

**STATE OF ILLINOIS  
NORTHERN ILLINOIS RESEARCH  
FOUNDATION AND  
RELATED SUBSIDIARY**

**FINANCIAL AUDIT  
YEAR ENDED JUNE 30, 2008**

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



**Clifton  
Gunderson LLP**

Certified Public Accountants & Consultants

**State of Illinois  
Northern Illinois Research Foundation and Related Subsidiary  
Financial Audit  
For the Year Ended June 30, 2008**

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**State of Illinois  
Northern Illinois Research Foundation and Related Subsidiary**

***Agency Officials***

Gerald Zielinski	President
Raymond W. Alden III	Board Member
Eddie R. Williams	Board Member
John Lewis	Board Member
Barbara Giorgi Vella	Board Member
Myron Siegel	Board Member
James Erman	Board Member

***Agency Office is located at:***

2700 International Drive, Suite 100  
West Chicago, Illinois 60185

**State of Illinois**  
**Northern Illinois Research Foundation and Related Subsidiary**

**Financial Statement Report Summary**

The audit of the accompanying consolidated financial statements of the Northern Illinois Research Foundation and Related Subsidiary (Foundation) was performed by Clifton Gunderson LLP.

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

## Independent Auditor's Report

Honorable William G. Holland  
Auditor General  
State of Illinois  
and  
Honorable President and  
Members of the Board of Directors  
Northern Illinois Research Foundation and Related Subsidiary

As Special Assistant Auditors for the Auditor General, we have audited the accompanying consolidated financial statements of Northern Illinois Research Foundation and Related Subsidiary (Foundation), a component unit of Northern Illinois University and a component unit of the State of Illinois, as listed in the table of contents, as of and for the year ended June 30, 2008. 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.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois Research Foundation and Related Subsidiary as of June 30, 2008, and the 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 30, 2009 on our consideration of the Foundation'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 on 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 6 to 8 is not a required part of the consolidated 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 30, 2009

# **State of Illinois Northern Illinois Research Foundation and Related Subsidiary**

## **Management's Discussion and Analysis For the Year Ended June 30, 2008**

### Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Northern Illinois Research Foundation (the "Foundation") for the year ended June 30, 2008. Comparative data is not included as this is the initial year of operation, but will be included in future years. The financial statements are prepared in accordance with *Governmental Accounting Standards Board* (GASB) principles.

Northern Illinois Research Foundation (NIRF) was established in 2001 as a 501(c)(3) corporation. The Research Foundation is a "University Related Organization," as defined under the University guidelines adopted by the State of Illinois Legislative Audit Commission in 1982, as amended in 1997, and is a component unit of Northern Illinois University (the "University") and the State of Illinois for financial reporting purposes. Its purpose is to aid the university in its economic development, public service and research educational missions. NIRF will participate in partnerships in equity agreements and commercial ventures that the university otherwise could not enter into. These would be largely those enterprises resulting from university research and service ventures. It will be governed by a board of directors appointed by the university president. The board will consist of experts in a variety of areas such as capital venture, Foundation Board members, and a member from the Board of Trustees as well as NIU administrators. This board will establish policy and guidelines in achieving the objectives of the research foundation. Funds for the research foundation will be generated from sources including grants, public-private partnerships, venture capital investments, royalties, licensing fees, equity agreements resulting from commercializing research and service initiatives. It will also be available for donations of intellectual property from outside agencies for the purposes of developing the commercial entities. Funding will be provided to NIU researchers from the research foundation to support projects with great potential for commercialization and job creation. The research foundation will partner with researchers both from NIU and various other affiliates and partner them with various entrepreneurs on the outside to create spin-off corporations, particularly in areas such as health care, engineering and physical sciences that have great potential for commercialization. NIRF will coordinate with the university and will take technology transfer opportunities when they become available for commercialization and help researchers to secure copyright and patent rights for those commercialization opportunities. The research foundation will adhere to the guidelines established by the legislative audit committee.

# State of Illinois Northern Illinois Research Foundation and Related Subsidiary

## Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2008

NIRF's first project, started in Fiscal Year 2008, is the Northern Illinois Proton Treatment and Research Center (NIPTRC). NIPTRC is an Illinois limited liability corporation which has been granted 501(c)(3) status by the Internal Revenue System. Its sole corporate member is the Northern Illinois Research Foundation. NIPTRC will provide proton beam therapy in a 115,000 square foot facility currently being constructed in West Chicago, Illinois. The facility will begin treating patients in the spring of 2010 and at capacity (within three years from opening) will treat between 1,200 and 1,500 patients annually. Construction of the facility has begun and equipment initialization is scheduled to begin in the fall of 2010. The cost of the facility, including equipment, is estimated at \$159,500,000. The Illinois Health Facility Planning Board has approved a Certificate of Exemption for the facility.

Proton beam therapy is a highly advanced form of radiation treatment for cancer. The process targets cancerous tumors with a highly concentrated proton beam and is considered an effective treatment for many adult and most pediatric cancers.

The first proton center in the United States concentrating on patient treatment opened in 1990. There are currently five proton beam therapy centers in the United States and three more under construction. Current centers are located in Boston, MA; Jacksonville, FL; Houston, TX; Loma Linda, CA; and Bloomington, IN. Those under construction are in Philadelphia, PA, Hampton, VA; and Oklahoma City, OK.

### Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. A summarized statement follows:

#### **Condensed Statement of Net Assets (in thousands)**

	<b><u>2008</u></b>
<b>Assets</b>	
Non-current Assets	<u>\$ 756</u>
<b>Liabilities</b>	
Current Liabilities	<u>\$ 1,016</u>
<b>Net Assets</b>	
Invested in Capital Assets, net of debt	\$ 756
Unrestricted	<u>(1,016)</u>
	<u>\$ (260)</u>

**State of Illinois**  
**Northern Illinois Research Foundation and Related Subsidiary**

**Management's Discussion and Analysis (Continued)**  
**For the Year Ended June 30, 2008**

Non-current assets consist of capitalized expenditures for the Proton Treatment and Research Center.

Current liabilities consist entirely of trade accounts with vendors.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the Research Foundation, as well as nonoperating revenues. All expenditures during the year related to the construction have been capitalized. Legal fees of \$260,000 have been expensed.

Statement of Cash Flows

The Statement of Cash Flows has no reportable transactions other than the Reconciliation of Operating (loss) to net cash used in operating activities. All expenses incurred are recorded as accounts payable as of the balance sheet date. The legal fees incurred, but not paid, represent the activity in the Reconciliation.

Economic Factors That Will Affect the Future

In July of 2008, NIPTRC was given a subcontract with the University for work on a Department of Defense award. The amount of the subcontract is for an amount not to exceed \$5,000,000.

In September of 2008 the Illinois Health Facility Planning Board approved a Certificate of Need for Central DuPage Hospital and its co-applicant ProCure to build a 58,000 square foot facility in Warrenville, IL. The facility will be located within 10 miles of NIPTRC and is scheduled to open in 2011.

**STATE OF ILLINOIS**  
**NORTHERN ILLINOIS RESEARCH FOUNDATION AND RELATED SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF NET ASSETS**  
**June 30, 2008 (in thousands)**

	<u>June 30, 2008</u>
<b>ASSETS</b>	
Noncurrent assets:	
Capital assets, net of accumulated depreciation	\$ <u>756</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	<u>1,016</u>
<b>NET ASSETS</b>	
Invested in capital assets	756
Unrestricted	<u>(1,016)</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>(260)</u></b>

See accompanying notes to financial statements.

**STATE OF ILLINOIS  
 NORTHERN ILLINOIS RESEARCH FOUNDATION AND RELATED SUBSIDIARY  
 CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the year ended June 30, 2008 (in thousands)**

	<u>June 30, 2008</u>
<b>REVENUES</b>	\$ -
<b>EXPENSES</b>	
Institutional support	260
<b>DECREASE IN NET ASSETS</b>	(260)
<b>NET ASSETS, BEGINNING OF YEAR</b>	-
<b>NET ASSETS, END OF YEAR</b>	<u>\$ (260)</u>

See accompanying notes to financial statements.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS RESEARCH FOUNDATION AND RELATED SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the year ended June 30, 2008 (in thousands)**

	<u>University</u> <u>June 30, 2008</u>
<b>Reconciliation of operating (loss) to net cash used in operating activities:</b>	
Operating (loss)	\$ (260)
<b>Adjustments to reconcile operating (loss) to net cash used in operating activities:</b>	
<b>Changes in assets and liabilities</b>	
Accounts payable and accrued liabilities	260
<b>Net cash (used in) operating activities</b>	<u>\$ -</u>
 <b>Noncash capital and financing activities</b>	
Construction in progress included in accounts payable	<u>\$ 756</u>

See accompanying notes to financial statements.

**State of Illinois**  
**Northern Illinois Research Foundation and Related Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2008**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

Northern Illinois Research Foundation (the “Research Foundation”) is an Illinois nonprofit corporation established for the principal purpose of operating solely in connection with, and exclusively for the benefit of Northern Illinois University (the “University”), non-profit research and development institutions, allied and clinical health facilities, and laboratories to enhance and expand the educational, research, public service and economic development goals of the University.

The Research Foundation is a “University Related Organization,” as defined under the University Guidelines adopted by the Legislative Audit Commission in 1982, as amended in 1997, and a component unit of the State of Illinois for financial reporting purposes. Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14, the Research Foundation is included as a component unit of the University for financial reporting purposes. The financial balances and activities included in these financial statements are therefore also included in the University’s comprehensive annual financial report. All funds of the Research Foundation are locally administered and are neither subject to the State of Illinois appropriation process nor held in the State treasury.

Northern Illinois Proton Treatment and Research Center (NIPTRC) is an Illinois limited liability corporation which has been granted 501(c)(3) status by the Internal Revenue System. Its sole corporate member is the Northern Illinois Research Foundation. NIPTRC will provide proton beam therapy in a 115,000 square foot facility currently being constructed in West Chicago, Illinois. The facility will begin treating patients in the spring of 2010 and at capacity (within three years from opening) will treat between 1,200 and 1,500 patients annually. Construction of the facility has begun and equipment initialization is scheduled to begin in the fall of 2010. The cost of the facility, including equipment, is estimated at \$159,500,000. The Illinois Health Facility Planning Board has approved a Certificate of Exemption for the facility. For Fiscal Year 2008, the only activity recorded in the Foundation is related to NIPTRC.

These financial statements include all financial activities over which the Research Foundation exercises direct responsibility. The activities of the Research Foundation and NIPTRC have been consolidated and intercompany transactions and balances have been eliminated, if any.

**State of Illinois**  
**Northern Illinois Research Foundation and Related Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2008**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

For financial reporting purposes, the Research Foundation is considered a special-purpose government engaged only in business-type activities. In addition, the Research Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Association has elected not to apply FASB pronouncements issued after November 30, 1989. Accordingly, the accompanying financial statements of the Research Foundation have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

- A. The Research Foundation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC.
- B. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - NORTHERN ILLINOIS UNIVERSITY AGREEMENT**

The Research Foundation and Northern Illinois University work cooperatively to enhance and expand the educational, research and service goals of the University and are in the process of finalizing an affiliation agreement between the entities.

**NOTE 3 – CAPITAL ASSETS**

The entire balance of the \$756,000 in capital assets represents capitalized expenditures made during fiscal year 2008 for the NIPTRC project.

**State of Illinois  
Northern Illinois Research Foundation and Related Subsidiary  
Notes to the Consolidated Financial Statements  
June 30, 2008**

**NOTE 4 – ACCOUNTS PAYABLE**

The entire balance of the \$1,016,000 in accounts payable represents capital and legal expenses made for the NIPTRC project. These expenditures are scheduled for liquidation in FY 2009.

**NOTE 5 - SUBSEQUENT EVENTS**

Northern Illinois Proton Treatment established a credit agreement with JPMorgan Chase Bank, N.A. for an amount not to exceed \$15,000,000. The purpose of the credit agreement is to provide NIPTRC with short-term financing as NIPTRC prepares to issue long-term debt for the project. The long-term debt is not expected to be issued until the bond market and economic conditions have stabilized.

NIPTRC has drawn against the credit agreement three times for a total of \$7,250,000 between December 19, 2008 and March 10, 2009. Interest rates are variable and based upon LIBOR, and are currently between 2.37% and 2.59%.

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