

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

Financial Audit
For the Year Ended June 30, 2012
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois



**State of Illinois
Northern Illinois University
Financial Audit
For the Year Ended June 30, 2012**

Table of Contents

	Page
Agency Officials	1
Financial Statement Report	
Summary	2
Independent Auditors' Report	3 - 4
Management's Discussion and Analysis	5 - 14
Basic Financial Statements:	
Statement of Net Assets	15
Statement of Revenues, Expenses and Changes in Net Assets	16
Statement of Cash Flows	17 - 18
Notes to the Basic Financial Statements	19 - 40

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
Michael P. Malone	Vice President, University Advancement
Kathryn Buettner	Vice President, University Relations
Jerry D. Blakemore	Vice President and General Counsel
Danielle Schultz	Director of Internal Audit
<u>Financial Staff</u>	
Robert C. Albanese	Associate Vice President, Finance and Facilities
Keith Jackson	Controller

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 McGladrey LLP.

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



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Anthony A. Iosco, Honorable Chair of the
Legislation, Audit, External Affairs, and Compliance Committee

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Northern Illinois University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. 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. We did not audit the financial statements of the University's aggregate discretely presented component units (the "University Related Organizations"), as described in Note 1 of the financial statements as of and for the year ended June 30, 2012. The financial statements of the University Related Organizations were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the University Related Organizations, is based solely on the reports of the other auditors. The prior year partial comparative information has been derived from the University's June 30, 2011 financial statements and, in our report dated February 17, 2012, based on our audit and the reports of other auditors, we expressed unqualified opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component units.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Northern Illinois University, as of June 30, 2012, and the respective changes in its financial position and its cash flows, where applicable, 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 report under separate cover dated January 11, 2013 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Schaumburg, Illinois
January 11, 2013

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

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 ended June 30, 2012 with comparative information for the year ended June 30, 2011. 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 13 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 70 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, 2012 in spite of state reductions in general revenue appropriations and increased costs of health care. Changes in net assets represent the activity of the University, and are summarized for the years ended June 30, 2012 and 2011 as follows:

(in thousands)

	2012	2011
Total revenues	\$ 588,149	\$ 540,788
Total expenses	572,948	525,011
Increase in net assets	\$ 15,201	\$ 15,777

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 basic 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.

A summary of the University's assets, liabilities and net assets at June 30, 2012 and 2011 is as follows:

(in thousands)

	2012	2011
Current assets	\$ 122,656	\$ 136,424
Noncurrent assets:		
Cash and investments	192,886	166,009
Capital assets, net	437,646	327,427
Other	15,082	15,677
Total assets	768,270	645,537
Current liabilities	82,910	77,662
Noncurrent liabilities	400,094	297,810
Total liabilities	483,004	375,472
Net assets	\$ 285,266	\$ 270,065

A review of the University's Statement of Net Assets at June 30, 2012 shows that the University continues to build upon its strong financial foundation. This financial health reflects the prudent

utilization of the financial resources, including careful cost controls, management of the endowment, conservative utilization of debt and adherence to the long range capital plan for the maintenance and replacement of the physical plant.

Current assets consist of cash, short-term investments, short-term receivables, inventories, and other short-term assets. Cash, short-term investments, and interest receivable total \$58.0 million at June 30, 2012, which represents approximately 1.6 months of total expenses (excluding depreciation and fringe benefit expenses which are funded through supplemental state appropriations). At June 30, 2012, accounts receivable totaled \$32.9 million and appropriations receivable from the state totaled \$28.4 million. Inventories and other short-term assets totaled \$3.4 million at June 30, 2012.

Current accounts payable and accrued liabilities, which total \$60.6 million at June 30, 2012, consist primarily of trade accounts payable, accrued payroll and the current portion of performance contracts payable, bonds payable, leases payable, notes payable, and accrued compensated absences. Current liabilities also include deferred revenue. Total current liabilities are \$82.9 million at June 30, 2012

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 \$131.8 million in 2012. 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.

Construction in-progress includes assets purchased that have not been placed into service. Major components include assets acquired under performance contracts not yet completed, renovations to existing facilities to meet unfunded State mandates not yet completed, and numerous small projects to any of the over 90 buildings that comprise NIU.

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 opened in the fall of 2007 replacing the existing University Family Apartments. The facility is 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 were recorded at \$19.4 million. In fiscal year 2011, the University entered into another agreement with CHF, with two separate components. The first was to refinance the existing Northern View capital lease. The second was to build and equip an approximate 1,008 bed student housing facility consisting of two five-story residential buildings and a community center and dining hall. The new student facility was recorded as an asset and as a capital lease upon its substantial completion during fiscal year 2012.

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 six separate performance contracts outstanding,

totaling \$33.5 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 and re-affirmed this rating as recently as April 5, 2012. Bonds payable totaled \$203.7 million at June 30, 2012. These bonds have been issued to finance construction of new non-academic facilities and improvements.

Certificates of participation payable total \$3.3 million at June 30, 2012. They have been used to finance the acquisition of several academic and administrative facilities. Capitalized leases payable totaled \$146.5 million at June 30, 2012, and are considered to be installment purchases.

The following table summarizes the University's bonds payable, leases payable and certificates of participation payable outstanding on June 30, 2012 and 2011:

(in thousands)

	2012	2011
Revenue bonds payable	\$ 203,655	\$ 209,620
Leases payable	146,502	34,352
Certificates of participation payable	3,320	3,755

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, 2012 and 2011 are summarized as follows:

(in thousands)

	2012	2011
Invested in capital assets, net of related debt	\$ 154,695	\$ 165,751
Restricted	3,518	3,185
Unrestricted	127,053	101,129
Total net assets	\$ 285,266	\$ 270,065

The University's net assets increased \$15.2 million during fiscal year 2012.

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 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

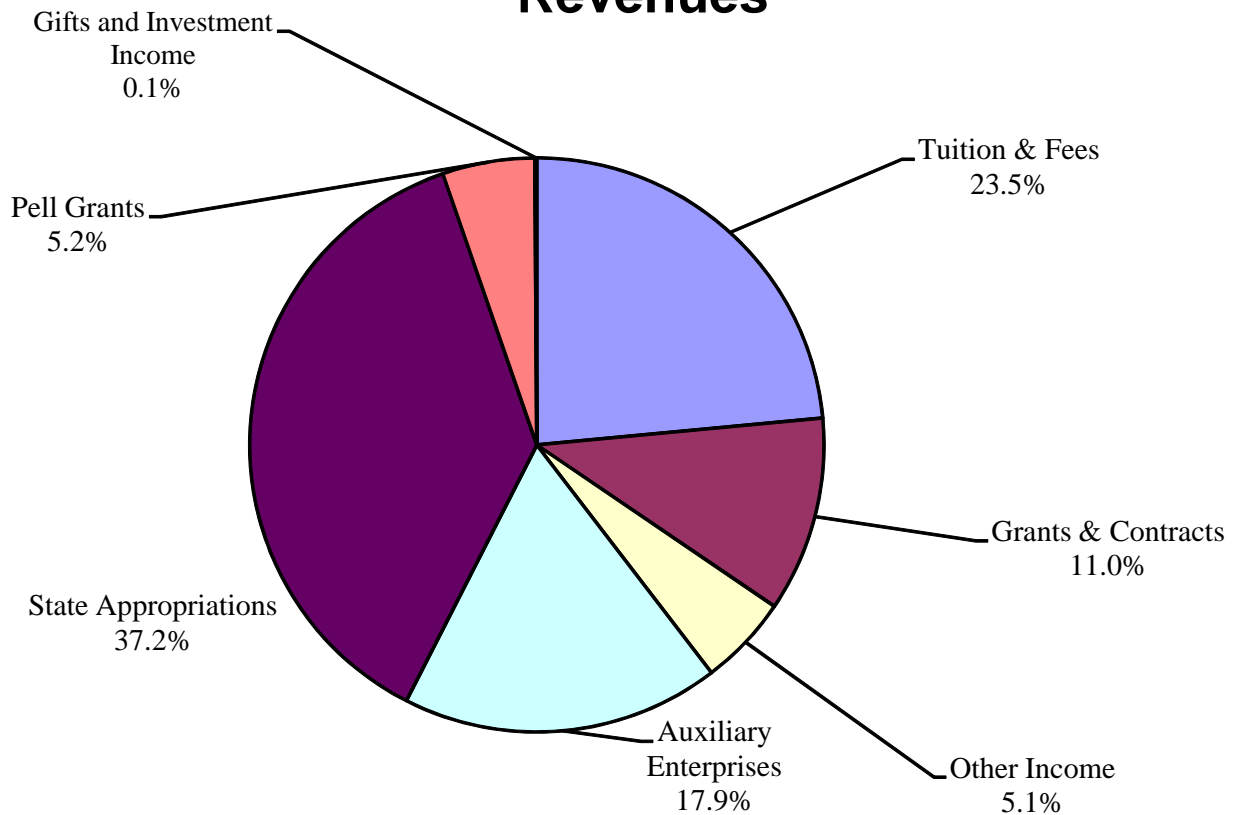
The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. Significant recurring sources of the University's revenues are considered nonoperating. These significant nonoperating sources include state appropriations, Pell grants, gifts, and investment income. A summary of the University's revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011 is as follows:

(in thousands)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Student tuition and fees	\$ 189,127	\$ 186,817
Less: scholarship allowances	<u>(50,598)</u>	<u>(42,605)</u>
Net student tuition and fees	138,529	144,212
Sponsored programs	64,709	42,489
Auxiliary enterprises	104,970	99,986
Other	<u>26,180</u>	<u>22,688</u>
	334,388	309,375
Operating expenses	<u>(556,222)</u>	<u>(511,516)</u>
Operating loss	<u>(221,834)</u>	<u>(202,141)</u>
Nonoperating revenues (expenses):		
State appropriations:		
General	99,595	100,751
Supplemental	111,223	95,681
Capital	8,069	1,491
Building America bonds subsidy	3,539	1,032
Pell Grants	30,680	31,399
Net investment income	655	1,059
Interest expense and other, net	<u>(16,726)</u>	<u>(13,495)</u>
Net nonoperating revenues	<u>237,035</u>	<u>217,918</u>
Increase in net assets	15,201	15,777
Net assets, beginning of year	<u>270,065</u>	<u>254,288</u>
Net assets, end of year	<u>\$ 285,266</u>	<u>\$ 270,065</u>

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, 2012. Significant recurring sources of the University's revenues are considered nonoperating.

Revenues



Dollars in millions

\$138.5	Revenue from charges for tuition and fees, net of scholarship allowance of \$50.6.
105.0	Revenue from the operation of self-supporting activities such as residence halls, student union, stadium, and recreation center; intercollegiate athletics; parking; and university press.
64.7	Revenue from federal, state, and private grants and contracts covering research, public service, educational services, financial aid.
<u>26.2</u>	Miscellaneous revenue consists primarily of income from sales and services of educational activities that include conferences and seminars.
<u>\$334.4</u>	Total operating
\$218.9	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.
\$ 30.7	Pell Grants.
.7	Investment income, and change in fair value of investments.
<u>3.5</u>	Build America Bond Interest subsidy.
<u>\$253.8</u>	Total non-operating
<u>\$588.2</u>	Total revenues

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees increased \$2.3 million during fiscal year 2012, primarily due to a tuition increase 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. Scholarship allowances increased \$8.0 million during fiscal year 2012, primarily due to a special federal appropriation allowing students to receive 150% of an annual Pell Grant if they attended three semesters. General state appropriations decreased \$1.2 million in fiscal year

2012. Supplemental state appropriations, payments made on behalf of the University to Central Management Services (CMS) and the State Universities Retirement System (SURS), increased \$15.5 million in fiscal year 2012. This increase is caused by growth in state funding for employer required contributions to CMS and SURS.

Revenues for sponsored programs were \$64.7 million in 2012, an increase of \$22.2 million from 2011. 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 years ended June 30, 2012 and 2011 consisted of the following components:

(in thousands)

	<u>2012</u>	<u>2011</u>
Income, net	\$ 760	\$ 1,125
Net change in the fair value of investments	<u>(105)</u>	<u>(66)</u>
	<u>\$ 655</u>	<u>\$ 1,059</u>

Investment income has remained low as a result of the decrease in market rates available.

Capital appropriations received from the State in 2012 totaling \$8.1 million, an increase of \$6.6 million from 2011, funded projects across the University.

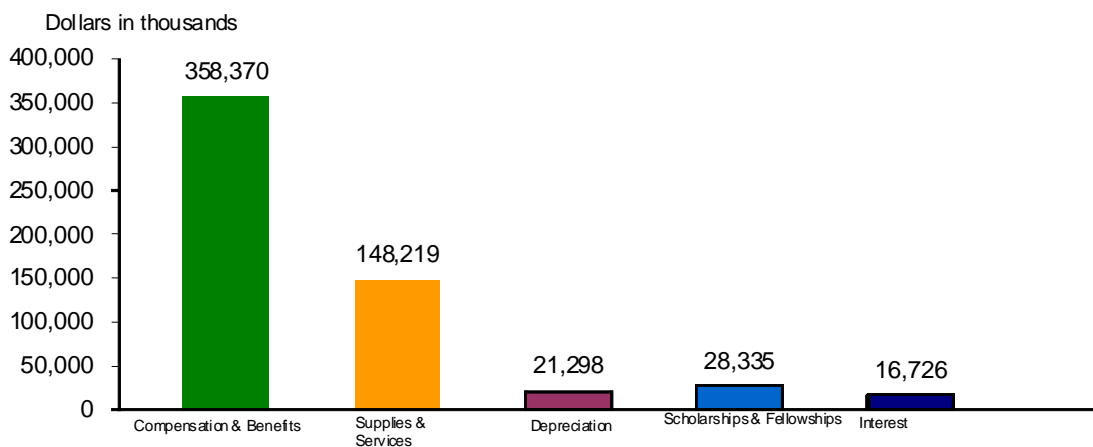
A summary of the University's expenses for the years ended June 30, 2012 and 2011 is:

(in thousands)

	<u>2012</u>	<u>2011</u>
Operating:		
Compensation and benefits	\$ 358,370	\$ 337,989
Supplies and services	148,219	119,948
Depreciation	21,298	21,363
Scholarships and fellowships	<u>28,335</u>	<u>32,216</u>
	556,222	511,516
Nonoperating:		
Interest and other	<u>16,726</u>	<u>13,495</u>
Total expenses	<u>\$ 572,948</u>	<u>\$ 525,011</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 2012 by object:



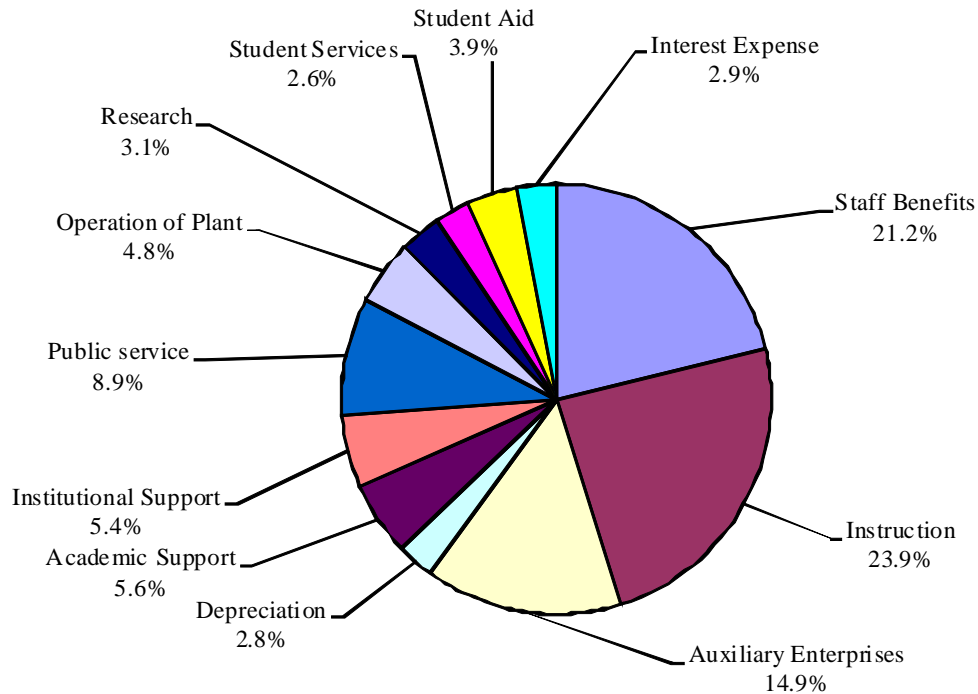
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the years ended June 30, 2012 and 2011 is as follows:

(in thousands)

	2012	2011
Operating:		
Instruction	\$ 136,867	\$ 129,155
Research	17,296	16,735
Public service	51,265	27,135
Academic support	32,198	31,163
Student services	14,781	13,751
Auxiliary enterprises	85,651	83,023
Operations and maintenance of plant	27,320	27,836
Depreciation	15,926	15,974
Institutional support	30,817	35,179
Staff benefits	121,732	105,487
Student aid	22,369	26,078
Total operating expenses	<u>556,222</u>	<u>511,516</u>
Nonoperating:		
Interest expense	16,726	13,495
Total expenses	<u>\$ 572,948</u>	<u>\$ 525,011</u>

The following graphic illustration presents total expenses for fiscal year 2012 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, 2012 and 2011 is as follows:

(in thousands)

	2012	2011
Cash received from operations	\$ 325,205	\$ 322,157
Cash expended for operations	(411,415)	(388,701)
Net cash used in operating activities	(86,210)	(66,544)
Net cash (used in) provided by investing activities	(1,748)	(142,907)
Net cash provided by (used in) capital and related financing activities	(36,403)	76,548
Net cash provided by noncapital financing activities	143,195	114,738
Net (decrease) increase in cash and cash equivalents	18,834	(18,165)
Cash and cash equivalents, beginning of year	42,055	60,220
Cash and cash equivalents, end of year	\$ 60,889	\$ 42,055

The University's cash and cash equivalents increased \$18.8 million. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations, Pell grants, and private gifts used to fund operating activities, for which cash received totaled \$143.2 million in fiscal 2012.

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 2012, 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. Fiscal year 2013 budgeted state support is below the fiscal year 2012 level.

To mitigate the impact of the decrease in state support, the University raised tuition rates 4.8% for new students covered by Truth-in-Tuition. Enrollment projections continue to be steady.

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 2012 to fiscal year 2013 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, 2012 (in thousands)
(with Comparative Totals for 2011)**

	University		Component Units	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
ASSETS				
Current assets				
Cash and cash equivalents	\$ 38,426	\$ 33,527	\$ 5,721	\$ 1,903
Restricted cash and cash equivalents	-	-	-	81
Investments and marketable securities	19,227	29,755	-	-
Accrued interest receivable	313	324	-	-
Accounts receivable - net	32,890	24,371	2,583	1,174
Appropriations receivable from state	28,359	45,307	-	-
Inventories	3,307	3,109	-	-
Other assets	134	31	32	59
Total current assets	<u>122,656</u>	<u>136,424</u>	<u>8,336</u>	<u>3,217</u>
Noncurrent assets				
Restricted cash and cash equivalents	22,463	8,528	-	-
Investments and marketable securities	98,778	56,675	71,727	68,403
Restricted investments and marketable securities	71,645	100,806	-	-
Student loans receivable - net	8,718	9,018	-	-
Due from component units	2,752	2,857	-	-
Unamortized debt discount	3,612	3,802	97	121
Other	-	-	5,192	1,507
Capital assets, net of accumulated depreciation	437,646	327,427	21,293	20,519
Total noncurrent assets	<u>645,614</u>	<u>509,113</u>	<u>98,309</u>	<u>90,550</u>
TOTAL ASSETS	<u>768,270</u>	<u>645,537</u>	<u>106,645</u>	<u>93,767</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	60,587	53,737	2,355	2,156
Accrued compensated absences	3,415	3,014	-	-
Student's deposits	315	323	-	-
Deferred tuition and fees	8,749	7,944	-	-
Deferred revenue and grants	9,643	11,272	-	-
Agency	201	1,372	-	-
Total current liabilities	<u>82,910</u>	<u>77,662</u>	<u>2,355</u>	<u>2,156</u>
Noncurrent liabilities				
Accounts payable and accrued liabilities	-	-	147	144
Due to NIU	-	-	2,752	2,857
Performance contracts payable	31,025	32,237	-	-
Accrued compensated absences	15,231	17,928	-	-
Government loan fund advances	8,172	8,289	-	-
Revenue bonds payable	197,360	202,690	2,551	3,257
Leases payable	145,451	33,346	-	-
Certificates of participation	2,855	3,320	-	-
Total noncurrent liabilities	<u>400,094</u>	<u>297,810</u>	<u>5,450</u>	<u>6,258</u>
TOTAL LIABILITIES	<u>483,004</u>	<u>375,472</u>	<u>7,805</u>	<u>8,414</u>
NET ASSETS				
Invested in capital assets, net of related debt	154,695	165,751	18,111	16,382
Restricted:				
Nonexpendable - endowments	-	-	45,711	43,206
Expendable	3,518	3,185	26,339	16,696
Unrestricted	127,053	101,129	8,679	9,069
TOTAL NET ASSETS	<u>\$ 285,266</u>	<u>\$ 270,065</u>	<u>\$ 98,840</u>	<u>\$ 85,353</u>

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2012 (in thousands)
(with Comparative Totals for 2011)

	University		Component Units	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
REVENUES				
Operating revenues				
Tuition and fees, net	\$ 138,529	\$ 144,212	\$ -	\$ -
Federal and state grants and other contracts	62,925	40,114	1,132	6,008
Private gifts, grants, and contracts	1,784	2,375	15,220	5,879
Sales and service of educational activities	19,447	18,757	-	-
Other sources	6,733	3,931	2,139	12,067
Auxiliary enterprises	104,970	99,986	-	-
Total operating revenues	<u>334,388</u>	<u>309,375</u>	<u>18,491</u>	<u>23,954</u>
EXPENSES				
Operating expenses				
Instruction	136,867	129,155	1,906	1,942
Research	17,296	16,735	33	8
Public service	51,265	27,135	588	1,127
Academic support	32,198	31,163	194	140
Student services	14,781	13,751	1,113	1,161
Operation and maintenance of plant	27,320	27,836	886	773
Depreciation	15,926	15,974	-	-
Institutional support	30,817	35,179	4,534	4,023
Staff benefits	121,732	105,487	-	-
Student aid	22,369	26,078	1,256	1,141
Auxiliary enterprises	85,651	83,023	-	-
Total operating expenses	<u>556,222</u>	<u>511,516</u>	<u>10,510</u>	<u>10,315</u>
Net operating income (loss)	<u>(221,834)</u>	<u>(202,141)</u>	<u>7,981</u>	<u>13,639</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general	99,595	100,751	-	-
State appropriations - on-behalf payments	111,223	95,681	-	-
Build America Bonds subsidy	3,539	1,032	-	-
Investment income	760	1,125	87	405
Expendable gifts and other	-	-	263	275
Pell grants	30,680	31,399	-	-
Impairment of capital assets	-	-	-	(36)
Net increase (decrease) in fair value of investments	(105)	(66)	-	-
Interest expense	(16,726)	(13,495)	(5)	(152)
Contract settlement	-	-	-	(75)
Net nonoperating revenues	<u>228,966</u>	<u>216,427</u>	<u>345</u>	<u>417</u>
Income before other revenues, expenses, gains, or losses	7,132	14,286	8,326	14,056
Capital appropriations	8,069	1,491	-	-
Gifts to permanent endowments	-	-	5,161	2,820
INCREASE IN NET ASSETS	15,201	15,777	13,487	16,876
NET ASSETS, BEGINNING OF YEAR	<u>270,065</u>	<u>254,288</u>	<u>85,353</u>	<u>68,477</u>
NET ASSETS, END OF YEAR	<u>\$ 285,266</u>	<u>\$ 270,065</u>	<u>\$ 98,840</u>	<u>\$ 85,353</u>

See accompanying notes to the basic financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2012 (in thousands)
(with Comparative Totals for 2011)**

	University	
	June 30, 2012	June 30, 2011
Cash flows from operating activities		
Student tuition and fees	\$ 139,385	\$ 143,954
Federal and state grants and other contracts	61,295	48,836
Private gifts, grants, and contracts	1,784	2,375
Sales and service of educational activities	11,066	20,806
Auxiliary enterprises	104,774	100,568
Payment to suppliers	(132,322)	(111,852)
Payment to employees	(249,604)	(243,517)
Payments for scholarships	(28,335)	(32,216)
Loans to students and employees	(1,154)	(1,116)
Collection of loans to students and employees	1,339	1,498
Other receipts, net	5,562	4,120
Net cash (used in) operating activities	<u>(86,210)</u>	<u>(66,544)</u>
Cash flows from noncapital financing activities		
State appropriations	112,515	83,339
Pell grants	30,680	31,399
Net cash provided by noncapital financing activities	<u>143,195</u>	<u>114,738</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of debt	132,267	223,745
State appropriations	4,029	840
Purchase of capital assets	(131,799)	(31,458)
Principal payments on capital debt	(28,868)	(103,135)
Interest payments on capital debt	(15,571)	(14,476)
Build America Bonds subsidy	3,539	1,032
Net cash (used in) provided by capital and related financing activities	<u>(36,403)</u>	<u>76,548</u>
Cash flows from investing activities		
Interest income on investments	771	867
Proceeds from sales and maturities of investments	454,457	275,559
Purchase of investments	(456,976)	(419,333)
Net cash (used in) investing activities	<u>(1,748)</u>	<u>(142,907)</u>
Net increase (decrease) in cash and cash equivalents	18,834	(18,165)
Cash and cash equivalents, beginning of year	<u>42,055</u>	<u>60,220</u>
Cash and cash equivalents, end of the year	<u>\$ 60,889</u>	<u>\$ 42,055</u>

See accompanying notes to the basic financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS, CONTINUED
For the year ended June 30, 2012 (in thousands)
(with Comparative Totals for 2011)**

	University	
	June 30, 2012	June 30, 2011
Reconciliation of operating (loss) to net cash provided by (used in) operating activities:		
Operating (loss)	\$ (221,834)	\$ (202,141)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:		
Depreciation expense - non-Auxiliary enterprises	15,926	15,974
Depreciation expense - Auxiliary enterprises	5,372	5,389
(Gain) loss on disposal of capital assets	282	71
On behalf payments for fringe benefits	111,223	95,681
State expenses for non-capitalized CDB projects	8,069	651
Changes in assets and liabilities		
Accounts receivable	(8,519)	2,156
Inventories	(198)	(65)
Student loans receivable	300	521
Other assets	2	(306)
Accounts payable and accrued liabilities	7,583	7,924
Accrued compensated absences	(2,296)	(1,389)
Students' deposits	(8)	323
Deferred revenue and grants	(824)	8,615
Government loan fund advances	(117)	(138)
Agency	(1,171)	190
Net cash (used in) operating activities	\$ (86,210)	\$ (66,544)
Noncash investing, capital, noncapital and financing activities		
On-behalf payments for fringe benefits	\$ 111,223	\$ 95,681
Unpaid state appropriation revenue	28,359	45,307
Accretion of bond principal	965	1,105
Cost of capital assets not being depreciated included in accounts payable	2,875	1,193
Unrealized gain (loss)	(105)	(66)
State expenses for non-capitalized CDB projects	4,040	651
Total noncash activities	\$ 147,357	\$ 143,871

See accompanying notes to the basic financial statements.

State of Illinois

Northern Illinois University

Notes to the Basic Financial Statements

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), the Northern Illinois University Alumni Association (the Association), and the Northern Illinois Research Foundation (the Research Foundation) are Illinois nonprofit corporations. The Foundation was established to promote and serve the interests and welfare of the University. The Association was established to build relationships between alumni and the University. The Research Foundation was established to benefit and support the teaching, research and service missions of the University. The Foundation, the Association, and the Research Foundation 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. Financial Statements for the Research Foundation may be obtained by writing to the Northern Illinois Research Foundation President, 2700 International Drive, Suite 100, West Chicago, Illinois 60185.

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 uses the economic resources measurement focus and the accrual basis of accounting. 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

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 and certain nonexchange transactions consisting of operating grants.

Student tuition and fees, presented net of scholarships and fellowships of \$50,598,000 for fiscal year 2012, 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, Pell grants, and investment income are considered to be nonoperating income. 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 \$111,223,000 made by the State of Illinois in fiscal year 2012 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 benefits operating expenses. The on-behalf payments to SURS and CMS were \$48,870,000 and \$62,353,000 for fiscal year 2012, respectively.

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 2011 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally

State of Illinois

Northern Illinois University

Notes to the Basic Financial Statements, continued

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, 2011.

Certain items in the June 30, 2011 financial statements have been reclassified to correspond to the June 30, 2012 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 accounting principles generally accepted in the United States of America, 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.

Restricted cash and investments are for capital projects at the University, funded by an external debt issue.

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method, which approximates the interest method.

Capital assets are recorded at cost when purchased or fair value at the date of donation. The University follows the State of Illinois policy for capitalization with thresholds as follows: Infrastructure - \$250,000; Land - \$100,000; Land improvements - \$25,000; Site improvements - \$25,000; Buildings - \$100,000; Building improvements - \$25,000; Equipment - \$5,000; and Works of art, historical treasures - \$5,000. Depreciation is calculated on a straight-line basis over the estimated useful lives (five to forty years) of the respective assets.

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, 2012, the accrued liability for this benefit was \$12,529,000, 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, 2012, the accrued liability of this benefit was \$6,117,000, 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.

State of Illinois

Northern Illinois University

Notes to the Basic Financial Statements, continued

New and Pending Accounting Pronouncements

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, will be effective for the University beginning with its year ending June 30, 2013. The statement applies to public-private partnerships in which the public institution retains specific control criteria. The standard generally applies to arrangements to provide services through the use of infrastructure or another public asset, such as a facility.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, will be effective for the University beginning with its year ending June 30, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the University beginning with its year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was established to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The University is required to implement this Statement for the year ending June 30, 2013.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The University is required to implement this Statement for the year ending June 30, 2014.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* was established to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The University is required to implement this Statement for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, will be effective for the University beginning with its year ended June 30, 2014. This statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. This statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans and requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules.

Statement No. 68, *Accounting and Financial Reporting for Pensions* requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The University is required to implement this Statement for the year ending June 30, 2015.

Management has not determined the impact of the pending pronouncements not yet adopted on its financial statements.

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, 2012, cash deposits of \$37,268,000 held by the University were insured or collateralized with securities held by the University or its custodian in the name of the University.

State of Illinois

Northern Illinois University

Notes to the Basic Financial Statements, continued

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.

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. Assure an optimal flow of cash to meet university obligations;
- C. Produce a yield which, when compared to the current marketplace, would be described as acceptable by conservative investment managers

while maintaining consistency with applicable State Statutes, and/or bond indentures.

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 is considered to have a concentration of credit risk if its investments in any one single issuer, other than securities explicitly guaranteed by the U.S. government, are greater than 5% of total investments. The University's investments which comprise more than 5% of its investments are listed below.

<u>Investment</u>	<u>Total</u>
Federal Home Loan Bank	\$33,507
Federal National Mortgage Association	41,140
Federal Home Loan Mortgage Corporation	46,629

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.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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 (\$000's):

Quality rating	Money Market	Commercial Paper	U.S. Agency	Total
AA+	\$ -	\$ -	\$170,423	\$ 170,423
AAAm	19,227	-	-	19,227
Total	<u>\$ 19,227</u>	<u>\$ -</u>	<u>\$170,423</u>	<u>\$ 189,650</u>

Current and noncurrent cash equivalents also include \$10,117,000 of AAAm rated money market investments and \$7,504,000 of AA+ rated U.S. Agency securities.

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following table shows the University's investments categorized by maturity:

Segmented Time Distribution	Money Market	Commercial Paper	U.S. Agency	Total
0 – 1 year	\$ -	\$ -	\$ 26,998	\$ 26,998
1 – 3 years	-	-	86,743	86,743
3 – 5 years	-	-	56,682	56,682
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,423</u>	<u>\$ 170,423</u>

Current and noncurrent cash equivalents also include \$7,504,000 of U.S. Agency securities with maturities of three months or less.

Component Units (\$000's)

Quality rating	Mutual Funds	Stock	Limited Partnerships	Other	Total
AAA	\$ 1,981	\$ -	\$ -	\$ -	\$ 1,981
AA+	3,156	-	-	-	3,156
AA	3,299	-	-	-	3,299
AA-	3,151	-	-	-	3,151
A+	9	-	-	-	9
BBB	5,686	-	-	-	5,686
Not rated	46,978	799	6,561	107	54,445
Total	<u>\$ 64,260</u>	<u>\$ 799</u>	<u>\$ 6,561</u>	<u>\$ 107</u>	<u>\$ 71,727</u>

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

Weighted Average Duration	Mutual Funds
0.2 years	\$ 1,981
2.8 years	3,299
3.1 years	1,281
3.7 years	9
5.4 years	3,151
5.6 years	4,405
6.2 years	3,156
Total	<u>\$ 17,282</u>

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 35 investment management firms to execute the strategy it has established.

4. Receivables

Accounts Receivable is reported net of an allowance for uncollectible accounts of \$10,026,000 at June 30, 2012. The composition of accounts receivable at June 30, 2012 is summarized as follows (\$000's):

	<u>University</u>	<u>Component Units</u>
Student accounts	\$ 28,561	\$ -
Customer accounts	1,642	-
Grants receivable	12,711	-
Others	<u>2</u>	<u>2,739</u>
Gross receivables	42,916	2,739
Less: allowance for uncollectible accounts	<u>(10,026)</u>	<u>(156)</u>
Net accounts receivable	<u>\$ 32,890</u>	<u>\$ 2,583</u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2012 totaling \$8,718,000 and are reported net of an allowance for uncollectible accounts of \$76,000.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

5. Capital Assets

Capital assets activity for the year ended June 30, 2012 is summarized as follows:

University (\$000's)	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 19,281	\$ -	\$ -	\$ -	\$ 19,281
Construction in-progress	44,008	126,480	-	(33,386)	137,102
Total capital assets not being depreciated	63,289	126,480	-	(33,386)	156,383
Capital assets being depreciated:					
Land improvements	66,506	-	-	3,185	69,691
Buildings	461,224	-	(1)	30,201	491,424
Equipment	178,271	5,319	(1,839)	-	181,751
Other assets	3,820	-	-	-	3,820
Total capital assets being depreciated	709,821	5,319	(1,840)	33,386	746,686
Less: accumulated depreciation	(445,683)	(21,298)	1,558	-	(465,423)
Total capital assets being depreciated, net	264,138	(15,979)	(282)	33,386	281,263
Total capital assets, net	\$ 327,427	\$ 110,501	\$ (282)	\$ -	\$ 437,646
Component Units (\$000's)	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 3,829	\$ -	\$ -	\$ -	\$ 3,829
Collections	332	-	-	-	332
Construction in-progress	4,293	584	(67)	-	4,810
Total capital assets not being depreciated	8,454	584	(67)	-	8,971
Capital assets being depreciated:					
Buildings	11,871	-	-	-	11,871
Furniture	2,104	886	(38)	-	2,952
Total capital assets being depreciated	13,975	886	(38)	-	14,823
Less: accumulated depreciation	(1,910)	(598)	7	-	(2,501)
Total capital assets, net	\$ 20,519	\$ 872	\$ (98)	\$ -	\$ 21,293

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2012 are as follows (\$000's):

	<u>University</u>	<u>Component Units</u>
Payable to vendors/suppliers	\$ 43,153	\$ 2,210
Accrued payroll	7,168	-
Current portion of noncurrent liabilities:		
Performance contracts payable	2,455	-
Revenue bonds payable	6,295	145
Leases payable	1,051	-
Notes payable	465	-
Total current accounts payable and accrued liabilities	<u>60,587</u>	<u>2,355</u>
Noncurrent accounts payable and accrued liabilities	<u>-</u>	<u>147</u>
Total accounts payable and accrued liabilities	<u>\$ 60,587</u>	<u>\$ 2,502</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

Outstanding balances at June 30, 2012 are as follows (\$000's):

	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
Performance Contract					
Convocation Center	\$ 252	\$ -	\$ 252	\$ -	\$ -
Phase II Lighting	301	-	301	-	-
West Plant	1,020	-	500	520	520
West Campus Control Valve Retrofit	307	-	98	209	102
Energy Infrastructure Improvements	1,534	-	289	1,245	301
Energy Infrastructure Improvements – Phase 7	3,224	-	3,224	-	-
Energy Infrastructure Improvements – Phase 8	7,555	-	7,555	-	-
Energy Infrastructure Improvements – Phase 9	3,766	-	3,766	-	-
Energy Infrastructure Improvements – Phase 9B	4,445	-	4,445	-	-
Energy Infrastructure Improvements–Phase 10A	1,397	-	68	1,329	72
Energy Infrastructure Improvements–Phase 10B	11,065	-	-	11,065	305
Energy Infrastructure Improvements –Refinance	-	19,112	-	19,112	1,155
	<u>\$ 34,866</u>	<u>\$ 19,112</u>	<u>\$ 20,498</u>	<u>\$ 33,480</u>	<u>\$ 2,455</u>

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

Year Ending June 30	Principal	Interest	Total
2013	\$ 2,455	\$ 1,315	\$ 3,770
2014	2,258	965	3,223
2015	2,211	892	3,103
2016	2,126	822	2,948
2017	2,193	754	2,947
2018-2022	11,110	2,755	13,865
2023-2027	11,127	910	12,037
Total	<u>\$ 33,480</u>	<u>\$ 8,413</u>	<u>\$ 41,893</u>

Interest rates range from 2.48% to 4.83%. 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

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's):

Balance, beginning of year	\$ 20,942
Additions/(Deductions)	<u>(2,296)</u>
Balance, end of year	18,646
Less current portion	<u>3,415</u>
Balance, end of year, noncurrent portion	<u><u>\$ 15,231</u></u>

Amounts reported as current are based upon historical trends.

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's):

Balance, beginning of year	\$ 11,272
Additions/(Deductions)	<u>(1,629)</u>
Balance, end of year	<u><u>\$ 9,643</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's):

Balance, beginning of year	\$ 8,289
Additions/(Deductions)	<u>(117)</u>
Balance, end of year	<u><u>\$ 8,172</u></u>

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

11. Revenue Bonds Payable

Revenue bonds outstanding as of June 30, 2012 are as follows (\$000's):

Issue	Beginning Balance	Issued / Accreted	Retired / Defeased	Ending Balance	Current Portion	Future Revenues Pledged	Debt Service to Pledged Revenue (Current Year)
Series 1992 (B)	\$ 16,460	\$ 965	\$ 3,730	\$ 13,695	\$ 3,730	\$ 15,640	20%
Series 2010	126,025	-	-	126,025	-	366,001	7%
Series 2011	67,135	-	3,200	63,935	2,565	99,607	4%
	<u>\$ 209,620</u>	<u>\$ 965</u>	<u>\$ 6,930</u>	<u>\$ 203,655</u>	<u>\$ 6,295</u>	<u>\$ 481,248</u>	
Component Unit	\$ 3,257	\$ -	\$ 561	\$ 2,696	\$ 145		

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 interest ranges from 6.15% to 6.55%.

In December, 2010, the University issued \$126,025,000 of taxable Auxiliary Facilities Systems Revenue Bonds (Series 2010) under the Build America Program. The proceeds will be used to finance various capital additions, improvements and renovations to the Auxiliary Facilities System of the University, capitalized interest, and the costs of issuance. Taxable interest rates range from 7.75% to 8.15%, with the University receiving an amount equivalent to 35% of the interest expense back from the United States Treasury. The bonds mature at varying amounts from 2028 through 2041. Interest payments are due semi-annually.

In January, 2011, the University issued \$67,135,000 of Auxiliary Facilities System Revenue Bonds (Series 2011) to refund the outstanding principal amount of the Series 1999 and the Series 2001 Auxiliary Facilities System Revenue Bonds. The Series 1999 and Series 2001 bonds were called in fiscal year 2011 and are no longer outstanding. Stated interest rates range from 3.0% to 5.50%. The bonds mature at varying amounts from 2012 through 2028. Interest payments are due semi-annually.

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. Future revenue pledges are scheduled to expire upon the final maturities of principal and interest. The Series 1992, Series 2010, and Series 2011 are further secured by non-cancelable policies of municipal bond insurance. A pledge and lien on pledged tuition also secure the Series 2010 and Series 2011 bonds.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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
2013	\$ 6,178	\$ 117	\$ 13,403	\$ 19,698
2014	3,387	343	13,300	17,030
2015	3,330	560	13,300	17,190
2016	3,147	753	13,295	17,195
2017	3,733	172	13,288	17,193
2018-2022	22,475	-	63,486	85,961
2023-2027	28,880	-	57,082	85,962
2028-2032	37,290	-	47,458	84,748
2033-2037	47,935	-	31,267	79,202
2038-2041	47,300	-	9,769	57,069
Total	<u>\$ 203,655</u>	<u>\$ 1,945</u>	<u>\$ 275,648</u>	<u>\$ 481,248</u>

Component Units (\$000's)

Year Ending June 30	Principal	Accretion	Interest	Total
2013	\$ 145	\$ -	\$ 122	\$ 267
2014	594	-	105	699
2015	622	-	77	699
2016	652	-	47	699
2017	683	-	16	699
Total	<u>\$ 2,696</u>	<u>\$ -</u>	<u>\$ 367</u>	<u>\$ 3,063</u>

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 \$147,039,000, net of accumulated depreciation of \$7,750,000 at June 30, 2012.

Capital leases outstanding principal balances as of June 30, 2012 are as follows (\$000's):

	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Naperville Project	\$ 13,890	\$ -	\$ 720	\$ 13,170	\$ 755
IASBO Building	659	-	37	622	39
Northern View	19,070	-	-	19,070	-
Motor Coaches	437	-	103	334	107
Oracle Database	296	-	146	150	150
First Year Residence	-	113,156	-	113,156	-
Net Present Value	<u>\$ 34,352</u>	<u>\$113,156</u>	<u>\$ 1,006</u>	<u>\$146,502</u>	<u>\$ 1,051</u>

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

During fiscal year 2007, the University entered an agreement with CHF – DeKalb, L.L.C. to develop, finance, design, construct, equip and operate a student housing facility. The Northern View facility is owned by CHF, but managed by NIU Housing and Dining. The agreement required no capital outlay from the University, but generally accepted accounting principles required the University to report the transaction as a capital lease. In fiscal year 2011, the University entered into another agreement with CHF, with two separate components. The first was to refinance the existing Northern View capital lease. The second was to build and equip the new First Year Residence facility which was recorded as an asset and as a capital lease upon its substantial completion during fiscal year 2012.

Future minimum lease payments for the above assets under capital leases at June 30, 2012 on originally scheduled minimum payments and estimated interest are (\$000's):

Year Ending June 30	Principal	Interest	Total
2013	\$ 1,051	\$ 9,486	\$ 10,537
2014	1,527	9,440	10,967
2015	1,849	9,366	11,215
2016	2,065	9,277	11,342
2017	2,433	9,172	11,605
2018-2022	16,644	43,643	60,287
2023-2027	19,218	38,389	57,607
2028-2032	21,160	32,213	53,373
2033-2037	29,475	23,907	53,382
2038-2042	41,090	12,284	53,374
2043	9,990	687	10,677
Total	<u>\$146,502</u>	<u>\$197,864</u>	<u>\$344,366</u>

13. Certificates of Participation and Notes Payable

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

Issue	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
Certificates of Participation / Notes Payable:					
Series 1993 - Hoffman Estates Facility	\$ 3,755	\$ -	\$ 435	\$ 3,320	\$ 465
Total	<u>\$ 3,755</u>	<u>\$ -</u>	<u>\$ 435</u>	<u>\$ 3,320</u>	<u>\$ 465</u>
Notes Payable:					
Component Unit	\$ 1,000	\$ -	\$ 1,000	\$ -	\$ -

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. The interest is 5%.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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

Year Ending June 30	Principal	Interest	Total
2013	\$ 465	\$ 167	\$ 632
2014	485	141	626
2015	515	114	629
2016	550	85	635
2017	1,305	35	1,340
Total	<u>\$ 3,320</u>	<u>\$ 542</u>	<u>\$ 3,862</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:

University Net Assets (\$000's)

Invested in capital assets, net of related debt	\$ 154,695
Restricted:	
Nonexpendable	-
Expendable	3,518
Unrestricted	127,053
Total	<u>\$ 285,266</u>

Component Units Net Assets (\$000's)

Invested in capital assets, net of related debt	\$ 18,111
Restricted:	
Nonexpendable	45,711
Expendable	26,339
Unrestricted	8,679
Total	<u>\$ 98,840</u>

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 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.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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

Unrestricted net assets are not subject to externally imposed stipulations; however, 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.

15. Transactions with Component Units

During fiscal year 2012, the University engaged the Foundation, under contract, to provide fundraising services. As provided by the contract agreement, the University paid \$612,000 for fundraising services. Additionally, the University provided services to the Foundation valued at \$612,000. As required by the contract, the Foundation fully repaid the University for the services provided, using funds considered unrestricted. The University engaged the Research Foundation, under contract, to provide services to aid the University in its economic development, public service, research and educational missions. As provided by the contract, the University paid the Research Foundation \$185,000 for these services.

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

	<u>Alumni</u>	<u>Research</u>	<u>Foundation Association Foundation</u>
Funds considered unrestricted:			
Totally unrestricted administrative services	\$ 765	\$ -	\$ 185
Support for University programs and departments	4,812	500	-
Administrative and office expense	43	-	-
Provided for library books, equipment and property improvements	685	-	-
Total funds considered unrestricted	<u>6,305</u>	<u>500</u>	<u>185</u>
Funds considered restricted:			
Provided for scholarships and awards	1,115	23	-
Provided for library books, equipment and property improvements	727	-	-
Other restricted fund provided to the University:			
Restricted fund	997	-	-
Endowment fund	227	-	-
Total funds considered restricted	<u>3,066</u>	<u>23</u>	<u>-</u>
Total funds provided to the University	<u>\$ 9,371</u>	<u>\$ 523</u>	<u>\$ 185</u>

The University entered into a ten year lease with the Foundation for the rental of space in the Jeffrey and Kimberly Yordon Center in 2007. The building houses state of the art strength and conditioning facilities, academic and tutoring support, coach’s offices, locker rooms, and medical treatment and rehabilitation services. The lease calls for the University to be responsible for insurance and maintenance of the building. The lease amount is included in the Operating Lease disclosure.

The University entered into an irrevocable letter of intent with the Foundation in August 2012 to enter into a lease agreement for the planned Kenneth and Ellen Chessick Practice Center. The 91,500

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

square foot facility will serve to enhance campus life and sports-related activities and services. The Foundation's commitment includes the development, financing and construction of the new facility. The University's commitment is to enter into a lease agreement for space in the new facility, once developed, for a period of 90 months.

16. Operating Leases

The University leases various buildings under operating lease agreements. Total rental expense for the year ended June 30, 2012, under these agreements was \$1,163,000.

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

Year Ending	
June 30	Amount
2013	\$ 1,124
2014	913
2015	863
2016	795
2017	699
Total	<u>\$ 4,394</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 Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.SURS.org or by calling 1-800-275-7877.

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 for fiscal year 2013 is 34.51% of annual covered payroll. The employer contributions to SURS for the years ended June 30, 2012, 2011, and 2010 were \$48,870,000, \$39,096,000 and \$35,451,000, respectively, equal to the required contributions for each year. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

18. Postemployment Benefits

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State and university employees become eligible for these other postemployment benefits (OPEB) if they eventually become annuitants of one of the State sponsored pension plans. The portions of the Act related to OPEB establish a cost-sharing multiple-employer defined OPEB plan with a special funding situation in which the State funds substantially all nonparticipant contributions. The plan does not issue a standalone financial report but is included as a part of the State's financial statements. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The State pays the University's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including postemployment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

19. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2012 are summarized as follows:

University (\$000's)	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 113,112	\$ 21,186	\$ 2,569	\$ -	\$ 136,867
Research	9,540	7,541	215	-	17,296
Public Service	15,182	35,529	554	-	51,265
Academic					
Support	19,106	12,798	294	-	32,198
Student Services	10,596	4,169	16	-	14,781
O&M	14,041	13,279	-	-	27,320
Depreciation	-	-	-	15,926	15,926
Inst. Support	20,567	10,248	2	-	30,817
Staff Benefits	121,732	-	-	-	121,732
Student Aid	1,037	334	20,998	-	22,369
Auxiliary	33,457	43,135	3,687	5,372	85,651
Total	\$ 358,370	\$ 148,219	\$ 28,335	\$ 21,298	\$ 556,222

Component Units (\$000's)	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 593	\$ 1,313	\$ -	\$ -	\$ 1,906
Research	13	20	-	-	33
Public Service	125	463	-	-	588
Academic					
Support	5	189	-	-	194
Student Services	89	1,024	-	-	1,113
O&M	-	295	-	591	886
Inst. Support	1,258	3,276	-	-	4,534
Student Aid	-	-	1,256	-	1,256
Total	\$ 2,083	\$ 6,580	\$ 1,256	\$ 591	\$ 10,510

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.

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, continued

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.

21. Commitments and Contingencies

At June 30, 2012, the University had commitments on various construction projects and contracts for repairs and renovations of facilities of approximately \$31.8 million.

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.

State of Illinois

Northern Illinois University

Notes to the Basic Financial Statements, continued

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>Northern IL Research Foundation</u>
Condensed Statement of Net Assets			
ASSETS:			
Current assets	\$ 8,172	\$ 1	\$ 163
Noncurrent assets			
Capital assets, net of accumulated depreciation	16,250	-	5,043
Investments administered by NIU Foundation	71,727	2,260	-
Other noncurrent assets	5,289	-	-
TOTAL ASSETS	<u>\$ 101,438</u>	<u>\$ 2,261</u>	<u>\$ 5,206</u>
LIABILITIES:			
Current liabilities	\$ 1,933	\$ 219	\$ 203
Noncurrent liabilities			
Deposits held for NIU Alumni Association	2,260	-	-
Deposits held for NIU	2,752	-	-
Endowments and life income trusts	147	-	-
Bonds and notes payable	2,551	-	-
TOTAL LIABILITIES	<u>9,643</u>	<u>219</u>	<u>203</u>
NET ASSETS:			
Invested in capital assets	13,068	-	5,043
Restricted			
Nonexpendable	45,632	79	-
Expendable	26,097	242	-
Unrestricted	6,998	1,721	(40)
Total net assets	<u>91,795</u>	<u>2,042</u>	<u>5,003</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 101,438</u>	<u>\$ 2,261</u>	<u>\$ 5,206</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating revenues	\$ 15,862	\$ 63	\$ 2,621
Operating expenses	9,371	523	671
Operating income (loss)	6,491	(460)	1,950
Nonoperating revenue (expenses)	5,161	350	(5)
Increase (decrease) in net assets	11,652	(110)	1,945
Net assets, beginning of year	80,143	2,152	3,058
Net assets, end of year	<u>\$ 91,795</u>	<u>\$ 2,042</u>	<u>\$ 5,003</u>