations. The Foundation was established to promote and serve the interests and welfare of the University while the Association was established to build relationships between alumni and the University. Both the Foundation and the Association are “University Related Organizations,” as defined under the University guidelines adopted by the State of Illinois Legislative Audit Commission in 1982, as amended in 1997, and are component units of the University for financial reporting purposes. These component units are discretely presented in a separate column to emphasize that they are Illinois nonprofit organizations legally separate from the University.

Complete financial statements for the Foundation and the Association may be obtained by writing to the NIU Foundation Controller, Altgeld Hall 138, Northern Illinois University, DeKalb, Illinois 60115.

The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The University prepared its financial statements as a Business Type Activity, as defined by GASB Statement No. 35, using the economic resources measurement focus and the accrual basis of accounting. Business Type Activities are those financed in whole or in part by fees charged to external parties for goods and services. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

**State of Illinois**  
**Northern Illinois University**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2007**

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the University's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services, including tuition and fees, net of scholarships and fellowships, certain grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues.

Student tuition and fees, presented net of scholarships and fellowships of \$25,485,000 for fiscal year 2007, are applied to student accounts, while stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred.

Grant and contract revenues, which are received or receivable from external sources, are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements on the accrual basis. Advances are classified as deferred revenue.

Certain revenue sources that the University relies on to provide funding for operations including State appropriations, gifts, and investment income are defined by GASB Statement No. 35 as nonoperating. In addition, transactions related to capital and financing activities are components of nonoperating revenues.

Appropriations made from the State of Illinois General Revenue and Education Assistance Funds for the benefit of the University are recognized as nonoperating revenues when eligibility requirements are satisfied.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the University and its component units reported a contribution of \$55,122,000 made by the State of Illinois in fiscal year 2007 to the State Universities Retirement System ("SURS") and Central Management Services Group Insurance ("CMS") on behalf of the University's and its component units' employees. The State contribution is reported as revenue from State appropriations with an equal and offsetting amount reported as staff benefit expenditures. The on-behalf payments to SURS and CMS were \$12,959,000 and \$42,163,000 for fiscal year 2007, respectively.

**State of Illinois**  
**Northern Illinois University**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2007**

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the University follows all applicable GASB pronouncements. In addition, the University 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 University has elected not to apply FASB pronouncements issued after November 30, 1989.

The basic financial statements include prior year comparative information, which has been derived from the University's 2006 financial statements. Such information does not include all of the information required 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 University's financial statements for the year ended June 30, 2006.

Certain items in the June 30, 2006 financial statements have been reclassified to correspond to the June 30, 2007 presentation.

The auxiliary enterprises are primarily composed of student housing, the student union, intercollegiate athletics, recreational facilities, and parking operations.

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

The University accounts for its investments and marketable securities at fair value.

Inventories are carried at the lower of cost (determined by the first-in and first-out or average cost method depending on the nature of the inventory item) or market.

Amortization of unamortized debt discount is calculated on a straight-line basis over the term of the related debt.

Capital assets are recorded at cost when purchased or fair value at the date of donation. The University capitalizes buildings costing \$100,000 or more and equipment items costing \$5,000 or more. Depreciation is calculated on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets.



**State of Illinois**  
**Northern Illinois University**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2007**

The assets associated with long-term leases, which are considered to be installment purchases, have been capitalized.

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2007 the accrued liability for this benefit was \$13,122,000, and is included in accrued compensated absences.

As a result of Illinois Public Act 83-976, the University is required to compensate certain employees, generally civil service and administrative professionals, for sick leave benefits earned after January 1, 1984. Sick leave earned by these employees after this date will accumulate without limit and are payable upon termination of employment for one-half of the unused amount. As of January 1, 1998 per 30 ILCS 105/14a, sick leave benefits earned after that date are no longer compensable upon termination of employment. All prior earned benefits will still be paid. As of June 30, 2007, the accrued liability of this benefit was \$10,348,000, and is included in accrued compensated absences. The accrued compensated absences liability will be funded through future State of Illinois General Revenue Fund appropriations as the terminating employees leave the University.

**2. Cash and Cash Equivalents**

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist principally of certificates of deposit and U.S. government securities.

As of June 30, 2007, cash deposits of \$16,197,000 held by the University were insured or collateralized with securities held by the University or its custodian in the name of the University.

**3. Investments**

*Policy* - Investments and the investment process are governed by 30 ILCS 235, Public Funds Investment Act. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses the governing provisions of the state law, as well as specifying additional guidelines for the investment process. The allowable investments per University policy mirror those specified in State statute. In general terms, these investments include instruments issued by the U.S. Government, federal agencies, high grade commercial paper, bank deposits, investment pools created under the State Treasurer's Act, and selected money market mutual funds. The University prohibits foreign investments.

**State of Illinois**  
**Northern Illinois University**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2007**

It is the policy of the University to manage the University's cash and investments for the use and benefit of the University in a manner that will:

- A. Preserve and maintain the real purchasing power of the principal.
- B. Maintain consistency with State laws, rules and regulations, bond indentures and Board of Trustee's policies.
- C. Produce a yield which, when compared to the current marketplace, would be described as acceptable by conservative investment managers.
- D. Assure an optimal flow of cash to meet university obligations.

*Custodial credit risk* - Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the University would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. 100% of the University's investments are held in the University's name and are not subject to creditors of the custodial institution.

*Concentration of credit risk* - Concentration risk is the risk of loss attributed to the magnitude of an entity's investment in a single issue, other than the U.S. Government. The University has one commercial paper investment that represents 8% of the total investments and is held in a debt service reserve fund. The commercial paper is \$6,638,000 in Quatro PMX Ltd. The University has no formal policy in regard to concentration of credit risk exposure.

*Foreign currency risk* - Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have any investments with currency risk exposure.

*Credit risk*- Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The University's policy is to invest in high grade investments. The University's investments are summarized by current credit ratings below (\$000s):

Quality rating	Money Market	Commercial Paper	U.S. Agency	U.S. Government	Total
AAA	\$ -	\$ -	\$ 61,290	\$ 4,948	\$ 66,238
A1P1	-	6,638	-	-	6,638
AAAm	13,269	-	-	-	13,269
Total	\$ 13,269	\$ 6,638	\$ 61,290	\$ 4,948	\$ 86,145

**State of Illinois**  
**Northern Illinois University**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2007**

*Interest rate risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University has no formal policy in regard to interest rate risk. The following table shows the University's investments categorized by maturity:

Segmented Time Distribution	Money Market	Commercial Paper	U.S. Agency	U.S. Government	Total
0 – 1 year	\$ 13,269	\$ 6,638	\$ 8,476	\$ 3,496	\$ 31,879
1 – 3 years	-	-	25,523	-	25,523
3 – 5 years	-	-	19,374	-	19,374
5 – 10 years	-	-	7,917	1,452	9,369
Total	\$ 13,269	\$ 6,638	\$ 61,290	\$ 4,948	\$ 86,145

**Component Units (\$000's)**

Quality rating	Mutual Funds	Stock	Limited Partnerships	Other	Total
AA+	\$ 8,509	\$ -	\$ -	\$ -	\$ 8,509
AA	5,177	-	-	-	5,177
Not rated	35,697	2,219	5,754	4,988	48,658
	\$ 49,383	\$ 2,219	\$ 5,754	\$ 4,988	\$ 62,344

Duration	Mutual Funds
1 – 3 years	\$ 4,527
3 – 5 years	5,177
5 – 10 years	3,982
Total	\$ 13,686

The Component Units' permissible investment categories include equities, fixed income securities, cash equivalents, venture capital/private equity, equity real estate and hedge funds. In fulfilling its responsibilities, the Component Units contracted with an independent investment advisory firm as well as 16 investment management firms to execute the strategy it has established.

**4. Receivables**

Accounts Receivable are reported net of an allowance for uncollectible accounts of \$3,889,000 at June 30, 2007. The composition of accounts receivable at June 30, 2007 is summarized as follows (\$000's):

**State of Illinois**  
**Northern Illinois University**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2007**

	<u>University</u>	<u>Component Units</u>
Student accounts	\$ 11,024	\$ -
Customer accounts	1,539	-
Grants receivable	5,831	-
Others	91	1,769
Gross receivables	<u>18,485</u>	<u>1,769</u>
Less: allowance for Uncollectible accounts	<u>(3,889)</u>	<u>(131)</u>
Net accounts receivable	<u>\$ 14,596</u>	<u>\$ 1,638</u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2007 totaling \$9,693,000 and are reported net of an allowance for uncollectible accounts of \$374,000.

**5. Capital Assets**

Capital assets activity for the year ended June 30, 2007 is summarized as follows:

<b>University (\$000's)</b>	Balance <u>June 30, 2006</u>	Additions	Retirements	Transfers	Balance <u>June 30, 2007</u>
Land	\$ 18,928	\$ 353	\$ -	\$ -	\$ 19,281
Land improvements	53,609	-	-	1,591	55,200
Buildings	408,355	-	-	9,338	417,693
Equipment	152,533	7,500	(2,002)	-	158,031
Construction in-progress	14,000	30,734	-	(10,929)	33,805
Total	<u>647,425</u>	<u>38,587</u>	<u>(2,002)</u>	<u>-</u>	<u>684,010</u>
Less: accumulated Depreciation	<u>(349,275)</u>	<u>(23,224)</u>	<u>1,938</u>	<u>-</u>	<u>(370,561)</u>
Capital assets, net	<u>\$ 298,150</u>	<u>\$ 15,363</u>	<u>\$ (64)</u>	<u>\$ -</u>	<u>\$ 313,449</u>

<b>Component Units (\$000's)</b>	Balance <u>June 30, 2006</u>	Additions	Retirements	Transfers	Balance <u>June 30, 2007</u>
Land	\$ 3,829	\$ -	\$ -	\$ -	\$ 3,829
Buildings	147	-	-	-	147
Collections	195	108	-	-	303
Furniture	108	617	(35)	-	690
Total	<u>4,279</u>	<u>725</u>	<u>(35)</u>	<u>-</u>	<u>4,969</u>
Less: accumulated depreciation	<u>(20)</u>	<u>(12)</u>	<u>-</u>	<u>-</u>	<u>(32)</u>
Capital assets, net	<u>\$ 4,259</u>	<u>\$ 713</u>	<u>\$ (35)</u>	<u>\$ -</u>	<u>\$ 4,937</u>

**State of Illinois  
Northern Illinois University  
Notes to the Basic Financial Statements, continued  
June 30, 2007**

**6. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of June 30, 2007 are as follows (\$000's):

	<u>University</u>	<u>Component Units</u>
Payable to vendors/suppliers	\$ 16,317	\$ 2,487
Accrued payroll	6,182	-
Current portion of noncurrent liabilities:		
Performance contracts payable	1,418	-
Revenue bonds payable	5,945	1,372
Leases payable	867	-
Notes payable	345	85
Unapplied awards	168	-
Total	<u>\$ 31,242</u>	<u>\$ 3,944</u>

**7. Performance Contracts Payable**

The University has entered into multiple performance contracts, as defined by Public Act 90-0486, passed by the State Legislature in 1997. The Public Act allows State universities to negotiate multi-year contracts for the evaluation, design and implementation of facility improvement measures that will pay for themselves via guaranteed energy and/or operational savings over the life of the contract. The University is guaranteed by the provider that the annual energy and/or operational savings realized as a result of the implementation and servicing of the energy conservation measures will equal or exceed the annual expenditures for the term of the financed installation. Sufficient bonding must be posted by the provider to further protect the long-term interests of the University. The underlying assets in the performance contracts have been capitalized.

**State of Illinois  
Northern Illinois University  
Notes to the Basic Financial Statements, continued  
June 30, 2007**

Outstanding balances at June 30, 2007 are as follows (\$000's):

<u>Performance Contract</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Current Portion</u>
DuSable Hall	\$ 145	\$ -	\$ 43	\$ 102	\$ 50
Phase I Lighting	903	-	166	737	173
Convocation Center	1,365	-	204	1,161	213
Phase II Lighting	1,640	-	247	1,393	257
West Plant	3,221	-	403	2,818	421
West Campus Control Valve Retrofit	738	-	79	659	82
Energy Infrastructure Improvements	2,522	-	-	2,522	170
Energy Infrastructure Improvements – Phase 7	-	3,898	-	3,898	52
	<u>\$ 10,534</u>	<u>\$ 3,898</u>	<u>\$ 1,142</u>	<u>\$ 13,290</u>	<u>\$ 1,418</u>

Future minimum payments on these performance contracts payable are (\$000's):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,418	\$ 597	\$ 2,015
2009	1,712	482	2,194
2010	1,729	408	2,137
2011	1,794	335	2,129
2012	1,665	259	1,924
2013-2017	3,244	658	3,902
2018-2022	1,555	218	1,773
2023-2027	173	4	177
Total	<u>\$ 13,290</u>	<u>\$ 2,961</u>	<u>\$ 16,251</u>

Interest rates range from 3.9% to 5.6%. The guaranteed savings will be recognized as a reduction of expense over the life of the contract as expenditures are made.

**State of Illinois**  
**Northern Illinois University**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2007**

**8. Accrued Compensated Absences**

Accrued compensated absences includes employee earned but unused vacation and sick leave days and the changes in balance are as follows (\$000):

Balance, beginning of year	\$	23,644
Additions/(Deductions)		(174)
Balance, end of year		<u>23,470</u>
Less current portion		2,660
Balance, end of year, noncurrent portion	\$	<u><u>20,810</u></u>

**9. Deferred Revenue and Grants**

Deferred revenue and grants represents funds received in advance on grants not yet expended and the changes in balances are as follows (\$000):

Balance, beginning of year	\$	8,909
Additions/(Deductions)		(562)
Balance, end of year	\$	<u><u>8,347</u></u>

**10. Government Loan Fund Advances**

Government loan fund advances represents money received from the federal government for student loan programs and the changes in balances are as follows (\$000):

Balance, beginning of year	\$	8,659
Additions/(Deductions)		(2)
Balance, end of year	\$	<u><u>8,657</u></u>

**State of Illinois  
Northern Illinois University  
Notes to the Basic Financial Statements, continued  
June 30, 2007**

**11. Revenue Bonds Payable**

Revenue bonds outstanding as of June 30, 2007 are as follows (\$000's):

Issue	Beginning Balance	Issued / Accreted	Retired / Defeased	Ending Balance	Current Portion
Series 1992 (B)	\$ 27,915	\$ 1,711	\$ 3,730	\$ 25,896	\$ 3,730
Series 1996	2,465	-	570	1,895	600
Series 1999	11,995	-	795	11,200	835
Series 2001	71,350	-	745	70,605	780
	<u>\$ 113,725</u>	<u>\$ 1,711</u>	<u>\$ 5,840</u>	<u>\$ 109,596</u>	<u>\$ 5,945</u>
Component Unit	\$ -	\$ 9,206	\$ 415	\$ 8,791	\$ 1,372

The Auxiliary Facilities Revenue Bonds, Series 1992 (B), original issue \$14,498,000, matures serially at varying amounts from fiscal years 2005 through 2017, and pays no current interest. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

The Auxiliary Facilities Revenue Bonds, Series 1996, original issue \$49,995,000, mature at varying amounts from 1999 to 2022. Interest payments are due semi-annually. On August 30, 2001, the Board established an irrevocable trust with an escrow agent to advance refund \$31,760,000 of original principal of bonds maturing serially from October 1, 2010 through April 1, 2022. These bonds were called in fiscal year 2007. The interest ranges from 5.3% to 6%.

The Auxiliary Facilities Revenue Bonds, Series 1999, original issue \$38,410,000, mature at varying amounts from 2001 through 2029. Interest payments are due semi-annually. On August 30, 2001, the Board established an irrevocable trust with an escrow agent to advance refund \$22,335,000 of original principal of bonds maturing serially from October 1, 2022 through April 1, 2029. The interest rate ranges from 5% to 6%.

On August 15, 2001, the Board issued on behalf of the University, the Auxiliary Facilities System (System) Revenue Bonds, Series 2001, original issue \$76,000,000. The bonds mature at varying amounts from 2002 through 2029. Interest payments are due semi-annually. Part of the proceeds of the issue was used to advance refund a portion of the Series 1992 Bonds, the Series 1996 Bonds, the Series 1999 Bonds. The interest rate ranges from 4% to 5%.



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All of the refunded bonds are considered to be defeased. Neither the defeased bonds nor the related trusts are reflected on the University's books. The amount of bonds outstanding that have been defeased consists of the following:

**Advanced Refunded Bonds**

(\$000's)

Series	Outstanding at June 30, 2007
1983 B	\$ 2,500
1999	22,335
Total	<u>\$ 24,835</u>

The bonds are payable from and secured by, subject to the prior pledge to and lien of the Prior Bonds, a pledge of and lien on the net revenues of the System and pledged fees. The Series 1992, Series 1996, Series 1999 and Series 2001 are further secured by non-cancelable policies of municipal bond insurance. A pledge and lien on pledged tuition also secure the Series 1996, Series 1999, and Series 2001 bonds.

Aggregate payments required on the bonds for the next five years and in later years are as follows (\$000's):

Year Ending June 30	Principal	Accretion	Interest	Total
2008	\$ 5,830	\$ 115	\$ 4,204	\$ 10,149
2009	5,722	338	4,090	10,150
2010	5,625	550	3,977	10,152
2011	5,553	747	3,857	10,157
2012	4,828	932	3,738	9,498
2013-2017	24,758	5,712	17,022	47,492
2018-2022	36,655	-	10,840	47,495
2023-2027	9,855	-	4,218	14,073
2028-2029	10,770	-	963	11,733
Total	<u>\$ 109,596</u>	<u>\$ 8,394</u>	<u>\$ 52,909</u>	<u>\$ 170,899</u>

**Component Units (\$000)**

Year Ending June 30	Principal	Accretion	Interest	Total
2008	\$ 1,372	\$ -	\$ 393	\$ 1,765
2009	1,217	-	333	1,550
2010	1,150	-	275	1,425
2011	937	-	221	1,158
2012	765	-	179	944
2013-2017	3,350	-	381	3,731
Total	<u>\$ 8,791</u>	<u>\$ -</u>	<u>\$ 1,782</u>	<u>\$ 10,573</u>

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**12. Capitalized Leases**

Certain leases, in which the University's governing board is the lessee, are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date. These assets totaled \$37,707,000, net of accumulated depreciation of \$2,660,000 at June 30, 2007.

Capital leases outstanding principal balances as of June 30, 2007 are as follows (\$000's):

	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Naperville Project	\$ 17,060	\$ -	\$ 580	\$ 16,480	\$ 605
IASBO Building	818	-	29	789	30
Northern View	-	19,380	-	19,380	232
Net Present Value	<u>\$ 17,878</u>	<u>\$ 19,380</u>	<u>\$ 609</u>	<u>\$ 36,649</u>	<u>\$ 867</u>

Future minimum lease payments for the above assets under capital leases at June 30, 2007 on originally scheduled minimum payments and estimated interest are (\$000's):

Year Ending June 30	Principal	Interest	Total
2008	\$ 867	\$ 1,929	\$ 2,796
2009	912	1,886	2,798
2010	953	1,841	2,794
2011	1,001	1,794	2,795
2012	1,049	1,745	2,794
2013-2017	6,086	7,874	13,960
2018-2022	7,829	6,097	13,926
2023-2027	7,030	3,920	10,950
2028-2032	4,123	2,592	6,715
2033-2037	5,497	1,218	6,715
2038	1,302	41	1,343
Total	<u>\$ 36,649</u>	<u>\$ 30,937</u>	<u>\$ 67,586</u>

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**13. Notes and Certificates of Participation Payable**

Certificates of participation and notes payable activity was (\$000's):

Issue	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
<b>Certificates of Participation / Notes Payable:</b>					
Series 1993 - Hoffman Estates Facility	\$ 5,590	\$ -	\$ 325	\$ 5,265	\$ 345
Lincoln Highway Conference Facility	164	-	164	-	-
<b>Total</b>	<b>\$ 5,754</b>	<b>\$ -</b>	<b>\$ 489</b>	<b>\$ 5,265</b>	<b>\$ 345</b>
<b>Notes Payable:</b>					
Component Unit	\$ 1,410	\$ -	\$ 350	\$ 1,060	\$ 85

In August 1993, the University issued \$8,485,000 of certificates of participation to refinance an educational center occupied by Northern Illinois University in Hoffman Estates, Illinois, payable through installments commencing in 1994, for a period of twenty-three years.

In May 2001, the University issued a note payable for \$416,000 for property located on Lincoln Highway, with payments scheduled from 2001 through 2009.

Future minimum payments on these notes and certificates of participation payable are (\$000's):

Year Ending June 30	Principal	Interest	Total
2008	\$ 345	\$ 274	\$ 619
2009	365	256	621
2010	390	235	625
2011	410	214	624
2012	435	191	626
2013-2017	3,320	542	3,862
<b>Total</b>	<b>\$ 5,265</b>	<b>\$ 1,712</b>	<b>\$ 6,977</b>

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Component Units (\$000)

Year Ending June 30	Principal	Interest	Total
2008	\$ 85	\$ 48	\$ 133
2009	718	74	792
2010	115	19	134
2011	66	11	77
2012	76	6	82
Total	<u>\$ 1,060</u>	<u>\$ 158</u>	<u>\$ 1,218</u>

**14. Net Assets**

The University's net assets are classified for accounting and reporting purposes into one of three net asset categories according to externally imposed restrictions. The following tables include detail of the net asset balances for the University and the Component Units including major categories of restrictions and internal designations of unrestricted funds.

University Net Assets (\$000)

Invested in capital assets, net of related debt	\$ 148,648
Restricted:	
Nonexpendable	-
Expendable	7,694
Unrestricted	57,313
Total	<u>\$ 213,655</u>

Component Units Net Assets (\$000)

Invested in capital assets, net of related debt	\$ 4,937
Restricted:	
Nonexpendable	35,185
Expendable	19,237
Unrestricted	7,456
Total	<u>\$ 66,815</u>

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Restricted net assets - nonexpendable - represents endowment funds, where the donor has provided a gift for which the principal must remain invested in perpetuity and only the income may be utilized to support the restricted purpose the donor indicated.

Restricted net assets - expendable - represents resources with legal or contractual obligations to spend in accordance with restrictions imposed by external third parties.

**15. Transactions With Component Units**

During fiscal year 2007, the University engaged the Foundation, under contract, to provide fundraising services. As provided by the contract agreement, the University paid \$538,690 for fundraising services. Additionally, the University provided services to the Foundation valued at \$1,340,032. As required by the contract, the Foundation fully repaid the University for the services provided, using funds considered unrestricted.

Summary of transactions with Component Units (\$000):

	<b>Foundation</b>	<b>Alumni Association</b>
Funds considered unrestricted:		
Totally unrestricted administrative services	\$ 1,340	\$ -
Support for University programs and departments	1,716	194
Administrative and office expense	1,802	-
Provided for library books, equipment and property improvements	2,307	-
Total fund considered unrestricted	<u>7,165</u>	<u>194</u>
Funds considered restricted:		
Provided for scholarships and awards	1,115	53
Provided for library books, equipment and property improvements	190	-
Other restricted fund provided to the University:		
Restricted fund	756	-
Endowment fund	385	-
Total funds considered restricted	<u>2,446</u>	<u>53</u>
Total funds provided to the University	<u>\$ 9,611</u>	<u>\$ 247</u>

**16. Operating Leases**

The University leases various buildings under operating lease agreements. Total rental expense for the year ended June 30, 2007, under these agreements was \$459,000.

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Future minimum lease payments are (\$000's):

<b>Year Ending June 30</b>	<b>Amount</b>
2008	\$ 1,121
2009	1,024
2010	1,025
2011	866
2012	710
2013-2017	3,494
Total	<u>\$ 8,240</u>

**17. Retirement Plan**

The University contributes to the State Universities Retirement System Of Illinois (“SURS”), a cost-sharing multiple employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations and certain other state educational and scientific agencies and for survivors, dependents and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois’ financial reporting entity and is included in the state’s financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statues. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

Participation by eligible employees is mandatory. Employees are ineligible to participate if (1) employed less than one academic term or (2) employed less than full-time and attending classes with an employer; or (3) receiving a retirement annuity from SURS. Of those University employees ineligible to participate, the majority are students at the University.

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ended June 30, 2007, 2006, and 2005 were \$12,959,000, \$8,670,000, and \$13,944,000, respectively, equal to the required contributions for each year.

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SURS also provides a defined contribution plan option. Plan members are required to contribute 8.0% of their annual covered salary, with the State contributing 7.6%. SURS provides retirement, disability, and death benefits. Members are eligible for normal retirement at any age after 30 years of service, at age 60 after 8 years of service, or at age 62 after 5 years of service. There are also provisions for early retirement. Retirement benefits are based on certain formulas that generally are a function of years of service and the average salary based on the highest earnings of any 4 consecutive years. Disability benefits are paid to disabled members with two years of covered service generally at 50 percent of basic compensation until the total benefits paid equal 50 percent of the total earnings in covered service. Death benefits are payable to survivors of an active member with one and one-half years of covered service or of a former member with 10 years of covered service. These benefits are payable until all children attain the age of 18 or 24 if a full time student, to a spouse after age 50 and to a dependent parent after the age of 55. Benefits are equal to the retirement contributions and interest, a lump sum payment of \$1,000, and monthly annuity equal to a portion of the accrued normal retirement benefit based on specified formulas.

University employees hired prior to April 1, 1986 are exempt from contributions under the Federal Insurance Contribution Act. Employees hired after March 31, 1986 are required to contribute 1.45% of their gross salary to Medicare. The University is required to match this contribution.

Employees may also elect to participate in certain tax-sheltered investment plans and thus defer federal and state income taxes on their contributions and the accumulated earnings under the plan. Participation and the level of employee's contribution are voluntary. The employer is not required to make contributions to these plans.

**18. Post-employment Benefits**

In addition to providing the above benefits, the State provides certain health, dental, and life insurance benefits to the University's annuitants who participate in the SURS. Substantially all University employees become eligible for post employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under the age of 60 are equal to the annual salary at the time of retirement; life insurance benefits for annuitant age 60 and older are limited to five thousand dollars per annuitant.

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For annuitants retiring January 1, 1998 and after, the State allows a 5% credit for each full-year of service toward the monthly premium. The monthly premium is determined for annuitants as a separate group. The cost of health, dental, and life insurance benefits is recognized by the State on a pay-as-you-go basis. A reasonable estimation of the annual expense cannot be made because the expense cannot be readily separated from the expense for similar benefits provided to active employees. These costs are funded by the State except for certain non-appropriated funds funded by the University.

**19. Operating Expenses by Natural Classification**

Operating expenses by natural classification for the year ended June 30, 2007 are summarized as follows:

**University**  
*(\$000's)*

	<b>Compensation &amp; Benefits</b>	<b>Supplies and Services</b>	<b>Scholarships and Fellowships</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 100,958	\$ 16,840	\$ 1,679	\$ -	\$ 119,477
Research	10,281	5,686	87	-	16,054
Public Service	15,246	9,357	498	-	25,101
Academic					
Support	17,971	10,338	297	-	28,606
Student Services	8,943	3,731	18	-	12,692
O&M	11,171	11,076	-	-	22,247
Depreciation	-	-	-	23,224	23,224
Inst. Support	24,254	6,420	-	-	30,674
Staff Benefits	57,672	-	-	-	57,672
Student Aid	753	985	11,863	-	13,601
Auxiliary	30,014	42,317	2,630	-	74,961
<b>Total</b>	<b>\$ 277,263</b>	<b>\$ 106,750</b>	<b>\$ 17,072</b>	<b>\$ 23,224</b>	<b>\$ 424,309</b>



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**Component Units**

*(\$000's)*

	<b>Compensation &amp; Benefits</b>	<b>Supplies and Services</b>	<b>Scholarships and Fellowships</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ -	\$ 3,029	\$ -	\$ -	\$ 3,029
Research	-	80	2	-	82
Public Service	-	625	-	-	625
Academic					
Support	-	103	2	-	105
Student Services	-	924	89	-	1,013
O&M	-	62	-	-	62
Inst. Support	527	3,229	-	12	3,768
Student Aid	-	101	1,073	-	1,174
<b>Total</b>	<b>\$ 527</b>	<b>\$ 8,153</b>	<b>\$ 1,166</b>	<b>\$ 12</b>	<b>\$ 9,858</b>

**20. Insurance**

The University participates in a statutory cooperative known as the Illinois Public Higher Education Cooperative (IPHEC). Through IPHEC the University has contracted with commercial carriers to provide various excess liability insurance coverages, including educators' legal and other general liability insurance. The University's liability coverages have a general \$350,000 deductible per occurrence, which may be partially funded by a self-insurance fund authorized by the NIU Board of Trustees. Additionally, the University purchases property insurance coverage for replacement value of University real property and contents. Settled claims have not exceeded commercial coverages in any of the three preceding years.

The University is afforded coverage by the State for general liability, automobile liability, worker's compensation and employers' liability, and employee indemnity by a number of State of Illinois Self-Insured Plans administered by the Department of Central Management Services. Contract and tort claims are also subject to the Illinois Court of Claims Act, under which proven claims may be satisfied by appropriations by the General Assembly to the Secretary of State.

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**21. Commitments and Contingencies**

**Encumbrances**

Encumbrances which represents goods or services that have been ordered for which delivery has not been made or the services have not been rendered at June 30, 2007, are not recorded in the accompanying financial statements. Encumbrances were \$7,900,000 at June 30, 2007.

**Grants and Contracts**

The University receives monies from federal and state government agencies under grants and contracts for research and other activities. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. The University administration believes that any disallowance or adjustment would not have a material effect on the University's financial position.

**Legal Action**

The University is a defendant in several lawsuits. However, University officials are of the opinion, based on the advice of legal counsel, that any ultimate liability which could result from such litigation would not have a material effect on the University's financial position or its future operations.

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**22. University Related Organizations**

The entity's financial statements include the activity of the University Related Organizations which represent the discretely presented component units. Below are condensed financial statements by organization. (\$000's)

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
<b>Condensed Statement of Net Assets</b>			
<b>ASSETS:</b>			
Current assets	\$ 2,093	\$ 43	\$ 2,136
Noncurrent assets			
Capital assets, net of accumulated depreciation	4,937	-	4,937
Investments administered by NIU Foundation	62,344	2,580	64,924
Other noncurrent assets	14,204	-	14,204
<b>TOTAL ASSETS</b>	<u>\$ 83,578</u>	<u>\$ 2,623</u>	<u>\$ 86,201</u>
<b>LIABILITIES:</b>			
Current liabilities	\$ 3,834	\$ 110	\$ 3,944
Noncurrent liabilities			
Deposits held for NIU Alumni Association	2,580	-	2,580
Deposits held for NIU	3,733	-	3,733
Endowments and life income trusts	735	-	735
Bonds and Notes Payable	8,394	-	8,394
<b>TOTAL LIABILITIES</b>	<u>19,276</u>	<u>110</u>	<u>19,386</u>
<b>NET ASSETS:</b>			
Invested in capital assets	4,937	-	4,937
Restricted			
Nonexpendable	35,048	137	35,185
Expendable	18,946	291	19,237
Unrestricted	5,371	2,085	7,456
Total net assets	<u>64,302</u>	<u>2,513</u>	<u>66,815</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 83,578</u>	<u>\$ 2,623</u>	<u>\$ 86,201</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets</b>			
Operating revenues	\$ 17,481	\$ -	\$ 17,481
Operating expenses	9,612	246	9,858
Operating income (loss)	7,869	(246)	7,623
Nonoperating revenue	1,261	473	1,734
Increase in net assets	9,130	227	9,357
Net assets, beginning of year	55,172	2,286	57,458
Net assets, end of year	<u>\$ 64,302</u>	<u>\$ 2,513</u>	<u>\$ 66,815</u>

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	<u>Foundation</u>	<u>Alumni Association</u>	<u>Total</u>
<b>Condensed Statement of Cash Flows</b>			
Net cash flows (used in) provided by operating activities	\$ 738	\$ (202)	\$ 536
Net cash flows (used in) provided by noncapital financing activities	924	134	1,058
Net cash flows (used in) provided by capital financing activities	(725)	-	(725)
Net cash flows (used in) provided by investing activities	<u>(5,209)</u>	<u>108</u>	<u>(5,101)</u>
Net increase (decrease) in cash and cash equivalents	(4,272)	40	(4,232)
Cash and cash equivalents, beginning of year	4,727	-	4,727
Cash and cash equivalents, end of year	<u>\$ 455</u>	<u>\$ 40</u>	<u>\$ 495</u>
<b>Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:</b>			
Operating income (loss)	\$ 7,869	\$ (246)	\$ 7,623
<b>Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:</b>			
Changes in assets and liabilities	<u>(7,131)</u>	<u>44</u>	<u>(7,087)</u>
Net cash used in operating activities	<u>\$ 738</u>	<u>\$ (202)</u>	<u>\$ 536</u>

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**23. New Governmental Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following statements:

- Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Plans Other Than Pensions*, which establishes standards for the measurement and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is effective for the period beginning July 1, 2007.
- Statement No. 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes standards for determining whether a transaction is a sale or collateralized borrowing. This statement is effective for the period beginning July 1, 2007.
- Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*, which establishes standards on the measurement and reporting of pollution remediation-related obligations. This statement is effective for the period beginning July 1, 2008.
- Statement No. 50 – *Pension Disclosures*, which more closely aligns current pension disclosure requirements for governments with those that governments are beginning to implement for retiree health insurance and other post-employment benefits. This statement is effective for the period beginning July 1, 2007.
- Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, which establishes standards and guidance on how to identify, account for, and report intangible assets. This statement is effective for the period beginning July 1, 2009.

Management has not yet completed their assessment of the impact of these statements on the University's financial statements.

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