

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2006**

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

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

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**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

AGENCY OFFICIALS

John G. Peters	President
J. Ivan Legg (retired 7/1/06) Raymond W. Alden III (effective 7/1/06)	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 (retired 8/1/06) Julie Weber (effective 8/1/06)	Director of Grants, Fiscal Administration
Tamara Farley	Director of Treasury Operations
Kinga Mauger	Bursar

NIU Office is located at:

300 Altgeld Hall
DeKalb, Illinois 60115

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

FINANCIAL STATEMENT REPORT SUMMARY

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

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

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

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, 2006. 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, 2005 financial statements and, in our report dated October 13, 2005, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois University and its aggregate discretely presented component units as of June 30, 2006, 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*, a report on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. 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, upon issuance, 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 14 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
November 1, 2006

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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, 2006 with comparative information for the year ended June 30, 2005. 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, 2006 in spite of increased costs of health care and general revenue appropriation support below the fiscal year 2002 level. 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, 2006 and 2005 as follows:

(in thousands)

	2006	2005
Total revenues	\$ 433,626	\$ 408,283
Total expenses	420,800	405,281
Increase in net assets	\$ 12,826	\$ 3,002

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, 2006 and 2005 is as follows:

(in thousands)

	2006	2005
Current assets	\$ 68,961	\$ 76,766
Noncurrent assets:		
Investments	40,827	20,030
Capital assets, net	298,150	301,629
Other	12,197	12,421
Total assets	420,135	410,846
Current liabilities	38,281	38,910
Noncurrent liabilities	179,171	182,079
Total liabilities	217,452	220,989
Net assets	\$ 202,683	\$ 189,857

A review of the University's Statement of Net Assets at June 30, 2006 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 \$45.9 million at June 30, 2006. This amount represents approximately 1.6 months of total expenses (excluding depreciation and fringe benefit expense covered by supplemental state appropriations). Net accounts receivable totaled \$15.6 million at June 30, 2006.

The decrease in current assets during the fiscal year reflects the University's movement of liquid cash and investments into longer term investments classified as noncurrent. Current liabilities decreased slightly between fiscal years, with the largest percentage change in deferred tuition and fees.

Current accounts payable and accrued liabilities, which total \$27.6 million at June 30, 2006, 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 \$38.3 million at June 30, 2006.

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 \$23.8 million in 2006. Capital additions primarily include renovation and new construction of academic, research and student service facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were funded with capital appropriations, grants from the State of Illinois and federal government, debt proceeds, gifts, and unrestricted net assets which were designated for capital purposes. The University depreciates its capital assets on a straight-line basis, using estimated lives ranging from five to forty years.

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

The University has availed itself of Public Act 90-0486 to supplant funds available for use in capital projects. Public Act 90-0486 allows state universities to negotiate multi-year contracts for the evaluation, design and implementation of facility improvements that will be wholly funded by the energy or operational savings of the project. Additionally, the provider of the services to the University fully guarantees the savings over the life of the contract. The effect is that the University upgrades its facilities at no cost, and at no risk. Currently the University has seven separate performance contracts outstanding, totaling \$10.5 million. Performance guarantees are in place for each contract. The projects include upgrading of lighting and heating/air conditioning affecting approximately 70 buildings on campus. The University expects to continue to use performance contracts in the future.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. In August 2001, the Moody's Investors Service upgraded the University credit rating to A2. Bonds payable, excluding the amount currently due, totaled \$107.9 million at June 30, 2006. These bonds have been issued to finance construction of new non-academic facilities and improvements.

Notes and certificates of participation payable total \$5.8 million at June 30, 2006. They have been used to finance the acquisition of several academic and administrative facilities. Capitalized leases payable totaled \$17.9 million at June 30, 2006, 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, 2006 and 2005:

(in thousands)

	<u>2006</u>	<u>2005</u>
Revenue bonds payable	\$ 113,725	\$ 117,631
Leases payable	17,878	18,455
Notes payable	5,754	13,868

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, 2006 and 2005 are summarized as follows:

(in thousands)

	<u>2006</u>	<u>2005</u>
Invested in capital assets, net of related debt	\$ 150,259	\$ 142,589
Restricted:		
Nonexpendable	3,118	2,962
Expendable	4,162	4,162
Unrestricted	45,144	40,144
Total net assets	<u>\$ 202,683</u>	<u>\$ 189,857</u>

The University's net assets increased by \$12.8 million during fiscal year 2006.

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

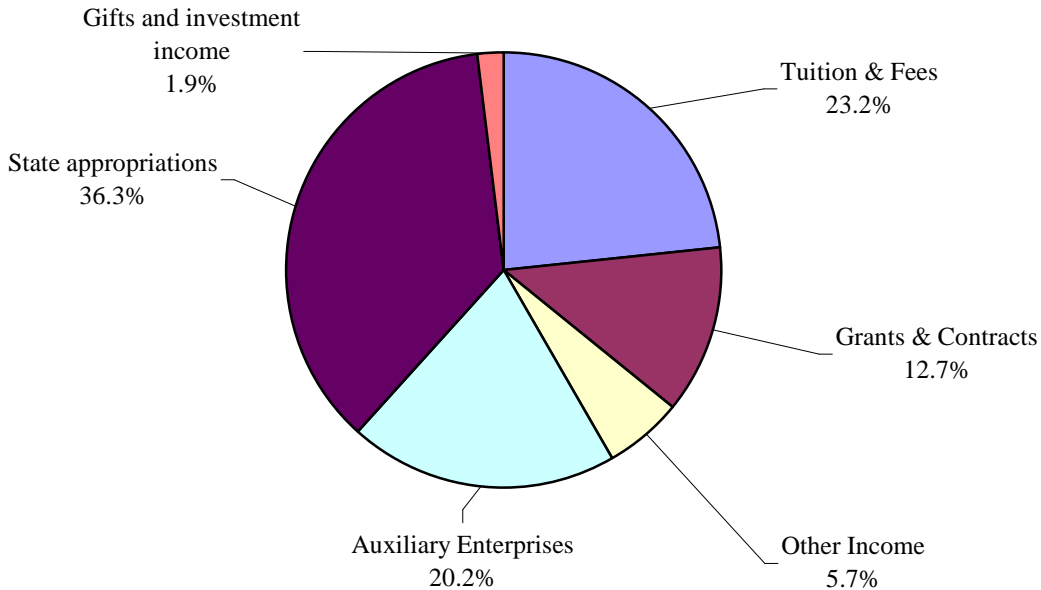
The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35. These significant nonoperating sources include state appropriations, gifts, and investment income. A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2006 and 2005 is as follows:

(in thousands)

	2006	2005
Operating revenues:		
Student tuition and fees	\$ 125,005	\$ 116,252
Less: scholarship allowances	(24,373)	(23,429)
Net student tuition and fees	100,632	92,823
Sponsored programs	55,075	53,057
Auxiliary enterprises	87,643	81,928
Other	24,549	20,744
	267,899	248,552
Operating expenses	(412,610)	(396,654)
Operating loss	(144,711)	(148,102)
Nonoperating revenues (expenses):		
State appropriations:		
General	102,985	102,285
Supplemental	50,283	51,810
Capital	4,246	3,517
Gifts	5,549	350
Net investment income	2,664	1,769
Interest expense and other, net	(8,190)	(8,627)
Net nonoperating revenues	157,537	151,104
Increase in net assets	12,826	3,002
Net assets, beginning of year	189,857	186,855
Net assets, end of year	\$ 202,683	\$ 189,857

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, 2006. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35.

Revenues



Dollars in millions

\$ 100.6	Revenue from charges for tuition and fees, net of scholarship allowance of \$24.4.
\$ 87.6	Revenue from the operation of self-supporting activities such as residence halls, student union, stadium, and recreation center; intercollegiate athletics; parking; and university press.
\$ 55.1	Revenue from federal, state, and private grants and contracts covering research, public service, educational services, financial aid.
\$ 24.6	Miscellaneous revenue consists primarily of income from sales and services of educational activities that include conferences and seminars.
<u>\$ 267.9</u>	Total operating
\$ 157.5	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.
\$ 5.5	Building gift from Foundation.
\$ 2.7	Investment income, and change in fair value of investments.
<u>\$ 165.7</u>	Total non-operating
<u>\$ 433.6</u>	Total revenues

Tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, was \$100.6 million in 2006, an increase of \$7.8 million. The increase is the result of an increase in tuition necessitated by the decrease in state appropriations and the requirements imposed upon the University by Truth in Tuition legislation that requires the University to guarantee tuition rates over a four year span. General state appropriations were \$103.0 million in 2006, an increase of \$.7 million from 2005, but still below the FY 2002 level of \$116.8 million.

Revenues for sponsored programs were \$55.1 million in 2006, an increase of \$2.0 million from 2005. 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, 2006 and 2005 consisted of the following components:

(in thousands)

	<u>2006</u>	<u>2005</u>
Income	\$ 3,014	\$ 1,732
Net change in the fair value of investments	(350)	37
	<u>\$ 2,664</u>	<u>\$ 1,769</u>

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

Capital appropriations received from the State in 2006 totaling \$4.2 million, an increase of \$.7 million from 2005, funded a portion of projects including the laboratory space in the Engineering Building.

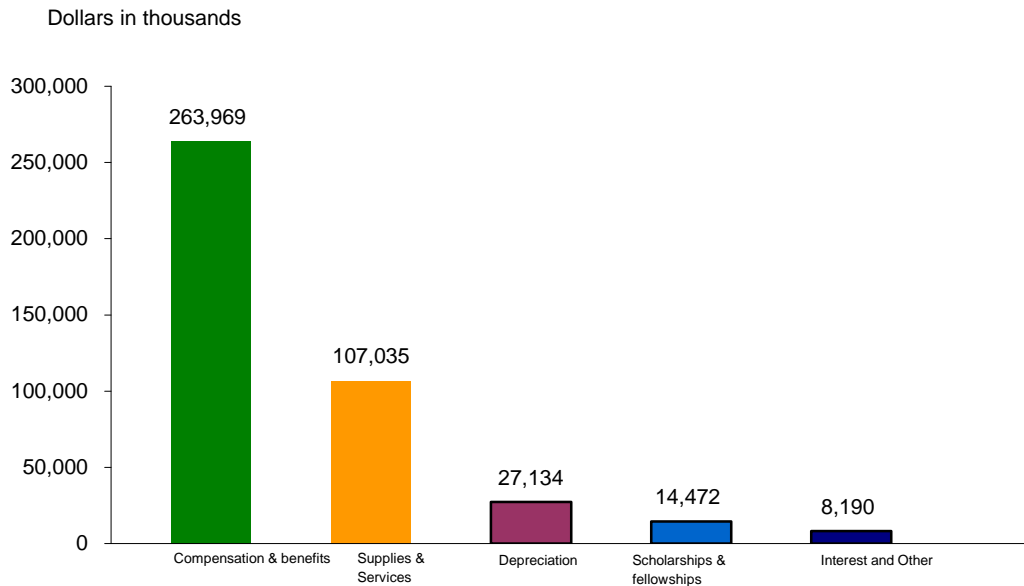
A summary of the University's expenses for the year ended June 30, 2006 and 2005 is:

(in thousands)

	<u>2006</u>	<u>2005</u>
Operating:		
Compensation and benefits	\$ 263,969	\$ 252,959
Supplies and services	107,035	103,555
Depreciation	27,134	26,221
Scholarships and fellowships	14,472	13,919
	<u>412,610</u>	<u>396,654</u>
Nonoperating:		
Interest and other	8,190	8,627
Total expenses	<u>\$ 420,800</u>	<u>\$ 405,281</u>

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

The following is a graphic illustration of total expenses for fiscal year 2006 by object:



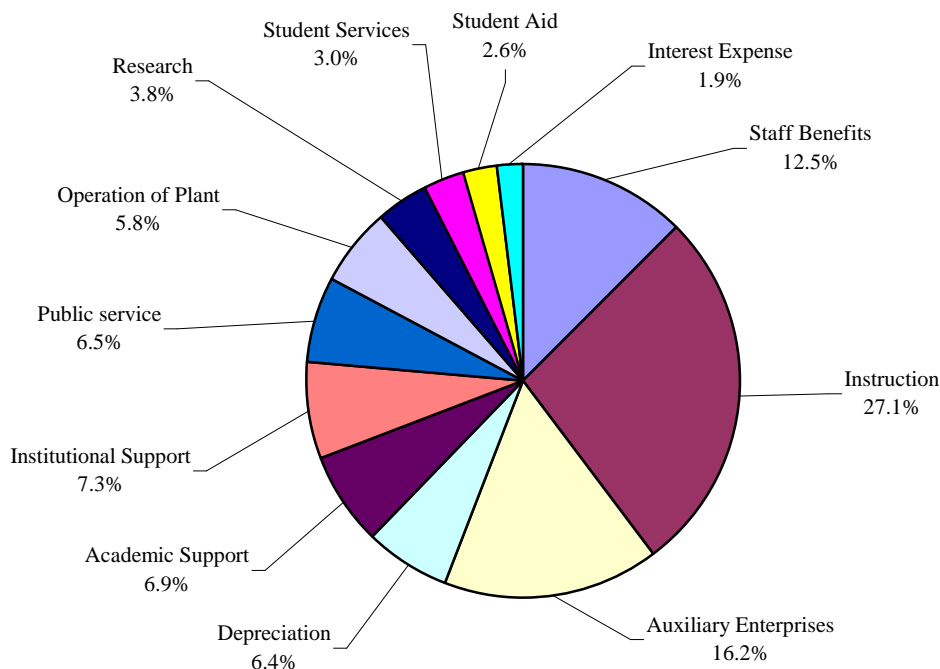
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the year ended June 30, 2006 and 2005 is as follows:

(in thousands)

	<u>2006</u>	<u>2005</u>
Operating:		
Instruction	\$ 114,033	\$ 108,826
Research	15,941	14,402
Public service	27,210	25,738
Academic support	28,923	27,571
Student services	12,600	11,615
Auxiliary enterprises	68,102	67,066
Operations and maintenance of plant	24,509	23,607
Depreciation	27,134	26,221
Institutional support	30,718	27,015
Staff benefits	52,619	53,945
Student aid	10,821	10,648
Total operating expenses	<u>412,610</u>	<u>396,654</u>
Nonoperating:		
Interest expense	8,190	8,627
Total expenses	<u>\$ 420,800</u>	<u>\$ 405,281</u>

The following graphic illustrations present total expenses for fiscal year 2006 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, 2006 and 2005 is as follows:

(in thousands)

	2006	2005
Cash received from operations	\$ 274,562	\$ 252,168
Cash expended for operations	(335,186)	(314,553)
Net cash used in operating activities	(60,624)	(62,385)
Net cash used in investing activities	(5,313)	(14,730)
Net cash used in capital and related financing activities	(37,435)	(31,757)
Net cash provided by noncapital financing activities	108,345	103,428
Net increase (decrease) in cash and cash equivalents	4,973	(5,444)
Cash and cash equivalents, beginning of year	7,100	12,544
Cash and cash equivalents, end of year	<u>\$ 12,073</u>	<u>\$ 7,100</u>

The University's cash and cash equivalents increased \$5.0 million. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations and private gifts used to fund operating activities, for which cash received totaled \$108.3 million in fiscal 2006.

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, 2005, and 2006, the State required the University to supplement the funds appropriated to CMS. The net result of these payments and other reductions to the State budget is an overall reduction in direct State support compared to fiscal year 2002. FY 2007 budgeted state support is below the fiscal year 2002 level, and modestly above the fiscal year 2006 level.

To mitigate the impact of the decrease in state support, the University raised tuition rates 7% for continuing students, and 10% for students covered by Truth-in-Tuition. Enrollment projections continue to be strong.

The University's institutional funds include revenues from sponsored projects to fund indirect administrative and facilities costs. The University anticipates that this revenue will increase slightly from fiscal year 2006 to fiscal year 2007 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, 2006 (in thousands)
(with Comparative Totals for 2005)

	University		Component Units	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
ASSETS				
Current assets				
Cash and cash equivalents	\$ 12,073	\$ 7,100	\$ 4,727	\$ 1,889
Investments and marketable securities	33,183	46,453	-	-
Accrued interest receivable	655	206	-	-
Accounts receivable - net	15,623	14,049	2,026	943
Appropriations receivable from state	696	2,264	-	-
Inventories	3,629	3,343	-	-
Due from component units	2,952	3,273	-	-
Other assets	150	78	17	-
Total current assets	<u>68,961</u>	<u>76,766</u>	<u>6,770</u>	<u>2,832</u>
Noncurrent assets				
Investments and marketable securities	40,827	20,030	49,158	46,585
Student loans receivable - net	9,673	9,724	-	-
Unamortized debt discount	2,524	2,697	-	-
Other	-	-	2,951	7,822
Capital assets, net of accumulated depreciation	298,150	301,629	4,259	4,232
Total noncurrent assets	<u>351,174</u>	<u>334,080</u>	<u>56,368</u>	<u>58,639</u>
TOTAL ASSETS	<u>420,135</u>	<u>410,846</u>	<u>63,138</u>	<u>61,471</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	27,578	29,629	1,112	3,227
Accrued compensated absences	1,957	1,688	-	-
Students' deposits	36	215	-	-
Deferred tuition and fees	8,218	6,939	-	-
Due to NIU	-	-	2,952	3,273
Agency	492	439	-	-
Total current liabilities	<u>38,281</u>	<u>38,910</u>	<u>4,064</u>	<u>6,500</u>
Noncurrent liabilities				
Accounts payable and accrued liabilities	-	-	206	215
Performance contracts payable	9,392	8,003	-	-
Accrued compensated absences	21,687	22,176	-	-
Deferred revenue and grants	8,909	5,196	-	-
Government loan fund advances	8,659	8,634	-	-
Revenue bonds payable	107,885	111,891	-	-
Leases payable	17,269	17,878	-	-
Notes payable	5,370	8,301	1,410	-
Total noncurrent liabilities	<u>179,171</u>	<u>182,079</u>	<u>1,616</u>	<u>215</u>
TOTAL LIABILITIES	<u>217,452</u>	<u>220,989</u>	<u>5,680</u>	<u>6,715</u>
NET ASSETS				
Invested in capital assets, net of related debt	150,259	142,589	4,259	4,232
Restricted:				
Nonexpendable	3,118	2,962	30,022	26,795
Expendable	4,162	4,162	15,881	16,642
Unrestricted	45,144	40,144	7,296	7,087
TOTAL NET ASSETS	<u>\$ 202,683</u>	<u>\$ 189,857</u>	<u>\$ 57,458</u>	<u>\$ 54,756</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, 2006 (in thousands)
(with Comparative Totals for 2005)

	<u>University</u>		<u>Component Units</u>	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
REVENUES				
Operating revenues				
Tuition and fees, net	\$ 100,632	\$ 92,823	\$ -	\$ -
Federal and state grants and other contracts	52,208	50,063	-	-
Private gifts, grants, and contracts	2,867	2,994	12,450	13,904
Sales and service of educational activities	22,344	18,927	-	-
Other sources	2,205	1,817	4,484	5,054
Auxiliary enterprises	87,643	81,928	-	-
Total operating revenues	<u>267,899</u>	<u>248,552</u>	<u>16,934</u>	<u>18,958</u>
EXPENSES				
Operating expenses				
Instruction	114,033	108,826	5,153	4,583
Research	15,941	14,402	41	67
Public service	27,210	25,738	583	608
Academic support	28,923	27,571	42	1,624
Student services	12,600	11,615	894	565
Operation and maintenance of plant	24,509	23,607	132	7
Depreciation	27,134	26,221	-	-
Institutional support	30,718	27,015	2,780	2,841
Staff benefits	52,619	53,945	-	-
Student aid	10,821	10,648	783	777
Auxiliary enterprises	68,102	67,066	-	-
Total operating expenses	<u>412,610</u>	<u>396,654</u>	<u>10,408</u>	<u>11,072</u>
Net operating income (loss)	<u>(144,711)</u>	<u>(148,102)</u>	<u>6,526</u>	<u>7,886</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general	102,985	102,285	-	-
State appropriations - on-behalf payments	50,283	51,810	-	-
Investment income	3,014	1,732	235	205
Net increase (decrease) in fair value of investments	(350)	37	-	-
Interest expense	(8,190)	(8,627)	-	-
Net nonoperating revenues	<u>147,742</u>	<u>147,237</u>	<u>235</u>	<u>205</u>
Income (loss) before other revenues, expenses, gains, or losses	3,031	(865)	6,761	8,091
Capital appropriations	4,246	3,517	-	-
Capital gifts	5,549	350	(4,059)	1,369
INCREASE IN NET ASSETS	<u>12,826</u>	<u>3,002</u>	<u>2,702</u>	<u>9,460</u>
NET ASSETS, BEGINNING OF YEAR	189,857	186,855	54,756	45,296
NET ASSETS, END OF YEAR	<u>\$ 202,683</u>	<u>\$ 189,857</u>	<u>\$ 57,458</u>	<u>\$ 54,756</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2006 (in thousands)
(with Comparative Totals for 2005)

	<u>University</u>		<u>Component Units</u>	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash flows from operating activities				
Student tuition and fees	\$ 101,625	\$ 93,298	\$ -	\$ -
Federal and state grants and other contracts	55,922	49,604	-	-
Private gifts, grants, and contracts	2,867	2,994	8,074	6,852
Sales and service of educational activities	20,971	20,790	-	-
Auxiliary enterprises	87,547	81,932	-	-
Payment to suppliers	(105,301)	(98,122)	(2,013)	(1,919)
Payment to employees	(212,117)	(200,846)	-	-
Payments for scholarships	(14,472)	(13,920)	(3,801)	(2,867)
Loans to students and employees	3,372	(1,665)	-	-
Collection of loans to students and employees	(3,296)	1,807	-	-
Other receipts, net	2,258	1,743	692	1,167
Net cash (used in) provided by operating activities	<u>(60,624)</u>	<u>(62,385)</u>	<u>2,952</u>	<u>3,233</u>
Cash flows from noncapital financing activities				
State appropriations	108,345	103,428	-	-
Private gifts	-	-	1,470	1,694
Payments for construction of building for NIU	-	-	(5,394)	(2,407)
Other	-	-	3,013	751
Net cash (used in) provided by noncapital financing activities	<u>108,345</u>	<u>103,428</u>	<u>(911)</u>	<u>38</u>
Cash flows from capital and related financing activities				
Proceeds from issuance of debt	2,522	4,000	-	-
Purchase of capital assets	(18,240)	(13,437)	(38)	(63)
Principal payments on capital debt	(15,534)	(15,888)	-	-
Interest payments on capital debt	(6,183)	(6,432)	-	-
Net cash (used in) provided by capital and related financing activities	<u>(37,435)</u>	<u>(31,757)</u>	<u>(38)</u>	<u>(63)</u>
Cash flows from investing activities				
Interest income on investments, net	2,214	1,693	(293)	1,208
Proceeds from sales and maturities of investments	473,370	377,989	8,996	5,569
Purchase of investments	(480,897)	(394,412)	(7,868)	(9,332)
Net cash (used in) provided by investing activities	<u>(5,313)</u>	<u>(14,730)</u>	<u>835</u>	<u>(2,555)</u>
Net increase (decrease) in cash and cash equivalents	<u>4,973</u>	<u>(5,444)</u>	<u>2,838</u>	<u>653</u>
Cash and cash equivalents, beginning of the year	<u>7,100</u>	<u>12,544</u>	<u>1,889</u>	<u>1,236</u>
Cash and cash equivalents, end of the year	<u>\$ 12,073</u>	<u>\$ 7,100</u>	<u>\$ 4,727</u>	<u>\$ 1,889</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS, CONTINUED
For the year ended June 30, 2006 (in thousands)
(with Comparative Totals for 2005)**

	<u>University</u>		<u>Component Units</u>	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	\$ (144,711)	\$ (148,102)	\$ 6,526	\$ 7,886
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Depreciation expense	27,134	26,221	11	9
(Gain) Loss on disposal of capital assets	133	211	-	(300)
On behalf payments for fringe benefits	50,283	51,810	-	-
State expenses for non-capitalized CDB projects	454	110	-	-
Changes in assets and liabilities				
Accounts receivable	(1,574)	1,890	(47)	(1,427)
Inventories	(286)	109	-	-
Student loans receivable	51	(581)	-	-
Investments and other assets	248	(699)	(3,565)	(3,325)
Accounts payable and accrued liabilities	2,971	5,805	27	390
Accrued compensated absences	(219)	199	-	-
Students' deposits	(179)	75	-	-
Deferred revenue and grants	4,993	(82)	-	-
Government loan fund advances	25	723	-	-
Agency	53	(74)	-	-
Net cash (used in) provided by operating activities	<u>\$ (60,624)</u>	<u>\$ (62,385)</u>	<u>\$ 2,952</u>	<u>\$ 3,233</u>
Noncash investing, capital, and financing activities				
On-behalf payments for fringe benefits	\$ 50,283	\$ 51,810	\$ -	\$ -
Accretion	1,834	1,931	-	-
Transfer of capital assets from Foundation	5,549	350	(5,549)	(350)
State expenses for non-capitalized CDB projects	454	110	-	-
Total noncash activities	<u>\$ 58,120</u>	<u>\$ 54,201</u>	<u>\$ (5,549)</u>	<u>\$ (350)</u>

See accompanying notes to financial statements.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

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
June 30, 2006**

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 \$24,373,000 for fiscal year 2006, 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
June 30, 2006**

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 \$50,283,000 made by the State of Illinois in fiscal year 2006 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 \$8,670,000 and \$41,613,000 for fiscal year 2006, 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 2005 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 State of America. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended June 30, 2005.

Certain items in the June 30, 2005 financial statements have been reclassified to correspond to the June 30, 2006 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

1. Summary of Significant Accounting Policies (Continued)

C. 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.

D. 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.

E. 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.

F. Unamortized Debt Discount

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

G. 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.

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

1. Summary of Significant Accounting Policies (Continued)

H. Capitalized Leases

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

I. Accrued Compensated Absences

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2006 the accrued liability for this benefit was \$12,585,000, 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, 2006, the accrued liability of this benefit was \$11,059,000, 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 an increase of \$219,000 for fiscal year 2006. 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, 2006, cash deposits of \$12,073,000 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
June 30, 2006**

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' 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 9% of the total investments and is held in a debt service reserve fund. The commercial paper is \$6,633,000 in Bavaria Univ Fog. 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	\$ -	\$ -	\$ 47,999	\$ 4,666	\$ 52,665
A1P1	-	6,633	-	-	6,633
AAA _m	14,712	-	-	-	14,712
Total	\$ 14,712	\$ 6,633	\$ 47,999	\$ 4,666	\$ 74,010

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

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	\$ 14,712	\$ 6,633	\$ 11,838	\$ -	\$ 33,183
1 – 3 years	-	-	31,105	3,451	34,556
3 – 5 years	-	-	2,120	-	2,120
5 – 10 years	-	-	2,936	-	2,936
10 – 20 years	-	-	-	1,215	1,215
Total	\$ 14,712	\$ 6,633	\$ 47,999	\$ 4,666	\$ 74,010

Component Units (\$000's)

Quality rating	Mutual Funds	Stock	Limited Partnerships	Other	Total
AA+	\$ 859	\$ -	\$ -	\$ -	\$ 859
AA	4,621	-	-	-	4,621
AAA	6,232	-	-	-	6,232
Not rated	30,693	2,342	4,191	220	37,446
	\$ 42,405	\$ 2,342	\$ 4,191	\$ 220	\$ 49,158

Duration	Mutual Funds
1 – 3 years	4,524
3 – 5 years	6,329
5 – 10 years	859
Total	\$ 11,712

3. Receivables

Accounts Receivable are reported net of an allowance for uncollectible accounts of \$4,223,000 at June 30, 2006. The composition of accounts receivable at June 30, 2006 is summarized as follows (\$000's):

	University	Component Units
Student accounts	\$ 11,043	\$ -
Customer accounts	2,256	-
Grants receivable	5,853	-
Others	694	2,360
Gross receivables	19,846	2,360
Less: allowance for uncollectible accounts	(4,223)	(334)
Net accounts receivable	\$ 15,623	\$ 2,026

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

3. Receivables (Continued)

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2006 totaling \$9,673,000 and are reported net of an allowance for uncollectible accounts of \$484,000.

4. Capital Assets

Capital assets activity for the year ended June 30, 2006 is summarized as follows:

University (\$000's)	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Land	\$ 18,928	\$ -	\$ -	\$ -	\$ 18,928
Land improvements	50,875	-	-	2,734	53,609
Buildings	395,483	8,094	-	4,778	408,355
Equipment	148,107	6,638	(2,212)	-	152,533
Construction in-progress	12,456	9,056	-	(7,512)	14,000
Total	<u>625,849</u>	<u>23,788</u>	<u>(2,212)</u>	<u>-</u>	<u>647,425</u>
Less: accumulated Depreciation	(324,220)	(27,134)	2,079	-	(349,275)
Capital assets, net	<u>\$ 301,629</u>	<u>\$ (3,346)</u>	<u>\$ (133)</u>	<u>\$ -</u>	<u>\$ 298,150</u>

Component Units (\$000's)	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Land	\$ 3,829	\$ -	\$ -	\$ -	\$ 3,829
Buildings	147	-	-	-	147
Collections	191	4	-	-	195
Furniture	74	34	-	-	108
Total	<u>4,241</u>	<u>38</u>	<u>-</u>	<u>-</u>	<u>4,279</u>
Less: accumulated depreciation	(9)	(11)	-	-	(20)
Capital assets, net	<u>\$ 4,232</u>	<u>\$ 27</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,259</u>

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2006 are as follows (\$000's):

	University	Component Units
Payable to vendors/suppliers	\$ 11,343	\$ 1,318
Accrued payroll	8,051	-
Current portion of noncurrent liabilities:		
Performance contracts payable	1,142	-
Revenue bonds payable	5,840	-
Leases payable	609	-
Notes payable	384	-
Unapplied awards	209	-
Total	<u>\$ 27,578</u>	<u>\$ 1,318</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

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 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, 2006 are as follows (\$000's):

<u>Performance Contract</u>	<u>Original Issue</u>	<u>Retirements</u>	<u>Outstanding Balance 6/30/06</u>	<u>Current Portion</u>	<u>Interest Rate(s)</u>	<u>Annual Maturity To</u>
DuSable Hall	\$ 388	\$ 243	\$ 145	\$ 43	5.62%	May-09
Phase I Lighting	1,601	698	903	165	4.35%	Jan-11
Convocation Center	2,000	635	1,365	204	4.35%	Jan-12
Phase II Lighting	2,399	759	1,640	248	3.90%	May-12
West Plant	4,207	986	3,221	403	4.35%	Jan-13
West Campus Control Valve Retrofit	875	137	738	79	4.35%	Jan-14
Energy Infrastructure Improvements	2,522	-	2,522	-	4.16%	Jan-17
			<u>\$ 10,534</u>	<u>\$ 1,142</u>		

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

<u>Year Ended June 30</u>	<u>DuSable Hall</u>	<u>Phase I Lighting</u>	<u>Convocation Center</u>	<u>Phase II Lighting</u>	<u>West Plant</u>	<u>West Campus Control Valve Retrofit</u>	<u>Energy Infrastructure Improvements</u>	<u>Total</u>
2007	\$ 50	\$ 203	\$ 263	\$ 309	\$ 539	\$ 110	\$ -	\$ 1,474
2008	55	203	262	310	538	110	360	1,838
2009	55	203	263	309	539	110	360	1,839
2010	-	203	262	310	538	110	360	1,783
2011	-	202	263	309	539	110	350	1,773
2012-2016	-	-	262	309	1,078	331	1,545	3,525
2017-2021	-	-	-	-	-	-	175	175
Subtotal	160	1,014	1,575	1,856	3,771	881	3,150	12,407
Less Interest	15	111	210	216	550	143	628	1,873
Total	<u>\$ 145</u>	<u>\$ 903</u>	<u>\$ 1,365</u>	<u>\$ 1,640</u>	<u>\$ 3,221</u>	<u>\$ 738</u>	<u>\$ 2,522</u>	<u>\$ 10,534</u>

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006**

7. Revenue Bonds Payable

Revenue bonds outstanding as of June 30, 2006 are as follows (\$000's):

<u>Issue</u>	<u>Original Issue</u>	<u>Accreted</u>	<u>Defeased</u>	<u>Retired</u>	<u>Outstanding Balance 6/30/06</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	\$ 20,067	\$ -	\$ 6,650	\$ 27,915	\$ 3,730	Accreted 5.30% to	Oct-16	N/A
Series 1996	49,995		31,760	15,770	2,465	570	6.00%	Apr-22	31,760
Series 1999	38,410		22,335	4,080	11,995	795	5.00% to 6.00%	Apr-29	22,335
Series 2001	76,000		-	4,650	71,350	745	4.00% to 5.00%	Apr-29	
					<u>\$ 113,725</u>	<u>\$ 5,840</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.

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:

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7. Revenue Bonds Payable (Continued)

Advanced Refunded Bonds	
(\$000's)	
<u>Series</u>	<u>Outstanding at June 30, 2006</u>
1967	\$ 345
1983 B	2,790
1996	31,760
1999	22,335
Total	<u>\$ 57,230</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):

<u>Fiscal Year Ending June 30</u>	<u>Outstanding Principal</u>	<u>Future Accretion</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 5,726	\$ 114	\$ 4,311	\$ 10,151
2008	5,611	333	4,204	10,148
2009	5,515	545	4,090	10,150
2010	5,430	745	3,977	10,152
2011	5,368	932	3,857	10,157
2012-2016	22,798	7,087	17,606	47,491
2017-2021	34,592	348	12,557	47,497
2022-2026	15,750	-	5,007	20,757
2027-2029	12,935	-	1,610	14,545
Total	<u>\$ 113,725</u>	<u>\$ 10,104</u>	<u>\$ 57,219</u>	<u>\$ 181,048</u>

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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 \$18,623,000, net of accumulated depreciation of \$2,215,000 at June 30, 2006.

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, 2006 on originally scheduled minimum payments and estimated interest are (\$000's):

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8. Capitalized Leases (Continued)

IASBO Building (Continued)

<u>Year Ending June 30</u>	<u>Naperville Project</u>	<u>IASBO Building</u>	<u>Total</u>
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	1,382	70	1,452
2012-2016	6,898	350	7,248
2017-2021	6,870	350	7,220
2022-2025	5,471	204	5,675
Total minimum lease payments	26,155	1,254	27,409
Less interest	9,095	436	9,531
Present value of future lease payments as of June 30, 2006	\$ 17,060	\$ 818	\$ 17,878
Current portion of leases payable	\$ 580	\$ 29	\$ 609

9. Notes and Certificates of Participation Payable

Notes and certificates of participation payable at June 30, 2006 total \$5,754,000 consisting of the following issues (\$000's):

<u>Issue</u>	<u>Original Issue</u>	<u>Retirements</u>	<u>Outstanding Balance 6/30/06</u>	<u>Current Portion</u>	<u>Interest Rate(s)</u>	<u>Annual Maturity To</u>
Notes Payable:						
Lincoln Highway Conference Facility	\$ 416	\$ 252	\$ 164	\$ 59	6.00%	Jul-08
PS Student Admin System	809	809	-	-	4.25%	Jun-08
Student System Fit Gap and Planning	1,869	1,869	-	-	4.35%	Jun-08
Student System Infrastructure	2,326	2,326	-	-	4.00%	Jun-08
Family Health, Wellness and Literacy Center	4,000	4,000	-	-	2.50% to 5.00%	Jun-06
Certificates of Participation:						
Series 1993 - Hoffman Estates Facility	8,485	2,895	5,590	325	2.95% to 5.30%	Sep-16
Total			\$ 5,754	\$ 384		

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9. Notes and Certificates of Participation Payable (Continued)

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. The contract was retired this fiscal year.

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. The contract was retired this year.

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. The contract was retired this year.

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 was retired during the current fiscal year.

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

Year Ending June 30	Hoffman Estates Educational Center	Lincoln Highway Conference Facility	Total
2007	\$ 617	\$ 70	\$ 687
2008	619	69	688
2009	621	44	665
2010	625	-	625
2011	624	-	624
2012-2016	3,149	-	3,149
2017-2021	1,340	-	1,340
Subtotal	7,595	183	7,778
Less interest	2,005	19	2,024
Total	\$ 5,590	\$ 164	\$ 5,754

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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, 2006, under these agreements was \$520,000.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 344
2008	157
2009	157
Total	<u>\$ 658</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 Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SURS, 1901 Fox Drive, Champaign, IL 61820 or by calling 1-800-275-7877.

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

Plan members are required to contribute 8.0% of their annual covered salary and substantially all employer contributions are made by the State of Illinois on behalf of the individual employers at an actuarially determined rate. The current rate is 10.18% 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, 2006, 2005, and 2004 were \$8,670,000, \$13,944,000, and \$90,843,000, respectively, equal to the required contributions for each year.

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11. Retirement Plan (Continued)

SURS also provides a defined contribution plan option. Plan members are required to contribute 8.0% of their annual covered salary, with the State contributing 7.6%.

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

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

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

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, 2006 are summarized as follows:

University

(\$000's)

	Compensation & Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 96,047	\$ 16,718	\$ 1,268	\$ -	\$ 114,033
Research	10,302	5,545	94	-	15,941
Public Service	16,352	10,187	671	-	27,210
Academic					
Support	17,242	11,194	487	-	28,923
Student Services	9,130	3,456	14	-	12,600
O&M	11,376	13,133	-	-	24,509
Depreciation	-	-	-	27,134	27,134
Inst. Support	21,537	9,181	-	-	30,718
Staff Benefits	52,619	-	-	-	52,619
Student Aid	842	484	9,495	-	10,821
Auxiliary	28,522	37,137	2,443	-	68,102
Total	\$ 263,969	\$ 107,035	\$ 14,472	\$ 27,134	\$ 412,610

Component Units

(\$000's)

	Compensation & Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ -	\$ 5,034	\$ 119	\$ -	\$ 5,153
Research	-	40	1	-	41
Public Service	-	583	-	-	583
Academic					
Support	-	42	-	-	42
Student Services	-	838	56	-	894
O&M	-	132	-	-	132
Inst. Support	472	2,295	2	11	2,780
Staff Benefits	-	-	-	-	-
Student Aid	-	17	766	-	783
Total	\$ 472	\$ 8,981	\$ 944	\$ 11	\$ 10,408

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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, 2006, are not recorded in the accompanying financial statements. Encumbrances were \$5,089,000 at June 30, 2006.

Grants and Contracts

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

Legal Action

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

**STATE OF ILLINOIS
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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	\$ 6,768	\$ 2	\$ 6,770
Noncurrent assets			
Capital assets, net of accumulated depreciation	4,259	-	4,259
Investments administered by NIU Foundation	-	2,332	2,332
Other noncurrent assets	52,109	-	52,109
TOTAL ASSETS	<u>\$ 63,136</u>	<u>\$ 2,334</u>	<u>\$ 65,470</u>
LIABILITIES:			
Current liabilities	\$ 4,015	\$ 49	\$ 4,064
Noncurrent liabilities			
Deposits held for NIU Alumni Association	2,332	-	2,332
Contractual payments to income beneficiaries	206	-	206
Notes payable	1,410	-	1,410
TOTAL LIABILITIES	<u>7,963</u>	<u>49</u>	<u>8,012</u>
NET ASSETS:			
Invested in capital assets	4,259	-	4,259
Restricted			
Nonexpendable	29,901	121	30,022
Expendable	15,645	236	15,881
Unrestricted	5,368	1,928	7,296
Total net assets	55,173	2,285	57,458
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 63,136</u>	<u>\$ 2,334</u>	<u>\$ 65,470</u>

**STATE OF ILLINOIS
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16. University Related Organizations (Continued)

	<u>FOUNDATION</u>	<u>ALUMNI ASSOCIATION</u>	<u>TOTAL</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating revenues	\$ 16,934	\$ -	\$ 16,934
Operating expenses	<u>10,094</u>	<u>314</u>	<u>10,408</u>
Operating income (loss)	6,840	(314)	6,526
Nonoperating revenue (expenses)	<u>(4,079)</u>	<u>255</u>	<u>(3,824)</u>
Increase (decrease) in net assets	2,761	(59)	2,702
Net assets, beginning of year	<u>52,412</u>	<u>2,344</u>	<u>54,756</u>
Net assets, end of year	<u>\$ 55,173</u>	<u>\$ 2,285</u>	<u>\$ 57,458</u>
Condensed Statement of Cash Flows			
Net cash flows (used in) provided by operating activities	\$ 2,952	\$ -	\$ 2,952
Net cash flows (used in) provided by noncapital financing activities	(911)	-	(911)
Net cash flows (used in) provided by capital and related financing activities	(38)	-	(38)
Net cash flows (used in) provided by investing activities	<u>835</u>	<u>-</u>	<u>835</u>
Net increase (decrease) in cash and cash equivalents	2,838	-	2,838
Cash and cash equivalents, beginning of year	<u>1,889</u>	<u>-</u>	<u>1,889</u>
Cash and cash equivalents, end of year	<u>\$ 4,727</u>	<u>\$ -</u>	<u>\$ 4,727</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 6,840	\$ (314)	\$ 6,526
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Changes in assets and liabilities:	<u>(3,888)</u>	<u>314</u>	<u>(3,574)</u>
Net cash used in operating activities	<u>\$ 2,952</u>	<u>\$ -</u>	<u>\$ 2,952</u>

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)

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17. Segment Information (Continued)

ASSETS:

Current assets	\$ 31,105
Noncurrent assets:	
Capital assets, net of accumulated depreciation	102,610
Other noncurrent assets	<u>2,085</u>
TOTAL ASSETS	<u>\$ 135,800</u>

LIABILITIES:

Current liabilities	\$ 10,911
Noncurrent liabilities:	
Long term debt	<u>108,103</u>
TOTAL LIABILITIES	<u>119,014</u>

NET ASSETS:

Invested in capital assets, net of related debt	(5,493)
Unrestricted	<u>22,279</u>
TOTAL NET ASSETS	<u>16,786</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 135,800</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

Operating revenues	\$ 76,683
Operating expenses	<u>(58,674)</u>
Operating income	18,009
Nonoperating expenses	<u>(5,540)</u>
Increase in net assets	12,469
Net assets, beginning of year	<u>4,317</u>
NET ASSETS, END OF YEAR	<u>\$ 16,786</u>

CONDENSED STATEMENT OF CASH FLOWS

Net cash flows provided by operating activities	\$ 17,978
Net cash flows used in capital and related financing activities	(14,806)
Net cash flows provided by investing activities	<u>1,627</u>
Net increase in cash and cash equivalents	4,799
Cash and cash equivalents, beginning of year	<u>13,153</u>
Cash and cash equivalents, end of year	<u>\$ 17,952</u>

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18. New Governmental Accounting Standards

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

- 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. 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. 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.

19. Subsequent Events

At the September Board of Trustee meeting the University sought and received permission to enter into a ground lease with Collegiate Housing Foundation and enter into a management agreement which will provide for the overall day-to-day operations of a new Housing for Students with Dependents project. Groundbreaking for the project was October 12, 2006.

At the September Board of Trustees meeting the University sought and received permission to enter into a lease with the Northern Illinois University Foundation for the Academic and Athletic Performance Center, for a term not to exceed ten years. The 60,000 square foot facility is being constructed by the Foundation just north of Huskie Stadium. The center has been supported through the generous donations of NIU alumni and friends.

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