STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION

FINANCIAL AUDIT
For the Year Ended June 30, 2005

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION

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STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION

AGENCY OFFICIALS

David A. Nelson	Chairman
John W. Castle	Vice Chairman
Rege S. Eisaman	Treasurer
Mallory M. Simpson	President and Secretary
Jean Jagodzinski, CPA	Controller

NIU Foundation Office is located at:

Altgeld Hall 135
DeKalb, Illinois 60113-2882

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION

FINANCIAL STATEMENT REPORT SUMMARY

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

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

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Northern Illinois University Foundation (Foundation), a component unit of Northern Illinois University, as listed in the table of contents, as of and for the year ended June 30, 2005. 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. The prior year partial comparative information has been derived from the Foundation's June 30, 2004 financial statements, which were audited by other auditors whose report dated September 24, 2004 expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois University Foundation as of June 30, 2005, and the changes in net assets and cash flows for the years 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 our report dated September 22, 2005 on our consideration of the Foundation's internal control over financial reporting and 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 4 to 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
September 22, 2005

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the Northern Illinois University Foundation (the Foundation) for the year ended June 30, 2005. The financial statements are prepared in accordance with *Governmental Accounting Standards Board* (GASB) principles.

The Foundation is the official fundraising arm of Northern Illinois University (University) and was established in 1949 as an independent nonprofit corporation. The Foundation raises and receives private gifts, administers funds and manages assets on behalf of the University and its programs. The Foundation also evaluates, plans, and mounts long-term special fund drives or capital campaigns over and above the regular ongoing fundraising efforts.

Foundation support for development programs includes database and records management, electronic screening, information/data processing, communications, mail marketing, and telemarketing, as well as gift and estate planning, gift recording, receipting, and acknowledgement; gift administration; and investment, distribution, and stewardship of funds.

In addition, the Foundation provides support from private sources so the University may conduct donor cultivation and advancement functions that cannot be funded with tax dollars. The Foundation also assists the University by acquiring land for future use of the University under guidelines established by the Illinois Legislature.

Financial Highlights

The Foundation's financial position remains strong with net assets increasing $9.9 million for the year from both new gifts and positive investment results. At June 30, 2005, total assets were $61.4 million and total liabilities were $9.0 million. The difference, net assets, was $52.4 million.

Investment markets provided positive results for the year within the Foundation's investment policy designed to maximize total return over the long term while maintaining an appropriate level of risk. In 2005, investment return for the endowment portfolio was 10.6% compared to 19.1% in 2004 and better than the market benchmark of 8.9%. The intermediate portfolio returned 5.8% in 2005 compared to 5.9% in 2004 and better than its market benchmark of 4.4%.

Total operating revenues increased over $2 million from 2004 to 2005, due to an increase in gifts of $2.4 million.

Current assets increased 67% primarily as a result of the dramatic increase in major gift pledges and resulting increased current pledge payments due and increases in cash and cash equivalents.

The Foundation is partnering again with the University to complete another building project, the Barsema Alumni & Visitors Center. Throughout this project, the Foundation has worked with donors to secure multi-year gift pledges, secure financing and to act as developer for the project. The fundraising goal has been surpassed, pledge fulfillment is ahead of schedule and construction is on target for successful completion for the October 15, 2005 grand opening. Fundraising is well underway for a second capital project-the Academic and Athletic Performance Center.

Total pledges receivable increased $2.2 million and account for more than $1.6 million of the increase in noncurrent assets. Pledges are primarily restricted to the Barsema Alumni & Visitors Center (BAVC) project and the Academic and Athletic Performance Center (AAPC). (Note: GASB revenue recognition rules call for pledges to endowment to be recognized at the time payments are received).

Through a services contract, the Foundation provides funds administration and investment services to the NIU Alumni Association to provide a efficient and effective means for these two organizations to work together. Assets of the Alumni Association are reflected in both assets and noncurrent liabilities of the Foundation.

Fiscal year 2005 was a very strong year for contributions, gifts and pledges, including permanent endowment additions. Total gifts and pledges of $15.6 million in the year ended June 30, 2005 represent a 15% increase over $13.5 million total gifts and pledges for the year ended June 30, 2004. In addition to gifts from donors, the NIU Alumni Association provided $400,000 of support for the Barsema Alumni & Visitors Center project in the year ended June 30, 2005.

Distributions to the benefit of the University remained nearly steady after taking into account the $1.3 million decrease attributable to the decline in gifts in kind received and passed through to the University. These distributions consist of endowment income, expenses paid from expendable gift funds and gifts in kind passed through to the University.

Statement of Net Assets

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

Condensed Statement of Net Assets

	2005	2004
Assets:		
Current assets	$ 2,832,535	$ 1,701,100
Other noncurrent assets	54,406,372	42,552,010
Capital assets	4,232,273	4,227,820
Total assets	61,471,180	48,480,930
Liabilities:		
Current liabilities	3,440,262	166,387
Noncurrent liabilities	5,618,981	5,817,058
Total liabilities	9,059,243	5,983,445
Total net assets	$ 52,411,937	$ 42,497,485

The above comparison indicates that the Foundation continues to build its financial strength. Current assets consist primarily of cash and equivalents and pledges receivable within one year. The major components among the noncurrent assets are endowment and intermediate term investments and construction in progress.

The Foundation's endowment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are funds received from donors with the stipulation that the principal be invested in perpetuity to produce income that is to be expended for the purposes specified by the donor. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been designated by the Foundation Board of Directors or beneficiary units for long-term investment purposes. The majority of endowments are restricted for scholarships, professorships, research efforts, and other important programs and activities.

The Foundation uses its endowment to support excellence in University programs and scholarships in a way that balances its need to generate a predictable stream of annual support for current needs while preserving the purchasing power of the endowment funds for the future. In fiscal year 2005, the endowment spending-rate policy provided for a distribution of 4% of the three-year moving average of the endowment market value, to the extent that market value exceeded historic gift value.

The goal of this averaging technique is to create a more predictable spending level from year to year for University departments and colleges. Additionally, it protects the long-term purchasing power of the endowment by keeping investment returns in excess of the spending rate within the portfolio to offset losses from occasional market declines.

Current liabilities consist primarily of payments due on the construction project and trade accounts payable. The major components of noncurrent liabilities are accounts administered on behalf of the University and the Northern Illinois University Alumni Association.

Net assets represent the residual interest in the Foundation's assets after liabilities are deducted. The Foundation's net assets at June 30, 2005 and 2004 are summarized as follows:

Summary of Net Assets

	2005	2004
Invested in capital assets	$ 4,232,273	$ 4,227,820
Restricted:		
Nonexpendable donor restricted	26,680,881	20,096,250
Expendable donor restricted	16,415,630	13,580,032
Unrestricted:		
Expendable	4,887,004	4,453,383
Expendable - reserved	196,149	140,000
Total net assets	$ 52,411,937	$ 42,497,485

Invested in capital assets is largely land held for use or potential future use by the University.

The Foundation's permanent endowment funds are restricted for nonexpendable endowment. Restricted expendable is subject to restrictions made by the donor directing their use. Unrestricted net assets are not subject to externally imposed stipulations and include funds that function as endowments.

Statements of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the Foundation, as well as nonoperating revenue and expenses. Fiscal year 2005 activity resulted in adding $9.9 million to net assets.

A summarized comparison of this statement follows:

Condensed Statement of Revenues, Expenses,
and Changes in Net Assets

	2005	2004
Operating revenues	$ 18,957,578	$ 16,688,721
Operating expenses	10,737,319	11,572,530
Operating income	8,220,259	5,116,191
Additions to permanent endowment	1,694,193	1,980,424
Increase in net assets	9,914,452	7,096,615
Net assets - beginning of year	42,497,485	35,400,870
Net assets - end of year	$ 52,411,937	$ 42,497,485

The major component of operating revenues is gifts and pledges that reflect the purpose of the Foundation, support for the University.

Gifts Summary

	Total	Unrestricted	Barsema Alumni & Visitors Center	Academic & Athletic Performance Center	Other Restricted Expendable Purposes	Endowment
Cash gifts received this year	$ 8,546,621	$ 225,007	$ 2,510,706	$ 486,397	$ 3,630,318	$ 1,694,193
Gifts in kind	4,862,527	-	-	-	4,862,527	-
New pledges signed	4,086,500	-	2,735,500	1,246,000	105,000	*-
Payments on pledges	(1,897,234)	-	(1,472,835)	(358,492)	(65,907)	*-
Total gifts reported	$ 15,598,414	$ 225,007	$ 3,773,371	$ 1,373,905	$ 8,531,938	$ 1,694,193

* Pledges to Endowment are not recognized under GASB standards until the gift is received.

	2005	2004	Increase (Decrease)
Expendable gifts	$ 3,894,417	$ 3,720,638	5%
Gifts for capital projects	5,147,277	1,692,146	204
Gifts of property, equipment, goods, and services	4,862,527	6,139,923	(21)
Gifts to permanent endowments (nonoperating revenues)	1,694,193	1,980,424	(14)
Total gifts	$ 15,598,414	$ 13,533,131	15%

The Foundation pays for its operations through a combination of investment income on expendable invested balances, an internal administrative fee of 1.5% of the endowment fund, a cost recovery fee on annual fund gifts raised, and service fee revenue from a contract with the University to provide fundraising services.

Another significant source of operating revenues relates to investment performance. During the year ended June 30, 2005, the investment portfolio added a positive investment return providing $3.3 million in investment income. Prudent investment policies, including a diversified portfolio that crosses several asset classes, resulted in actual performance better than the benchmarks against which the Foundation regularly evaluates its strategies and performance.

Total operating expenses decreased $.8 million from 2004 to 2005, primarily due to a reduction of $1.3 million in gifts in-kind received and transferred to the University.

Summary of investment holdings as of June 30, 2005:

Endowment Fund:

32%	Large Cap US Equity
16	Small Cap US Equity
12	International Equity
1	Private Equity
22	Hedged Strategies
17	Fixed Income
100%	
10.6%	Total Return Net of Fees for year ended June 30, 2005
8.9%	Balanced Index

Intermediate Portfolio:

9%	Large Cap US Equity
4	Small Cap US Equity
3	International Equity
31	Hedged Strategies
53	Fixed Income
100%	
5.8%	Total Return Net of Fees for year ended June 30, 2005
4.4%	Balanced Index

Statement of Cash Flows

The Statement of Cash Flows provides information about the Foundation's sources and uses of cash.

Factors Affecting the Future

We believe the Foundation is well positioned to carry out its mission of acquiring and managing resources to advance the excellence of NIU.

The Foundation has increased its operating budget to build the development programs in order to generate more private gift support for NIU.

Through the long-term investment strategy to maximize total returns at an appropriate level of risk and manage the spending rate according to policy, endowment support policies are designed to help insulate endowed funds from market volatility. Having multiple revenue sources helps to stabilize revenues to pay for operations of the Foundation's development activities. And finally, the Foundation has accumulated unrestricted net assets in order to have capacity for unexpected situations.

Increased emphasis has been placed on best practices in all areas of governance and operations. Preservation of trust among all of the Foundation's constituencies is of paramount importance. Implemented within the last two and a half years: a comprehensive code of conduct, audit committee, board self-assessment program, enhanced board recruiting procedures, enhanced reporting to the Board, leadership succession planning, and enhancing the Foundation's ability to protect the privacy of donor records.

The Foundation remains committed to building gift support by continually investing in development programs and monitoring costs and effectiveness to help provide additional resources to further the University's tradition of excellence.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF NET ASSETS
June 30, 2005
With Comparative Totals for June 30, 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,889,047	$ 1,235,634
Receivables:		
Pledges receivable	942,988	363,497
Due from Northern Illinois University	-	101,869
Accounts receivable	500	100
Total current assets	2,832,535	1,701,100
NONCURRENT ASSETS		
Pledges receivable	2,806,126	1,196,350
Investments	46,584,909	40,881,422
Building construction in progress	5,015,337	474,238
Capital assets	4,232,273	4,227,820
Total noncurrent assets	58,638,645	46,779,830
TOTAL ASSETS	61,471,180	48,480,930
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	2,357,029	166,387
Accounts payable due to Northern Illinois University	310,539	-
Notes payable	772,694	-
Total current liabilities	3,440,262	166,387
NONCURRENT LIABILITIES		
Contractual payments to income beneficiaries - trusts and annuities	215,627	236,744
Endowment and gift accounts administered for NIU	2,962,084	2,707,244
Deposits held for NIU Alumni Association	2,441,270	2,873,070
Total noncurrent liabilities	5,618,981	5,817,058
TOTAL LIABILITIES	9,059,243	5,983,445
NET ASSETS		
NET ASSETS		
Invested in capital assets	4,232,273	4,227,820
Restricted:		
Nonexpendable donor restricted	26,680,881	20,096,250
Expendable donor restricted	16,415,630	13,580,032
Unrestricted:		
Expendable	4,887,004	4,453,383
Expendable - reserved	196,149	140,000
TOTAL NET ASSETS	$ 52,411,937	$ 42,497,485

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004

	2005	2004
REVENUES		
Operating revenues:		
Expendable gifts, for all purposes other than capital assets	$ 3,894,417	$ 3,720,638
Gifts for capital projects	5,147,277	1,692,146
Gifts of property and equipment, goods, and services	4,862,527	6,139,923
Support from NIU Alumni Association for Barsema Alumni & Visitors Center building	400,000	-
Investment income	3,324,967	4,330,233
Services contract revenue from NIU	531,719	511,870
Special events, merchandise sales, and miscellaneous income	796,671	293,911
Total operating revenues	18,957,578	16,688,721
EXPENSES		
Operating expenses:		
Expenses on behalf of NIU:		
Scholarships and fellowships	731,883	568,306
Instruction	4,583,495	7,131,263
Research	67,356	39,879
Public service	608,071	632,149
Academic support	1,624,166	84,104
Student services	564,715	814,332
Operations and maintenance of plant	6,598	326,743
Institutional support	273,267	239,608
	8,459,551	9,836,384
Land transferred to University	350,000	-
NIU Foundation fundraising	1,058,418	1,023,896
NIU Foundation operations and administration	869,350	712,250
Total operating expenses	10,737,319	11,572,530
Operating income	8,220,259	5,116,191
NONOPERATING REVENUES		
Gifts to permanent endowments	1,694,193	1,980,424
INCREASE IN NET ASSETS	9,914,452	7,096,615
NET ASSETS, BEGINNING OF YEAR	42,497,485	35,400,870
NET ASSETS, END OF YEAR	$ 52,411,937	$ 42,497,485

See accompanying notes to basic financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts received for operating purposes	$ 3,855,324	$ 3,953,853
Gifts received for capital projects	2,997,103	446,496
Support from NIU Alumni Association for Barsema Alumni & Visitors Center	400,000	-
Payments from services contract with NIU	270,635	741,905
Foundation operations and fundraising expenses	(1,919,095)	(1,695,546)
Scholarships and other expenses on behalf of NIU	(2,867,430)	(3,668,942)
Proceeds on sale of gifted property	-	206,352
Other operating revenues	496,671	293,911
Net cash provided by operating activities	3,233,208	278,029
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts received for endowment purposes	1,694,193	1,980,424
Payments to annuitants	(21,117)	23,217
Payments for construction of building for NIU	(2,406,959)	(474,238)
Proceeds from note payable	772,694	-
Net cash provided by noncapital financing activities	38,811	1,529,403
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(63,126)	(11,241)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	5,568,717	5,648,628
Payment of investment fees	(95,526)	(80,376)
Purchase of investments	(9,331,990)	(8,492,618)
Interest and dividend income	1,303,319	856,520
Net cash used in investing activities	(2,555,480)	(2,067,846)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	653,413	(271,655)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,235,634	1,507,289
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,889,047	$ 1,235,634

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004

	2005	2004
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 8,220,259	$ 5,116,191
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Depreciation	8,673	-
Gain on disposal of capital asset	(300,000)	-
Land transferred to University	350,000	-
Investment income	(3,324,967)	(4,330,233)
Receivables	(2,087,398)	(776,273)
Other assets	-	365,000
Accounts payable	367,041	(96,656)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,233,608	$ 278,029
SIGNIFICANT NONCASH TRANSACTIONS		
Transfer of gifts of equipment and software goods and services to NIU	$ 4,862,527	$ 6,139,923
Transfer of land to NIU	$ 350,000	$ -

See accompanying notes to basic financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Northern Illinois University Foundation (the "Foundation") is an Illinois nonprofit corporation established to secure and manage private support to benefit Northern Illinois University ("University").

The 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 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 Foundation are locally administered and are neither subject to the State of Illinois appropriation process nor held in the State treasury and are not owned by the state.

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2004, from which the summarized information was derived. In addition, certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

These financial statements include all financial activities over which the Foundation exercises direct responsibility.

While the NIU Foundation is a nonprofit corporation, the State of Illinois requires reporting under the Governmental Accounting Standards Board (GASB) model for university related organizations. Under GASB, the Foundation is considered a special-purpose government engaged only in business-type activities. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Foundation has elected not to apply FASB pronouncements issued after November 30, 1989. Accordingly, the accompanying financial statements of the 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. All significant intra-agency transactions have been eliminated.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Gifts of securities are recorded at fair value on the date of the gift. In accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* all investments, except limited partnerships, are reported at fair value. Changes in unrealized gain (loss) are reported as a component of investment income in the statement of revenues, expenses and changes in net assets. Investments in limited partnerships are reported at net asset value.

B. Gifts of land, property and equipment, and software are stated at market values as of date of the gift. Gifts of service are recorded as both revenue and expenses based on estimates of the fair market value of services received.

   Land, property and equipment, and software are stated at cost for purchased items.

   Gift pledges are recorded in accordance with GASB Statement No. 33, *Nonexchange Transactions*. Gift income and pledges receivable are recognized when a pledge representing an unconditional promise to pay is received and all applicable eligibility requirements, including time requirements, have been met. Current pledges are reported as those receivable within one year. Noncurrent pledges are those balances due beyond one year. Pledges for general operations or typically, capital purposes, are recognized when pledged and all conditions have been met. Unlike pledges for operations or capital purposes, endowment pledges are recognized when the gift is received and the endowment is established. Pledges are recorded net of a reserve for potentially uncollectible amounts of $76,513.

   Revenues are classified as operating revenues if they have the characteristics of exchange transactions, such as contract revenue with the University. Typically, nonoperating revenues include revenues that have the characteristics of nonexchange transactions as defined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and by GASB Statement No. 34 which would include gifts and investment income. Because securing gifts and investing funds constitute the Foundation's primary operations, gift revenues, other than to endowments, and investment income have been classified as operating revenues.

C. Net assets of the Foundation are classified as follows:

   Invested in capital assets - represents the Foundation total investment in capital assets. There is no outstanding debt related to these assets at this time.

   Restricted net assets - expendable - represents the resources for which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. This includes funds that are restricted as to use, that are being treated as endowment, but that do not have an external requirement to be held as nonexpendable. The Foundation first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 has indicated.

As beneficiary of a charitable remainder trust fund, the Foundation reports the assets within the investments as *restricted net assets - nonexpendable*. The investment is measured at fair value of $183,356 as of June 30, 2005, less an actuarial liability due to the life income beneficiaries of the trust amounting to $105,582. The net amount represents the present value of the ultimate remainder interest that will eventually fund an endowed scholarship fund.

In December 1999, the Foundation established a charitable gift annuity program. Under the terms of an annuity agreement, a donor transfers ownership of assets to the Foundation in exchange for a contractual periodic income payment that continues for the lifetime of the designated income recipient or recipients. At the death of the income recipients, the remaining assets are used for the charitable purpose indicated by the donor. The actuarial present value of payments required by these contracts was $110,045 at June 30, 2005.

Unrestricted net assets - represent resources used for transactions relating to the general operations of the Foundation and may be used at the discretion of the board to meet expenses for any purpose.

D. The Foundation administers certain gifts and bequests for which the legal gifting document named the University directly. The Foundation administers the original amount of the gifts and bequests, and related net income amounted to $2,962,084. This amount is shown as a liability to the University at June 30, 2005.

E. The 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.

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

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005, cash and cash equivalents consisted primarily of demand deposit bank accounts and money market and similar funds.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

New Accounting Standards

In an effort to provide the public with better information about the risks that could potentially impact a government's ability to provide service and pay its debts, the Government Accounting Standards Board (GASB) has published Statement No. 40, *Deposit and Investment Risk Disclosures*, which the Foundation adopted for fiscal year 2005. The new accounting guidance requires state and local governments communicate key information about deposit and investment risks, frequently one of the largest assets on a government's balance sheet. Under Statement 40, state and local governments are required to disclose information covering four principal areas:

- Investment credit risk disclosures, including credit quality issued by rating agencies;
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or specific identification of securities;
- Interest rate sensitivity for investment that are highly sensitive to changes in interest rates (example, inverse floaters, enhanced variable-rate investment and certain asset-backed securities);
- Foreign exchange exposures that would indicate the foreign investment's denomination.

Although the NIU Foundation is a separate independent nonprofit corporation and not a government entity, these statements are issued under the GASB reporting format.

Investments

The Board of Directors of the Foundation is responsible for the management of the Foundation's investments. The Board has approved authority to the Finance Committee to formulate an investment policy for funds and assets of the Foundation. The Finance Committee shall submit that policy to the Board for approval, periodically recommend changes in policy as appropriate, interpret the policy to the Foundation's investment managers, and oversee implementation of that policy. Investment performance is reviewed quarterly by the Finance Committee and reported to the Board of Directors.

The policy indicates the intended use for funds shall determine how they will be invested. There are two primary investment strategies executed in different investment pools. Endowed funds and funds initially received as expendable but acting as endowment are invested with a long-term horizon. Based upon historical patterns of usage, expendable gift funds are invested with an intermediate strategy.

If a donor has not provided specific instructions, state law directs the Board of Directors to authorize for expense the net appreciation, both realized and unrealized, of the investments of endowment funds.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The Finance Committee adopted a spending policy for fiscal year 2005 of 4 percent of the three year moving average of the funds' market value of the endowment investments of the three preceding years to be expendable.

The net appreciation on investments of donor-restricted endowments available for authorization for expenditure approximates $7,731,000 at June 30, 2005. At June 30, 2005, the fair value of the assets of certain donor-restricted endowment funds was approximately $79,000 less than the original principal amount of those funds. These amounts are included in the net assets section of the Statement of Net Assets as restricted for nonexpendable purposes.

The Foundation's permissible investment categories include:

1. Equities;
2. Fixed income securities;
3. Cash equivalents;
4. Venture capital/private equity;
5. Equity real estate;
6. Hedge funds.

Details of investment balances at June 30, 2005 are as follows:

	Cost	Market
Mutual funds	$ 29,538,427	$ 34,388,854
Stock	7,045,216	8,339,152
Limited partnerships	3,446,314	3,578,595
Charitable remainder trusts	179,714	183,356
	$ 40,209,671	46,489,957
Cash surrender value of life insurance		94,952
		$ 46,584,909

In fulfilling its responsibilities, the Board has contracted with 20 investment management firms to execute the strategy it has established.

Custodial Credit Risk

Custodial credit risk is the potential for a financial institution or counterparty to fail such that the Foundation would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The Foundation's policy does not address custodial credit risk. All of the Foundation's deposits and investments are insured or collateralized with securities held in the Foundation's name.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Concentration Risk

The Foundation's policy calls for no investment purchases that would cause a position in the portfolio to exceed 5 percent of the outstanding voting shares of the company or invest with the intent of controlling management. The Foundation does not have any investments representing five percent or more of the Foundation's assets in any single issuer.

Currency Risk

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Foundation's investment policy calls for individual international managers to maintain an appropriate diversification with respect to currency and country. The Foundation's investments at June 30, 2005 were distributed among the following currencies:

USD Equivalent		Currency
$ 43,539,784	90.0%	United States Dollar
1,388,555	2.9	Euro Current Unit
894,829	1.8	Japanese Yen
898,394	1.8	British Pound
278,087	0.6	Canadian Dollar
270,591	0.6	Swiss Franc
1,108,764	2.3	Other currencies, individually less than 0.5% of deposits and investments
$ 48,379,004	100.0%	**Total currencies**

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Foundation's policy calls for managers to maintain an overall credit rating of Aa or better by Moody's or AA or better by Standard & Poor's and to hold no more than 15 percent of the portfolio in below investment grade issues (below Baa/BBB).

Fixed income securities are held through mutual funds. Foundation assets subject to credit risk are shown with a current credit rating below:

Credit Risk Quality Rating	Fixed Income Mutual Fund Balance
AA+	$ 5,541,828
AAA	6,894,468

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy statement indicates that each manager shall maintain a duration +/- 20 percent of the effective duration of its benchmark index. The same assets as detailed with respect to credit risk above are subject to interest rate risk as detailed below:

Weighted Average Duration (Years)	Fixed Income Mutual Fund Balance	
1.8	$ 4,976,677	
3.5	17,808	
3.9	853,852	
4.3	4,670,168	
4.5	1,917,791	
3.3	$ 12,436,296	**Total**

At June 30, 2005 within the equity holdings, the Foundation held common stock shares valued at $1,176,000 that were gifted for the Barsema Alumni & Visitors Center project. A collar strategy has been executed with options contracts for a December 2005 sale between $1,120,000 and $1,280,000.

NOTE 3 - CAPITAL ASSETS

The Foundation's capital assets are as follows:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Land	$ 3,879,350	$ -	$ (50,000)	$ 3,829,350
Building	146,802	-	-	146,802
Furniture and equipment	11,241	63,126	-	74,367
Collections	190,427	-	-	190,427
	4,227,820	63,126	(50,000)	4,240,946
Less accumulated depreciation for furniture and equipment	-	(8,673)	-	(8,673)
Capital assets, net	$ 4,227,820	$ 54,453	$ (50,000)	$ 4,232,273

NOTE 3 - CAPITAL ASSETS (CONTINUED)

At June 30, 2005, furniture and equipment is depreciated on the straight-line basis and total depreciation amounted to $8,673. The estimated useful lives range from 5 to 10 years. The building and collections are held by the Foundation for public exhibition, education or research rather than financial gain. Collections include musical instruments and works of art. In accordance with GASB Statement No. 34, depreciation for capitalized works of arts, historical treasures and similar items is not required.

NOTE 4 - BUILDING CONSTRUCTION IN PROGRESS AND NOTE PAYABLE

Working closely with the University, the Foundation has raised funds and is building the Barsema Alumni & Visitors Center. At June 30, 2005, construction was approximately 60 percent complete and the 37,000 square foot building is on schedule for opening October 2005. The Foundation is obligated to pay the remainder of the costs under the construction contract as the work is completed.

A parcel valued at $350,000 was given by the Foundation to the University to complete the land needed for the construction site for the new facility.

Financing has allowed construction to begin before all donor gifts pledged to the project have been collected. At June 30, 2005, draws on the construction loan amounted to $772,694. This note allows for a maximum total borrowing of $6,150,000, calls for interest at prime less 0.75 percent, capped at 5 percent and is due December 31, 2005. Assignment of existing and future donor pledges secure this note. Two banks jointly have signed a letter of commitment for long-term financing with two components. A six-year note with interest at prime rate less 0.75 percent amounting to approximately $3,000,000 will be repaid with the pledge collections and is secured by existing and future donor pledges. A second note, due in 15 years, with interest fixed for seven years at 6.00 percent and then equal to 225 basis points over the 8 year U.S. Treasury rate will finance the remainder of the building and costs of financing. The interest at any time shall not be higher than 9.00 percent or lower than 4.50 percent at any time during the loan. This note is secured by existing and future donor pledges and a commitment from the University to lease the facility from the Foundation.

The changes in the note payable balance consist of the following:

Balance at July 1, 2004	$ -
Proceeds	772,694
Payments	-
Balance at June 30, 2005	$ 772,694

NOTE 5 - RENTAL INCOME

The Foundation leases three properties to the University. Annual rentals are $5,660 with the University being responsible for all operating expenses and maintenance. The leases were renewed through June 30, 2005. Rental income is included in the miscellaneous income in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 6 - NORTHERN ILLINOIS UNIVERSITY AGREEMENT

Under the terms of the contract, the Foundation aids and assists the University in achieving its educational, research and service goals by securing and administering gifts made to the University for scholarships, loans, grants, and other supporting programs. In turn, the University will furnish certain services necessary to the operation of the Foundation.

The cost to the Foundation for direct salary support provided by Northern Illinois University was $413,972 for the year ended June 30, 2005. In addition to salaries, the Foundation conducts development programs and activities. Income for services rendered to the University was $531,719 for the year ended June 30, 2005. The contract may be canceled upon ninety days written notice by either party.

NOTE 7 - NORTHERN ILLINOIS UNIVERSITY ALUMNI ASSOCIATION (ASSOCIATION) AGREEMENT

February 2004, the Foundation entered into an agreement with the NIU Alumni Association calling for the Foundation to provide investment and funds administration services for the NIU Alumni Association. Funds of the Alumni Association are disclosed as the deposits held for the Northern Illinois University Alumni Association on the face of the financial statements. A fee of $62,500 was paid to the Foundation and is included in miscellaneous income in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 8 - RELATED PARTY TRANSACTIONS

Members of the Board of Directors of the Foundation and Board of Trustees of the University enthusiastically support the Foundation’s efforts through their valuable service, generous gift support, and other means. Board members provided a total of $4,433,212 of gift support for the year ended June 30, 2005 and are responsible for $1,774,854 of the outstanding pledge balance.

In addition to direct support, Board members have provided other valuable services and support to the Foundation. Based upon a blind competitive process, it became evident that Board members’ organizations, working together, provided the most attractive financing package for the Barsema Alumni & Visitors Center of a broad group of alternatives evaluated. Additionally, routine banking services are provided by one of these banks and the cost has been compared favorably to market rates.

NOTE 9 - RETIREMENT PLAN

Through the contract with the University, the Foundation employees are participants in the State Universities Retirement System of Illinois (SURS), a cost sharing multiple employer public employee retirement system.

Payments are included in the amount shown as operations and administration expenses in the Statement of Revenues, Expenses, and Changes in Net Assets. The payment amounted to $36,152 for the year ended June 30, 2005.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements, as listed in the table of contents, of Northern Illinois University Foundation (Foundation) as of June 30, 2005, and for the year then ended, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Foundation's Audit Committee, the Board of Directors of the Foundation, and Foundation management and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
September 22, 2005