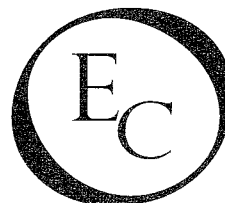


**STATE OF ILLINOIS  
NORTHEASTERN ILLINOIS UNIVERSITY  
FOUNDATION**

**FINANCIAL AUDIT  
YEAR ENDED JUNE 30, 2007**

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



**E.C. ORTIZ & CO., LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**State of Illinois  
Northeastern Illinois University Foundation  
Financial Audit  
For the Year Ended June 30, 2007**

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**Related Report Published Under Separate Cover**

Compliance Examination for the Two Years Ended June 30, 2007

**State of Illinois  
Northeastern Illinois University Foundation**

*Agency Officials*

President	John Gingell
Vice- President	Jack Butler
Treasurer	Thomas Gramins, CPA
Executive Director, Marketing and Communications	Terry Bush
Director of Development	T. Sonia Arvanitis
Administrative Assistant	Michael Partipilo

*Agency Office is located at:*

5500 North St. Louis Avenue  
Chicago, IL 60625

**State of Illinois  
Northeastern Illinois University Foundation**

**Financial Statement Report**

**Summary**

The audit of the accompanying basic financial statements of the Northeastern Illinois University Foundation (Foundation) was performed by E.C. Ortiz and Co., LLP.

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

The auditors' report on the supplementary information presented in this section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Summary of Finding**

The auditors identified a matter involving the Foundation's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Finding on pages 29-30 of this report, as finding 07-01, Failure to Apply Appropriate Accounting Principles. The auditors also consider finding 07-01 to be a material weakness.

**Exit Conference**

The finding and recommendation appearing in this report was discussed with Foundation personnel at an exit conference on October 29, 2007. Attending were:

Representing Northeastern Illinois University Foundation

Director of Development

Ms. T. Sonia Arvanitis

Board Treasurer

Mr. Thomas R. Gramins, CPA  
(Attended via teleconference)

Representing E.C. Ortiz & Co., LLP

Partner

Ms. Stella Marie B. Santos, CPA

Partner

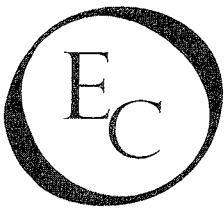
Ms. Gilda M. Belmonte, CPA, CIA

Representing the Office of the Auditor General

Audit Manager

Mr. Thomas L. Kizziah, CPA

The response to the recommendation was provided by T. Sonia Arvanitis, Director of Development, in a letter dated October 29, 2007.



## Independent Auditors' Report

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of Northeastern Illinois University Foundation (Foundation), a component unit of Northeastern Illinois University and the State of Illinois, as of and for the year ended June 30, 2007, which comprise the Foundation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Foundation's 2006 financial statements and, in our report dated October 20, 2006 we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Northeastern Illinois University Foundation as of June 30, 2007 and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007 on our consideration of the Foundation's internal control over financial reporting and on our tests of the Foundation's 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 to 8 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Foundation's basic financial statements. The *Schedule of Changes in Net Assets for the Year Ended June 30, 2007*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The *Schedule of Changes in Net Assets for the Year Ended June 30, 2007* has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*E.C. Ortiz & Co., LLP*

October 26, 2007

**State of Illinois  
 Northeastern Illinois University Foundation  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2007**

The purpose of this analysis is to provide an objective and easy-to-read analysis of the Foundation's financial activities based on currently known facts, decisions, and/or conditions. The Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to Financial Statements are required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

This report presents management's discussion and analysis of the Foundation's financial performance during the fiscal year ended June 30, 2007.

**Financial Highlights**

**Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities and net assets of the Foundation as of the end of the fiscal year (essentially a fiscal snapshot of the Foundation as of that point in time). Readers are able to determine the assets available to continue the Foundation's operations as well as determine the amount the Foundation owes its vendors. Net assets are divided into two major categories, restricted and unrestricted. Restricted net assets are further divided into expendable and nonexpendable. Expendable restricted net assets are available for expenditure but must be expended for the purposes imposed by the donors. The corpus of nonexpendable restricted net assets is not available for expenditure. Unrestricted net assets are available to the Foundation for any lawful purpose of the Foundation.

**Condensed Statement of Net Assets**

	<b>2007</b>	<b>2006</b>
Total current assets	\$2,149,636	\$1,231,619
Total non-current assets	<u>2,685,195</u>	<u>2,366,473</u>
Total assets	4,834,831	3,598,092
Current liabilities	<u>758,930</u>	<u>16,458</u>
Total net assets	<u>\$4,075,901</u>	<u>\$3,581,634</u>

**State of Illinois  
 Northeastern Illinois University Foundation  
 Management's Discussion and Analysis, continued  
 For the Year Ended June 30, 2007**

Total assets of the Northeastern Illinois University Foundation increased 34.4% in fiscal year 2007. This is mainly attributable to increase in investments due to the receipt of GEAR UP funds to establish a scholarship and increase in market value of investments.

The Foundation uses its assets to support excellence in Northeastern Illinois University (NEIU) programs and scholarships in accordance with the wishes of the donors. Net assets represent the residual interest in the Foundation's assets after liabilities are deducted. The Foundation's net assets at June 30, 2007 and 2006 are summarized below. They are grouped by those net assets available for unrestricted uses, those restricted by the donor for particular purpose expenditures (expendable), and assets that are to be held in perpetuity (nonexpendable).

**Summary of Net Assets**

	<b>2007</b>	<b>2006</b>
Restricted		
Nonexpendable	\$2,663,481	\$2,344,758
Expendable	874,004	709,679
Unrestricted	<u>538,416</u>	<u>527,197</u>
<b>Total net assets</b>	<u><u>\$4,075,901</u></u>	<u><u>\$3,581,634</u></u>

During the year ended June 30, 2007, the Foundation's net assets increased by \$494,267 or 13.8%. In comparing fiscal years 2007 and 2006, the dramatic increase in net assets is attributable to an increase in investment income as well as an increase in private contributions. The Foundation received several large gifts and bequests in support of various programs and scholarships in 2007.

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

The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to present the revenues received by the Foundation, both operating and non-operating, and expenses paid by the Foundation.



**State of Illinois  
 Northeastern Illinois University Foundation  
 Management's Discussion and Analysis, continued  
 For the Year Ended June 30, 2007**

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

	<b>2007</b>	<b>2006</b>
Operating revenues	\$924,285	\$540,438
Operating expenses	<u>540,571</u>	<u>527,674</u>
Operating income	383,714	12,764
 Additions to Permanent Endowments	 <u>110,553</u>	 <u>60,141</u>
 Increase in Net Assets	 494,267	 72,905
Net Assets, Beginning of Year	<u>3,581,634</u>	<u>3,508,729</u>
Net Assets, End of Year	<u>\$4,075,901</u>	<u>\$3,581,634</u>

Many sources make up the Foundation's operating revenues.

	<b>2007</b>	<b>2006</b>
Operating revenues		
Contributions	\$297,352	\$250,954
Investment income	525,923	213,471
Personal service costs, facility use and other costs provided by NEIU	91,296	67,756
Other revenues	<u>9,714</u>	<u>8,257</u>
 Total operating revenues	 <u>\$924,285</u>	 <u>\$540,438</u>

Funds provided by NEIU represent personal costs, facility use and other costs covered by Northeastern Illinois University.

**Statement of Cash Flows**

The Statement of Cash Flows primary purpose is to provide relevant information about the cash receipts and cash payments of the Foundation during the year. The Foundation is required to use the direct method of presentation for this statement which indicates the cash effects categorized by operations, non-capital financing transactions, and investing transactions.

**State of Illinois  
 Northeastern Illinois University Foundation  
 Management's Discussion and Analysis, continued  
 For the Year Ended June 30, 2007**

**Cash Flows From Operating Activities:**

Investment income has been discussed elsewhere in this report. Increase in cash flows from operating activities is attributable to the receipt of Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP) funds to establish a scholarship.

**Cash Flows From Investing Activities:**

	<b>2007</b>	<b>2006</b>
Proceeds from sales of investments	\$ 197,588	\$420,065
Purchases of investment	<u>(1,451,945)</u>	<u>(623,383)</u>
Net cash used in investing activities	<u>(\$1,254,357)</u>	<u>(\$203,318)</u>

**Factors Affecting the Future**

The future continues to hold tremendous growth opportunities for the NEIU Foundation. Two key factors – the role of the NEIU Foundation Board and a change in presidential leadership at the University – are likely to have the greatest impact upon the Foundation's immediate future.

During fiscal year 2007, the Board of Directors began a strategic planning process that has positioned the Foundation to better capitalize on opportunities. As a result of the planning, the Board has made a priority of strengthening policies and procedures that assure wise investment and expenditure of funds entrusted to the Foundation. The Board has renewed its commitment to its vital role in supporting the educational mission of Northeastern Illinois University. It is seeking opportunities to develop closer working relationships with the NEIU academic community.

After a thorough search, NEIU welcomed its sixth president, Dr. Sharon K. Hahs who assumed the presidency on February 1, 2007. In any institution, a change in leadership can bring new priorities, programs and management initiatives. Dr. Hahs has pledged her support to increase private contributions for NEIU and initiated a search for a new Vice President of Development for Marketing and Communications.

**Northeastern Illinois University Foundation**  
**Statement of Net Assets**

	<b>June 30,</b>	
		(Comparative Totals Only)
	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 2)	\$ 166,389	\$ 182,434
Short term investments (Note 2)	1,981,695	1,046,060
Prepaid expenses	1,552	3,125
Total current assets	2,149,636	1,231,619
<b>Noncurrent assets</b>		
Endowment investments (Note 2)	2,663,481	2,344,759
Other assets (Note 3)	21,714	21,714
Total non-current assets	2,685,195	2,366,473
<b>TOTAL ASSETS</b>	4,834,831	3,598,092
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	6,042	16,458
Deferred revenues	752,888	-
<b>TOTAL LIABILITIES</b>	758,930	16,458
<b>NET ASSETS</b>		
Restricted		
Nonexpendable		
Scholarship and memorials	2,663,481	2,344,758
Expendable		
Academics	240,527	197,582
Intercollegiate athletics	4,843	6,356
Scholarship and memorials	223,480	166,552
Other	405,154	339,189
Unrestricted	538,416	527,197
<b>TOTAL NET ASSETS</b>	\$ 4,075,901	\$ 3,581,634

See accompanying notes to basic financial statements

**Northeastern Illinois University Foundation**  
**Statement of Revenues, Expenses and Changes in Net Assets**

	<b>Year Ended June 30,</b>	
	<b>2007</b>	<b>(Comparative Totals Only) 2006</b>
<b>Revenues</b>		
Operating revenues		
Contributions	\$ 297,352	\$ 250,954
Investment income	525,923	213,471
Personal service costs, facility use and other costs provided by NEIU (Note 4)	91,296	67,756
Other revenues	9,714	8,257
Total operating revenues	924,285	540,438
<b>Expenses</b>		
Operating expenses		
Personal service costs, facility use and other costs provided by NEIU (Note 4)	91,296	67,756
Fundraising	81,292	84,573
Grants and awards	53,455	19,128
Institutional support	203,323	205,527
Scholarship and fellowship	111,205	150,690
Total operating expenses	540,571	527,674
Operating income	383,714	12,764
<b>Additions to Permanent Endowments</b>	110,553	60,141
<b>Increase in Net Assets</b>	494,267	72,905
<b>Net Assets, Beginning of Year</b>	3,581,634	3,508,729
<b>Net Assets, End of Year</b>	\$ 4,075,901	\$ 3,581,634

See accompanying notes to basic financial statements

**Northeastern Illinois University Foundation**  
**Statement of Cash Flows**

	<b>Year Ended June 30,</b>	
	<b>(Comparative Totals Only)</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Contributions received for operating purposes	\$ 297,352	\$ 250,954
Investment income	525,923	213,471
Payments to suppliers and students	(458,118)	(449,139)
Receipt for GEAR UP scholarships	752,888	-
Other operating receipts	9,714	8,257
Net cash provided by operating activities	1,127,759	23,543
 <b>Cash flows from noncapital financing activities:</b>		
Contributions for endowment purposes	110,553	60,141
Net cash provided by noncapital financing activities	110,553	60,141
 <b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	197,588	420,065
Purchases of investment	(1,451,945)	(623,383)
Net cash used in investing activities	(1,254,357)	(203,318)
 <b>Net decrease in cash and cash equivalents</b>	(16,045)	(119,634)
 <b>Cash and cash equivalents, beginning of year</b>	182,434	302,068
 <b>Cash and cash equivalents, end of year</b>	\$ 166,389	\$ 182,434
 <b>Reconciliation of net operating income to net cash provided by operating activities:</b>		
Operating income	\$ 383,714	\$ 12,764
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities		
Prepaid expenses	1,573	201
Accounts payable and accrued expenses	(10,416)	10,578
Deferred revenues	752,888	-
Net cash provided by operating activities	\$ 1,127,759	\$ 23,543

See accompanying notes to basic financial statements

**State of Illinois**  
**Northeastern Illinois University Foundation**  
**June 30, 2007**  
**Notes to Basic Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

Northeastern Illinois University Foundation (the "Foundation") is an Illinois nonprofit corporation established in May 1969 to secure and manage private support to benefit Northeastern Illinois University (University), a State agency.

The Foundation is a "University Related Organization", as defined under the University Guidelines adopted by the Legislative Audit Commission in 1982, as amended in 1997, and a component unit of the State of Illinois for financial reporting purposes. Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14, the Foundation is also included as a component unit of the University for financial reporting purposes. The financial balances and activities included in these financial statements are therefore also included as part of the University's financial statements and the State of Illinois Comprehensive Annual Financial Report. All funds of the Foundation are locally administered and are neither subject to the State of Illinois appropriation process nor held in the State treasury.

**Basis of presentation**

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

The financial statement presentation required by GASB Statement No.'s 35, 37 and 38 provides a comprehensive perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

For financial reporting purposes, the Foundation is considered a special-purpose government engaged only in business-type activities. Accordingly, the accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a liability has been incurred. All significant intra-agency transactions have been eliminated.

**State of Illinois**  
**Northeastern Illinois University Foundation**  
**June 30, 2007**  
**Notes to Basic Financial Statements, Continued**

When both restricted and unrestricted resources are available for use, it is the Foundation's policy to use restricted resources first, then unrestricted resources as needed.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Foundation is required to follow all applicable GASB pronouncements. In addition, the Foundation applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Foundation 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 Foundation's 2006 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 Foundation's financial statements for the year ended June 30, 2006.

**Use of estimates**

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

**Reclassification**

Gain on sale of donated stocks totaling \$1,075 which was originally included in the cash flows from operating activities under other operating receipts in the prior year financial statements was reclassified to contributions received for operating purposes in the current year financial statements.

**State of Illinois**  
**Northeastern Illinois University Foundation**  
**June 30, 2007**  
**Notes to Basic Financial Statements, Continued**

**Gift Revenues**

Gifts of securities are recorded at fair value on the date of the gift. In accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are reported at fair value. Changes in unrealized gain (loss) are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

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

Property and equipment are stated at cost for purchased items. The Foundation does not hold any property that is subject to depreciation.

**Operating Revenues**

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

**Cash and cash equivalents**

The Foundation considers highly liquid investments with original maturities of ninety days or less when purchased to be cash equivalents. At June 30, 2007, cash equivalents consisted primarily of money market and similar funds.



**State of Illinois**  
**Northeastern Illinois University Foundation**  
**June 30, 2007**  
**Notes to Basic Financial Statements, Continued**

**Investments**

Investments purchased or received by gift are carried at market value. Investments are recorded at fair value, as determined by quoted market prices. Substantially all of the investments are managed by external professional investment managers. Many of these investments are made through commingled investment vehicles such as common trust funds and mutual funds. Board policy authorizes the Foundation to invest in domestic equity; domestic fixed income; international equity; international fixed income; real estate investment trusts; and private capital. At June 30, 2007, investments consisted of U.S. Government securities and mutual funds.

**Tax-exempt status**

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Net Assets of the Foundation are classified as follows:**

**Restricted Net Assets – Nonexpendable:** Nonexpendable restricted net assets consist of endowment funds. Endowment funds include those funds where donors have stipulated, as a condition of the gift, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

**Restricted Net Assets – Expendable:** Expendable restricted net assets include resources in which the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Assets:** Unrestricted net assets primarily represent resources used for transactions relating to the general operations of the Foundation, and may be used at the discretion of the Foundation's Board to meet current expenses for any purpose.

**State of Illinois  
 Northeastern Illinois University Foundation  
 June 30, 2007  
 Notes to Basic Financial Statements, Continued**

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

A reconciliation of cash and investments as shown on the June 30, 2007 Statement of Net Assets is as follows:

Carrying amount of deposits	\$ 166,389	Cash and cash equivalents	\$ 166,389
Carrying amount of investments	4,645,176	Short term investments	1,981,695
		Endowment investments	2,663,481
	<u>\$4,811,565</u>		<u>\$4,811,565</u>

Investments at June 30, 2007 consist of the following:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury Obligations	\$ 75,105
Mutual Fund	4,570,071
	<u>\$ 4,645,176</u>

Included in the investments are funds restricted for GEAR UP scholarships totaling \$786,969.

*Custodial Credit Risk*

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

As of June 30, 2007, bank balance of \$200,416 held by the Foundation are insured or collateralized with securities held in the Foundation's name.

*Credit Risk*

Credit risk is the risk that an issuer or counterparty to a debt investment will not fulfill its obligations.

**State of Illinois**  
**Northeastern Illinois University Foundation**  
**June 30, 2007**  
**Notes to Basic Financial Statements, Continued**

The Foundation's investment policy limits investments in corporate securities rated "Baa" or higher.

Credit quality ratings are not required for U.S. Government securities that are explicitly guaranteed by the U.S. government. The Foundation's mutual funds are invested in the following funds held by the Vanguard Group, Philadelphia, PA:

<u>Fund Name</u>	<u>Fair Value</u>
Vanguard Balanced Index Fund	\$ 4,115,774
Vanguard International Value Fund	454,297
	<u>\$ 4,570,071</u>

The Vanguard Balanced Index Fund has 60% of its assets in stocks and 40% in bonds. The dollar-weighted average credit quality of the Fund's holdings, as rated by Moody's Investors Service, Inc. was "Aa1", as of December 31, 2006.

The Vanguard International Value Fund is a value-oriented fund that invests primarily in the common stocks of foreign companies in a number of different countries throughout the world, without regard for the size (capitalization) of the companies.

*Interest Rate Risk*

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's investment policy limits investments in fixed-income securities to no more than 40%. Interest rate risk is managed according to the purpose of the investments and the projected timeframe for the use of these assets.

The \$75,105 in U.S. Treasury obligations are held in book entry form at Focused Investments, and consist of a note with a maturity of August 15, 2007, and interest rate of 6.125%.

**State of Illinois**  
**Northeastern Illinois University Foundation**  
**June 30, 2007**  
**Notes to Basic Financial Statements, Continued**

The Foundation's mutual funds portfolio invested in the Vanguard Balanced Index Fund and held by the Vanguard Group is managed to provide investment allocations, characteristics, and yields consistent with its benchmark, the Lehman Brothers Aggregate Bond Index, which measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than one year. Interest rate risk is managed by structuring the average maturity and duration of the investments to the benchmark. The bond portion of this fund has an average maturity of 7.5 years.

*Country/Regional Risk and Foreign Currency Risk*

Country/Regional risk is the risk that domestic events – such as political upheaval, financial troubles, or natural disasters – will weaken a country's or region's securities markets. Foreign Currency risk is the risk that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates. The Foundations investment policy limits investments in an international portfolio to 10%. An international portfolio may contain equities issued by companies operating in emerging markets which should not represent more than 5% of all Foundation assets invested in equities.

The Foundation's investments in the Vanguard International Value Fund, consisting of investments in foreign countries, represent 10% of total Foundation investments and were distributed among the following currencies as of June 30, 2007:

<u>Currency</u>	<u>Amount</u>
Euro Current Unit	\$164,819
United Kingdom British Pound	97,538
Japanese Yen	78,593
Swiss Franc	32,846
Other currencies, individually less than 5% of fund portfolio	80,501
	<u>\$ 454,297</u>

**3. NONCURRENT OTHER ASSETS**

Noncurrent other assets include four Rolex watches and a sculpture which were donated to the Foundation.

**State of Illinois**  
**Northeastern Illinois University Foundation**  
**June 30, 2007**  
**Notes to Basic Financial Statements, Continued**

**4. NORTHEASTERN ILLINOIS UNIVERSITY AGREEMENT**

On July 1, 2005, the Foundation entered into an agreement with Northeastern Illinois University. Under the terms of the contract, the Foundation aids and assists the University in developing facilities for broader educational opportunities for the service to its students, alumni, and citizens of the State of Illinois and of the United States by encouraging gifts of money, property, works of art, historical and other material having educational, artistic and historical value. In turn, the University will furnish certain services necessary to the operation of the Foundation. The contract maybe cancelled upon ninety days written notice by either party.

During fiscal year 2007, certain personal services and facilities of the University with an estimated value of \$91,296 were provided to the Foundation without charge. In turn, the Foundation provided the University with support in the amount of \$329,121.

During the fiscal year, the Foundation also received \$752,888 from the University to set-up a Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP) scholarship fund. As of June 30, 2007, no scholarships have been awarded, thus the funds received were recorded as deferred revenue. The funds were invested and restricted for use by the GEAR UP program.

**5. ENDOWMENT FUNDS**

If a donor has not provided specific instructions, state law permits the Northeastern Illinois University Foundation Board (the Board) to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the Foundation's "long-and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions". Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

It is the Foundation's policy to distribute annually 5% of a trailing three or five year average of the Endowment's total asset value, with the understanding that this spending rate plus inflation will not normally exceed total return from investment. However, it is understood that this total return basis for calculating spending is sanctioned by the Uniform Management of Institutional Funds Act (UMIFA), under which guidelines the University is permitted to spend an amount in excess of the current yield (interest and dividends earned), including realized or unrealized appreciation.

## Northeastern Illinois University Foundation

### Schedule of Changes in Net Assets For the year ended June 30, 2007

	Balance June 30, 2006	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2007
<b>UNRESTRICTED FUNDS</b>					
<u>Board Designated</u>					
Development Office Fund	\$ -	\$ -	\$ 14,015	\$ 14,015	\$ -
NEIU Minority Scholarship	158	305	-	-	463
Royalty Income	523,751	71,156	20,000	(64,776)	510,131
Investment Account	267	-	-	-	267
Annual Fund	(47,786)	15	80,420	129,599	1,408
Total Board Designated	<u>476,390</u>	<u>71,476</u>	<u>114,435</u>	<u>78,838</u>	<u>512,269</u>
<u>Undesignated</u>					
General	46,749	40,986	2,792	(66,217)	18,726
Payments on Behalf of the Foundation	-	91,296	91,296	-	-
External Events	-	-	8,747	12,000	3,253
Development Accounts	4,058	-	19,481	19,591	4,168
Total Undesignated	<u>50,807</u>	<u>132,282</u>	<u>122,316</u>	<u>(34,626)</u>	<u>26,147</u>
Total Unrestricted Net Assets	<u>527,197</u>	<u>203,758</u>	<u>236,751</u>	<u>44,212</u>	<u>538,416</u>
<b>RESTRICTED FUNDS</b>					
<b>EXPENDABLE</b>					
Academics	<u>197,582</u>	<u>73,132</u>	<u>30,408</u>	<u>221</u>	<u>240,527</u>
Intercollegiate Athletics:					
Athletics Administration	29	3	-	-	32
Men's Basketball	22	3	-	-	25
Women's Basketball	98	10	-	-	108
Men's Tennis	376	40	-	-	416
Men's Baseball	65	7	-	-	72
Cross Country	174	19	-	-	193
Men's Swimming	2,856	269	570	-	2,555
Women's Tennis	465	50	-	-	515
Women's Softball	1,830	42	1,433	-	439
Women's Swimming	5	1	-	-	6
Training Room	110	11	-	-	121
Student Athletic Club	16	2	-	-	18
Business Scholarship	177	19	-	-	196
Men's Soccer	133	14	-	-	147
Subtotal	<u>6,356</u>	<u>490</u>	<u>2,003</u>	<u>-</u>	<u>4,843</u>

## Northeastern Illinois University Foundation

### Schedule of Changes in Net Assets For the year ended June 30, 2007

	Balance June 30, 2006	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2007
Restricted Scholarships:					
A&E Kaplan Foundation Scholarship	1,125	119	-	-	1,244
Alfred Robinson Memorial	55	6	-	-	61
Andrew A. Hay Memorial Scholarship	5,021	586	-	-	5,607
Annette Hankin Scholarship	(750)	-	-	-	(750)
Avalon Industries Scholarship Fund	103	11	-	-	114
Bank-One Scholarship in Finance	727	1,001	1,875	153	6
Berlinger Music Scholarship Fund	4,466	535	600	-	4,401
Charas Kinkle CICS Scholarship Fund	2,156	138	900	50	1,444
Civil Service Scholarship Fund	492	107	-	-	599
Commonwealth Edison	30	3	-	-	33
ConServe Scholarship Fund	1,580	167	-	-	1,747
Cultural Society, Panama	1,008	107	-	-	1,115
Eldridge Scales Fund	985	105	-	-	1,090
Ely Leibow Memorial Scholarship	-	3,116	-	-	3,116
Faculty Professional Development	214	169	-	-	383
Gear-UP Investment Income	-	34,081	-	-	34,081
Gloria Washington Memorial Fund	(63)	-	-	-	(63)
GRC Scholarship Fund	1,580	167	-	-	1,747
H. Berlinger Memorial Scholarship Fund	11,716	1,407	-	-	13,123
Henry Russell Memorial Scholarship	674	903	500	-	1,077
Honors Programs	304	60	-	-	364
Hursh Memorial Fund	255	27	-	-	282
J. Fruehling School in Counselor Education	2,412	2,163	-	-	4,575
Jack B. & Lily G Rose Scholarship	912	97	-	-	1,009
Kusol Varophas Pol Sc Grad Stud	3,907	415	351	-	3,971
L & E Keating Scholarship	7	554	-	-	561
Leibow Scholarship Fund	24,216	2,158	6,250	-	20,124
NEIU Foundation Scholarship	32,572	38,849	48,004	-	23,417
NEIU Scholarship for Pianists	8,884	971	800	-	9,055
Pi Sigma Alpha School Fund	2,213	1,225	1,000	-	2,438
Prada Educational Foundation	179	19	-	-	198
Puerto Rican Scholarship Fund	1,130	120	-	-	1,250
Russell C Eustice Prize	728	66	100	-	694
Ruth Hanna Memorial Scholarship in Music	2,000	2,234	2,000	-	2,234
S-B Power Tool Co., Scholarship	1	-	-	-	1
Schneider Family Scholarship for Spec. Educ.	14,361	1,125	5,000	-	10,486
Shakespeare Squared Fd for Student Teaching	-	11,536	11,160	-	376
Smith Barney Scholarship #3	1,250	132	-	-	1,382
Special Scholarship Col of Education	4,885	570	-	-	5,455
Vera Milam Scholarship Fund	632	67	-	-	699
Veterans Scholarship	51	127	-	-	178
Subtotal	132,018	105,243	78,540	203	158,924

## Northeastern Illinois University Foundation

### Schedule of Changes in Net Assets For the year ended June 30, 2007

	Balance June 30, 2006	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2007
Other:					
Academic Affairs	444	425	10,180	10,000	689
Academic Development	3,249	1,886	400	-	4,735
Accessibility Center	164	17	-	-	181
Adventure Education Program	191	20	-	-	211
Alumni Services & Programs	1,504	125	1,853	224	-
Asian Programs	4,567	512	87	-	4,992
Auditorium Fund	4,241	1,655	-	-	5,896
B & M Club	628	52	129	-	551
BGU Symposium	-	110	4,751	4,751	110
Bughouse	231	79	-	-	310
Business Services Bureau	131	14	-	-	145
Campus Events	-	-	16,889	13,704	(3,185)
Career Development & Placement	3,154	334	332	-	3,156
CCC/Parents Adv Council	1,688	168	66	-	1,790
Center For Inner Studies	5,547	842	1,250	-	5,139
Center for Teaching & Learning	411	208	-	-	619
Charas Kinkle CICS Fund	-	50	-	(50)	-
Child Care Center	26,112	14,033	5,641	6	34,510
CICS Health Fair	521	54	-	-	575
Clean-up Buildings & Grounds	918	95	-	-	1,013
Coalition of University and Business	58	6	-	-	64
College of Educ Bldg Fund	4,547	798	-	-	5,345
Continuing Education	363	38	-	-	401
CTC/LEAP	19,705	2,318	-	-	22,023
CTC/Play for Peace	229	1,099	390	-	938
CTC/Upward Bound/Talent Search	257	27	-	-	284
Counseling Department	-	5,645	532	-	5,113
Distinguished Lecture Series	924	96	-	-	1,020
Donald Bulucos	2,085	-	-	-	2,085
El Centro	254	109	-	-	363
Elizabeth Landerholm	30	-	-	-	30
Emily Nugent School Fund	320	34	-	-	354
Englewood School District	278	29	-	-	307
Ensemble Espanol	11,488	12,054	18,500	-	5,042
Environmental Studies	16,240	3,028	-	-	19,268
European Union Conference	2,169	248	-	-	2,417
Exercise/Alcohol Research	612	65	-	-	677
Eyewitness Event	34	4	-	-	38
Faculty Research Reserve	1,549	1,326	(287)	-	3,162
Ferydoon Firoozi Conference Travel	-	1,043	600	-	443
Fine Arts Initiative	18,555	2,249	-	-	20,804
Geography and Environmental Studies	12,682	1,621	-	-	14,303
Geography Literacy Project	278	30	-	-	308
Golden Eagle Scholarship Team	6,391	775	-	-	7,166
Great Lakes Research	27	3	-	-	30
Hillel	155	17	-	-	172



## Northeastern Illinois University Foundation

### Schedule of Changes in Net Assets For the year ended June 30, 2007

	Balance June 30, 2006	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2007
How Dwarfs Win Against Giants	1,209	-	-	-	1,209
International Study Abroad	8,868	24,934	1,987	-	31,815
Itkins Children Clinic	10,786	1,259	400	-	11,645
Joaquin Villegas	708	-	-	-	708
Judith Kaplan-Weinger	370	-	-	-	370
Kane Golf Outing	22,859	22,807	19,896	-	25,770
Kevin Coulson	151	-	-	-	151
L. Novakovich Award in Music	262	351	600	-	13
Landscaping	1,761	188	-	-	1,949
Laurie Fuller	190	-	-	-	190
Library	10,726	3,780	6,594	-	7,912
Lindman Puppetry Fund	1,056	113	-	-	1,169
Markham Prairie	9,281	7,852	-	-	17,133
Mazon Creek	4,827	567	14	-	5,380
Midwest Regional Chapter	109	12	-	-	121
Mossadegh Leadership Fund	26,617	3,160	3,500	-	26,277
Mostly Music At NEIU	6,696	18,434	20,866	-	4,264
Music Honorarium Fund	67	7	-	-	74
Nada Spasojevich Fund	10,151	7,306	2,829	-	14,628
NASAP	2	-	-	-	2
NEIU Campus Documentary	504	-	-	-	504
NEIU Opera Fund	420	8	346	-	82
Neuropsychology Laboratory Fund	2,107	248	-	-	2,355
Orientation Fees	1,580	150	180	-	1,550
Partners in Prevention	222	24	-	-	246
Pending Account	690	1,371	-	-	2,061
Persian Concert	3,435	5,606	2,704	-	6,337
President Hahs Fund	-	443	-	-	443
Presidential Seminar	2,730	321	-	-	3,051
President's Fund	-	-	2,802	2,802	-
Project Torres	7	1	-	-	8
Projecto Pa'Lante	223	15	79	-	159
Rachel Adeodu	2,500	-	2,407	-	93
Russell Zanca	282	-	-	-	282
S. Koval Mem Collection	3,969	467	-	-	4,436
Science Fair Central	1,773	243	186	-	1,830
Selina Mushi	295	-	-	-	295
Sociology/Sienkowski	1,588	146	209	-	1,525
Sood Collection Fund	28	250	275	-	3
Stage Center Theatre	2,015	237	-	-	2,252
Student Account-Apocalypse	31	3	-	-	34
Student Retention Program	5,225	615	-	-	5,840
Student Travel Fund	-	227	8,069	10,000	2,158
Student with Disabilities	966	103	-	-	1,069
Studies in Aging Adults	136	15	-	-	151
Summer Faculty Inst. on Learning Tech	40	4	-	-	44
Summer Inst for Islamic Studies	16,230	1,967	-	-	18,197

## Northeastern Illinois University Foundation

### Schedule of Changes in Net Assets For the year ended June 30, 2007

	Balance June 30, 2006	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2007
The Cliff Dwellers Arts Fdn Piano Series	104	11	-	-	115
The Reading Center	353	38	-	-	391
Thomas Ray Weaver	2,414	-	-	-	2,414
Toxicology of Phthalate Esters	1,664	-	396	-	1,268
Undistributed Income	15,539	2,482	-	-	18,021
University Computing Services	-	445	350	-	95
University Events	51	116	-	-	167
University Video Service	666	71	-	-	737
William J. Pizzi	493	-	-	-	493
Women's Services Program	790	163	511	-	442
WZRD radio Station	51	1,140	-	-	1,191
Yihao/Phyliss Shabat	441	-	-	-	441
Subtotal	<u>339,189</u>	<u>161,041</u>	<u>136,513</u>	<u>41,437</u>	<u>405,154</u>
Scholarships and Memorials:					
A.C. Shabica Memorial Schol Inc	-	-	-	931	931
Aixa Diaz Mem Schol Inc	829	-	850	913	892
Arturo Najera Schol Inc	-	-	-	415	415
B & E Rattner Schol Inc	30	-	400	448	78
B. Brommel Faculty Merit Fd	7,974	-	5,000	5,000	7,974
B. Brommel Condo Scholarship Inc	-	-	-	825	825
Brommel-Brady-Portokalis	-	-	1,500	2,100	600
Brommel-Elliot	2,002	-	-	2,100	4,102
Brommel-Feigenholtz	-	-	1,500	2,100	600
Brommel-Hanson	2,002	-	-	2,100	4,102
Brommel-Kramer	-	-	-	2,100	2,100
Brommel-Lindberg	-	-	1,300	2,100	800
Brommel-Manganello	902	-	-	2,100	3,002
Brommel-Mendelson-Hennington	-	-	1,500	2,146	646
Brommel-Nicosia-McGukin	-	-	1,500	2,118	618
Brommel-Ratner	-	-	1,500	2,100	600
Brommel-Komaiko-Perez	-	-	1,500	2,100	600
Busse Mem Merit Fund Inc	2,764	-	4,000	4,403	3,167
C. Halberg Mem Award Inc.	247	-	-	231	478
Calixto Maso Schol Inc	1,466	-	2,530	2,896	1,832
Chuck Kane Mem Fd Inc	1,175	-	-	1,564	2,739
Class Gift Scholarship Fd Inc	90	-	1,500	1,885	475
D. Kuzuhara Award Inc	322	-	1,000	1,229	551
Elaine Helman Award Inc	868	-	-	814	1,682
Elvina David Mem Fd Inc	-	-	4,500	9,256	4,756
Endowment Other Income	(1)	-	-	-	(1)
F. Fritzman Mem Fd Inc	278	-	-	260	538
Gus Ziagos Mem Inc	980	-	-	909	1,889
H & B Rotman Schol Inc	729	-	-	686	1,415
J Rodriguez Schol Inc	36	-	-	409	445
J & E Krump Schol in Music or Art	518	-	500	955	973
Jenny & Edward Harju Mem. Inc.	167	-	1,300	1,540	407

## Northeastern Illinois University Foundation

### Schedule of Changes in Net Assets For the year ended June 30, 2007

	Balance June 30, 2006	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2007
Jerome Sachs Schol Inc	14	-	850	879	43
Jewell Berlinger Mem Inc	1,436	-	1,549	1,322	1,209
Joan Sachs Schol Inc	478	-	400	727	805
M. Kooyunjian Mem Fd Inc	2,268	-	6,690	6,858	2,436
Mex/Mex-Am Schol Inc	357	-	-	336	693
Mozzi Mem Fd for NEIU Reading Inc	956	-	-	899	1,855
NEIU Kane Schol Inc	19	-	500	797	316
NEIU/Inland Schol Inc	2,832	-	5,000	5,003	2,835
P. Levy Mem Fd Income	38	-	850	861	49
Peggy Candon Mem Inc	494	-	-	913	1,407
Peter Speltz Mem Inc	342	-	-	320	662
R. Williams Mem Fd Inc	60	-	950	985	95
Smith Barney Mercantile Schol Fund Inc	1,201	-	700	1,429	1,930
S.P. Appel Income	554	-	1,000	942	496
Sood Collec Endowm Fund Inc	107	-	-	-	107
The Brommel Distinguished Prof Award	-	-	5,988	5,375	(613)
Subtotal	<u>34,534</u>	<u>-</u>	<u>56,357</u>	<u>86,379</u>	<u>64,556</u>
Total Expendable Restricted Net Assets	<u>709,679</u>	<u>339,906</u>	<u>303,821</u>	<u>128,240</u>	<u>874,004</u>

#### NONEXPENDABLE

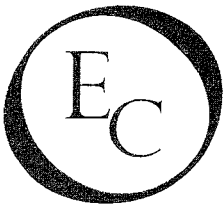
##### Scholarships and Memorials

A.C. Shabica Memorial Scholarship	21,697	3,447	-	(1,365)	23,779
Aixa Diaz Memorial Scholarship	21,274	3,376	-	(1,338)	23,312
Albert, Ruth, & Donna Terry Katz Schol	-	11,621	-	-	11,621
Arturo Najera Scholarship	9,664	1,504	-	(797)	10,371
B. Brommel Condo Scholarship Fd	557,464	85,017	-	(52,760)	589,721
Bernard and Ethel Rattner	10,436	1,566	-	(863)	11,139
Bernard Brommel Fund	172,904	27,178	-	(13,926)	186,156
Brommel-Hanson-Ijams-Hayward	-	752	-	-	752
Brommel-Mendelson-Hennington	1,064	324	-	(67)	1,321
Brommel-Nicosia-McGukin-Speake	425	165	-	(27)	563
Busse Mem Merit Fund	102,635	19,264	-	(8,466)	113,433
C. Kane NEIU Student Sch	18,589	2,818	-	(1,521)	19,886
Calixto Maso	67,512	16,861	-	(5,437)	78,936
Chuck Kane Memorial Fund	36,451	5,867	-	(2,997)	39,321
Clarice Halberg Memorial	5,383	879	-	(441)	5,821
Class Gift Scholarship Fd	43,942	7,443	-	(3,577)	47,808
Daniel Kuzuhara Award	28,646	4,837	-	(2,366)	31,117
Durward Hofler Scholarship in COBM	-	23,700	-	-	23,700
Elaine Helman Memorial	18,983	3,098	-	(1,555)	20,526
Elvina David Mem Fund	215,756	32,850	-	(17,852)	230,754
Endowment Fund for the Arts	-	5,067	-	-	5,067
Endowment Other	396,606	63,031	-	(7,751)	451,886
Frank Fritman Memorial	6,060	989	-	(497)	6,552

## Northeastern Illinois University Foundation

### Schedule of Changes in Net Assets For the year ended June 30, 2007

	Balance June 30, 2006	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2007
Harry and Bea Rotman Scholarship	15,978	2,607	-	(1,308)	17,277
Jenny & Edward Harju Mem. Schol.	35,905	5,421	-	(2,867)	38,459
Jerome Sachs Scholarship	20,498	3,056	-	(1,683)	21,871
Jewell Berlinger Scholarship	30,822	4,781	-	(2,535)	33,068
Joan Sachs Memorial Scholarship	16,945	2,768	-	(1,394)	18,319
John & Eva Krump Scholarship in Music or Ar	22,250	3,538	-	(1,400)	24,388
Jorge Rodriguez Scholarship	9,522	1,488	-	(786)	10,224
Kay Hilton memorial Scholarship	-	65,658	-	-	65,658
L. Mozzi Memorial Fund	20,964	3,421	-	(1,717)	22,668
Mary L. Kooyumjian	159,850	30,583	-	(13,044)	177,389
Mexican American Scholarship	7,837	1,279	-	(641)	8,475
NEIU/Inland Scholarship	116,627	18,972	-	(9,590)	126,009
P. Levy Mem Scholarship	20,058	2,993	-	(1,643)	21,408
Peggy Candon Memorial Fund	21,274	3,576	-	(1,338)	23,512
Peter Speltz Memorial Scholarship	7,449	1,216	-	(611)	8,054
Ronald Williams Memorial	22,965	3,430	-	(1,900)	24,495
S.P. Appel Scholarship	21,950	3,351	-	(1,774)	23,527
Smith Barney Mercantile Fdn Scholarship	33,299	5,263	-	(2,755)	35,807
Sood Collection Endowment Fund	3,873	2,659	-	(122)	6,410
Ziagos Memorial Scholarship	21,201	3,461	-	(1,741)	22,921
<b>Total Nonexpendable Restricted Net Assets</b>	<u>2,344,758</u>	<u>491,175</u>	<u>-</u>	<u>(172,452)</u>	<u>2,663,481</u>
<b>Total Restricted Net Assets</b>	<u>3,054,437</u>	<u>831,081</u>	<u>303,821</u>	<u>(44,212)</u>	<u>3,537,485</u>
<b>TOTAL FOUNDATION NET ASSETS</b>	<u>\$ 3,581,634</u>	<u>\$ 1,034,839</u>	<u>\$ 540,572</u>	<u>\$ -</u>	<u>\$ 4,075,901</u>



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

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the business-type activities of Northeastern Illinois University Foundation (Foundation), as of and for the year ended June 30, 2007, and have issued our report thereon dated October 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of finding to be a significant deficiency in internal control over financial reporting (07-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 07-01 to be a material weakness.

### Compliance and Other Matters

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

We have conducted a State compliance examination of the Foundation as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of finding. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

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

*E.C. Artig & Co., LLP*  
October 26, 2007

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2007**

**Current Finding – *Government Auditing Standards*  
For the Year Ended June 30, 2007**

07-1. *Failure to Apply Appropriate Accounting Principles*

Northeastern Illinois University Foundation (Foundation) did not properly interpret and apply Government Accounting Standards Board (GASB) Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*.

The Foundation received \$752,888 from Northeastern Illinois University (University) to set-up a Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP) scholarship. The amount represented unspent grant funds from the GEAR UP program that the University had obtained the approval from the U.S. Department of Education to change the scope from the original proposal to establish a scholarship component for this program.

The policy for the administration of the scholarship includes requirements for the eligibility of applicants, application process, requirement for the award, eligibility for renewal, renewal application process, the amounts and use of the scholarship funds, and the role of the Chicago GEAR UP Alliance (Alliance). The funds will be administered locally by the Alliance and awarded as scholarships to students who had participated in the GEAR UP program. The Foundation will hold and spend the funds as directed by the Alliance.

As of fiscal year-end, the funds were invested and restricted for use by this program and no scholarships have been awarded. However, we noted that the Foundation recorded the \$752,888 as other revenue, instead of deferred revenue.

The Foundation subsequently revised the financial statements to include the adjustments necessary to apply the appropriate generally accepted accounting principles.

Generally Accepted Accounting Principles (GAAP) for governmental entities is promulgated by GASB. GASB Statement No. 33 requires revenue recognition for voluntary nonexchange transactions when all applicable eligibility requirements have been met. Grant funds that are received prior to meeting eligibility requirements should be recorded as deferred revenue. Eligibility requirements are conditions specified by the grant that must be met, such as the eligible recipients, time requirements, matching requirements, etc.

**State of Illinois  
Northeastern Illinois University Foundation  
June 30, 2007**

**Current Finding – *Government Auditing Standards* (Continued)  
For the Year Ended June 30, 2007**

According to the Foundation personnel, the above exception occurred due to the complexity of the GEAR UP grant requirements which were not fully known at the time of receipt of the grant.

Failure to apply the applicable generally accepted accounting principles may result in inaccurate financial statements. (Finding Code No. 07-1)

***Recommendation***

We recommend that the Foundation improve its procedures for identifying transactions that include special terms and properly account for such transactions in accordance with GAAP.

***Foundation Response***

The Northeastern Illinois University Foundation concurs with the finding as it relates to the receipt of the GEAR UP funds. Given the information available at the time, the Foundation representatives made the decision to record funds from the GEAR UP grant as other revenue, rather than deferred revenue. This misclassification was the result of the complexity of the GEAR UP grant, which includes requirements for the eligibility of applicants, application process, eligibility for renewal, and the amounts and use of the scholarship funds. We concur that the grant funds that were received prior to meeting eligibility requirements should have been recorded as deferred revenue.

We also would like to note that, after the auditors brought this issue to our attention, we submitted revised financial statements to include the adjustments necessary to apply the appropriate generally accepted accounting principles. Our annual financial statements as of and for the year ended June 30, 2007 are correctly stated. We will strengthen our procedures hence forward to ensure adherence to generally accepted accounting principles in the recording and reporting of all transactions.