

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2009**

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

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2009**

TABLE OF CONTENTS

	PAGE
AGENCY OFFICIALS	1
 FINANCIAL STATEMENT REPORT	
Summary	2
Independent Auditors' Report	3
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Statement of Net Assets	16
Statement of Revenues, Expenses, and Changes in Net Assets.....	17
Statement of Cash Flows	18
Notes to the Basic Financial Statements	20

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

AGENCY OFFICIALS

John G. Peters	President
Raymond W. Alden III	Executive Vice President and Provost
Eddie R. Williams	Executive Vice President, Business and Finance, and Chief of Operations
Anne C. Kaplan	Vice President, Administration
Mike Malone	Vice President, Development and University Relations
Kathryn Buettner	Vice President, External Affairs
Kenneth Davidson	Vice President and General Counsel
Danielle Schultz	Acting Director of Internal Audit
<u>Financial Staff</u>	
Robert Albanese	Associate Vice President, Finance and Facilities
Keith Jackson	Controller

NIU Office is located at:

300 Altgeld Hall
DeKalb, Illinois 60115

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

FINANCIAL STATEMENT REPORT SUMMARY

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

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

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Cherilyn G. Murer, Honorable Chair of the
Legislative, Audit, and External Affairs
Committee of the Board of Trustees

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Northern Illinois University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2009, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's June 30, 2008 financial statements and, in our report dated March 30, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component units. We did not audit the financial statements of Northern Illinois University Foundation, Northern Illinois University Alumni Association, and Northern Illinois Research Foundation (collectively "component units") as of and for the year ended June 30, 2009. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for these component units, is based on the reports of other auditors.

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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Northern Illinois University and its aggregate discretely presented component units as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated January 27, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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
January 27, 2010

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2009 with comparative information for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with more than 25,000 students and approximately 1,250 faculty members, which contributes to the region, state, and nation through its instructional, basic and applied research, and public service programs. The University is located in DeKalb, Illinois, with regional centers in Hoffman Estates, Naperville, and Rockford, and the Lorado Taft Field Campus in Oregon, Illinois. The University offers more than 50 undergraduate and over 70 graduate degree programs, including 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 Libraries house the Digitization Project, which includes the Abraham Lincoln Digitization Project and a number of other digital projects which place the events of history, both in the United States and internationally, in cultural and social context. The Northern Illinois University Press, one of three at Illinois public universities, publishes on a variety of topics in the humanities, arts, and sciences; books on Russian studies, railroad history, and the history of Chicago and the Midwest are areas of special focus.

The University is accredited by the Higher Learning Commission and is a member of the North Central Association. It is also accredited by the National Council for Accreditation of Teacher Education to offer teacher preparation programs, which are approved by the Illinois State Board of Education. The College of Business is accredited by the Association to Advance Collegiate Schools of Business (AACSB - International), the College of Engineering and Engineering Technology is accredited by the Engineering Accreditation Commission of the Accreditation Board for Engineering and Technology (ABET), and the College of Law is accredited by the American Bar Association (ABA). All degree programs eligible for accreditation are accredited by their respective professional accrediting bodies. The University is included in the Doctoral/Research Universities - Extensive category of the Carnegie Foundation for the Advancement of Teaching, and is a member of the National Association of State Universities and Land-Grant Colleges and the Universities Research Association.

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2009 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, 2009 and 2008 as follows:

(in thousands)

	2009	2008
Total revenues	\$ 490,432	\$ 465,295
Total expenses	484,375	463,145
Increase in net assets	\$ 6,057	\$ 2,150

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole. The financial statements include the University and its discretely presented component units. Information regarding the component units is summarized in Note 22 to the 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, 2009 and 2008 is as follows:

(in thousands)

	2009	2008
Current assets	\$ 84,313	\$ 59,963
Noncurrent assets:		
Investments	43,280	63,622
Capital assets, net	320,261	317,515
Other	14,497	15,643
Total assets	<u>462,351</u>	<u>456,743</u>
Current liabilities	54,622	44,645
Noncurrent liabilities	185,867	196,293
Total liabilities	<u>240,489</u>	<u>240,938</u>
Net assets	<u>\$ 221,862</u>	<u>\$ 215,805</u>

A review of the University's Statement of Net Assets at June 30, 2009 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 \$44.3 million at June 30, 2009. This amount represents approximately 1.3 months of total expenses (excluding depreciation and fringe benefit expense covered by supplemental state appropriations). Accounts receivable totaled \$31.5 million at June 30, 2009.

The increase in current assets during the fiscal year is offset by a decrease in noncurrent assets, with the major decrease in investments.

Current accounts payable and accrued liabilities, which total \$43.1 million at June 30, 2009, 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 \$54.6 million at June 30, 2009.

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 \$23.6 million in 2009. 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 year 2007, the University entered an agreement with CHF - DeKalb, L.L.C. to develop, finance, design, construct, equip and operate an approximately 240 bed student housing facility. The Northern View Community opened in the fall replacing the existing University Family Apartments. The facility is owned by CHF, but managed by NIU Housing and Dining. The agreement required no capital outlay from the University but Generally Accepted Accounting Principles require the University to report the transaction as a capital lease. The facility and offsetting capital lease were originally recorded at \$19.4 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 nine separate performance contracts outstanding, totaling \$22.6 million. Performance guarantees are in place for each contract. The projects include upgrading of lighting and heating/air conditioning affecting approximately 70 buildings on campus. The University expects to continue to use performance contracts in the future.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. In August 2001, the Moody's Investors Service upgraded the University credit rating to A2 and most recently re-affirmed this rating in May, 2009. Bonds payable, excluding the amount currently due, totaled \$94.5 million at June 30, 2009. These bonds have been issued to finance construction of new non-academic facilities and improvements.

Certificates of participation payable total \$4.6 million at June 30, 2009. They have been used to finance the acquisition of several academic and administrative facilities. Capitalized leases payable totaled \$35.5 million at June 30, 2009, 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, 2009 and 2008:

(in thousands)

	<u>2009</u>	<u>2008</u>
Revenue bonds payable	\$ 100,632	\$ 105,242
Leases payable	35,501	36,504
Notes payable	4,555	4,920

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, 2009 and 2008 are summarized as follows:

(in thousands)

	<u>2009</u>	<u>2008</u>
Invested in capital assets, net of related debt	\$ 156,971	\$ 150,388
Restricted:		
Expendable	7,031	7,186
Unrestricted	<u>57,860</u>	<u>58,231</u>
Total net assets	<u>\$ 221,862</u>	<u>\$ 215,805</u>

The University's net assets increased \$6.1 million during fiscal year 2009.

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 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

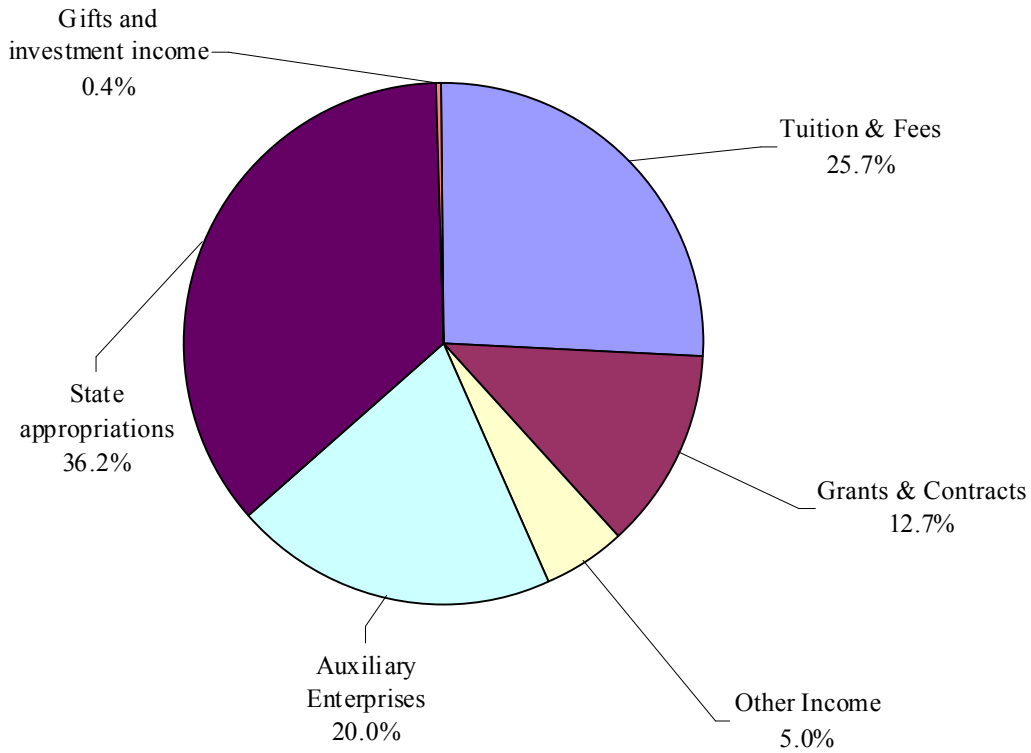
The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35. These significant nonoperating sources include state appropriations, Pell Grants, and investment income. A summary of the University's revenues, expenses and changes in net assets for the year ended June 30, 2009 and 2008 is as follows:

(in thousands)

	2009	2008
Operating revenues:		
Student tuition and fees	\$ 154,899	\$ 143,844
Less: scholarship allowances	(29,017)	(27,044)
Net student tuition and fees	125,882	116,800
Sponsored programs	45,511	38,652
Auxiliary enterprises	97,949	97,946
Other	24,693	24,033
	294,035	277,431
Operating expenses	(475,734)	(454,389)
Operating loss	(181,699)	(176,958)
Nonoperating revenues (expenses):		
State appropriations:		
General	104,779	105,878
Supplemental	69,085	63,521
Capital	3,638	625
Pell Grants	16,861	14,498
Net investment income	2,034	3,342
Interest expense and other, net	(8,641)	(8,756)
Net nonoperating revenues	187,756	179,108
Increase in net assets	6,057	2,150
Net assets, beginning of year	215,805	213,655
Net assets, end of year	\$ 221,862	\$ 215,805

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, 2009. Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35.

Revenues



Dollars in millions

\$ 125.9	Revenue from charges for tuition and fees, net of scholarship allowance of \$29.0.
\$ 97.9	Revenue from the operation of self-supporting activities such as residence halls, student union, stadium, and recreation center; intercollegiate athletics; parking; and university press.
\$ 45.5	Revenue from federal, state, and private grants and contracts covering research, public service, educational services, financial aid.
\$ 24.7	Miscellaneous revenue consists primarily of income from sales and services of educational activities that include conferences and seminars.
<u>\$ 294.0</u>	Total operating
\$ 177.5	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.
\$ 16.9	Pell Grants
\$ 2.0	Investment income, and change in fair value of investments.
<u>\$ 196.4</u>	Total non-operating
<u>\$ 490.4</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 \$125.9 million in 2009, an increase of \$9.1 million. The increase is the result of an increase in tuition necessitated by the continued decrease in state appropriations and the requirements imposed upon the University by Truth in Tuition legislation that requires the University to guarantee tuition rates over a four year span. General state appropriations were \$104.8 million in 2009, a decrease of \$1.1 million from 2008, and below the FY 2002 level of \$116.8 million.

Revenues for sponsored programs were \$45.5 million in 2009, an increase of \$6.8 million from 2008. 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, 2009 and 2008 consisted of the following components:

(in thousands)

	<u>2009</u>	<u>2008</u>
Income, net	\$ 1,917	\$ 2,993
Net change in the fair value of investments	117	349
	<u>\$ 2,034</u>	<u>\$ 3,342</u>

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

Capital appropriations received from the State in 2009 totaling \$3.6 million, an increase of \$3.0 million from 2008, funded projects across the University.

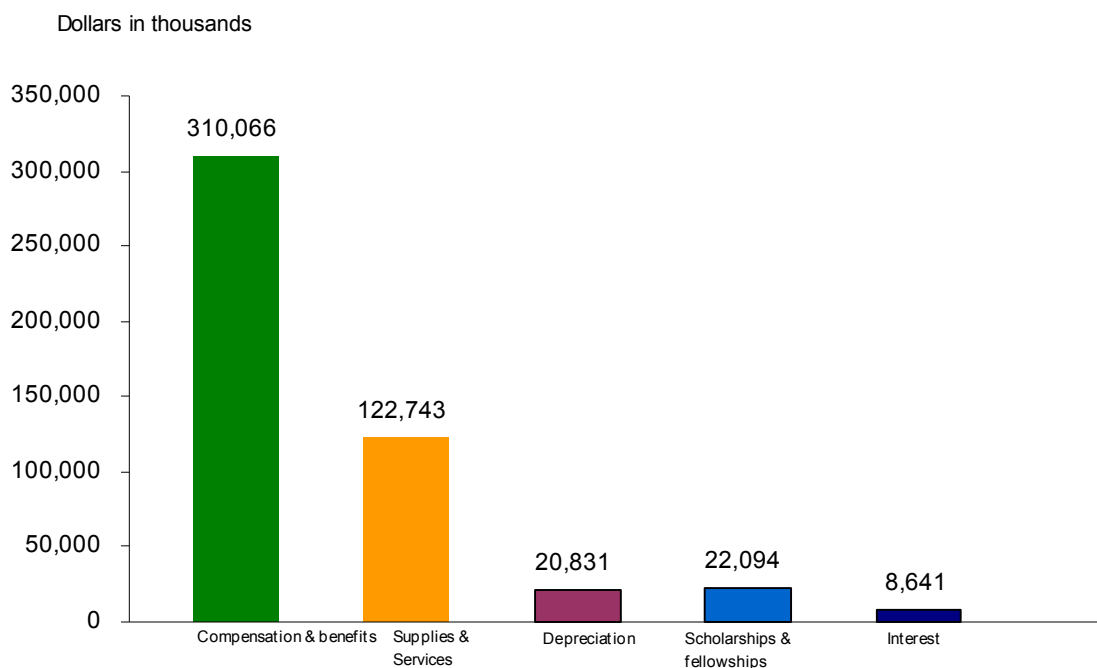
A summary of the University's expenses for the year ended June 30, 2009 and 2008 is:

(in thousands)

	<u>2009</u>	<u>2008</u>
Operating:		
Compensation and benefits	\$ 310,066	\$ 298,310
Supplies and services	122,743	117,364
Depreciation	20,831	19,208
Scholarships and fellowships	22,094	19,507
	<u>475,734</u>	<u>454,389</u>
Nonoperating:		
Interest and other	8,641	8,756
Total expenses	<u>\$ 484,375</u>	<u>\$ 463,145</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 2009 by object:



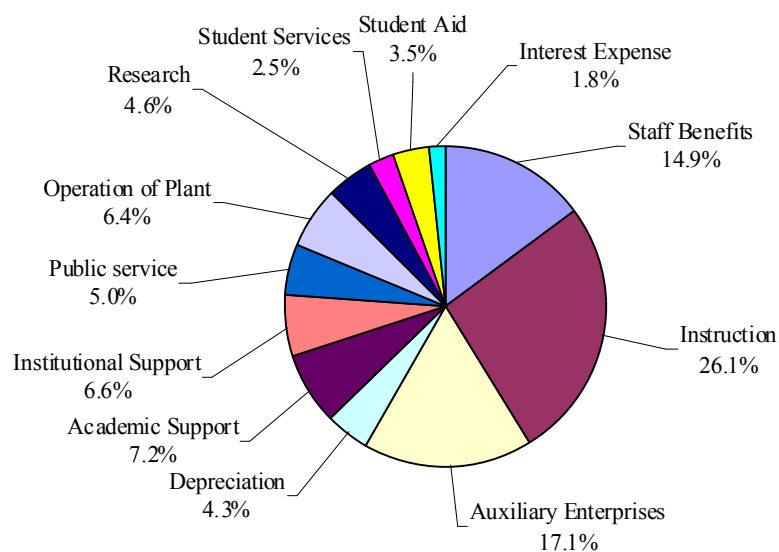
In addition to their natural (object) classification, it is also informative to review operating expenses by function. A summary of the University's expenses by functional classification for the year ended June 30, 2009 and 2008 is as follows:

(in thousands)

	2009	2008
Operating:		
Instruction	\$ 126,776	\$ 125,392
Research	22,319	17,263
Public service	24,020	27,864
Academic support	34,790	31,966
Student services	12,052	12,828
Auxiliary enterprises	83,071	77,777
Operations and maintenance of plant	30,842	25,628
Depreciation	20,831	19,208
Institutional support	31,878	35,075
Staff benefits	72,004	66,331
Student aid	17,151	15,057
Total operating expenses	<u>475,734</u>	<u>454,389</u>
Nonoperating:		
Interest expense	8,641	8,756
Total expenses	<u>\$ 484,375</u>	<u>\$ 463,145</u>

The following graphic illustrations present total expenses for fiscal year 2009 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, 2009 and 2008 is as follows:

(in thousands)

	2009	2008
Cash received from operations	\$ 273,921	\$ 278,467
Cash expended for operations	(374,544)	(371,046)
Net cash used in operating activities	(100,623)	(92,579)
Net cash provided by (used in) investing activities	40,829	(3,509)
Net cash used in capital and related financing activities	(35,281)	(29,396)
Net cash provided by noncapital financing activities	116,726	120,304
Net increase (decrease) in cash and cash equivalents	21,651	(5,180)
Cash and cash equivalents, beginning of year	11,017	16,197
Cash and cash equivalents, end of year	\$ 32,668	\$ 11,017

The University's cash and cash equivalents increased \$21.7 million as the University liquidated its investment in order to meet demands for cash. The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations used to fund operating activities, for which cash received totaled \$99.9 million in fiscal 2009.

THE UNIVERSITY'S ECONOMIC OUTLOOK

State appropriations represent operating support provided by the Governor and General Assembly for University programs. The State also appropriates funds to Central Management Services (CMS) and the State Universities Retirement System to pay the cost of health insurance and retirement for University employees. Due to State budget constraints, in fiscal years 2003 through 2009, 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 2010 budgeted state support is below the fiscal year 2002 level, and modestly above the fiscal year 2009 level.

To mitigate the impact of the decrease in state support, the University raised tuition rates 8.0% for new 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 2009 to fiscal year 2010 based on sponsored projects awarded.

Private gifts are an important source of funding for university operations, capital acquisition and construction, and a significant factor in expanding our academic units. With State support representing a diminishing percentage of the University's budget, private gifts are an important supplement to the University budget. With the help of the Northern Illinois University Foundation, the University continues to see growth in private support.

The University is continuing to pursue supplemental sources of revenue to continue its outstanding academic reputation. The University will be challenged but the Board of Trustees and management have committed to continuing the University's strong financial position and to uphold our mission of instruction, research, and public service.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2009 (in thousands)
(with Comparative Totals for 2008)

	University		Component Units	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 32,668	\$ 11,017	\$ 6,252	\$ 1,469
Investments and marketable securities	11,250	29,424	-	-
Accrued interest receivable	430	710	-	-
Accounts receivable - net	31,492	15,448	2,605	1,904
Appropriations receivable from state	5,061	146	-	-
Inventories	3,397	3,209	-	-
Other assets	15	9	55	34
Total current assets	<u>84,313</u>	<u>59,963</u>	<u>8,912</u>	<u>3,407</u>
Noncurrent assets:				
Investments and marketable securities	43,280	63,622	47,741	56,160
Student loans receivable - net	9,888	10,223	-	-
Due from component units	2,585	3,232	-	-
Unamortized debt discount	2,024	2,188	169	196
Other	-	-	4,142	3,379
Capital assets, net of accumulated depreciation	320,261	317,515	30,051	17,751
Total noncurrent assets	<u>378,038</u>	<u>396,780</u>	<u>82,103</u>	<u>77,486</u>
TOTAL ASSETS	<u>462,351</u>	<u>456,743</u>	<u>91,015</u>	<u>80,893</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	43,063	33,255	16,460	2,719
Accrued compensated absences	1,535	1,934	-	-
Students' deposits	-	360	-	-
Deferred tuition and fees	8,635	8,161	-	-
Agency	1,389	935	-	-
Total current liabilities	<u>54,622</u>	<u>44,645</u>	<u>16,460</u>	<u>2,719</u>
Noncurrent liabilities:				
Accounts payable and accrued liabilities	-	-	670	755
Due to NIU	-	-	2,585	3,232
Performance contracts payable	20,393	18,598	-	-
Accrued compensated absences	22,198	22,086	-	-
Deferred revenue and grants	1,612	7,606	-	-
Government loan fund advances	8,589	8,765	-	-
Revenue bonds payable	94,457	99,182	5,053	6,202
Leases payable	34,453	35,501	-	-
Notes payable	4,165	4,555	470	230
Total noncurrent liabilities	<u>185,867</u>	<u>196,293</u>	<u>8,778</u>	<u>10,419</u>
TOTAL LIABILITIES	<u>240,489</u>	<u>240,938</u>	<u>25,238</u>	<u>13,138</u>
NET ASSETS				
Invested in capital assets, net of related debt	156,971	150,388	12,425	11,141
Restricted:				
Nonexpendable	-	-	29,892	36,876
Expendable	7,031	7,186	16,672	14,200
Unrestricted	57,860	58,231	6,788	5,538
TOTAL NET ASSETS	<u>\$ 221,862</u>	<u>\$ 215,805</u>	<u>\$ 65,777</u>	<u>\$ 67,755</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, 2009 (in Thousands)
(with Comparative Totals for 2008)

	University		Component Units	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
REVENUES				
Operating revenues:				
Tuition and fees, net	\$ 125,882	\$ 116,800	\$ -	\$ -
Federal and state grants and other contracts	43,172	35,829	3,500	-
Private gifts, grants, and contracts	2,339	2,823	12,806	12,893
Sales and service of educational activities	20,716	20,759	-	-
Other sources	3,977	3,274	(5,180)	219
Auxiliary enterprises	97,949	97,946	-	-
Total operating revenues	<u>294,035</u>	<u>277,431</u>	<u>11,126</u>	<u>13,112</u>
EXPENSES				
Operating expenses:				
Instruction	126,776	125,392	7,150	6,554
Research	22,319	17,263	9	55
Public service	24,020	27,864	992	944
Academic support	34,790	31,966	263	152
Student services	12,052	12,828	955	1,147
Operation and maintenance of plant	30,842	25,628	732	1,151
Depreciation	20,831	19,208	-	-
Institutional support	31,878	35,075	3,170	3,756
Staff benefits	72,004	66,331	-	-
Student aid	17,151	15,057	1,203	1,104
Auxiliary enterprises	83,071	77,777	-	-
Total operating expenses	<u>475,734</u>	<u>454,389</u>	<u>14,474</u>	<u>14,863</u>
Net operating loss	<u>(181,699)</u>	<u>(176,958)</u>	<u>(3,348)</u>	<u>(1,751)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations - general	104,779	105,878	-	-
State appropriations - on-behalf payments	69,085	63,521	-	-
Investment income	1,917	2,993	(314)	(105)
Expendable gifts and other	-	-	411	103
Pell Grants	16,861	14,498	-	-
Net increase in fair value of investments	117	349	-	-
Interest expense	(8,641)	(8,756)	-	-
Net nonoperating revenues	<u>184,118</u>	<u>178,483</u>	<u>97</u>	<u>(2)</u>
Income (loss) before other revenues, expenses, gains, or losses	2,419	1,525	(3,251)	(1,753)
Capital appropriations	3,638	625	-	-
Gifts to permanent endowments	-	-	1,273	2,693
INCREASE IN NET ASSETS	6,057	2,150	(1,978)	940
NET ASSETS, BEGINNING OF YEAR	<u>215,805</u>	<u>213,655</u>	<u>67,755</u>	<u>66,815</u>
NET ASSETS, END OF YEAR	<u>\$ 221,862</u>	<u>\$ 215,805</u>	<u>\$ 65,777</u>	<u>\$ 67,755</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009 (in Thousands)
(with Comparative Totals for 2008)

	University		Component Units	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash flows from operating activities				
Student tuition and fees	\$ 126,313	\$ 117,278	\$ -	\$ -
Federal and state grants and other contracts	37,177	35,088	3,018	-
Private gifts, grants, and contracts	2,339	2,823	5,131	5,864
Gifts received for capital projects	-	-	1,298	1,411
Sales and service of educational activities	1,259	19,773	-	-
Auxiliary enterprises	101,046	97,999	-	-
Payment to suppliers	(110,238)	(115,742)	(2,679)	(2,754)
Payment to employees	(241,015)	(233,475)	-	-
Payments for scholarships	(22,094)	(19,472)	(5,774)	(5,357)
Loans to students and employees	(1,197)	(2,357)	-	-
Collection of loans to students and employees	1,356	1,935	-	-
Other receipts, net	4,431	3,571	1,547	1,127
Net cash provided by (used in) operating activities	<u>(100,623)</u>	<u>(92,579)</u>	<u>2,541</u>	<u>291</u>
Cash flows from noncapital financing activities				
State appropriations	99,865	105,806	-	-
Pell Grants	16,861	14,498	-	-
Private gifts	-	-	1,457	2,751
Principal payments on non-capital debt	-	-	(37)	(434)
Interest payments on non-capital debt	-	-	(32)	(53)
Other	-	-	157	7
Net cash provided by noncapital financing activities	<u>116,726</u>	<u>120,304</u>	<u>1,545</u>	<u>2,271</u>
Cash flows from capital and related financing activities				
Proceeds from issuance of debt	4,005	9,399	10,150	-
State appropriations	674	370	-	-
Purchase of capital assets	(23,642)	(23,503)	(8,601)	(747)
Principal payments on capital debt	(9,291)	(8,664)	(832)	(2,181)
Interest payments on capital debt	(7,027)	(6,998)	(755)	(389)
Payments for construction of building for NIU	-	-	12	(2,374)
Net cash used in capital and related financing activities	<u>(35,281)</u>	<u>(29,396)</u>	<u>(26)</u>	<u>(5,691)</u>
Cash flows from investing activities				
Interest income on investments, net	2,313	3,392	(56)	231
Proceeds from sales and maturities of investments	486,757	526,802	13,639	25,840
Purchase of investments	(448,241)	(533,703)	(12,860)	(21,968)
Net cash provided by (used in) investing activities	<u>40,829</u>	<u>(3,509)</u>	<u>723</u>	<u>4,103</u>
Net increase (decrease) in cash and cash equivalents	21,651	(5,180)	4,783	974
Cash and cash equivalents, beginning of the year	<u>11,017</u>	<u>16,197</u>	<u>1,469</u>	<u>495</u>
Cash and cash equivalents, end of the year	<u>\$ 32,668</u>	<u>\$ 11,017</u>	<u>\$ 6,252</u>	<u>\$ 1,469</u>

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
STATEMENT OF CASH FLOWS, CONTINUED
For the Year Ended June 30, 2009 (in Thousands)
(with Comparative Totals for 2008)

	University		Component Units	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Reconciliation of operating loss to net cash provided by (used in) operating activities				
Operating loss	\$ (181,699)	\$ (176,958)	\$ (3,348)	\$ (1,751)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation expense	20,831	19,208	452	414
Loss on disposal of capital assets	65	229	-	-
On behalf payments for fringe benefits	69,085	63,521	-	-
State expenses for non-capitalized CDB projects	2,964	254	-	-
NIU gift income and life insurance expenses	-	-	(183)	(183)
Investment income	-	-	6,991	1,846
Interest expense	-	-	326	429
Changes in assets and liabilities				
Accounts receivable	(16,044)	(853)	(1,552)	(484)
Inventories	(187)	10	-	-
Prepaid expenses	-	-	(21)	(30)
Student loans receivable	335	(530)	-	-
Investments and other assets	641	632	(44)	-
Accounts payable and accrued liabilities	9,275	1,298	(80)	16
Accrued compensated absences	(287)	550	-	-
Students' deposits	(360)	345	-	34
Deferred revenue and grants	(5,520)	(690)	-	-
Government loan fund advances	(176)	108	-	-
Agency	454	297	-	-
Net cash provided by (used in) operating activities	<u>\$ (100,623)</u>	<u>\$ (92,579)</u>	<u>\$ 2,541</u>	<u>\$ 291</u>
Noncash investing, capital, and financing activities				
Construction period interest capitalized	\$ -	\$ -	\$ -	\$ 27
On-behalf payments for fringe benefits	69,085	63,521	-	-
Accretion	1,450	1,591	-	-
Transfer of gifts from Foundation	5,444	4,707	(5,444)	(4,707)
State expenses for non-capitalized CDB projects	2,964	255	-	-
Construction in progress included in accounts payable	-	-	4,752	756
Total noncash activities	<u>\$ 78,943</u>	<u>\$ 70,074</u>	<u>\$ (692)</u>	<u>\$ (3,924)</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.

The University is a component unit of the State of Illinois for financial reporting purposes. These financial statements include all funds and departments over which the University exercises oversight responsibility. Oversight responsibility is defined as including the following considerations: selection of governing authority, ability to significantly influence operations, accountability for fiscal matters, the scope of public services and/or special financing relationship. The financial balances and activities included in these financial statements are included in the State’s comprehensive annual financial report.

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

Complete financial statements for the Foundation and the Association may be obtained by writing to the NIU Foundation Controller, Altgeld Hall 138, Northern Illinois University, DeKalb, Illinois 60115. Financial Statements for the Research Foundation may be obtained by writing to the Northern Illinois Research Foundation President, 2700 International Drive, Suite 100, West Chicago, Illinois 60185.

The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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

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

Student tuition and fees, presented net of scholarships and fellowships of \$29,017,000 for fiscal year 2009, 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.

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 \$69,085,000 made by the State of Illinois in fiscal year 2009 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 \$23,111,000 and \$45,974,000 for fiscal year 2009, respectively.

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

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 2008 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, 2008.

Certain items in the June 30, 2008 financial statements have been reclassified to correspond to the June 30, 2009 presentation.

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

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

The University accounts for its investments and marketable securities at fair value.

Inventories are carried at the lower of cost (determined by the first-in and first-out or average cost method depending on the nature of the inventory item) or market.

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

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, Continued

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

It is the policy of the University to accrue vacation pay as earned. As of June 30, 2009 the accrued liability for this benefit was \$14,002,000, 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, 2009, the accrued liability of this benefit was \$9,731,000, and is included in accrued compensated absences. The accrued compensated absences liability will be funded through future State of Illinois General Revenue Fund appropriations as the terminating employees leave the University.

2. Cash and Cash Equivalents

The University considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist principally of certificates of deposit and U.S. Government securities.

As of June 30, 2009, cash deposits of \$32,668,000 held by the University were insured or collateralized with securities held by the University or its custodian in the name of the University.

3. Investments

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

State of Illinois
Northern Illinois University
Notes to the Basic Financial Statements, 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. Assure an optimal flow of cash to meet university obligations.
- C. Produce a yield which, when compared to the current marketplace, would be described as acceptable by conservative investment managers.

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

Custodial credit risk - Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the University would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. 100% of the University’s investments are held in the University’s name and are not subject to creditors of the custodial institution.

Concentration of credit risk - Concentration risk is the risk of loss attributed to the magnitude of an entity’s investment in a single issue, other than the U.S. Government. The University has one commercial paper investment that represents 7.6% of the total cash and investments and is held in a debt service reserve fund. The commercial paper is \$6,635,000 in Dexia Delaware LLC.

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’s policy is to invest in high grade investments. The University’s investments are summarized by current credit ratings below (\$000s):

Quality rating	Money Market	Commercial Paper	U.S. Agency	Total
AAA	\$ -	\$ -	\$ 44,825	\$ 44,825
A1P1	-	6,635	-	6,635
AAAm	3,070	-	-	3,070
Total	\$ 3,070	\$ 6,635	\$ 44,825	\$ 54,530

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

Segmented Time Distribution	Money Market	Commercial Paper	U.S. Agency	Total
0 - 1 year	\$ 3,070	\$ 6,635	\$ 1,545	\$ 11,250
1 - 3 years	-	-	19,201	19,201
3 - 5 years	-	-	20,072	20,072
5 - 10 years	-	-	4,007	4,007
Total	\$ 3,070	\$ 6,635	\$ 44,825	\$ 54,530

Component Units (\$000's)

Quality rating	Mutual Funds	Stock	Limited Partnerships	Other	Total
AAA	\$ 151	\$ -	\$ -	\$ -	\$ 151
AA	8,323	-	-	-	8,323
AA-	6,128	-	-	-	6,128
Not rated	22,603	2,327	8,127	82	33,139
Total	\$ 37,205	\$ 2,327	\$ 8,127	\$ 82	\$ 47,741

Weighted Average Duration	Mutual Funds
.35 years	\$ 39
2.6 - 2.8 years	4,492
3.9 - 4.8 years	3,942
5.0 years	6,129
Total	\$ 14,602

The Component Units' permissible investment categories include equities, fixed income securities, cash equivalents, venture capital/private equity, equity real estate and hedge funds. In fulfilling its responsibilities, the Component Units contracted with an independent investment advisory firm as well as 15 investment management firms to execute the strategy it has established.

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

4. Receivables

Accounts Receivable is reported net of an allowance for uncollectible accounts of \$7,329,000 at June 30, 2009. The composition of accounts receivable at June 30, 2009 is summarized as follows (\$000's):

	<u>University</u>	<u>Component Units</u>
Student accounts	\$ 18,956	\$ -
Customer accounts	3,313	-
Grants receivable	13,629	-
Research Foundation receivable	2,900	-
Others	23	2,780
Gross receivables	<u>38,821</u>	<u>2,780</u>
Less: allowance for uncollectible accounts	<u>(7,329)</u>	<u>(175)</u>
Net accounts receivable	<u>\$ 31,492</u>	<u>\$ 2,605</u>

Student loans made through the Federal Perkins Loan Program comprise substantially all of student loans receivable at June 30, 2009 totaling \$9,888,000 and are reported net of an allowance for uncollectible accounts of \$141,000.

5. Capital Assets

Capital assets activity for the year ended June 30, 2009 is summarized as follows:

University (\$000's)	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Land	\$ 19,281	\$ -	\$ -	\$ -	\$ 19,281
Land improvements	57,865	-	-	3,048	60,913
Buildings	443,310	-	-	10,881	454,191
Equipment	164,161	8,502	(1,547)	-	171,116
Intangible assets	-	-	-	3,820	3,820
Construction in-progress	21,143	15,140	-	(17,749)	18,534
Total	<u>705,760</u>	<u>23,642</u>	<u>(1,547)</u>	<u>-</u>	<u>727,855</u>
Less: accumulated depreciation	<u>(388,245)</u>	<u>(20,831)</u>	<u>1,482</u>	<u>-</u>	<u>(407,594)</u>
Capital assets, net	<u>\$ 317,515</u>	<u>\$ 2,811</u>	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ 320,261</u>

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

Component Units (\$000's)	Balance				Balance
	June 30, 2008	Additions	Retirements	Transfers	June 30, 2009
Land	\$ 3,829	\$ -	\$ -	\$ -	\$ 3,829
Buildings	11,871	-	-	-	11,871
Collections	329	-	-	-	329
Furniture	1,412	7	-	-	1,419
Construction in-progress	756	12,745	-	-	13,501
Total	18,197	12,752	-	-	30,949
Less: accumulated depreciation	(446)	(452)	-	-	(898)
Capital assets, net	\$ 17,751	\$ 12,300	\$ -	\$ -	\$ 30,051

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2009 are as follows (\$000's):

	University	Component Units
Payable to vendors/suppliers	\$ 26,041	\$ 5,467
Accrued payroll	7,199	-
Current portion of noncurrent liabilities:		
Performance contracts payable	2,210	-
Revenue bonds payable	6,175	725
Leases payable	1,048	-
Notes payable	390	7,368
Payable to University	-	2,900
Total	\$ 43,063	\$ 16,460

7. Performance Contracts Payable

The University has entered into multiple performance contracts, as defined by Public Act 90-0486, passed by the State Legislature in 1997. The Public Act allows State universities to negotiate multi-year contracts for the evaluation, design and implementation of facility improvement measures that will pay for themselves via guaranteed energy and/or operational savings over the life of the contract. The University is guaranteed by the provider that the annual energy and/or operational savings realized as a result of the implementation and servicing of the energy conservation measures will equal or exceed the annual expenditures for the term of the financed installation. Sufficient bonding must be posted by the provider to further protect the long-term interests of the University. The underlying assets in the performance contracts have been capitalized.

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

Outstanding balances at June 30, 2009 are as follows (\$000's):

Performance Contract	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
DuSable Hall	\$ 52	\$ -	\$ 52	\$ -	\$ -
Phase I Lighting	565	-	180	385	188
Convocation Center	948	-	222	726	232
Phase II Lighting	1,136	-	268	868	278
West Plant	2,397	-	439	1,958	459
West Campus Control Valve Retrofit	577	-	86	491	90
Energy Infrastructure Improvements	2,352	-	265	2,087	276
Energy Infrastructure Improvements - Phase 7	3,846	-	199	3,647	207
Energy Infrastructure Improvements - Phase 8	8,587	-	151	8,436	431
Energy Infrastructure Improvements - Phase 9	-	4,005	-	4,005	49
	<u>\$ 20,460</u>	<u>\$ 4,005</u>	<u>\$ 1,862</u>	<u>\$ 22,603</u>	<u>\$ 2,210</u>

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

Year Ending June 30	Principal	Interest	Total
2010	\$ 2,210	\$ 908	\$ 3,118
2011	2,433	870	3,303
2012	2,333	767	3,100
2013	1,858	670	2,528
2014	1,386	593	1,979
2015-2019	6,205	2,121	8,326
2020-2024	5,988	733	6,721
2025	190	5	195
Total	<u>\$ 22,603</u>	<u>\$ 6,667</u>	<u>\$ 29,270</u>

Interest rates range from 3.9% to 5.6%. The guaranteed savings will be recognized as a reduction of expense over the life of the contract as expenditures are made.

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

8. Accrued Compensated Absences

Accrued compensated absences includes employee earned but unused vacation and sick leave days and the changes in balance are as follows (\$000):

Balance, beginning of year	\$ 24,020
Additions/(deductions)	(287)
Balance, end of year	<u>23,733</u>
Less current portion	1,535
Balance, end of year, noncurrent portion	<u>\$ 22,198</u>

9. Deferred Revenue and Grants

Deferred revenue and grants represents funds received in advance on grants not yet expended and the changes in balances are as follows (\$000):

Balance, beginning of year	\$ 7,606
Additions/(deductions)	(5,994)
Balance, end of year	<u>\$ 1,612</u>

10. Government Loan Fund Advances

Government loan fund advances represents money received from the federal government for student loan programs and the changes in balances are as follows (\$000):

Balance, beginning of year	\$ 8,765
Additions/(deductions)	(176)
Balance, end of year	<u>\$ 8,589</u>

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

11. Revenue Bonds Payable

Revenue bonds outstanding as of June 30, 2009 are as follows (\$000's):

Issue	Beginning Balance	Issued / Accreted	Retired / Defeased	Ending Balance	Current Portion	Future Revenues Pledged	Debt Service to Pledged Revenue (Current Year)
Series 1992 (B)	\$ 23,757	\$ 1,450	\$ 3,730	\$ 21,477	\$ 3,730	\$ 26,830	22%
Series 1996	1,295	-	630	665	665	703	1%
Series 1999	10,365	-	880	9,485	925	12,255	1%
Series 2001	69,825	-	820	69,005	855	110,811	3%
	<u>\$ 105,242</u>	<u>\$ 1,450</u>	<u>\$ 6,060</u>	<u>\$ 100,632</u>	<u>\$ 6,175</u>	<u>\$ 150,599</u>	
Component Unit	\$ 6,610	\$ -	\$ 832	\$ 5,778	\$ 725	\$ -	

The Auxiliary Facilities Revenue Bonds, Series 1992 (B), original issue \$14,498,000, matures serially at varying amounts from fiscal years 2005 through 2017, and pays no current interest. The University records the annual increase in the principal amount of these bonds as interest expense and accretion on bonds payable.

The Auxiliary Facilities Revenue Bonds, Series 1996, original issue \$49,995,000, 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. These bonds were called in fiscal year 2007. The interest ranges from 5.3% to 6%.

The Auxiliary Facilities Revenue Bonds, Series 1999, original issue \$38,410,000, 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. The interest rate ranges from 5% to 6%. The bonds were called in fiscal year 2009.

On August 15, 2001, the Board issued on behalf of the University, the Auxiliary Facilities System (System) Revenue Bonds, Series 2001, original issue \$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. The interest rate ranges from 4% to 5%.

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

Series	Outstanding at June 30, 2009
1983 B	\$ 1,825

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):

Year Ending June 30	Principal	Accretion	Interest	Total
2010	\$ 6,059	\$ 116	\$ 3,977	\$ 10,152
2011	5,960	340	3,857	10,157
2012	5,209	551	3,738	9,498
2013	5,110	750	3,638	9,498
2014	5,031	938	3,532	9,501
2015-2019	29,588	2,657	15,249	47,494
2020-2024	26,710	-	7,416	34,126
2025-2029	16,965	-	3,208	20,173
Total	\$ 100,632	\$ 5,352	\$ 44,615	\$ 150,599

Component Units (\$000)

Year Ending June 30	Principal	Accretion	Interest	Total
2010	\$ 725	\$ -	\$ 267	\$ 992
2011	937	-	221	1,158
2012	765	-	179	944
2013	800	-	137	937
2014	594	-	105	699
2015-2017	1,957	-	140	2,097
Total	\$ 5,778	\$ -	\$ 1,049	\$ 6,827

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

12. Capitalized Leases

Certain leases, in which the University's governing board is the lessee, are considered to be equivalent to installment purchases for accounting presentation. The assets recorded under these leases have been capitalized at the present value of future lease payments, measured at lease inception date. These assets totaled \$36,566,000, net of accumulated depreciation of \$4,617,000 at June 30, 2009.

Capital leases outstanding principal balances as of June 30, 2009 are as follows (\$000's):

	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Naperville Project	\$ 15,875	\$ -	\$ 635	\$ 15,240	\$ 660
IASBO Building	759	-	32	727	33
Northern View	19,148	-	245	18,903	260
Motor coaches	722	-	91	631	95
Net present value	<u>\$ 36,504</u>	<u>\$ -</u>	<u>\$ 1,003</u>	<u>\$ 35,501</u>	<u>\$ 1,048</u>

Future minimum lease payments for the above assets under capital leases at June 30, 2009 on originally scheduled minimum payments and estimated interest are (\$000's):

Year Ending June 30	Principal	Interest	Total
2010	\$ 1,048	\$ 1,864	\$ 2,912
2011	1,099	1,814	2,913
2012	1,152	1,761	2,913
2013	1,210	1,705	2,915
2014	1,265	1,645	2,910
2015-2019	6,837	7,228	14,065
2020-2024	8,676	5,235	13,911
2025-2029	4,800	3,279	8,079
2030-2034	4,626	2,089	6,715
2035-2038	4,788	584	5,372
Total	<u>\$ 35,501</u>	<u>\$ 27,204</u>	<u>\$ 62,705</u>

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

13. Notes and Certificates of Participation Payable

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

Issue	Beginning Balance	Issued	Retired	Ending Balance	Current Portion
Certificates of Participation / Notes Payable:					
Series 1993 - Hoffman Estates Facility	\$ 4,920	\$ -	\$ 365	\$ 4,555	\$ 390
Total	\$ 4,920	\$ -	\$ 365	\$ 4,555	\$ 390
Notes Payable:					
Component Unit	\$ 626	\$ 10,150	\$ 38	\$ 10,738	\$ 10,268

In August 1993, the University issued \$8,485,000 of certificates of participation to refinance an educational center occupied by Northern Illinois University in Hoffman Estates, Illinois, payable through installments commencing in 1994, for a period of twenty-three years.

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

Year Ending June 30	Principal	Interest	Total
2010	\$ 390	\$ 235	\$ 625
2011	410	214	624
2012	435	191	626
2013	465	167	632
2014	485	141	626
2015-2017	2,370	235	2,605
Total	\$ 4,555	\$ 1,183	\$ 5,738

Component Units (\$000)

Year Ending June 30	Principal	Interest	Total
2010	\$ 10,268	\$ 204	\$ 10,472
2011	65	12	77
2012	405	10	415
Total	\$ 10,738	\$ 226	\$ 10,964

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

14. Net Assets

The University's net assets are classified for accounting and reporting purposes into one of three net asset categories according to externally imposed restrictions. The following tables include detail of the net asset balances for the University and the Component Units including major categories of restrictions and internal designations of unrestricted funds.

University Net Assets (\$000)

Invested in capital assets, net of related debt	\$ 156,971
Restricted:	
Nonexpendable	-
Expendable	7,031
Unrestricted	57,860
Total	<u>\$ 221,862</u>

Component Units Net Assets (\$000)

Invested in capital assets, net of related debt	\$ 12,425
Restricted:	
Nonexpendable	29,892
Expendable	16,672
Unrestricted	6,788
Total	<u>\$ 65,777</u>

Restricted net assets - nonexpendable - represents endowment funds, where the donor has provided a gift for which the principal must remain invested in perpetuity and only the income may be utilized to support the restricted purpose the donor indicated.

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

15. Transactions with Component Units

During fiscal year 2009, the University engaged the Foundation, under contract, to provide fundraising services. As provided by the contract agreement, the University paid \$598,000 for fundraising services. Additionally, the University provided services to the Foundation valued at \$1,242,000. As required by the contract, the Foundation fully repaid the University for the services provided, using funds considered unrestricted. The University engaged the Research Foundation, under contract, to provide services to aid the University in its economic development, public service, research and educational missions. As provided by the contract, the University paid the Research Foundation \$75,000 for these services.

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

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

	<u>Foundation</u>	<u>Alumni Association</u>
Funds considered unrestricted:		
Totally unrestricted administrative services	\$ 1,242	\$ -
Support for University programs and departments	2,638	330
Administrative and office expense	750	-
Provided for library books, equipment and property improvements	5,456	-
Total fund considered unrestricted	<u>10,086</u>	<u>330</u>
Funds considered restricted:		
Provided for scholarships and awards	1,111	45
Provided for library books, equipment and property improvements	151	-
Other restricted fund provided to the University:		
Restricted fund	1,775	-
Endowment fund	210	-
Total funds considered restricted	<u>3,247</u>	<u>45</u>
Total funds provided to the University	<u>\$ 13,333</u>	<u>\$ 375</u>

During the fiscal year, Northern Illinois Research Foundation, created a corporate structure related to its first project, the Northern Illinois Proton and Research Center. This new entity is titled Northern Illinois Proton Treatment Lending LLC, and the Research Foundation is the sole corporate member. The new entity's sole purpose is to extend credit for ongoing construction and it has a \$15 million line of credit with JPMorgan Chase Bank, N.A. of which \$7.25 million has been drawn. The credit agreement matures on December 31, 2009. The University has agreed to collateralize this debt, and has transferred \$2.9 million under the collateral agreement. The University has treated the collateralization as a short-term loan to its URO under the Legislative Audit Guidelines, with expectations that the loan will be repaid within one year.

16. Operating Leases

The University leases various buildings under operating lease agreements. Total rental expense for the year ended June 30, 2009, under these agreements was \$1,427,000.

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

Year Ending June 30	Amount
2010	\$ 1,241
2011	1,001
2012	846
2013	838
2014	751
2015-2017	2,796
Total	<u>\$ 7,473</u>

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

17. Retirement Plan

The University contributes to the State Universities Retirement System Of Illinois (“SURS”), a cost-sharing multiple employer defined benefit pension plan with a special funding situation whereby the State of Illinois makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of the state universities, certain affiliated organizations and certain other state educational and scientific agencies and for survivors, dependents and other beneficiaries of such employees. SURS is considered a component unit of the State of Illinois’ financial reporting entity and is included in the state’s financial reports as a pension trust fund. SURS is governed by Section 5/15, Chapter 40, of the Illinois Compiled Statutes. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by 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 18.61% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the Illinois General Assembly.

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.

The employer contributions to SURS for the years ended June 30, 2009, 2008, and 2007 were \$23,111,000, \$17,620,000, and \$12,959,000, respectively, equal to the required contributions for each year.

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.

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

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.

18. Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

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

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

19. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2009 are summarized as follows:

University

(\$000's)

	Compensation & Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 109,198	\$ 15,971	\$ 1,607	\$ -	\$ 126,776
Research	11,344	10,835	140	-	22,319
Public service	15,458	8,238	324	-	24,020
Academic support	19,170	15,198	422	-	34,790
Student services	9,651	2,304	97	-	12,052
O&M	14,088	16,754	-	-	30,842
Depreciation	-	-	-	20,831	20,831
Inst. support	25,681	6,197	-	-	31,878
Staff benefits	72,004	-	-	-	72,004
Student aid	778	515	15,858	-	17,151
Auxiliary	32,694	46,731	3,646	-	83,071
Total	\$ 310,066	\$ 122,743	\$ 22,094	\$ 20,831	\$ 475,734

Component Units

(\$000's)

	Compensation & Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ -	\$ 6,981	\$ 169	\$ -	\$ 7,150
Research	-	8	1	-	9
Public service	-	992	-	-	992
Academic support	-	263	-	-	263
Student services	-	933	22	-	955
O&M	-	291	-	441	732
Inst. support	480	2,676	3	11	3,170
Staff benefits	-	-	-	-	-
Student aid	-	(29)	1,232	-	1,203
Total	\$ 480	\$ 12,115	\$ 1,427	\$ 452	\$ 14,474

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

20. Insurance

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

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

21. Commitments and Contingencies

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, 2009, are not recorded in the accompanying financial statements. Encumbrances were \$6,608,000 at June 30, 2009.

Grants and Contracts

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

Legal Action

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

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

22. University Related Organizations

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

Condensed Statement of Net Assets	<u>Foundation</u>	<u>Alumni Association</u>	<u>Northern Illinois Research Foundation</u>	<u>Total</u>
ASSETS				
Current assets	\$ 4,666	\$ 66	\$ 4,180	\$ 8,912
Noncurrent assets:				
Capital assets, net of accumulated depreciation	16,565	-	13,486	30,051
Investments administered by NIU Foundation	47,741	1,860	-	49,601
Other noncurrent assets	4,308	3	-	4,311
TOTAL ASSETS	<u>\$ 73,280</u>	<u>\$ 1,929</u>	<u>\$ 17,666</u>	<u>\$ 92,875</u>
LIABILITIES				
Current liabilities	\$ 1,246	\$ 107	\$ 15,107	\$ 16,460
Noncurrent liabilities:				
Deposits held for NIU Alumni Association	1,860	-	-	1,860
Deposits held for NIU	2,585	-	-	2,585
Endowments and life income trusts	670	-	-	670
Bonds and Notes Payable	5,523	-	-	5,523
TOTAL LIABILITIES	<u>11,884</u>	<u>107</u>	<u>15,107</u>	<u>27,098</u>
NET ASSETS				
Invested in capital assets	10,941	-	1,484	12,425
Restricted:				
Nonexpendable	29,794	98	-	29,892
Expendable	16,453	219	-	16,672
Unrestricted	4,208	1,505	1,075	6,788
Total net assets	<u>61,396</u>	<u>1,822</u>	<u>2,559</u>	<u>65,777</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 73,280</u>	<u>\$ 1,929</u>	<u>\$ 17,666</u>	<u>\$ 92,875</u>

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

	<u>Foundation</u>	<u>Alumni Association</u>	<u>Northern Illinois Research Foundation</u>	<u>Total</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Operating revenues	\$ 7,550	\$ -	\$ 3,576	\$ 11,126
Operating expenses	13,333	375	766	14,474
Operating income (loss)	<u>(5,783)</u>	<u>(375)</u>	<u>2,810</u>	<u>(3,348)</u>
Nonoperating revenue (expenses)	1,273	88	9	1,370
Increase (decrease) in net assets	<u>(4,510)</u>	<u>(287)</u>	<u>2,819</u>	<u>(1,978)</u>
Net assets, beginning of year	65,906	2,109	(260)	67,755
Net assets, end of year	<u><u>\$ 61,396</u></u>	<u><u>\$ 1,822</u></u>	<u><u>\$ 2,559</u></u>	<u><u>\$ 65,777</u></u>

Condensed Statement of Cash Flows

Net cash flows provided by (used in) operating activities	\$ 779	\$ (435)	\$ 2,197	\$ 2,541
Net cash flows provided by noncapital financing activities	1,134	411	-	1,545
Net cash flows provided by (used in) capital financing activities	(1,442)	-	1,416	(26)
Net cash flows provided by investing activities	672	41	10	723
Net increase in cash and cash equivalents	<u>1,143</u>	<u>17</u>	<u>3,623</u>	<u>4,783</u>
Cash and cash equivalents, beginning of year	1,427	42	-	1,469
Cash and cash equivalents, end of year	<u><u>\$ 2,570</u></u>	<u><u>\$ 59</u></u>	<u><u>\$ 3,623</u></u>	<u><u>\$ 6,252</u></u>

**Reconciliation of operating income (loss)
to net cash provided by (used in) operating
activities:**

Operating income (loss)	\$ (5,783)	\$ (375)	\$ 2,810	\$ (3,348)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Changes in assets and liabilities	<u>6,562</u>	<u>(60)</u>	<u>(613)</u>	<u>5,889</u>
Net cash provided by (used in) operating activities	<u><u>\$ 779</u></u>	<u><u>\$ (435)</u></u>	<u><u>\$ 2,197</u></u>	<u><u>\$ 2,541</u></u>

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

23. New Governmental Accounting Standards

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

- Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*, which establishes standards and guidance on how to identify, account for, and report intangible assets. This statement is effective for the period beginning July 1, 2009.

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

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