

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

**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**

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**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

AGENCY OFFICIALS

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

NIU Office is located at:

300 Altgeld Hall
DeKalb, Illinois 60115

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

FINANCIAL STATEMENT REPORT SUMMARY

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

Based on the audit, the auditor expressed an unqualified opinion on the University's basic 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 (University) and its aggregate discretely presented component units, which collectively comprise a component unit of the State of Illinois, as of and for the year ended June 30, 2005. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2004 financial statements, which were audited by other auditors whose report dated October 8, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois University and its aggregate discretely presented component units as of June 30, 2005, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2005 on our consideration of the University'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 compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 15 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
October 13, 2005

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
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 Northern Illinois University (the "University") for the year ending June 30, 2005 with comparative information for the year ended June 30, 2004. 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 52 undergraduate and 74 graduate degree programs, including 10 Ph.D. and 6 Ed.D. programs, and the Juris Doctorate. These programs are administered in 40 departments and schools in the Colleges of Business, Education, Engineering and Engineering Technology, Health and Human Sciences, Law, Liberal Arts and Sciences, and Visual and Performing Arts. The University also offers more than 50 certificates of graduate study, 4 interdisciplinary concentrations, a limited number of undergraduate certificates, and more than 60 study abroad programs worldwide.

The University's interdisciplinary research and public service centers include the Center for Biochemical and Biophysical Studies, the Center for Burma Studies, the Regional Development Institute, the Plant Molecular Biology Center, and the Center for Southeast Asian Studies, which has been accorded status as an undergraduate National Resource Center by the U.S. Department of Education, one of seven in the United States. The University also houses the [Henry David] Thoreau Edition, a NEH-funded project founded in 1966 to recover the lost words of one of America's most influential writers. 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, 2005 in spite of state reductions in general revenue appropriations and increased costs of health care. Changes in net assets represent the operating activity of the University, which results from revenues, expenses, gains and losses, and are summarized for the year ended June 30, 2005 and 2004 as follows:

(in thousands)

	<u>2005</u>	<u>2004</u>
Total revenues	\$ 408,283	\$ 460,391
Total expenses	<u>405,281</u>	<u>456,771</u>
Increase (decrease) in net assets	<u>\$ 3,002</u>	<u>\$ 3,620</u>

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 16 to the financial statements. This MD&A focuses on the University excluding the discretely presented component units. MD&A for the component units is included in their separately issued financial statements.

STATEMENT OF NET ASSETS

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

A summary of the University's assets, liabilities and net assets at June 30, 2005 and 2004 is as follows:

(in thousands)	2005	2004
Current assets	\$ 76,766	\$ 60,836
Noncurrent assets:		
Investments	20,030	23,940
Capital assets, net	301,629	314,274
Other	12,421	12,104
Total assets	<u>410,846</u>	<u>411,154</u>
Current liabilities	38,910	32,980
Noncurrent liabilities	182,079	191,319
Total liabilities	<u>220,989</u>	<u>224,299</u>
Net assets	<u>\$ 189,857</u>	<u>\$ 186,855</u>

A review of the University's Statement of Net Assets at June 30, 2005 shows that the University continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, management of its endowment, conservative utilization of debt and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash, short-term investments and interest receivable, which total \$53.8 million at June 30, 2005. This amount represents approximately 2.0 months of total expenses (excluding depreciation and fringe benefit expense covered by supplemental state appropriations). Accounts receivable totaled \$14.0 million at June 30, 2005.

The increase in current assets during the fiscal year represents the increase in tuition necessitated by reductions in state funding. Current liabilities increased during the fiscal year, affected by the short-term financing related to the purchase of the DeKalb Genetics property.

Current accounts payable and accrued liabilities, which total \$29.6 million at June 30, 2005, consist primarily of trade accounts payable and the current portion of performance contracts payable, bonds payable, leases payable, and notes payable. Current liabilities also include accrued compensated absences and deferred revenue. Total current liabilities are \$38.9 million at June 30, 2005.

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 \$13.8 million in 2005. 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.

The renovation of Altgeld Hall, the University's signature facility, was completed in the fall of 2004. The renovation was funded by a combination of state appropriations and grants. The University purchased approximately 24 acres of land, with buildings, from DeKalb Genetics Corporation, for use as the Family Health, Wellness and Literacy Campus. The site is located on the northeast side of the DeKalb city limits.

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 \$9.1 million. Performance guarantees are in place for each contract. The projects include upgrading of lighting and heating/air conditioning affecting approximately 70 buildings on campus. The University expects to continue to use performance contracts in the future.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. In August 2001, the Moody's Investors Service upgraded the University credit rating to A2. Bonds payable, excluding the amount currently due, totaled \$111.9 million at June 30, 2005. These bonds have been issued to finance construction of new non-academic facilities and improvements.

Notes and certificates of participation payable total \$13.9 million at June 30, 2005. They have been used to finance the acquisition of several academic and administrative facilities, as well as the acquisition and implementation of major administrative computer systems. Capitalized leases payable totaled \$18.5 million at June 30, 2005, and are considered to be installment purchases.

The following table summarizes the University's bonds payable, leases payable and notes payable outstanding on June 30, 2005 and 2004:

(in thousands)

	<u>2005</u>	<u>2004</u>
Revenue bonds payable	\$ 117,631	\$ 121,295
Leases payable	18,455	19,006
Notes payable	13,868	11,368

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, 2005 and 2004 are summarized as follows:

(in thousands)

	<u>2005</u>	<u>2004</u>
Invested in capital assets, net of related debt	\$ 142,589	\$ 152,495
Restricted:		
Nonexpendable	2,962	2,312
Expendable	4,162	4,162
Unrestricted	<u>40,144</u>	<u>27,886</u>
Total net assets	<u>\$ 189,857</u>	<u>\$ 186,855</u>

The University's net assets increased by \$3.0 million during fiscal year 2005.

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 nonexpendable net assets primarily include the University's permanent endowment funds. Restricted expendable net assets are subject to externally imposed restrictions governing their use.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

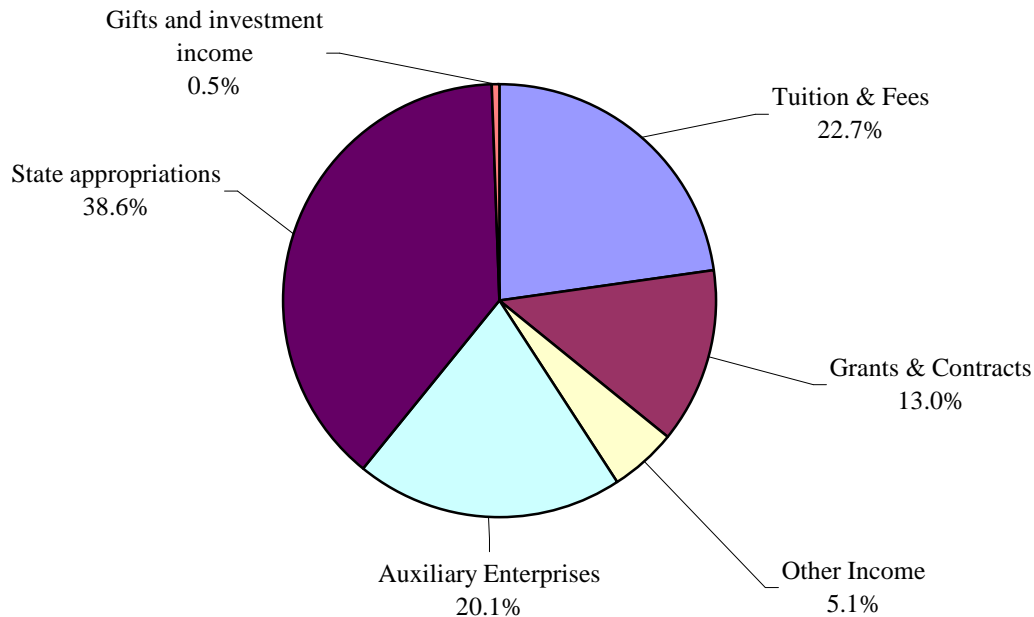
The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35. These significant nonoperating sources include state appropriations, gifts, and investment income. A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2005 and 2004 is as follows:

(in thousands)

	2005	2004
Operating revenues:		
Student tuition and fees	\$ 116,252	\$ 106,361
Less: scholarship allowances	(23,429)	(21,820)
Net student tuition and fees	92,823	84,541
Sponsored programs	53,057	48,541
Auxiliary enterprises	81,928	80,657
Other	20,744	20,323
	248,552	234,062
Operating expenses	(396,654)	(448,490)
Operating loss	(148,102)	(214,428)
Nonoperating revenues (expenses):		
State appropriations:		
General	102,285	99,843
Supplemental	51,810	124,275
Capital	3,517	1,674
Gifts	350	
Net investment income	1,769	537
Interest expense and other, net	(8,627)	(8,281)
Net nonoperating revenues	151,104	218,048
Increase in net assets	3,002	3,620
Net assets, beginning of year	186,855	183,235
Net assets, end of year	\$ 189,857	\$ 186,855

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, 2005. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35.

Revenues



Dollars in millions

\$ 92.8	Revenue from charges for tuition and fees, net of scholarship allowance of \$23.4
\$ 81.9	Revenue from the operation of self-supporting activities such as residence halls, student union, stadium, and recreation center; intercollegiate athletics; parking; and university press.
\$ 53.1	Revenue from federal, state, and private grants and contracts covering research, public service, educational services, financial aid.
\$ 20.8	Miscellaneous revenue consists primarily of income from sales and services of educational activities that include conferences and seminars.
<u>\$ 248.6</u>	Total operating
\$ 157.6	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.
\$.3	Gift of Land from Foundation.
\$ 1.8	Investment income, and change in fair value of investments.
<u>\$ 159.7</u>	Total non-operating
<u>\$ 408.3</u>	Total revenues

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, were \$92.8 million in 2005, an increase of \$8.3 million. The increase is the result of an increase in tuition. The increase in tuition rates was necessary to cover the continued decrease in state appropriations. General state appropriations were \$102.3 million in 2005, an increase of \$2.5 million from 2004, but still below the FY 2002 level of \$116.8 million.

Revenues for sponsored programs were \$53.1 million in 2005, an increase of \$4.6 million from 2004. The University receives revenues for sponsored programs from government and private sources, which normally provide for the recovery of direct and indirect costs.

Net investment income for the year ended June 30, 2005 and 2004 consisted of the following components:

(in thousands)

	2005	2004
Income, net	\$ 1,732	\$ 729
Net change in the fair value of investments	37	(192)
	<u>\$ 1,769</u>	<u>\$ 537</u>

Investment income has increased as a result of the increase in market rates available, and the decreased delay in reimbursements from the state during the year.

Capital appropriations received from the State in 2005 totaling \$3.5 million, an increase of \$1.8 million from 2004, funded a portion of projects including the Altgeld Hall renovation.

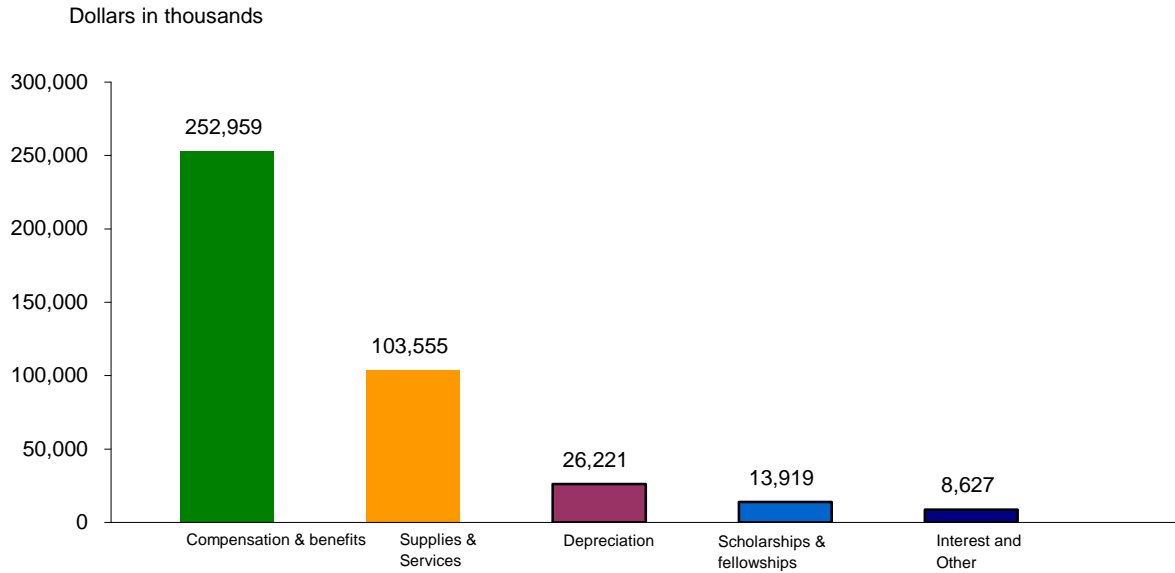
A summary of the University's expenses for the year ended June 30, 2005 and 2004 is:

(in thousands)

	2005	2004
Operating:		
Compensation and benefits	\$ 252,959	\$ 315,979
Supplies and services	103,555	94,584
Depreciation	26,221	25,348
Scholarships and fellowships	13,919	12,579
	<u>396,654</u>	<u>448,490</u>
Nonoperating:		
Interest and other	8,627	8,281
Total expenses	<u>\$ 405,281</u>	<u>\$ 456,771</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 change in the State level of expenditures between years is a \$72.5 million decrease. The change in the University's directly controlled expenses related to compensation and benefits was an increase of approximately four percent.

The following is a graphic illustration of total expenses for fiscal year 2005 by object:



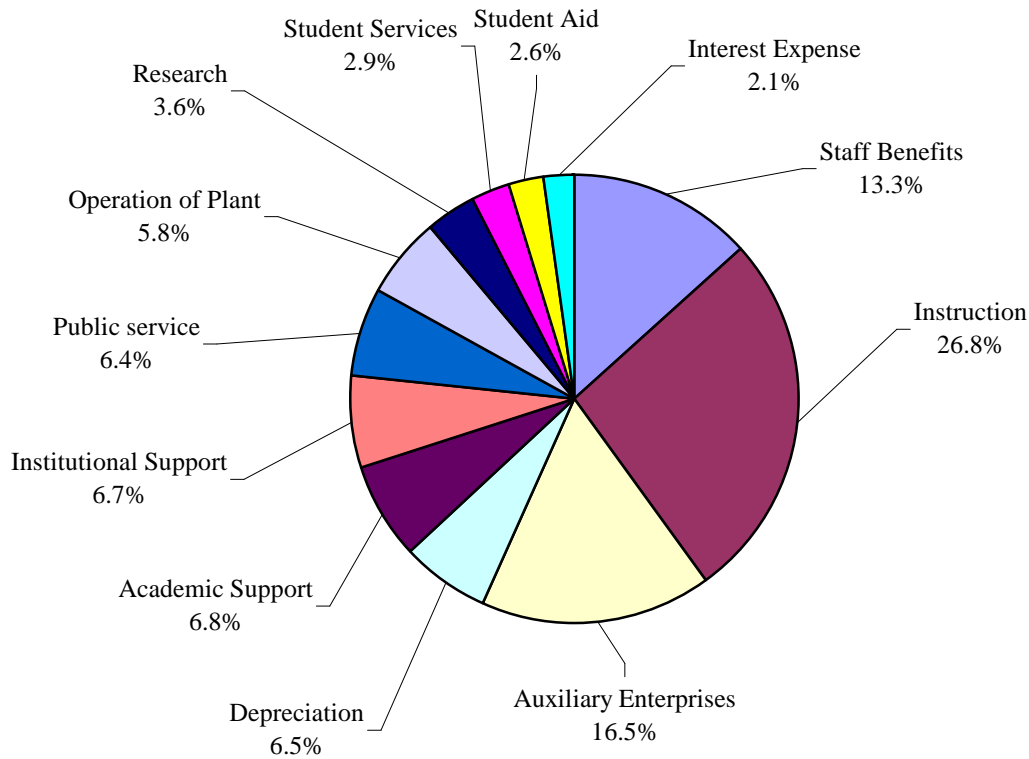
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the year ended June 30, 2005 and 2004 is as follows:

(in thousands)

	2005	2004
Operating:		
Instruction	\$ 108,826	\$ 106,198
Research	14,402	12,966
Public service	25,738	22,421
Academic support	27,571	25,287
Student services	11,615	11,016
Auxiliary enterprises	67,066	65,666
Operations and maintenance of plant	23,607	20,514
Depreciation	26,221	25,348
Institutional support	27,015	22,569
Staff benefits	53,945	126,255
Student aid	10,648	10,250
Total operating expenses	<u>396,654</u>	<u>448,490</u>
Nonoperating:		
Interest expense	8,627	8,281
Total expenses	<u><u>\$ 405,281</u></u>	<u><u>\$ 456,771</u></u>

The following graphic illustrations present total expenses for fiscal year 2005 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 year ended June 30, 2005 and 2004 is as follows:

(in thousands)

	2005	2004
Cash received from operations	\$ 252,168	\$ 234,455
Cash expended for operations	(314,553)	(297,993)
Net cash used in operating activities	(62,385)	(63,538)
Net cash used in investing activities	(14,730)	(22,726)
Net cash used in capital and related financing activities	(31,757)	(28,399)
Net cash provided by noncapital financing activities	103,428	100,874
Net increase (decrease) in cash and cash equivalents	(5,444)	(13,789)
Cash and cash equivalents, beginning of year	12,544	26,333
Cash and cash equivalents, end of year	\$ 7,100	\$ 12,544

The University's cash and cash equivalents decreased \$5.4 million as the University shifted more of its assets into investments and marketable securities. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations and private gifts used to fund operating activities, for which cash received totaled \$103.4 million in fiscal 2005.

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 budget constraints, in fiscal years 2003, 2004 and 2005, the State required the University to supplement the funds appropriated to CMS. The net result of these payments and other reductions to the State budget is an overall reduction in direct State support compared to fiscal year 2002. FY 2006 budgeted state support is below the fiscal year 2002 level, and modestly above the fiscal year 2005 level.

To mitigate the impact of the decrease in state support, the University raised tuition rates an average of 11% in FY 2003. Enrollment projections continue to be strong.

The University's institutional funds include revenues from sponsored projects to fund indirect administrative and facilities costs. The University anticipates that this revenue will increase slightly from fiscal year 2005 to fiscal year 2006 based on sponsored project awards received and continued incorporation into new agreements of the facilities and administrative rate negotiated in fiscal 2003.

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, 2005 (in thousands)**

	<u>University</u>	<u>Component Units</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,100	\$ 1,889
Investments and marketable securities	46,453	
Accrued interest receivable	206	
Accounts receivable - net	14,049	943
Appropriations Receivable from State	2,264	
Inventories	3,343	
Due from component units	3,273	
Other assets	78	
Total current assets	76,766	2,832
Noncurrent assets		
Investments and marketable securities	20,030	46,585
Student loans receivable - net	9,724	
Unamortized debt discount	2,697	
Other		7,822
Capital assets, net of accumulated depreciation	301,629	4,232
Total noncurrent assets	334,080	58,639
TOTAL ASSETS	410,846	61,471
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	29,629	3,227
Accrued compensated absences	1,688	
Students' deposits	215	
Deferred tuition and fees	6,939	
Due to NIU		3,273
Agency	439	
Total current liabilities	38,910	6,500
Noncurrent liabilities		
Accounts payable and accrued liabilities		215
Performance contracts payable	8,003	
Accrued compensated absences	22,176	
Deferred revenue and grants	5,196	
Government loan fund advances	8,634	
Revenue bonds payable	111,891	
Leases payable	17,878	
Notes payable	8,301	
Total noncurrent liabilities	182,079	215
TOTAL LIABILITIES	220,989	6,715
NET ASSETS		
Invested in capital assets, net of related debt	142,589	4,232
Restricted:		
Nonexpendable	2,962	26,795
Expendable	4,162	16,642
Unrestricted	40,144	7,087
TOTAL NET ASSETS	\$ 189,857	\$ 54,756

See accompanying notes to financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2004 (in thousands)
(Comparative Totals Only)**

	University	Component Units
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,544	\$ 1,236
Investments and marketable securities	26,119	
Accrued interest receivable	131	
Accounts receivable - net	15,938	363
Inventories	3,452	
Due from component units	2,605	
Other assets	47	
Total current assets	<u>60,836</u>	<u>1,599</u>
NONCURRENT ASSETS		
Investments and marketable securities	23,940	40,881
Student loans receivable - net	9,142	
Unamortized debt discount	2,962	
Other		1,671
Capital assets, net of accumulated depreciation	314,274	4,228
Total noncurrent assets	<u>350,318</u>	<u>46,780</u>
TOTAL ASSETS	<u>411,154</u>	<u>48,379</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	23,823	241
Accrued compensated absences	1,942	
Students' deposits	140	
Deferred tuition and fees	6,562	
Due to NIU		2,605
Agency	513	
Total current liabilities	<u>32,980</u>	<u>2,846</u>
Noncurrent liabilities		
Accounts payable and accrued liabilities		237
Performance contracts payable	9,086	
Accrued compensated absences	21,724	
Deferred revenue and grants	5,655	
Government loan fund advances	7,911	
Revenue bonds payable	118,620	
Leases payable	18,455	
Notes payable	9,868	
Total noncurrent liabilities	<u>191,319</u>	<u>237</u>
TOTAL LIABILITIES	<u>224,299</u>	<u>3,083</u>
NET ASSETS		
Invested in capital assets, net of related debt	152,495	4,228
Restricted:		
Nonexpendable	2,312	20,203
Expendable	4,162	13,787
Unrestricted	27,886	7,078
TOTAL NET ASSETS	<u>\$ 186,855</u>	<u>\$ 45,296</u>

See accompanying notes to financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2005 (in thousands)**

	University	Component Units
REVENUES		
Operating revenues		
Tuition and fees, net	\$ 92,823	\$
Federal and state grants and other contracts	50,063	
Private gifts, grants, and contracts	2,994	13,904
Sales and service of educational activities	18,927	
Other sources	1,817	5,054
Auxiliary enterprises	81,928	
Total operating revenues	248,552	18,958
EXPENSES		
Operating expenses		
Instruction	108,826	4,583
Research	14,402	67
Public service	25,738	608
Academic support	27,571	1,624
Student services	11,615	565
Operation and maintenance of plant	23,607	7
Depreciation	26,221	
Institutional support	27,015	2,841
Staff benefits	53,945	
Student aid	10,648	777
Auxiliary enterprises	67,066	
Total operating expenses	396,654	11,072
Net operating income (loss)	(148,102)	7,886
NONOPERATING REVENUES (EXPENSES)		
State appropriations – general	102,285	
State appropriations – on-behalf payments	51,810	
State appropriations – capital	3,517	
Investment income	1,732	205
Net increase in fair value of investments	37	
Gifts	350	1,369
Interest expense	(8,627)	
Net nonoperating revenues	151,104	1,574
INCREASE IN NET ASSETS	3,002	9,460
NET ASSETS, BEGINNING OF YEAR	186,855	45,296
NET ASSETS, END OF YEAR	\$ 189,857	\$ 54,756

See accompanying notes to financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2004 (in thousands)
(Comparative Totals Only)

	University	Component Units
REVENUES		
Operating revenues		
Tuition and fees, net	\$ 84,541	\$
Federal and state grants and other contracts	47,080	
Private gifts, grants, and contracts	1,461	11,553
Sales and service of educational activities	18,457	
Other sources	1,866	5,136
Auxiliary enterprises	80,657	
Total operating revenues	<u>234,062</u>	<u>16,689</u>
EXPENSES		
Operating expenses		
Instruction	106,198	7,131
Research	12,966	40
Public service	22,421	632
Academic support	25,287	84
Student services	11,016	814
Operation and maintenance of plant	20,514	327
Depreciation	25,348	
Institutional support	22,569	2,280
Staff benefits	126,255	
Student aid	10,250	621
Auxiliary enterprises	65,666	
Total operating expenses	<u>448,490</u>	<u>11,929</u>
Net operating income (loss)	<u>(214,428)</u>	<u>4,760</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations – general	99,843	
State appropriations – on-behalf payments	124,275	
State appropriations – capital	1,674	
Investment income	729	246
Net decrease in fair value of investments	(192)	
Gifts	-	2,002
Interest expense	(8,281)	
Net nonoperating revenues	<u>218,048</u>	<u>2,248</u>
INCREASE IN NET ASSETS	3,620	7,008
NET ASSETS, BEGINNING OF YEAR		38,288
As previously reported	185,028	
Prior Period Adjustment	(1,793)	
NET ASSETS, END OF YEAR	<u>\$ 186,855</u>	<u>\$ 45,296</u>

See accompanying notes to financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2005 (in thousands)**

	University	Component Units
Cash flows from operating activities		
Student tuition and fees	\$ 93,298	\$
Federal and state grants and other contracts	49,604	
Private gifts, grants, and contracts	2,994	6,852
Sales and service of educational activities	20,790	
Auxiliary enterprises	81,932	
Payment to suppliers	(98,122)	(1,919)
Payment to employees	(200,846)	
Payments for scholarships	(13,920)	(2,867)
Loans to students and employees	(1,665)	
Collection of loans to students and employees	1,807	
Other receipts, net	1,743	1,167
Net cash used in operating activities	<u>(62,385)</u>	<u>3,233</u>
 Cash flows from noncapital financing activities		
State appropriations	103,428	
Private gifts		1,694
Payments for construction of building for NIU		(2,407)
Other		751
Net cash provided by noncapital financing activities	<u>103,428</u>	<u>38</u>
 Cash flows from capital and related financing activities		
Proceeds from issuance of debt	4,000	
Purchase of capital assets	(13,437)	(63)
Principal payments on capital debt	(15,888)	
Interest payments on capital debt	(6,432)	
Net cash used in capital and related financing activities	<u>(31,757)</u>	<u>(63)</u>
 Cash flows from investing activities		
Interest income on investments, net	1,693	1,208
Proceeds from sales and maturities of investments	377,989	5,569
Purchase of investments	(394,412)	(9,332)
Net cash used in investing activities	<u>(14,730)</u>	<u>(2,555)</u>
 Net increase (decrease) in cash and cash equivalents	(5,444)	653
 Cash and cash equivalents, beginning of the year	<u>12,544</u>	<u>1,236</u>
 Cash and cash equivalents, end of the year	<u>\$ 7,100</u>	<u>\$ 1,889</u>

See accompanying notes to financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS, CONTINUED
For the year ended June 30, 2005 (in thousands)**

	University	Component Units
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ (148,102)	\$ 7,886
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation expense	26,221	9
(Gain) Loss on disposal of capital assets	211	(300)
On behalf payments for fringe benefits	51,810	
State expenses for non-capitalized CDB projects	110	
Changes in assets and liabilities:		
Accounts receivable	1,890	(1,427)
Inventories	109	
Student loans receivable	(581)	
Investments and other assets	(699)	(3,325)
Accounts payable and accrued liabilities	5,805	390
Accrued compensated absences	199	
Students' deposits	75	
Deferred revenue and grants	(82)	
Government loan fund advances	723	
Agency	(74)	
Net cash used in operating activities	(62,385)	3,233
Noncash investing, capital, and financing activities		
On behalf payments for fringe benefits	51,810	
Accretion	1,931	
Transfer of Land from Foundation	350	(350)
State expenses for non-capitalized CDB projects	110	
Total noncash activities	\$ 54,201	\$ (350)

See accompanying notes to financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2004 (in thousands)
(Comparative Totals Only)**

	University	Component Units
Cash flows from operating activities		
Student tuition and fees	\$ 84,441	\$
Federal and state grants and other contracts	47,114	
Private gifts, grants, and contracts	1,461	4,400
Sales and service of educational activities	17,567	
Auxiliary enterprises	80,404	
Payment to suppliers	(93,752)	(1,696)
Payment to employees	(190,126)	
Payments for scholarships	(12,579)	(3,669)
Loans to students and employees	(1,536)	
Collection of loans to students and employees	1,480	
Other receipts, net	1,988	1,243
Net cash used in operating activities	(63,538)	278
 Cash flows from noncapital financing activities		
State appropriations	100,874	
Private gifts		1,980
Payments for construction of building for NIU		(474)
Other		23
Net cash provided by noncapital financing activities	100,874	1,529
 Cash flows from capital and related financing activities		
Proceeds from issuance of debt	10,086	
Purchase of capital assets	(24,542)	(11)
Principal payments on capital debt	(7,724)	
Interest payments on capital debt	(6,219)	
Net cash used in capital and related financing activities	(28,399)	(11)
 Cash flows from investing activities		
Interest income on investments, net	750	782
Proceeds from sales and maturities of investments	364,214	5,649
Purchase of investments	(387,690)	(10,025)
Net cash used in investing activities	(22,726)	(3,594)
 Net decrease in cash and cash equivalents	(13,789)	(1,798)
 Cash and cash equivalents, beginning of the year	26,333	3,034
 Cash and cash equivalents, end of the year	\$ 12,544	\$ 1,236

See accompanying notes to financial statements.

State of Illinois
Northern Illinois University
Statement of Cash Flows, continued
For the year ended June 30, 2004 (in thousands)
(Comparative Totals Only)

	<u>University</u>	<u>Component Units</u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ (214,428)	\$ 4,760
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation expense	25,348	
Loss on disposal of capital assets	81	
On behalf payments for fringe benefits	124,274	
State expenses for non-capitalized CDB projects	643	
Changes in assets and liabilities:		
Accounts receivable	(1,014)	(776)
Inventories	(4)	
Student loans receivable	(69)	
Investments and other assets	(593)	(3,643)
Accounts payable and accrued liabilities	2,792	(63)
Accrued compensated absences	(508)	
Students' deposits	62	
Deferred revenue and grants	(256)	
Government loan fund advances	13	
Agency	121	
Net cash used in operating activities	<u>(63,538)</u>	<u>278</u>
Noncash investing, capital, and financing activities:		
On behalf payments for fringe benefits	124,274	
Accretion	1,886	
State expenses for non-capitalized CDB projects	643	
Total noncash activities	<u>\$ 126,803</u>	

See accompanying notes to 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.

A. Financial Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No.14 defines the financial reporting entity. The University is a component unit of the State of Illinois for financial reporting purposes because the State has oversight responsibility. 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, therefore, also included in the State's comprehensive annual financial report.

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

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

B. Basis of Accounting and Measurement Focus

Effective for the year ending June 30, 2002, the University adopted GASB No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, which established new reporting requirements for public colleges and universities. Other standards adopted are GASB No. 36, *Recipient Reporting of Certain Shared Nonexchange Revenues*; GASB No. 37, an amendment to GASB No. 34; GASB No. 38, *Certain Financial Statement Note Disclosures*; and GASB No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of GASB Statement No. 14, *The Financial Reporting Entity*).

Rather than issuing fund-type financial statements, GASB Statement No. 35 requires a Management's Discussion and Analysis, basic financial statements including a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows and notes to the financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

GASB Statement No. 35 requires the University's resources be classified into net asset categories and reported in the Statement of Net Assets. These categories are defined as (a) Invested in capital assets, net of related debt (b) Restricted nonexpendable - assets restricted by externally imposed stipulations (c) Restricted expendable - assets subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time and (d) Unrestricted - assets not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Trustees. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

Student tuition and fees, presented net of scholarships and fellowships of \$23,429,000 for fiscal year 2005, are applied to student accounts, while stipends and other payments made directly to students are reported as scholarship and fellowship expense. Net tuition and fees, except for Summer Session, are recognized as revenues as they are assessed. The portion of Summer Session tuition and fees applicable to the following fiscal year is deferred. Grant and contract revenues, which are received or receivable from external sources, are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements on the accrual basis. Advances are classified as deferred revenue.

Certain revenue sources that the University relies on to provide funding for operations including State appropriations, gifts, and investment income are defined by GASB Statement No. 35 as nonoperating. In addition, transactions related to capital and financing activities are components of nonoperating revenues. Appropriations made from the State of Illinois General Revenue and Education Assistance Funds for the benefit of the University are recognized as nonoperating revenues when eligibility requirements are satisfied.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

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 \$51,810,000 made by the State of Illinois in fiscal year 2005 to the State Universities Retirement System (“SURS”) and Central Management Services Group Insurance (“CMS”) on behalf of the University’s and its component units’ employees. The State contribution is reported as revenue from State appropriations with an equal and offsetting amount reported as staff benefit expenditures. The on-behalf payments to SURS and CMS were \$13,944,000 and \$37,866,000 for fiscal year 2005, 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 2004 financial statements. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended June 30, 2004.

Certain items in the June 30, 2004 financial statements have been reclassified to correspond to the June 30, 2005 presentation.

Auxiliary Enterprises

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

Management Estimates

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

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (Continued)

C. Prior Period Adjustment

The University has recorded a prior period adjustment of \$1,793,000 to its beginning net assets for fiscal year 2005, representing interest expense that was not accrued.

D. 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.

E. Investments and Marketable Securities

The University accounts for its investments and marketable securities at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Effective for the year ending June 30, 2005, the University adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. The new accounting guidance requires that state and local governments communicate key information about deposit and investment risks. Under GASB No. 40, state and local governments are required to disclose information covering four principal areas: (1) investment credit risk disclosures, including credit quality information issued by rating agencies, (2) interest rate disclosures that include investment maturity information, (3) interest rate sensitivity for investments that are highly sensitive to changes in interest rates, and (4) foreign exchange exposures that would indicate the foreign investment's denomination.

For the joint investing activity of the Foundation and Alumni Association, interest and dividends on investments are allocated to funds, which participated in the investment purchase according to the fund's appropriate share of the total investment. The Alumni Association pays an investment management fee to the Foundation.

F. Inventories

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.

G. Unamortized Debt Discount

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

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies (Continued)

H. Capital Assets

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

I. Capitalized Leases

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

J. Accrued Compensated Absences

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2005 the accrued liability for this benefit was \$12,160,000, 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, 2005, the accrued liability of this benefit was \$11,704,000, and is included in accrued compensated absences.

As a result of recording the University's liability for vested sick and vacation pay, the change in the University's unrestricted net assets includes a decrease of \$198,000 for fiscal year 2005. The accrued compensated absences liability will be funded through future State of Illinois General Revenue Fund appropriations as the terminating employees leave the University.

2. Cash and Investments

As of June 30, 2005, cash deposits of \$7,100,000 held by the University were insured or collateralized with securities held by the University or its custodian in the name of the University.

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

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

2. Cash and Investments (Continued)

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

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

Custodial credit risk - Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the University would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. 100% of the University's investments are held in the University's name and are not subject to creditors of the custodial institution. The University has no formal policy in regard to custodial credit risk exposure.

Concentration of credit risk - Concentration risk is the risk of loss attributed to the magnitude of an entity's investment in a single issue, other than the U.S. Government. The University has one commercial paper investment that represents 10% of the total investments and is held in a debt service reserve fund. The commercial paper is \$6,660,000 in Calyon North America, Inc. The University has no formal policy limiting the amount that may be invested in any one issuer.

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

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

Quality rating	Illinois Public, Treasurer's Investment Pool	Commercial Paper	U.S. Agency	U.S. Government	Total
AAA	\$ -	\$ -	\$ 41,425	\$ 3,456	\$ 44,881
A1+	-	6,660			6,660
Not rated	14,942				14,942
Total	\$ 14,942	\$ 6,660	\$ 41,425	\$ 3,456	\$ 66,483

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

2. Cash and 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 following table shows the University's investments categorized by duration:

Duration	Illinois Public Treasurer's Investment Pool	Commercial Paper	U.S. Agency	U.S. Government	Total
0 – 1 year	\$ 14,942	\$ 6,660	\$ 21,395	\$ 3,456	\$ 46,453
1 – 3 years	-	-	18,025	-	18,025
3 – 5 years	-	-	2,005	-	2,005
Total	<u>\$ 14,942</u>	<u>\$ 6,660</u>	<u>\$ 41,425</u>	<u>\$ 3,456</u>	<u>\$ 66,483</u>

Component Units (\$000's)

Quality rating	Mutual Funds	Stock	Limited Partnerships	Other	Total
AA+	\$ 5,542	\$ -	\$ -	\$ -	\$ 5,542
AAA	6,894	-	-	-	6,894
Not rated	21,953	8,339	3,579	278	34,149
	<u>\$ 34,389</u>	<u>\$ 8,339</u>	<u>\$ 3,579</u>	<u>\$ 278</u>	<u>\$ 46,585</u>

Duration	Mutual Funds
1 – 3 years	4,977
3 – 5 years	7,459
Total	<u>\$ 12,436</u>

3. Receivables

Accounts Receivable are reported net of an allowance for uncollectible accounts of \$3,872,000 at June 30, 2005. The composition of accounts receivable at June 30, 2005 is summarized as follows (\$000's):

	<u>University</u>	<u>Component Units</u>
Student accounts	\$ 9,475	\$ -
Customer accounts	1,787	-
Grants receivable	6,658	-
Others	1	943
Gross receivables	17,921	943
Less: allowance for Uncollectible accounts	(3,872)	-
Net accounts receivable	<u>\$ 14,049</u>	<u>\$ 943</u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2005 totaling \$9,724,000 and are reported net of an allowance for uncollectible accounts of \$538,000.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

4. Capital Assets

Capital assets activity for the year ended June 30, 2005 is summarized as follows:

University (\$000's)	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Land	\$ 18,273	\$ 655	\$ -	\$ -	\$ 18,928
Land improvements	42,119	-	-	8,756	50,875
Buildings	364,627	3,695	(173)	27,334	395,483
Equipment	144,993	5,091	(1,977)	-	148,107
Construction in-progress	44,200	4,346	-	(36,090)	12,456
Total	614,212	13,787	(2,150)	-	625,849
Less: accumulated Depreciation	(299,938)	(26,221)	1,939	-	(324,220)
Capital assets, net	\$ 314,274	\$ (12,434)	\$ (211)	\$ -	\$ 301,629

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

	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Land	\$ 3,879	\$ -	\$ (50)	\$ -	\$ 3,829
Buildings	147	-	-	-	147
Collections	191	-	-	-	191
Furniture	11	63	-	-	74
Total	4,228	63	(50)	-	4,241
Less: accumulated depreciation	-	(9)	-	-	(9)
Capital assets, net	\$ 4,228	\$ 54	\$ (50)	\$ -	\$ 4,232

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2005 are as follows (\$000's):

	University	Component Units
Payable to vendors/suppliers	\$ 10,246	\$ 2,669
Accrued payroll	6,261	-
Current portion of noncurrent liabilities:		-
Performance contracts payable	1,083	-
Revenue bonds payable	5,740	-
Leases payable	577	-
Notes payable	5,567	773
Unapplied awards	155	-
Total	\$ 29,629	\$ 3,442

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. 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 savings 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. Outstanding balances at June 30, 2005 are as follows (\$000's):

Performance Contract	Original Issue	Retirements	Outstanding Balance 6/30/05	Current Portion	Interest Rate(s)	Annual Maturity To
DuSable Hall	\$ 388	\$ 202	\$ 186	\$ 41	5.62%	May-09
Phase I Lighting	1,601	540	1,061	158	4.35%	Jan-11
Convocation Center	2,000	440	1,560	195	4.35%	Jan-12
Phase II Lighting	2,399	540	1,859	227	5.05%	May-12
West Plant	4,207	600	3,607	386	4.35%	Jan-13
West Campus Control Valve Retrofit	875	62	813	76	4.35%	Jan-14
			<u>\$ 9,086</u>	<u>\$ 1,083</u>		

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

Year Ended June 30	DuSable Hall	Phase I Lighting	Convocation Center	Phase II Lighting	West Plant	West Campus Control Valve Retrofit	Total
2006	\$ 50	\$ 203	\$ 262	\$ 319	\$ 538	\$ 110	\$ 1,482
2007	50	203	263	318	539	110	1,483
2008	55	203	262	319	538	110	1,487
2009	55	203	263	318	539	110	1,488
2010	-	203	262	319	538	110	1,432
2011-2014	-	202	525	637	1,618	441	3,423
Subtotal	210	1,217	1,837	2,230	4,310	991	10,795
Less Interest	24	156	277	371	703	178	1,709
Total	<u>\$ 186</u>	<u>\$ 1,061</u>	<u>\$ 1,560</u>	<u>\$ 1,859</u>	<u>\$ 3,607</u>	<u>\$ 813</u>	<u>\$ 9,086</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

7. Revenue Bonds Payable

Revenue bonds outstanding as of June 30, 2005 are as follows (\$000's):

<u>Issue</u>	<u>Original Issue</u>	<u>Accreted</u>	<u>Defeased</u>	<u>Retired</u>	<u>Outstanding Balance 6/30/05</u>	<u>Current Portion</u>	<u>Interest Rate(s)</u>	<u>Annual Maturity To</u>	<u>Amount of Defeased Outstanding</u>
Series 1992 (B)	\$ 14,498	\$ 18,233	\$ -	\$ 2,920	\$ 29,811	\$ 3,730	Accreted	Oct-16	N/A
Series 1996	49,995		31,760	15,230	3,005	540	5.30% to 6.00%	Apr-22	31,760
Series 1999	38,410		22,335	3,325	12,750	755	5.00% to 6.00%	Apr-29	22,335
Series 2001	76,000		-	3,935	<u>72,065</u>	<u>715</u>	4.00% to 5.00%	Apr-29	
					<u>\$ 117,631</u>	<u>\$ 5,740</u>			

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

The Auxiliary Facilities Revenue Bonds, Series 1996, mature at varying amounts from 1999 to 2022. Interest payments are due semi-annually. On August 30, 2001, the Board established an irrevocable trust with an escrow agent to advance refund \$31,760,000 of original principal of bonds maturing serially from October 1, 2010 through April 1, 2022.

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

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

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NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

7. Revenue Bonds Payable (Continued)

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

Advanced Refunded Bonds	
(\$000's)	
Series	Outstanding at June 30, 2005
1966	\$ 660
1967	675
1983 B	3,055
1996	31,760
1999	22,335
Total	<u>\$ 58,485</u>

Under the terms of the bond resolutions, the University is required on or before five banking days prior to April and October 1 of each year to deposit in a Bond and Interest Sinking Fund Account amounts sufficient to equal the semi-annual interest and principal to become due following April 1 or October 1.

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

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

Fiscal Year Ending June 30	Outstanding Principal	Future Accretion	Interest	Total
2006	\$ 5,627	\$ 113	\$ 4,406	\$ 10,146
2007	5,508	332	4,311	10,151
2008	5,404	541	4,203	10,148
2009	5,320	740	4,090	10,150
2010	5,246	929	3,977	10,152
2011-2015	22,891	7,079	18,177	48,147
2016-2020	31,275	2,205	14,024	47,504
2021-2025	21,360		6,077	27,437
2026-2029	15,000		2,360	17,360
Total	<u>\$ 117,631</u>	<u>\$ 11,939</u>	<u>\$ 61,625</u>	<u>\$ 191,195</u>

**STATE OF ILLINOIS
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8. 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 \$19,069,000, net of accumulated depreciation of \$1,769,000 at June 30, 2005.

Naperville Project

On February 1, 1999, the University entered into a Master Lease Agreement with the Illinois Development Finance Authority (Authority) for the acquisition of an 11.2 acre site and the construction thereon of an approximately 113,000 gross square foot facility. The initial term of the lease is from February 1, 1999 through September 1, 2024. The lease agreement calls for payments in amounts sufficient to pay the principal of, and interest on, the Series 1999 bonds that the Authority issued in relation to the lease. The principal matures serially at varying amounts from 2000 to 2024. Interest payments are due semi-annually starting September 1, 1999 at interest rates ranging from 4.5% to 5.0%.

The bonds are secured by a pledge and lien of rental payments under the Master Lease, a security interest in the constructed facility and leases and agreements relating to the constructed facility.

IASBO Building

The University entered into a lease agreement dated September 30, 1997 with a not-for-profit corporation, IASBO (lessee) to lease certain real estate upon which the lessee will construct an office building. The term of the lease is from September 25, 1998 to September 30, 2023. At the end of the initial term of the lease, the building will become the sole property of the University. The lessee has the option of extending the term of the lease for an additional ten years under the conditions described in the lease. No rent payments shall be due from the lessee to the University during the lease term. However, the lessee has agreed to pay the principal and interest on the debt incurred in connection with the construction of the building.

The University has agreed in the lease to sublease from the lessee one-half of the building for a monthly rental of \$6,000. Such subrental payments shall be made to the lessee beginning June 1, 1999 to May 31, 2024. The capital leases payable represent the present value of these minimum lease payments.

Future minimum lease payments for the above assets under capital leases at June 30, 2005 on originally scheduled minimum payments and estimated interest are (\$000's):

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8. Capitalized Leases (Continued)

Year Ending June 30	Naperville Project	IASBO Building	Total
2006	\$ 1,382	\$ 70	\$ 1,452
2007	1,385	70	1,455
2008	1,383	70	1,453
2009	1,385	70	1,455
2010	1,381	70	1,451
2011-2015	6,904	350	7,254
2016-2020	6,876	349	7,225
2021-2025	6,841	274	7,115
Total minimum lease payments	27,537	1,323	28,860
Less interest	9,927	478	10,405
Present value of future lease payments as of June 30, 2005	\$ 17,610	\$ 845	\$ 18,455
Current portion of leases payable	\$ 550	\$ 27	\$ 577

9. Notes and Certificates of Participation Payable

Notes and certificates of participation payable at June 30, 2005 total \$13,868,000 consisting of the following issues (\$000's):

Issue	Original Issue	Retirements	Outstanding Balance 6/30/05	Current Portion	Interest Rate(s)	Annual Maturity To
Notes Payable:						
Lincoln Highway Conference Facility	\$ 416	\$ (195)	\$ 221	\$ 56	6.00%	Jul-08
PS Student Admin System	809	(188)	621	198	4.25%	Jun-08
Student System Fit Gap and Planning	1,869	(437)	1,432	457	4.35%	Jun-08
Student System Infrastructure	2,326	(637)	1,689	541	4.00%	Jun-08
Family Health, Wellness and Literacy Center	4,000	-	4,000	4,000	2.50% to 5.00%	Jun-06
Certificates of Participation:						
Series 1993 - Hoffman Estates Facility	8,485	(2,580)	5,905	315	2.95% to 5.30%	Sep-16
Total			\$ 13,868	\$ 5,567		

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9. Notes and Certificates of Participation Payable

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. Of the proceeds, \$8,002,000 was used to refund Series 1991 certificates and \$483,000 provided additional funds for additional construction. The certificates are payable through installment payments commencing September 1, 1994, for a period of twenty-three years.

In May 2001, the University entered into a contract for \$416,000 to purchase the building at 1201 W. Lincoln Hwy., which had previously been owned by GKC Theaters. The purchase contract is for an 8-year period with installment payments commencing August 29, 2001. The University has named this facility the Lincoln Highway Conference Facility.

In July 2003, the University entered into a contract for \$809,000 to finance the perpetual licensing of certain software and integrated services. The licensing contract is for a 5-year period with installment payments commencing June 1, 2004.

In February 2004, the University entered into a contract for \$2,326,000 to lease certain equipment. The contract is for a 4-year period with installment payments commencing June 1, 2004.

In June 2004, the University entered into a contract for \$1,869,000 to finance licensing of certain software and services. The licensing and service contract is for a 4-year period with installment payments commencing September 30, 2004.

In June 2005, the University entered into a contract for \$4,000,000 to purchase a 23 acre tract of land, buildings and equipment from DeKalb Genetics Corporation. The property is located on Route 23 and Bethany Road in Dekalb and will house the NIU Family Health, Wellness and Literacy Center. The note is for one year, due June 30, 2006.

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

Year Ending June 30	Family Health, Wellness and Literacy Center	Hoffman Estates Educational Center	Lincoln Highway Conference Facility	PS Student System	Student System Fit Gap & Planning	Student System Infrastructure	Total
2006	\$ 4,152	\$ 623	\$ 69	\$ 222	\$ 512	\$ 600	\$ 6,178
2007		617	70	222	512	600	2,021
2008		619	70	221	511	601	2,022
2009		621	45	-	-	-	666
2010		625	-	-	-	-	625
2011-2015		3,137	-	-	-	-	3,137
2016-2020		1,976	-	-	-	-	1,976
Subtotal	4,152	8,218	254	665	1,535	1,801	16,625
Less interest	152	2,313	33	44	103	112	2,757
Total	\$ 4,000	\$ 5,905	\$ 221	\$ 621	\$ 1,432	\$ 1,689	\$ 13,868

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10. Operating Leases

The University leases various buildings under operating lease agreements. Total rental expense for the year ended June 30, 2005, under these agreements was \$533,000.

Minimum lease payments are (\$000's):

<u>Year Ending June 30</u>	<u>Amount</u>
2006	\$ 418
2007	150
2008	120
Total	<u>\$ 688</u>

11. Retirement Plan

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

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 11.12% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly. The employer contributions to SURS for the years ended June 30, 2005, 2004, and 2003 were \$13,944,000, \$90,843,000, and \$14,172,000, respectively, equal to the required contributions for each year.

For those employees who elect not to participate in the defined benefit plan, SURS also provides a defined contribution plan option. Plan members are required to contribute 8.0% of their annual covered salary, with the State contributing 7.6%.

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11. Retirement Plan (Continued)

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

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

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

12. Post-employment Benefits

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

For annuitants retiring January 1, 1998 and after, the State allows a 5% credit for each full-year of service toward the monthly premium. The monthly premium is determined for annuitants as a separate group. The cost of health, dental, and life insurance benefits is recognized by the State on a pay-as-you-go basis. These costs are funded by the State except for certain non-appropriated funds funded by the University.

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13. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2005 are summarized as follows:

University

(\$000's)

	Compensation & Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 90,977	\$ 16,764	\$ 1,085	\$ -	\$ 108,826
Research	9,376	4,934	92	-	14,402
Public Service	13,693	11,489	556	-	25,738
Academic					
Support	16,720	10,518	333	-	27,571
Student Services	8,444	3,157	14	-	11,615
O&M	10,564	13,043	-	-	23,607
Depreciation	-	-	-	26,221	26,221
Inst. Support	21,326	5,689	-	-	27,015
Staff Benefits	53,945	-	-	-	53,945
Student Aid	869	334	9,445	-	10,648
Auxiliary	27,045	37,627	2,394	-	67,066
Total	\$ 252,959	\$ 103,555	\$ 13,919	\$ 26,221	\$ 396,654

Component Units

(\$000's)

	Compensation & Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ -	\$ 4,583	\$ -	\$ -	\$ 4,583
Research	-	65	2	-	67
Public Service	-	608	-	-	608
Academic					
Support	-	1,624	-	-	1,624
Student Services	-	562	3	-	565
O&M	-	7	-	-	7
Inst. Support	427	2,397	8	9	2,841
Staff Benefits	-	-	-	-	-
Student Aid	-	89	688	-	777
Total	\$ 427	\$ 9,935	\$ 701	\$ 9	\$ 11,072

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14. Insurance

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

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

15. Commitments and Contingencies

Encumbrances

Encumbrances which represents goods or services that have been ordered for which delivery has not been made or the services have not been rendered at June 30, 2005, are not recorded in the accompanying financial statements. Encumbrances were \$6,450,000 at June 30, 2005.

Barsema Alumni and Visitors Center

The Barsema Alumni and Visitors Center is currently under construction on the west side of campus. The building will be approximately 37,000 square feet and is on schedule for an October 2005 opening. The building is being funded by donor gifts. Interim financing has been secured by the Foundation. The University has agreed to enter into a fifteen year lease with the Foundation, after which time the building will be transferred to the University.

Grants and Contracts

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

Legal Action

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

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16. University Related Organizations

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

	<u>FOUNDATION</u>	<u>ALUMNI ASSOCIATION</u>	<u>TOTAL</u>
Condensed Statement of Net Assets			
ASSETS:			
Current assets	\$ 2,832	\$ -	\$ 2,832
Noncurrent assets			
Capital assets, net of accumulated depreciation	4,232	-	4,232
Investments administered by NIU Foundation	-	2,441	2,441
Other noncurrent assets	54,407	-	54,407
TOTAL ASSETS	<u>\$ 61,471</u>	<u>\$ 2,441</u>	<u>\$ 63,912</u>
LIABILITIES:			
Current liabilities	\$ 3,130	\$ 97	\$ 3,227
Noncurrent liabilities			
Deposits held for NIU Alumni Association	2,441	-	2,441
Endowment and gift accounts administered for NIU	3,273	-	3,273
Contractual payments to income beneficiaries	215	-	215
TOTAL LIABILITIES	<u>9,059</u>	<u>97</u>	<u>9,156</u>
NET ASSETS:			
Invested in capital assets	4,232		4,232
Restricted			
Nonexpendable	26,681	114	26,795
Expendable	16,416	226	16,642
Unrestricted	5,083	2,004	7,087
Total Net assets	52,412	2,344	54,756
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 61,471</u>	<u>\$ 2,441</u>	<u>\$ 63,912</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating revenues	\$ 18,958	\$ -	\$ 18,958
Operating expenses	10,387	685	11,072
Operating income (loss)	8,571	(685)	7,886
Nonoperating revenue	1,344	230	1,574
Increase (decrease) in net assets	9,915	(455)	9,460
Net assets, beginning of year	42,497	2,799	45,296
Net assets, end of year	<u>\$ 52,412</u>	<u>\$ 2,344</u>	<u>\$ 54,756</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS**

Note 16. University Related Organizations

Condensed Statement of Cash Flows

Net cash flows used in operating activities	\$	3,233	\$	\$	3,233
Net cash flows provided by noncapital financing activities		38			38
Net cash flows used in capital financing activities		(63)			(63)
Net cash used in investing activities		(2,555)		-	(2,555)
Net decrease in cash and cash equivalents		653			653
Cash and cash equivalents, beginning of year		1,236		-	1,236
Cash and cash equivalents, end of year	\$	1,889	\$	-	\$ 1,889

Reconciliation of operating income (loss)

to net cash provided by (used in) operating activities:

Operating income (loss)	\$	8,571	\$	(685)	\$	7,886
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Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:

Changes in assets and liabilities:		(5,338)		685		(4,653)
Net cash used in operating activities	\$	3,233	\$	-	\$	3,233

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Note 17. Segment Information

The following financial information represents identifiable activities for which one or more revenue bonds are outstanding. The Auxiliary Facilities System is comprised of University owned housing units, student union, recreation and athletic facilities, and similar auxiliary service units including parking. (\$000's)

	<u>AUXILIARY FACILITIES SYSTEM</u>
Condensed Statement of Net Assets	
ASSETS:	
Current assets	\$ 25,860
Noncurrent assets:	
Capital assets, net of accumulated depreciation	98,302
Other noncurrent assets	<u>2,217</u>
TOTAL ASSETS	<u>\$ 126,379</u>
LIABILITIES:	
Current liabilities	\$ 9,894
Noncurrent liabilities:	
Long-term debt	<u>112,168</u>
TOTAL LIABILITIES	<u>122,062</u>
NET ASSETS:	
Invested in capital assets, net of related debt	(13,866)
Unrestricted	<u>18,183</u>
TOTAL NET ASSETS	<u>4,317</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 126,379</u>
 Condensed Statement of Revenues, Expenses, and Changes in Net Assets	
Operating revenues	\$ 63,315
Operating expenses	<u>(54,720)</u>
Operating income	8,595
Nonoperating expenses	<u>(5,560)</u>
Increase in net assets	3,035
Net assets, beginning of year	<u>1,282</u>
NET ASSETS, END OF YEAR	<u>\$ 4,317</u>
 Condensed Statement of Cash Flows	
Net cash flows provided by operating activities	\$ 15,685
Net cash flows used in capital and related financing activities	(14,596)
Net cash flows provided by investing activities	<u>1,186</u>
Net increase in cash and cash equivalents	2,275
Cash and cash equivalents, beginning of year	<u>10,878</u>
Cash and cash equivalents, end of year	<u>\$ 13,153</u>

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18. New Governmental Accounting Standards

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

- Statement No. 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the period beginning July 1, 2005.
- Statement No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. This statement is effective for the period beginning July 1, 2006.
- Statement No. 44 – *Economic Condition Reporting – The Statistical Section – an amendment of NCGA Statement 1*, which amends the portions for NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. This statement is effective for the period beginning July 1, 2005.
- Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Plans Other Than Pensions*, which establishes standards for the measurement and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is effective for the period beginning July 1, 2007.
- Statement No. 46 – *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement is effective for the period beginning July 1, 2005.
- Statement No. 47 – *Accounting for Termination Benefits*, establishes standards for reporting termination benefits. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement will be implemented simultaneously with the requirements of Statement No. 45. For all other termination benefits, this Statement is effective for the period beginning July 1, 2005.

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

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